Notes to Financial Statements

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1. CORPORATE INFORMATION

Computer And Technologies Holdings Limited is a limited liability company incorporated in Bermuda. The principal place of business of the Company is located at 30th Floor, Prosperity Millennia Plaza, 663 King's Road, North Point, Hong Kong.

During the year, the Group was involved in the following principal activities:

- trading of computer hardware, software and related accessories;
- provision of system and network platform with integration services;
- provision of IT solutions, e-business and related services;
- provision of software application packages with implementation and maintenance services; and
- property and treasury investments.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, available-for-sales investments and equity investments at fair value through profit or loss, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2006. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. Acquisitions of minority interests are accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

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2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 27 Amendment	Consolidated and Separate Financial Statements: Amendments as a consequence of the Companies (Amendment) Ordinance 2005
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The principal changes in accounting policies are as follows:

(a) HKAS 21 *The Effects of Changes in Foreign Exchange Rates*

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

(b) HKAS 39 *Financial Instruments: Recognition and Measurement*

(i) Amendment for financial guarantee contracts

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue. The adoption of this amendment has had no material impact on these financial statements.

(ii) Amendment for the fair value option

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on the financial statements.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

(b) HKAS 39 *Financial Instruments: Recognition and Measurement* (continued)

(iii) Amendment for cash flow hedge accounting of forecast intragroup transactions

This amendment has revised HKAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment has had no effect on these financial statements.

(c) HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. The Group has determined based on this interpretation that certain arrangements of the Group contained leases and accordingly, the Group has treated them in accordance with HKAS 17 Leases. However, the adoption of this interpretation has had no material impact on these financial statements.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2-Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

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2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of HKAS 32.

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenues from the Group's major customers. This standard will supersede HKAS 14 *Segment Reporting*.

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10, HK(IFRIC)-Int 11 and HK(IFRIC)-Int 12 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007 and 1 January 2008, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Joint ventures (continued)

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill (continued)

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 *Segment Reporting*.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Goodwill previously eliminated against consolidated reserves

Prior to the adoption of HKICPA's Statement of Standard Accounting Practice 30 "Business Combinations" ("SSAP 30") in 2001, goodwill arising on acquisition was eliminated against consolidated reserves in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against consolidated reserves and is not recognised in income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets, investment properties and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill and certain financial assets is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is a member of the key management personnel of the Group or its parent;

(c) the party is a close member of the family of any individual referred to in (a) or (b);

(d) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (b) or (c); or

(e) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation (continued)

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land	Over the lease terms
Buildings	2% – 4%
Leasehold improvements	Over the shorter of the lease terms and 20%
Computer equipment and software	20% – $33^1/_3$%
Furniture, fixtures and other equipment	18% – 25%
Motor vehicles	20%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the expected commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity securities and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (continued)

Held-to-maturity securities

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other three categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity securities carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (that is., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (continued)

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available-for-sale are not reversed through the income statement.

Impairment losses on debt instruments are reversed through the income statement, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities at amortised cost

Financial liabilities including trade and other payables, amounts due to minority shareholders of subsidiaries, and other financial liabilities are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 Provision, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of finished goods and work in progress, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred income

Deferred income represents service fees received in advance from the rendering of the corresponding services. Revenue is recognised and deferred income is released to the income statement when the corresponding services have been rendered.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the provision of IT solutions, e-business and related services, on the percentage of completion basis, as further explained in the accounting policy for "Contracts for services" below;

(c) maintenance service income, on a time proportion basis over the period of the contract;

(d) from the sale of short term investments in listed shares, on the transaction dates when the relevant contract notes are exchanged;

(e) rental income, on a time proportion basis over the lease terms;

(f) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

(g) dividend income, when the shareholders' right to receive payment has been established.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contracts for services

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction, or services performed to date as a percentage of total services to be performed.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits (continued)

Share-based payment transactions

The Company operates two share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 31 to the financial statements. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits (continued)

Share-based payment transactions (continued)

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested by 1 January 2005 and to those granted on or after 1 January 2005.

Retirement benefits schemes

The Group operates defined contribution retirement benefits schemes under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the schemes. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. When an employee leaves the Mandatory Provident Fund Exempted ORSO retirement benefits scheme prior to his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions. In respect of the Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme"), the Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central retirement benefits scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central retirement benefits scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central retirement benefits scheme.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Dividends

Final and special dividends proposed by the directors are classified as a separate allocation of retained profits and/or contributed surplus within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments — Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Impairment of assets

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2006 was HK$23,900,000 (2005: HK$23,790,000). More details are given in note 16.

Impairment of trade receivables

The policy for impairment of trade receivables of the Group is based on the evaluation of collectability and the aged analysis of the trade receivables and on management's judgement at each balance sheet date whether there is any objective evidence that the receivables are impaired. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payment, additional impairment may be required.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2006 was HK$2,000,000 (2005: HK$2,000,000). The amount of unrecognised tax losses as at 31 December 2006 arising in Hong Kong was HK$74,105,000 (2005: HK$61,948,000). Further details are contained in note 29 to the financial statements.

Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2006, the best estimate of the carrying amount of capitalised development costs was HK$2,066,000 (2005: HK$7,868,000). More details are given in note 17.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

(a) the integration and solution services segment engages in the provision of system and network integration services, industry-specific IT application implementation services, IT solutions implementation and application development services;

(b) the application services segment engages in the provision of enterprise applications and IT operation outsourcing services;

(c) the distribution segment engages in the distribution of digital media products and other computer accessories; and

(d) the investments segment primarily engages in various types of investing activities including, inter alia, property investment for rental income and treasury investments in listed securities and held-to-maturity securities for dividend income and interest income.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

There were no material intersegment sales and transfers during the current and the prior years.

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4. SEGMENT INFORMATION (CONTINUED)

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2006 and 2005 or as at 31 December 2006 and 2005.

Group

	Integration and Solutions Services		Application Services		Distribution		Investments		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:										
Sales to external customers	**154,058**	135,350	**52,092**	48,528	**29,997**	27,680	**1,215**	1,316	**237,362**	212,874
Other revenue and gains	**1,145**	654	**87**	88	**2,078**	1,925	**6,035**	1,999	**9,345**	4,666
Total	**155,203**	136,004	**52,179**	48,616	**32,075**	29,605	**7,250**	3,315	**246,707**	217,540
Segment results before significant non-cash expenses	**13,184**	17,199	**15,941**	12,164	**(618)**	(273)	**7,653**	2,620	**36,160**	31,710
Depreciation	**(2,418)**	(3,294)	**(1,325)**	(1,434)	**(592)**	(710)	**(273)**	(265)	**(4,608)**	(5,703)
Amortisation of deferred development costs	**–**	–	**(2,156)**	(2,807)	**–**	–	**–**	–	**(2,156)**	(2,807)
Impairment of deferred development costs recognised in the income statement	**(1,432)**	–	**(2,246)**	–	**–**	–	**–**	–	**(3,678)**	–
Impairment of trade receivables	**–**	(2,211)	**(1,313)**	(301)	**(255)**	–	**–**	–	**(1,568)**	(2,512)
Segment results	**9,334**	11,694	**8,901**	7,622	**(1,465)**	(983)	**7,380**	2,355	**24,150**	20,688
Unallocated interest income and gains									**6,439**	3,615
Corporate and other unallocated expenses									**(16,809)**	(16,581)
Finance costs									**–**	(17)
Profit before tax									**13,780**	7,705
Tax									**(1,933)**	(232)
Profit for the year									**11,847**	7,473

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4. SEGMENT INFORMATION (CONTINUED)

(a) Business segments (continued)

Group

	Integration and Solutions Services		Application Services		Distribution		Investments		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Assets and liabilities:										
Segment assets	**160,624**	74,950	**55,487**	77,096	**15,889**	13,736	**37,990**	120,925	**269,990**	286,707
Corporate and other unallocated assets									**102,926**	92,144
Total assets									**372,916**	378,851
Segment liabilities	**36,610**	23,727	**16,980**	15,390	**7,548**	6,685	**289**	322	**61,427**	46,124
Corporate and other unallocated liabilities									**1,875**	25,563
Total liabilities									**63,302**	71,687
Other segment information:										
Capital expenditure	**535**	2,117	**903**	272	**330**	332	**–**	–	**1,768**	2,721
Corporate and other unallocated capital expenditure									**360**	282
									2,128	3,003
Fair value gains on investment properties	**–**	–	**–**	–	**–**	–	**4,192**	1,523	**4,192**	1,523

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4. SEGMENT INFORMATION (CONTINUED)

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31 December 2006 and 2005 or as at 31 December 2006 and 2005.

Group

	Hong Kong		Mainland China		Others		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:								
Sales to external customers	**100,426**	83,283	**119,418**	112,953	**17,518**	16,638	**237,362**	212,874
Other segment information:								
Segment assets	**279,018**	263,626	**85,393**	107,115	**8,505**	8,110	**372,916**	378,851
Capital expenditure	**1,708**	972	**263**	1,859	**157**	172	**2,128**	3,003

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5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the aggregate of the invoiced value of goods sold, net of trade discounts, returns and business tax, where applicable; income earned from the provision of IT solutions, e-business and related services; income earned from the provision of maintenance services; gross rental income earned from investment properties; and interest income earned from treasury investments.

An analysis of revenue, other income and gains is as follows:

	2006	2005
	HK$'000	HK$'000
Revenue		
Sale of goods:		
Computer network and system platform	**119,823**	90,511
Computer hardware, software and related accessories	**29,997**	27,680
	149,820	118,191
Provision of IT solutions, e-business and related services	**31,246**	32,233
Provision of maintenance services	**55,081**	61,134
Gross rental income from investment properties	**1,148**	884
Interest income from treasury investments	**67**	432
	237,362	212,874
Other income		
Bank interest income	**5,869**	3,331
Dividend income from listed investments	**256**	85
Gross sub-lease rental income	**1,229**	1,141
Others	**1,276**	1,128
	8,630	5,685
Gains		
Fair value gains on investment properties (note 15)	**4,192**	1,523
Gain on disposal of listed investments	**1,409**	365
Foreign exchange differences, net	**1,553**	708
	7,154	2,596
	15,784	8,281

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6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2006 HK$'000	2005 HK$'000
Cost of inventories sold		**127,698**	100,582
Cost of services provided		**21,513**	30,358
Depreciation*	14	**4,834**	6,131
Loss on disposal of items of property, plant and equipment		**23**	106
Amortisation of deferred development costs*	17	**2,156**	2,807
Minimum lease payments under operating leases in respect of land and buildings		**8,189**	7,113
Auditors' remuneration		**1,522**	1,128
Employee benefits expense (excluding directors' remuneration-note 7)#:			
Wages, salaries and allowances		**63,462**	69,342
Equity-settled share option expense##		**–**	177
Retirement benefits scheme contributions (defined contribution schemes)		**2,612**	2,732
Less: Forfeited contributions###		**(104)**	(462)
Net retirement benefits scheme contributions		**2,508**	2,270
		65,970	71,789
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties		**113**	153
Fair value gains on investment properties***		**(4,192)**	(1,523)
Impairment of trade receivables**		**1,568**	2,512
Impairment of deferred development costs**	17	**3,678**	–
Fair value losses/(gains), net: Equity investments at fair value through profit or loss**		**(813)**	123

* The amortisation of deferred development costs of HK$2,156,000 (2005: HK$2,807,000) and depreciation of HK$1,563,000 (2005: HK$940,000) are included in "Cost of sales" on the face of the consolidated income statement.

** These items are included in "Other expenses, net" on the face of the consolidated income statement.

*** This item is included in "Other income and gains" on the face of the consolidated income statement.

\# Inclusive of an amount of HK$21,513,000 (2005: HK$30,358,000) classified under ("Cost of services provided") above.

\## During the year ended 31 December 2004, 2,122,000 share options were granted to certain employees in respect of their services to the Group under the share option schemes of the Company. The fair value of such options, which has been recognised to the consolidated income statement over the vesting period, was determined as at the date of grant.

\### The amounts of forfeited contributions available to reduce the Group's contributions to the retirement benefits schemes in future years were not material as at 31 December 2006 and 2005.

7. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Fees:		
Executive directors	**–**	–
Independent non-executive directors	**240**	240
	240	240
Other emoluments:		
Salaries, allowances and benefits in kind	**2,800**	2,800
Performance related bonuses	**481**	424
Employee share option benefits	**–**	130
Retirement benefits scheme contributions (defined contribution scheme)	**36**	36
	3,317	3,390
	3,557	3,630

During the year ended 31 December 2004, certain directors were granted share options, in respect of their services to the Group, under the share option schemes of the Company. The fair value of such options, which has been recognised to the consolidated income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the prior year is included in the above directors' remuneration disclosures.

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7. DIRECTORS' REMUNERATION (CONTINUED)

(a) Independent non-executive directors

The fees and other emoluments paid to independent non-executive directors during the year were as follows:

	Fees HK$'000	Employee share option benefits HK$'000	Total remuneration HK$'000
2006			
Independent non-executive directors:			
Ha Shu Tong	**80**	**–**	**80**
Lee Kwok On, Matthew	**80**	**–**	**80**
Ting Leung Huel, Stephen	**80**	**–**	**80**
	240	**–**	**240**
2005			
Independent non-executive directors:			
Ha Shu Tong	80	14	94
Lee Kwok On, Matthew	80	14	94
Ting Leung Huel, Stephen	80	14	94
	240	42	282

Save as disclosed above, there were no emoluments payable to the independent non-executive directors during the year (2005: Nil).

7. DIRECTORS' REMUNERATION (CONTINUED)

(b) Executive directors

The fees and other emoluments paid to executive directors during the year were as follows:

	Salaries, allowances and benefits in kind HK$'000	Performance related bonuses HK$'000	Employee share option benefits HK$'000	Retirement benefits scheme contributions HK$'000	Total remuneration HK$'000
2006					
Executive directors:					
Ng Cheung Shing	**1,392**	**291**	**–**	**12**	**1,695**
Leung King San, Sunny	**948**	**100**	**–**	**12**	**1,060**
Ma Mok Hoi	**460**	**90**	**–**	**12**	**562**
	2,800	**481**	**–**	**36**	**3,317**
2005					
Executive directors:					
Ng Cheung Shing	1,392	291	41	12	1,736
Leung King San, Sunny	948	54	27	12	1,041
Ma Mok Hoi	460	79	20	12	571
	2,800	424	88	36	3,348

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2005: Nil).

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8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included one (2005: one) director, details of whose remuneration are set out in note 7 to the financial statements. Details of the remuneration of the remaining four (2005: four) non-director, highest paid employees for the year are as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**4,802**	4,754
Performance related bonuses	**552**	367
Employee share option benefits	**–**	102
Retirement benefits scheme contributions (defined contribution scheme)	**67**	64
	5,421	5,287

The emoluments of each of the non-director, highest paid employees fell within the band of HK$1,000,001 to HK$1,500,000.

During the year ended 31 December 2004, share options were granted to the non-director, highest paid employees in respect of their services to the Group. The fair value of such options, which has been recognised to the consolidated income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the prior year is included in the above non-director, highest paid employees' remuneration disclosures.

9. FINANCE COSTS

	Group	
	2006	2005
	HK$'000	HK$'000
Interest on bank loans wholly repayable within five years	**–**	17

10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2006	2005
	HK$'000	HK$'000
Group:		
Current — Hong Kong		
Charge for the year	**240**	250
Overprovision in prior years	**(92)**	(1)
Current — Elsewhere		
Charge for the year	**2,094**	933
Overprovision in prior years	**(309)**	–
Deferred (note 29)	**–**	(950)
Total tax charge for the year	**1,933**	232

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10. TAX (CONTINUED)

A reconciliation of the tax expense applicable to profit before tax using the statutory profits tax rate for Hong Kong in which the Company and the majority of its subsidiaries are operating/domiciled to the tax charge at the effective tax rate, and a reconciliation of the applicable rate (i.e., the Hong Kong statutory tax rate) to the Group's effective tax rate, are as follows:

Group

	2006		2005	
	HK$'000	**%**	HK$'000	%
Profit before tax	**13,780**		7,705	
Tax at the Hong Kong statutory tax rate	**2,411**	**17.5**	1,348	17.5
Higher tax rates for overseas subsidiaries	**2,030**	**14.7**	1,104	14.3
Adjustments in respect of current tax of prior years	**(401)**	**(2.9)**	(1)	–
Income not subject to tax	**(3,968)**	**(28.8)**	(3,395)	(44.1)
Expenses not deductible for tax	**1,660**	**12.1**	3,215	41.7
Tax losses utilised from prior periods	**(1,790)**	**(13.0)**	(4,256)	(55.2)
Tax losses not recognised	**1,796**	**13.0**	2,217	28.8
Others	**195**	**1.4**	–	–
Tax charge at the Group's effective tax rate	**1,933**	**14.0**	232	3.0

Under the income tax laws of the People's Republic of China (the "PRC"), enterprises are subject to corporate income tax ("CIT") generally at a rate of 33% (2005: 33%). However, certain of the Group's PRC subsidiaries are operating in specific development zones of the PRC and the relevant tax authorities have granted those subsidiaries a preferential CIT rate of 15% (2005: 15%).

One of the Company's subsidiary is a foreign investment enterprise, after obtaining authorisation from respective tax authorities, the subsidiary is subject to a full corporate income tax exemption for the first two years and a 50% reduction in the succeeding three years, commencing from the first profitable year.

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2006 includes a loss of HK$784,000 (2005: a loss of HK$848,000) which has been dealt with in the financial statements of the Company (note 32(b)).

12. DIVIDENDS

	2006 HK$'000	2005 HK$'000
Proposed final — HK$0.03 (2005: HK$0.01) per ordinary share	**7,950**	2,695
Proposed special — Nil (2005: HK$0.02) per ordinary share	**–**	5,390
	7,950	8,085

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting and will be paid out from the contributed surplus.

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

(a) Basic earnings per share

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent of HK$12,408,000 (2005: HK$8,011,000), and the weighted average number of 269,288,000 (2005: 273,933,000) ordinary shares of the Company in issue during the year.

(b) Diluted earnings per share

Diluted earnings per share amounts for the years ended 31 December 2006 and 2005 have not been disclosed as the exercise prices of the Company's outstanding share options are higher than the average market prices of the Company's ordinary shares during the two years and accordingly, the Company's outstanding share options have no dilutive effect.

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14. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold land and buildings HK$'000	Leasehold improve-ments HK$'000	Computer equipment and software HK$'000	Furniture, fixtures and other equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2006						
At 31 December 2005 and at 1 January 2006:						
Cost	7,158	7,073	34,599	5,835	1,300	55,965
Accumulated depreciation	(510)	(6,251)	(27,523)	(4,821)	(611)	(39,716)
Net carrying amount	6,648	822	7,076	1,014	689	16,249
At 1 January 2006, net of accumulated depreciation	6,648	822	7,076	1,014	689	16,249
Additions	–	78	1,478	276	–	1,832
Acquisition of subsidiaries (note 33)	–	123	25	148	–	296
Disposals	–	–	(80)	(8)	(5)	(93)
Depreciation provided during the year	(226)	(463)	(3,449)	(470)	(226)	(4,834)
Exchange realignment	–	18	11	24	12	65
At 31 December 2006, net of accumulated depreciation	6,422	578	5,061	984	470	13,515
At 31 December 2006:						
Cost	7,158	7,315	35,938	5,942	1,298	57,651
Accumulated depreciation	(736)	(6,737)	(30,877)	(4,958)	(828)	(44,136)
Net carrying amount	6,422	578	5,061	984	470	13,515
31 December 2005						
At 1 January 2005:						
Cost	7,158	7,034	36,314	6,178	1,286	57,970
Accumulated depreciation	(284)	(5,881)	(25,795)	(4,781)	(380)	(37,121)
Net carrying amount	6,874	1,153	10,519	1,397	906	20,849
At 1 January 2005, net of accumulated depreciation	6,874	1,153	10,519	1,397	906	20,849
Additions	–	218	1,056	329	–	1,603
Disposals	–	(38)	(15)	(53)	–	(106)
Depreciation provided during the year	(226)	(517)	(4,504)	(658)	(226)	(6,131)
Exchange realignment	–	6	20	(1)	9	34
At 31 December 2005, net of accumulated depreciation	6,648	822	7,076	1,014	689	16,249
At 31 December 2005:						
Cost	7,158	7,073	34,599	5,835	1,300	55,965
Accumulated depreciation	(510)	(6,251)	(27,523)	(4,821)	(611)	(39,716)
Net carrying amount	6,648	822	7,076	1,014	689	16,249

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The Group's leasehold land and buildings are held under the following lease terms:

	2006 HK$'000	2005 HK$'000
Hong Kong:		
Medium term leases	**449**	465
Mainland China:		
Medium term leases	**4,873**	5,050
Long term leases	**1,100**	1,133
	5,973	6,183
	6,422	6,648

15. INVESTMENT PROPERTIES

Group

	2006 HK$'000	2005 HK$'000
Carrying amount at 1 January	**17,820**	16,297
Net profit from a fair value adjustment	**4,192**	1,523
Carrying amount at 31 December	**22,012**	17,820

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15. INVESTMENT PROPERTIES (CONTINUED)

The Group's investment properties are held under the following lease terms:

	2006 **HK$'000**	2005 HK$'000
Hong Kong:		
Medium term leases	**1,564**	1,022
Long term leases	**14,500**	11,000
	16,064	12,022
Mainland China:		
Medium term leases	**1,700**	1,650
Long term leases	**4,248**	4,148
	5,948	5,798
	22,012	17,820

The Group's investment properties were revalued on 31 December 2006 by Landscope Surveyors Limited, independent professionally qualified valuers, at HK$22,012,000 on an open market, existing use basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 34(a) to the financial statements.

At 31 December 2006, one of the Group's investment properties situated in Hong Kong with a carrying value of approximately HK$14,500,000 (2005: HK$11,000,000), was pledged to secure general banking facilities granted to the Group.

Further particulars of the Group's investment properties are included on page 105.

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16. GOODWILL

Group

	HK$'000
31 December 2005	
Cost and carrying amount at 1 January 2005 and 31 December 2005	23,790
31 December 2006	
Cost at 1 January 2006	23,790
Acquisition of subsidiaries* (note 33)	110
Cost and carrying amount at 31 December 2006	23,900

As further detailed in note 2.4 to the financial statements, the Group applied the transitional provisions of HKFRS 3 that permitted goodwill in respect of business combinations which occurred prior to 2001, to remain eliminated against consolidated reserves.

The amounts of goodwill remaining in consolidated reserves, arising from the acquisition of subsidiaries prior to the adoption of SSAP 30 in 2001, were HK$7,227,000 as at 31 December 2005 and 2006. The amount of goodwill is stated at its cost less cumulative impairment of HK$3,890,000 which arose in years prior to 1 January 2005.

Notes to Financial Statements

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16. GOODWILL (CONTINUED)

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the following cash-generating units, which are reportable segments, for impairment testing:

- Application services cash-generating unit; and
- Integration and solutions services cash-generating unit.

The carrying amount of goodwill allocated to each of the cash-generating units is follows:

	Application Services		Integration and Solutions Services		Total	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Carrying amount of goodwill	**23,790**	23,790	**110 ***	–	**23,900**	23,790

Application services cash-generating unit

The recoverable amount of the application services cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 5% (2005: 5%) and cash flows beyond the five-year period are extrapolated using a growth rate of 6% (2005: 6%) which is the same as the long term average growth rate of the application services industry.

Integration and solutions services cash-generating unit

The recoverable amount of the integration and solutions services cash-generating unit is also determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 5% and cash flows beyond the five-year period are extrapolated using a growth rate of 10% which is the same as the long term average growth rate of the integration and solutions services industry. Senior management believes that this growth rate is justified, given the Company's past experience in the integration and solutions services industry.

Key assumptions were used in the value in use calculation of the application services and integration and solutions services cash-generating units for 31 December 2006 and 31 December 2005. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted sales revenue – The basis used to determine the values assigned to the budgeted sales revenue is the sales revenue achieved in the year immediately before the budget year, increased for expected growth in market demand and customer base.

Discount rates – The discount rates used are before tax and reflects specific risks relating to the relevant cash-generating units.

16. GOODWILL (CONTINUED)

* As further detailed in note 33 to the financial statements, on 24 November 2006, the Group acquired the entire issued share capital of Waywin Limited, which is interested in 99.993% of the issued share capital of Y&A Professional Services Limited (collectively the "Waywin Group"). The goodwill on acquisition of the Waywin Group of approximately HK$110,000 has been determined provisionally, pending the finalisation of the cost of the business combination, which is contingent on certain future events, and the completion of the appraisal of certain identifiable intangible assets, as further detailed in note 33 to the financial statements, and accordingly, may change upon such finalisation/completion.

17. OTHER INTANGIBLE ASSETS

Group

	Deferred development costs HK$'000
31 December 2006	
Cost at 1 January 2006, net of accumulated amortisation	7,868
Amortisation provided during the year	(2,156)
Impairment during the year (note 6)	(3,678)
Exchange realignment	32
At 31 December 2006, net of accumulated amortisation and impairment	2,066
At 31 December 2006:	
Cost	13,026
Accumulated amortisation and impairment	(10,960)
Net carrying amount	2,066

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17. OTHER INTANGIBLE ASSETS (CONTINUED)

Group

	Deferred development costs HK$'000
31 December 2005	
At 1 January 2005:	
Cost	11,594
Accumulated amortisation	(2,319)
Net carrying amount	9,275
Cost at 1 January 2005, net of accumulated amortisation	9,275
Additions – internal development	1,400
Amortisation provided during the year	(2,807)
At 31 December 2005, net of accumulated amortisation	7,868
At 31 December 2005 and 1 January 2006:	
Cost	12,994
Accumulated amortisation	(5,126)
Net carrying amount	7,868

During the year, the Group recognised certain provisions for impairment of deferred development costs in the aggregate of approximately HK$3,678,000, based on an assessment of the recoverable amount for the integration and solution services and application services cash-generating units. Impairment losses of HK$1,432,000 and HK$2,246,000 were recognised in the integration and solution services segment and the application services segment, respectively.

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18. INTERESTS IN SUBSIDIARIES

	Company 2006 HK$'000	Company 2005 HK$'000
Unlisted shares/investments, at cost	**45,633**	45,633
Due from a subsidiary	**357,572**	368,123
	403,205	413,756
Impairment	**(91,643)**	(91,643)
	311,562	322,113

The amount due from a subsidiary included in the Company's interests in subsidiaries above is unsecured, interest-free and has no fixed terms of repayment. The carrying amount of the amount due from a subsidiary approximates to its fair value.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued and fully paid share capital/ registered capital*	Percentage of equity attributable to the Company 2006	Percentage of equity attributable to the Company 2005	Principal activities
Apex Result Trading Limited	Hong Kong	Ordinary HK$2	**100**	100	Property holding
Computer And Technologies (BVI) Limited	British Virgin Islands	Ordinary US$1,000	**100**	100	Investment holding
Computer And Technologies International Limited	Hong Kong	Ordinary HK$2 Non-voting deferred** HK$5,000,000	**100**	100	Provision of IT services and investment holding
Computer And Technologies Integration Limited	Hong Kong	Ordinary HK$2	**100**	100	Provision of system and network integration services
Computer & Technologies International Trading (Shanghai) Company Limited#	PRC/ Mainland China	US$200,000	**100**	100	Trading of computer hardware and software

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18. INTERESTS IN SUBSIDIARIES (CONTINUED)

Particulars of the principal subsidiaries are as follows (continued):

Name	Place of incorporation/ registration and operations	Nominal value of issued and fully paid share capital/ registered capital*	Percentage of equity attributable to the Company 2006	2005	Principal activities
Computer & Technologies (Shanghai) Co., Ltd.##	PRC/Mainland China	US$3,500,000	**100**	100	Provision of systems and network integration services
Computer & Technologies Investment Limited	British Virgin Islands/ Hong Kong	Ordinary US$1	**100**	100	Investment holding and treasury investments
C&T (Guangzhou) Investment Limited	Hong Kong	Ordinary HK$2	**100**	100	Property holding
C&T (Hong Kong) Investment Limited	British Virgin Islands/ Hong Kong	Ordinary US$1	**100**	100	Property holding
C&T (Nanjing) Investment Limited	Hong Kong	Ordinary HK$2	**100**	100	Property holding
C&T (Shanghai) Investment Limited	Hong Kong	Ordinary HK$2	**100**	100	Property holding
Computer And Technologies Solutions Limited	Hong Kong	Ordinary HK$10,000	**100**	100	Provision of IT solutions and implementation services
Computer & Technologies Solutions (Shenzhen) Co., Ltd.##	PRC/Mainland China	US$1,128,000	**100**	100	Provision of IT solutions and implementation services
Global e-Business Services (BVI) Limited ("GEBS-BVI")	British Virgin Islands	Class A*** US$1,600 Class B*** US$400	**100*** **	80***	Investment holding

18. INTERESTS IN SUBSIDIARIES (CONTINUED)

Particulars of the principal subsidiaries are as follows (continued):

Name	Place of incorporation/ registration and operations	Nominal value of issued and fully paid share capital/ registered capital*	Percentage of equity attributable to the Company 2006	2005	Principal activities
Global e-Business Services Limited^	Hong Kong	Ordinary HK$1,010,000	**100***	80***	Provision of enterprise application services
Global e-Trading Services Limited^	Hong Kong	Ordinary HK$2,501,000	**100***	80***	Provision of government electronic trading services
e-tendering.com Limited^	British Virgin Islands/ Hong Kong	Ordinary US$1	**100***	80***	Provision of e-tendering services
ets.com.hk Limited^	Hong Kong	Ordinary HK$2	**100***	80***	Provision of e-tendering services for the HKSAR Government
IPL Research Limited	Hong Kong	Ordinary HK$100 Non-voting deferred** HK$300,000	**100**	100	Provision of human resources management system and related services
Jensco International Limited ("Jensco")	British Virgin Islands	Ordinary US$1	**100**	-	Investment holding
Maxfair Technology Limited	Hong Kong	Ordinary HK$2,500,000	**75**	75	Distribution of digital media products
Maxfair Technology (Taiwan) Company Limited	Taiwan	Ordinary NT$10,000,000	**52.5**	52.5	Distribution of digital media products

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18. INTERESTS IN SUBSIDIARIES (CONTINUED)

Particulars of the principal subsidiaries are as follows (continued):

Name	Place of incorporation/ registration and operations	Nominal value of issued and fully paid share capital/ registered capital*	Percentage of equity attributable to the Company 2006	2005	Principal activities
Modern Lucky Investments Limited	Hong Kong	Ordinary HK$2	**100**	100	Property holding
Waywin Limited ###	British Virgin Islands/ Hong Kong	Ordinary US$10,000	**100**	–	Investment holding
Y&A Professional Services Limited ###	Hong Kong	Ordinary HK$2,169,000	**99.993**	–	Provision of information technology solutions and consultation services
上海商絡軟件有限 公司##	PRC/ Mainland China	Ordinary US$140,000	**100**	100	Provision of human resources management and related services

Note: Except for Computer And Technologies (BVI) Limited, all of the above subsidiaries are indirectly held by the Company.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group or of particular importance to the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

^ Subsidiaries of GEBS-BVI.

The subsidiary is registered as a Sino-foreign equity joint venture under the PRC law.

The subsidiaries are registered as wholly-foreign-owned enterprises under the PRC law.

During the year, the Group acquired the entire issued share capital of Waywin Limited. Waywin Limited is interested in 99.993% of the issued share capital of Y&A Professional Services Limited. Further details of the acquisition are included in note 33 to the financial statements. These subsidiaries are not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

18. INTERESTS IN SUBSIDIARIES (CONTINUED)

* Registered capital applies only to Hong Kong companies registered in the PRC.

** The non-voting deferred shares, which are not held by the Group, carry no rights to dividends or to receive notice of or to attend or vote at any general meeting. In the winding-up of the subsidiaries, the holders of the deferred shares carry the right to receive a return of capital after the holders of the ordinary shares have received a sum of HK$1,000,000,000 per ordinary share.

*** In connection with a subscription (the "Subscription") as further detailed in note 28 to the financial statements, a shareholder's resolution was passed on 10 June 2004 approving the classification of the share capital of GEBS-BVI into ordinary shares of US$0.01 each designated as Class A shares, which are held by the Group, and Class B shares, which were issued and allotted to an investor (the "Investor") upon completion of the Subscription. The Class B shares rank pari passu in all material respects with the Class A shares except that each holder of the Class B shares shall at any general meeting of GEBS-BVI has one-tenth of a vote for every Class B share. Accordingly, after the completion of the Subscription, the Group had 98% voting rights in the general meetings of GEBS-BVI and the Investor had only 2%. Each Class B share shall automatically be converted into one Class A share upon an initial public offering of the shares of GEBS-BVI.

Notwithstanding the Group received HK$23.4 million (the "Subscription Proceeds") for the issuance and allotment of 40,000 Class B shares of GEBS-BVI (the "Subscription Shares") to the Investor, representing 20% of the issued share capital of GEBS-BVI as enlarged by the Subscription, the Investor could originally under certain circumstances, as further detailed in note 28 to the financial statements, either exchange the Subscription Shares for certain number of the Company's own shares or for an amount of cash equal to the Subscription Proceeds at the discretion of the Company. Such contractual obligations to the investor have been accounted for as a financial liability instead of as a minority interest in the Group's consolidated financial statements in accordance with HKAS 32, as further detailed in note 28 to the financial statements, and accordingly, the Group has reflected a 100% share of the assets, liabilities, income and expenses of GEBS-BVI and its subsidiaries in the consolidated financial statements, and the Subscription Proceeds are reflected as "Other financial liabilities" on the consolidated balance sheet.

During the year, the Company, the Investor and Jensco International Limited ("Jensco"), a wholly-owned subsidiary of the Company, entered into a sales and purchase agreement (the "Sale and Purchase Agreement") for the acquisition of the Subscription Shares by Jensco from the Investor for a cash consideration of HK$23,400,000 (the "Consideration"). Pursuant to the Sale and Purchase Agreement, upon completion of the acquisition on 29 June 2006, the Group had 100% of the issued share capital of GEBS-BVI and the aforesaid contractual obligations, were cancelled and terminated and ceased to be binding upon the relevant parties.

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19. HELD-TO-MATURITY SECURITIES

	Group	
	2006	2005
	HK$'000	HK$'000
At amortised cost:		
Unlisted debt securities	**1,265**	5,165
Portion classified as current assets	**–**	(3,900)
Non-current portion	**1,265**	1,265

The Group's unlisted debt securities of HK$765,000 (2005: HK$5,165,000) were pledged to secure general banking facilities granted to the Group.

20. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2006	2005
	HK$'000	HK$'000
Club membership debenture, at fair value	**1,180**	750
Unlisted equity investment, at fair value	**616**	–
	1,796	750

During the year, the gross gain of the Group's available-for-sale investments recognised directly in equity amounted to HK$551,000 (2005: Nil).

The above investments consist of investments in securities which were designated as available-for-sale financial assets and have no fixed maturity date or coupon rate.

The fair values of the club membership debenture and unlisted equity investment are based on quoted market prices.

21. INVENTORIES

	Group 2006 HK$'000	2005 HK$'000
Work in progress	**7,561**	16,246
Finished goods	**5,309**	4,385
	12,870	20,631

22. TRADE RECEIVABLES

An aged analysis of the trade receivables as at the balance sheet date, based on the payment due date and net of provisions, is as follows:

	Group 2006 HK$'000	2005 HK$'000
Current	**25,211**	9,972
1 to 3 months	**8,290**	7,967
4 to 6 months	**4,352**	1,622
More than 6 months	**7,327**	1,831
	45,180	21,392

Credit terms

For system integration projects and the provision of maintenance services and software development services, the Group's trading terms with its customers vary from contract to contract and may include cash on delivery, advance payment and on credit. For those customers who trade on credit, the credit period is generally for a period of 90 to 120 days, except for certain well established or major customers, where the terms may extend beyond 120 days. The Group seeks to maintain strict control over its outstanding trade receivables and overdue balances are reviewed regularly by senior management.

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23. CONTRACT FOR SERVICES

	Group	
	2006	2005
	HK$'000	HK$'000
Contract costs incurred plus recognised profits less recognised losses to date	**261,574**	321,759
Less: Progress billings	**(203,472)**	(255,044)
	58,102	66,715
Gross amount due from contract customers	**59,052**	68,865
Gross amount due to contract customers included in trade payables, other payables and accruals (note 26)	**(950)**	(2,150)
	58,102	66,715

24. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2006	2005
	HK$'000	HK$'000
Listed equity investments, at market value:		
Hong Kong	**5,968**	5,008

The above equity investments at 31 December 2006 and 2005 were held for trading purposes.

25. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**31,839**	28,993	**160**	345
Time deposits	**143,659**	150,807	**–**	1,005
	175,498	179,800	**160**	1,350
Less: Pledged time deposits for performance bonds/guarantees issued by banks	**(11,676)**	(8,012)	**–**	–
Cash and cash equivalents	**163,822**	171,788	**160**	1,350
Pledged time deposits analysed for reporting purposes as:				
Non-current	**3,110**	–	**–**	–
Current	**8,566**	8,012	**–**	–
	11,676	8,012	**–**	–

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK$47,103,000 (2005: HK$24,524,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at bank earns interest at floating rates based on daily bank deposits rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

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26. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables	**24,042**	22,182	**–**	–
Other payables	**17,429**	9,916	**54**	10
Gross amount due to contract customers (note 23)	**950**	2,150	**–**	–
Accruals	**9,227**	5,568	**20**	20
	51,648	39,816	**74**	30

An aged analysis of the trade payables included in trade payables, other payables and accruals as at the balance sheet date, based on the payment due date, is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Current	**17,013**	16,220
1 to 3 months	**6,183**	1,913
4 to 6 months	**696**	2,729
Over 6 months	**150**	1,320
	24,042	22,182

Included in the Group's other payables as at 31 December 2006 is an acquisition consideration payable of approximately HK$1,715,000 (2005: Nil), representing the additional consideration in connection with the acquisition of certain subsidiaries, as further detailed in note 33 to the financial statements.

The trade payables are non-interest-bearing and are normally settled on 30-day terms.

Other payables are non-interest-bearing and have an average term of three months.

27. DUE TO MINORITY SHAREHOLDERS OF SUBSIDIARIES

Included in the balance is an amount of HK$2,150,000 (2005: HK$2,024,000) due to a director of the Company.

The amounts due to minority shareholders of subsidiaries are unsecured, interest-free, and have no fixed terms of repayment.

28. OTHER FINANCIAL LIABILITIES

On 9 June 2004, Computer And Technologies International Limited ("CTIL"), Computer And Technologies e-Services (BVI) Limited ("CTES") and GEBS-BVI, indirect wholly-owned subsidiaries of the Company, entered into a subscription agreement (the "Subscription Agreement") with an independent third party (the "Investor") for the subscription (the "Subscription") by the Investor of 40,000 Class B shares of GEBS-BVI (the "Subscription Shares"), representing 20% of the issued share capital of GEBS-BVI as enlarged by the Subscription and approximately 2% of the voting rights in the general meetings of GEBS-BVI, for a cash consideration of HK$23,400,000 (the "Subscription Proceeds"). On 18 June 2004, the Company, CTIL, CTES, GEBS-BVI and the Investor entered into a shareholders' agreement to provide for their rights and obligations in respect of GEBS-BVI (the "Shareholders' Agreement"). The Investor fully settled the Subscription consideration in June 2004.

Pursuant to the Shareholders' Agreement, GEBS-BVI granted to the Investor an option (the "Adjustment Option"), originally exercisable in the event that the audited consolidated after-tax net profit of GEBS-BVI for the year ended 31 December 2006 did not meet an agreed threshold of approximately HK$10.5 million, to require GEBS-BVI to:

(i) issue at par an additional number of Class B shares of GEBS-BVI to the Investor. The number of such additional Class B shares would be determined in accordance with an agreed formula by reference to the subscription price for the Subscription and a multiple of the then consolidated net profit of GEBS-BVI, subject to a maximum number such that the Investor would not be interested in more than 49.9% of the then enlarged issued share capital of GEBS-BVI, and GEBS-BVI would remain as a subsidiary of the Company; or

(ii) pay to the Investor an amount in cash calculated by reference to the then consolidated net profit of GEBS-BVI, subject to a maximum amount of approximately HK$14 million. CTIL guaranteed to the Investor the performance of the relevant payment obligations of GEBS-BVI.

GEBS-BVI would have the right to elect whether it would allot additional Class B Shares as set out in (i) above or make payment to the Investor as set out in (ii) above.

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28. OTHER FINANCIAL LIABILITIES (CONTINUED)

Under the Shareholders' Agreement, in the event that:

(a) GEBS-BVI had not effected an initial public offering of its shares before 30 April 2007 and the audited consolidated after-tax net profit of GEBS-BVI for the year ended 31 December 2006 did not meet an agreed threshold of approximately HK$10.5 million;

(b) GEBS-BVI had not effected an initial public offering of its shares before 31 December 2008;

(c) GEBS-BVI had obtained firm and positive advice from not less than two reputable investment banks in respect of an initial public offering but did not proceed with the offering; or

(d) GEBS-BVI or any of its subsidiaries was being liquidated,

the Investor might require the Company to effectively, at the discretion of the Company, either (i) exchange the Subscription Shares into the Company's shares, based on the average market price of the Company's shares for the 30 trading days before the Investor exercises its right, or (ii) pay the Investor an amount in cash, or a combination of both (i) and (ii), in respect of (a), (b) and (d) above, equal to the Subscription Proceeds and, in respect of (c), an amount (calculated based on the then valuation of GEBS-BVI to be performed by independent investment banks to be appointed by GEBS-BVI) subject to a maximum amount of HK$93 million (the "Exchange Options").

Further details of the Subscription, the Subscription Agreement, the Shareholders' Agreement, the Adjustment option and the Exchange Options are also set out in a circular of the Company dated 30 June 2004.

Upon the adoption of HKAS 32 in the prior year, the aforesaid contractual obligations as created by the Adjustment Option and the Exchange Options (collectively the "Contractual Obligations") are considered as financial liabilities of the Group as these options require the Group to deliver cash or another financial asset, to the extent of HK$23,400,000 (i.e. the Subscription Proceeds), in the occurrence or non-occurrence of certain triggering events that are beyond control of the Group to exchange the 20% equity interest of GEBS-BVI back from the Investor. Accordingly, due to the existence of the contingent settlement provisions attached to the arrangement, the Subscription Proceeds received from the Investor is classified as "Other financial liabilities" as at 31 December 2005.

On 29 June 2006, the Company, the Investor and Jensco, a wholly-owned subsidiary of the Company. entered into the Sale and Purchase Agreement for the acquisition of the 40,000 Class B shares of GEBS-BVI by Jensco from the Investor for a cash consideration of HK$23,400,000 (the "Consideration"). Jensco fully settled the Consideration in August 2006. Pursuant to the Sale and Purchase Agreement, upon the completion of the acquisition, the rights and obligations of each of the parties to the Shareholders' Agreement (including but not limited to the Contractual Obligations) were cancelled, terminated and ceased to be binding upon each of them. Accordingly, the other financial liabilities of HK$23,400,000 were derecognised in the current year, when the obligations under the liabilities were discharged/cancelled.

Further details of the acquisition and the Sale and Purchase Agreement are also set out in a circular of the Company dated 20 July 2006.

29. DEFERRED TAX

The movements in deferred tax assets during the year are as follows:

Deferred tax assets

Group

	Losses available for offset against future taxable profit	
	2006	2005
	HK$'000	HK$'000
At 1 January	**2,000**	1,050
Deferred tax credited to the income statement during the year (note 10)	**–**	950
At 31 December	**2,000**	2,000

At the balance sheet date, the Group had tax losses arising in Hong Kong of HK$74,105,000 (2005: HK$61,948,000), subject to the agreement by the Hong Kong Inland Revenue Department. The tax losses arising in Hong Kong are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time or due to the unpredictability of future taxable profit streams of those subsidiaries and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

At 31 December 2006, there was no significant unrecognised deferred tax liability (2005: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, as the Group had no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

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30. SHARE CAPITAL

Shares

	2006	2005
	HK$'000	HK$'000
Authorised:		
1,000,000,000 (2005: 1,000,000,000) ordinary shares of HK$0.10 each	**100,000**	100,000
Issued and fully paid:		
265,612,198 (2005: 269,502,198) ordinary shares of HK$0.10 each	**26,561**	26,950

A summary of the movements of the Company's issued ordinary share capital and share premium account is as follows:

Ordinary shares	Notes	**Number of shares in issue**	**Issued share capital**	**Share premium account**	**Total**
			HK$'000	HK$'000	HK$'000
At 1 January 2005		275,198,198	27,520	237,310	264,830
Repurchase of shares	(a)	(5,696,000)	(570)	–	(570)
At 31 December 2005 and 1 January 2006		269,502,198	26,950	237,310	264,260
Repurchase of shares	(b)	(3,890,000)	(389)	–	(389)
At 31 December 2006		265,612,198	26,561	237,310	263,871

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30. SHARE CAPITAL (CONTINUED)

Notes:

(a) During the year ended 31 December 2005, the Company repurchased its own ordinary shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as follows:

Month/year	Number of shares repurchased	Highest price paid per share HK$	Lowest price paid per share HK$	Aggregate price paid HK$'000
September 2005	802,000	0.83	0.79	651
October 2005	4,762,000	0.85	0.80	3,947
November 2005	132,000	0.80	0.80	106
	5,696,000			4,704

The repurchased shares were cancelled and accordingly, the issued share capital of the Company was reduced by the nominal value of these shares. The premium paid on the repurchase of the shares of HK$4,134,000 was charged to the contributed surplus.

(b) During the year ended 31 December 2006, the Company repurchased its own ordinary shares on the Stock Exchange as follows:

Month/year	Number of shares repurchased	Highest price paid per share HK$	Lowest price paid per share HK$	Aggregate price paid HK$'000
November 2006	1,128,000	0.70	0.69	789
December 2006	2,762,000	0.80	0.70	2,110
	3,890,000			2,899

The repurchased shares were cancelled and accordingly, the issued share capital of the Company was reduced by the nominal value of these shares. The premium paid on the repurchase of the shares of HK$2,510,000 was charged to the contributed surplus.

Share options

Details of the Company's share option schemes and the share options issued under the schemes are included in note 31 to the financial statements.

Notes to Financial Statements

31 December 2006

31. SHARE OPTION SCHEMES

The Company operates two share option schemes for the primary purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The share option schemes entitle the holders of share options granted under the schemes to subscribe for ordinary shares of the Company at any time during the exercisable periods of the options. Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

(a) Share option scheme adopted in 1998

On 29 April 1998, the Company adopted a share option scheme (the "1998 Scheme"). Eligible participants of the 1998 Scheme are the Group's employees including the Company's executive directors. The 1998 Scheme became effective on 29 April 1998 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of share issuable under unexercised share options currently permitted to be granted under the 1998 Scheme may not exceed 10% of the issued share capital of the Company at the time of granting the option, without taking into account any shares issued and allotted pursuant to exercise of options granted under the 1998 Scheme. The maximum number of share issuable under share options granted to any eligible individual participant in the 1998 Scheme shall not exceed 25% of the issuable shares under the 1998 Scheme.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$10 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than six years from the date of offer of the share options or the expiry date of the 1998 Scheme, whichever is earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) 80% of the average closing price of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of the offer; and (ii) the nominal value of the shares.

The Company has not adopted the amendments made by Chapter 17 of the Listing Rules on Share Option Schemes ("Chapter 17 Amendments"), which came into effect on 1 September 2001, for the 1998 Scheme. Accordingly, the Group has not granted any options under the 1998 Scheme since 1 September 2001. The share options which had been granted under the 1998 Scheme but remain unexercised shall continue to be valid and exercisable in accordance with their terms of issue and the rules of the 1998 Scheme.

31. SHARE OPTION SCHEMES (CONTINUED)

(b) Share option scheme adopted in 2002

To comply with the Chapter 17 Amendments, the Company adopted a new share option scheme in 2002 (the "2002 Scheme"). Eligible participants of the 2002 Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, the Company's shareholders, and any minority shareholder in the Company's subsidiaries. The 2002 Scheme became effective on 30 May 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the 2002 Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the 2002 Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5.0 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of offer of the share options or the expiry date of the 2002 Scheme, whichever is earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer.

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31. SHARE OPTION SCHEMES (CONTINUED)

The following share options were outstanding under the 1998 Scheme and the 2002 Scheme (collectively referred to as the "Schemes") during the year:

Name or category of participant	Number of share options At 1 January 2006	Granted during the year	Exercised during the year	Expired during the year	Forfeited during the year	At 31 December 2006	Date of grant of share options *	Exercise period of share options	Price of the Company's shares*** Exercise price of share options ** HK$ per share	At exercise date of options HK$ per share	Immediately before the exercise date HK$ per share	At grant date of options * HK$ per share
Directors												
Ng Cheung Shing	300,000	–	–	–	–	300,000	31.08.2004	01.03.2005 to 31.08.2009	1.128	N/A	N/A	1.09
Leung King San, Sunny	200,000	–	–	–	–	200,000	31.08.2004	01.03.2005 to 31.08.2009	1.128	N/A	N/A	1.09
Ma Mok Hoi	150,000	–	–	–	–	150,000	31.08.2004	01.03.2005 to 31.08.2009	1.128	N/A	N/A	1.09
Ha Shu Tong	100,000	–	–	–	–	100,000	31.08.2004	01.03.2005 to 31.08.2009	1.128	N/A	N/A	1.09
Lee Kwok On, Matthew	100,000	–	–	–	–	100,000	31.08.2004	01.03.2005 to 31.08.2009	1.128	N/A	N/A	1.09
Ting Leung Huel, Stephen	100,000	–	–	–	–	100,000	31.08.2004	01.03.2005 to 31.08.2009	1.128	N/A	N/A	1.09
	950,000	–	–	–	–	950,000						
Other employees												
In aggregate	1,850,000	–	–	–	(344,000)	1,506,000	31.08.2004	01.03.2005 to 31.08.2009	1.128	N/A	N/A	1.09
	148,000	–	–	(148,000)	–	–	31.08.2001	06.09.2002 to 05.09.2006	1.563	N/A	N/A	1.88
	296,000	–	–	(296,000)	–	–	16.01.2001	23.01.2002 to 22.01.2006	2.672	N/A	N/A	3.50
	2,294,000	–	–	(444,000)	(344,000)	1,506,000						
Total	3,244,000	–	–	(444,000)	(344,000)	2,456,000						

31. SHARE OPTION SCHEMES (CONTINUED)

Notes to the reconciliation of share options outstanding during the year:

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

*** The price of the Company's shares disclosed as at the date of grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of grant of the options. The price of the Company's shares disclosed immediately before the exercise date of the share options is the weighted average of the Stock Exchange closing prices immediately before the dates on which the options were exercised over all of the exercises of options within the disclosure line.

No share options were granted under the Schemes during the year (2005: Nil). The fair value of the share options granted under the 2002 Scheme during the year ended 31 December 2004 was HK$1,256,000.

The fair value of equity-settled share options granted during the year ended 31 December 2004 was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the year ended 31 December 2004:

Dividend yield (%)	–
Expected volatility (%)	36.54
Historical volatility (%)	36.54
Risk-free interest rate (%)	4.13
Expected life of options (years)	5
Weighted average share price (HK$)	1.10

The expected life of the options is based on the historical data over the past year and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the balance sheet date, the Company had 2,456,000 share options outstanding under the Schemes. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 2,456,000 additional ordinary shares of the Company and additional share capital of approximately HK$246,000 and share premium of approximately HK$2,524,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 2,456,000 share options outstanding under the Schemes, which represented approximately 0.9 % of the Company's ordinary shares in issue at that date.

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32. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 30 to 31 of the financial statements.

The Group's contributed surplus originally represented the excess of the aggregate net asset value of the subsidiaries acquired at the date of their acquisition pursuant to the Group reorganisation on 29 April 1998, over the nominal value of the Company's shares issued in exchange therefor.

Pursuant to the relevant laws and regulations for wholly-foreign-owned enterprises, a portion of the profits of an individual subsidiary of the Company, which is established in the PRC is required to be transferred to the reserve funds which are restricted as to use. The subsidiary is not required to effect any further transfer when the amount of the reserve funds reaches 50% of its registered capital.

The Group's goodwill reserve represents goodwill which arose on the acquisition of certain subsidiaries in prior years and remains eliminated against consolidated reserves, as explained in note 16 to the financial statements.

(b) Company

	Notes	Share premium account HK$'000	Contributed surplus HK$'000	Share option reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1 January 2005		237,310	45,483	837	(2,190)	281,440
Equity-settled share option arrangements		–	–	307	–	307
Repurchase of shares	30	–	(4,134)	–	–	(4,134)
Profit for the year		–	–	–	19,152	19,152
Proposed final and special 2005 dividends	12	–	–	–	(8,085)	(8,085)
At 31 December 2005 and 1 January 2006		237,310	41,349	1,144	8,877	288,680
Repurchase of shares	30	–	(2,510)	–	–	(2,510)
Loss for the year		–	–	–	(784)	(784)
Proposed final 2006 dividend	12	–	(7,950)	–	–	(7,950)
At 31 December 2006		237,310	30,889	1,144	8,093	277,436

The Company's contributed surplus originally represents the excess of the aggregate net asset value of the subsidiaries acquired at the date of their acquisition pursuant to a Group reorganisation on 29 April 1998, over the nominal value of the Company's shares issued in exchange therefor.

Under the Bermuda Companies Act 1981, the Company's contributed surplus is distributable to shareholders.

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33. BUSINESS COMBINATION

On 24 November 2006, the Group acquired the entire issued share capital of Waywin Limited (the "Acquisition") at an initial cash consideration of approximately HK$2,355,000 and subject to the satisfaction of certain conditions as described below, an additional consideration not exceeding HK$4,675,000 (the "Additional Consideration").

Waywin Limited is incorporated in the British Virgin Islands and primarily engages in investment holding. Waywin Limited is interested in 99.993% of the issued share capital of Y&A Professional Services Limited ("Y&A"). Y&A is incorporated in Hong Kong and principally engages in the provision of information technology solutions and consultation services in Hong Kong.

The Additional Consideration is calculated with reference to the net asset value as reported in the audited financial statements of Y&A for the year ending 30 June 2007 (the "2007 Audited Accounts") and the audited profit after tax as reported in the 2007 Audited Accounts but before any provision and/or write-off against amounts due from affiliated companies of Y&A. The Additional Consideration is payable in two parts, hereinafter referred to as the "Part One Sum" and the "Part Two Sum", which are subject to a maximum amount of HK$675,000 and HK$4,000,000, respectively.

The payment of Part One Sum is subject to (a) all accounts receivable to be recorded in the 2007 Audited Accounts shall have been collected within 1 month after the date of issuance of the 2007 Audited Accounts; and (b) all members of the key management of Y&A remain employed by Y&A or the Group on the 45th day following the date of issuance of the 2007 Audited Accounts and none of them has committed any breach of their respective service agreements.

The Part Two Sum shall be deemed satisfied by CTSL, at its sole discretion, by either (i) paying cash to the vendors or (ii) transferring to the vendors 4,000 shares in Waywin Limited at no cost. In the event CTSL exercises its discretion to satisfy the Part Two Sum by transferring to the vendors 4,000 shares in Waywin Limited, the Group will become interested in 60% of the issued share capital of Waywin Limited.

Further details of the Acquisition are also set out in a circular of the Company dated 18 November 2006.

Based on an estimate of the expected profit of Y&A (before any provision and/or write-off against amounts due from affiliated companies) for the year ending 30 June 2007, the directors of the Company have estimated the Additional Consideration to be approximately HK$1,715,000, resulting in a provisional cost of the business combination of approximately HK$4,150,000 (including incidental costs of acquisition of approximately HK$80,000), which may change upon the finalisation of the Additional Consideration.

Notes to Financial Statements

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33. BUSINESS COMBINATION (CONTINUED)

The fair values of the identifiable assets and liabilities of the Waywin Group as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Notes	**Fair value* recognised on acquisition** HK$'000	**Carrying amount** HK$'000
Property, plant and equipment	14	296	296
Trade receivables		2,400	2,400
Prepayments, deposits and other receivables		688	688
Tax recoverable		122	122
Cash and cash equivalents		1,549	1,549
Other payables and accruals		(806)	(806)
Deferred income		(209)	(209)
		4,040	4,040
Goodwill on acquisition*	16	110	
Total cost of the business combination*		4,150	
Satisfied by:			
Cash		2,355	
Acquisition consideration payable		1,715	
		4,070	
Incidental costs on acquisition		80	
Total cost of the business combination		4,150	

* The allocation of the cost of the business combination to the identifiable assets is preliminary pending the finalisation of the Additional Consideration as further detailed above and the completion of the appraisal of certain intangible assets of Y&A acquired, which is expected to be finalised/completed during the year ending 31 December 2007. Currently no value has been ascribed to such identifiable intangible assets on a provisional basis. Accordingly, the fair value of the intangible assets acquired and the goodwill arising on the Acquisition may change upon the finalisation of the Additional Consideration and the completion of the appraisal.

33. BUSINESS COMBINATION (CONTINUED)

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of the subsidiaries is as follows:

	HK$'000
Cash consideration, plus incidental costs of acquisition paid	(2,435)
Cash and bank balances acquired	1,549
Net outflow of cash and cash equivalents in respect of the acquisition of the subsidiaries	(886)

Since its acquisition, the Waywin Group contributed HK$768,000 to the Group's revenue and HK$53,000 to the consolidated profit for the year ended 31 December 2006.

Had the combination taken place at the beginning of the year, the revenue from continuing operations of the Group and the profit of the Group for the year would have been approximately HK$248,572,000 and HK$12,485,000, respectively.

34. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 15) under operating lease arrangements, with leases negotiated for terms ranging from one to five years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2006, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Within one year	**1,291**	1,474
In the second to fifth years, inclusive	**–**	153
	1,291	1,627

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34. OPERATING LEASE ARRANGEMENTS (CONTINUED)

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years.

At 31 December 2006, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**5,105**	4,653	**2,594**	1,004
In the second to fifth years, inclusive	**9,338**	1,270	**4,090**	–
	14,443	5,923	**6,684**	1,004

35. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

(a) As at 31 December 2006, guarantees were given to certain banks by the Company for performance bonds/guarantees issued by the banks in relation to service contracts undertaken by the Group amounting to HK$45,036,000 (2005: HK$43,036,000) of which HK$12,360,000 (2005: HK$10,132,000) had been utilised.

(b) The Company issued corporate guarantees to certain suppliers of the Group in connection with certain purchases from those suppliers. As at 31 December 2006, the outstanding amounts due to those suppliers by the Group amounted to HK$1,788,000 (2005: HK$860,000).

36. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

Compensation of key management personnel of the Group:

	2006 HK$'000	2005 HK$'000
Short term employee benefits	**8,619**	8,344
Post-employment benefits	**103**	100
Share-based payments	**–**	150
Total compensation paid to key management personnel	**8,722**	8,594

Further details of directors' emoluments are included in note 7 to the financial statements.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments include cash and short term deposits, available-for-sales investment and equity investments at fair value through profit or loss. The main purpose of these financial instruments is to finance the Group's operations. The Group has various other financial assets and liabilities such as trade and other receivables, amount due from contract customers, trade and other payables and amounts due to minority shareholders of subsidiaries, which arise directly from its operations.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk and credit risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Cash flow interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's cash and cash equivalents.

Cash and cash equivalents earn interest at floating rates based on daily bank deposit rates.

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37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. Approximately 12.2% (2005: 6%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale, whilst almost 50.3% (2005: 40%) of costs are denominated in the units' functional currency.

Credit risk

The Group mainly trades with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to unidentified bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the senior management of the relevant operating unit.

The credit risk of the Group's other financial assets, which include cash and cash equivalents, held-to-maturity securities and available-for-sale investments, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Since the Group mainly trades with recognised and/or creditworthy third parties, there is no requirement for collateral.

At the balance sheet date, 40.6% of the total trade receivables of the Group were due from certain departments/units of the Government of the HKSAR. Save as the above, there were no significant concentrations of credit risk at the balance sheet date.

38. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

As at the balance sheet date, the fair values of the Group's financial assets and financial liabilities were not materially different from their carrying amounts.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 April 2007.