



TIMELESS SOFTWARE LTD.



Annual Report 2006





Characteristics of The Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Exchange”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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Corporate Information

Directors

Executive directors

CHENG Kin Kwan
LAW Kwai Lam
CHUNG Yiu Fai
LEUNG Mei Sheung Eliza
ZHENG Ying Yu
FUNG Chun Pong Louis
LIAO Yun

Independent non-executive directors

NG Kwok Tung
TSANG Wai Chun Marianna
CHAN Mei Ying Spencer

Secretary

LAW Kwai Lam

Qualified accountant

LEUNG Wai Sze CPA, FCCA

Compliance officer

LAW Kwai Lam

Audit committee

NG Kwok Tung
TSANG Wai Chun Marianna
CHAN Mei Ying Spencer

Registered Office

Units 111-113 1st Floor
Building 9 Phase One
Hong Kong Science Park
Tai Po New Territories
Hong Kong

Auditors

Deloitte Touche Tohmatsu

Legal adviser

Deacons

Banker

Hang Seng Bank Limited

Share Registrars

Computershare Hong Kong
Investor Services Limited
46th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

Chairman's Statement

BUSINESS REVIEW

The current year marks a significant yardstick in Timeless' progress. During the year we fundamentally iron out the major encumbrance that hinders our further advancement, finally established a financially stable, sound and safe haven for ourselves.

Our core business, software development has also achieved major advancements; during the year, upon the consolidated platform we basically completed, we successfully derived and developed a network service platform and several sub-platforms. Prior to any major full fledged market launch, these platforms are being tested and trial-run by several significant customers with encouraging outcomes. These advancements empower TCP to transform technology into cash better than ever before, more efficiently and with even better chances.

OUTLOOK

As usual, we are confident about the future; but for the coming year, our confidence is more realistic and specific than any time before, since the foundation that fused the market and TCP is more definite and substantial than ever.

Thus to round up, our future strategies can be summarized as:

- Continuous bettering our cash flow;
- Work hard to augment our core business revenue; and
- Explore to achieve progress in the capital market.

On behalf of the Board

Cheng Kin Kwan

Chairman & Chief Executive Officer

Hong Kong, 20 June 2006

RESULTS FOR THE YEAR ENDED 31 MARCH 2006

The directors continued to take a conservative approach for accounting purposes and adopt a stringent view on recognising revenue, especially for contracts of relatively longer term in nature in Mainland China. For the year ended 31 March 2006, the turnover was approximately HK\$3.6 million, representing an increase of approximately 6%, as compared to approximately HK\$3.4 million in last year. The net profit attributable to equity holders of the Company was approximately HK\$2.1 million compared to a loss of approximately HK\$82.5 million in last year, which was mainly resulted from the following:

1. Gain on disposal of the premises located at 79th Floor, The Center, 99 Queen's Road Central, Hong Kong (the "Disposal") was approximately HK\$36.2 million;
2. No depreciation was provided for the property disposed during the year, while an amount of approximately HK\$2.9 million was recorded in last year. The amortisation of product development costs was reduced by approximately HK\$1.4 million as compared with that of last year;
3. The significant decrease in share of losses of associates and jointly controlled entities from approximately HK\$23.9 million and HK\$8.8 million to approximately HK\$1.3 million and HK\$4.4 million respectively; and
4. No impairment in value of goodwill was accounted for the year, while an amount of approximately HK\$11.9 million was recorded in last year.

The Company has for the first time adopted HKFRS 2 "Share-based payment" to expense the fair value of share options granted to directors and employees of the Group during the year. As a result, an amount of approximately HK\$1.8 million was recognized as share-based payments in staff costs.

Following the completion of the Disposal on 30 December 2005, the Company has entered into a tenancy agreement to lease back the office premises for a twelve-month period commencing from 30 December 2005. Subsequently, pursuant to the terms of the agreement, the Company gave notice of early termination to take effect from 1 July 2006. The rental paid under such lease of approximately HK\$1.6 million was recorded in other expenses during the year.

Impairment for amounts due from customers for contract work was approximately HK\$4.2 million for the year ended 31 March 2006.

LIQUIDITY AND FINANCIAL RESOURCES

The Group financed its operations and investing activities primarily with internally generated cash flow. As the Group has sufficient financial resources and would invest its surplus cash prudently in listed securities in coming year.

As at 31 March 2006, the Group had bank balances and cash (excluding pledged bank deposits) of approximately HK\$132.5 million (2005: HK\$17.2 million). The significant increase in bank balances as compared with that of last year were mainly due to net proceeds received from the Disposal.

As at 31 March 2006, the Group had total outstanding borrowings of approximately HK\$1.5 million (2005: HK\$36.7 million). The borrowings comprised a bank loan of approximately HK\$1.4 million (2005: HK\$36.5 million), which is repayable by monthly installment and will be fully repaid on 15 March 2015, and obligations under finance lease of approximately HK\$0.1 million (2005: HK\$0.2 million), which will be fully repaid on 31 March 2008. The decrease in total outstanding borrowings as compared with that of last year was mainly due to the repayment of mortgage loan of approximately HK\$35 million in respect of the property disposed during the year.

GEARING RATIO

As at 31 March 2006, the Group's gearing ratio was approximately 1.03% (2005: 26.6%), based on total borrowings of approximately HK\$1.5 million (2005: HK\$36.7 million) and equity attributable to equity holders of the Company of approximately HK\$146.1 million (2005: HK\$137.9 million). The improvement in gearing ratio as compared with that of last year was mainly due to the repayment of mortgage loan as mentioned in previous paragraph.

CHARGE ON THE GROUP'S ASSETS

Following the repayment of the mortgage loan as mentioned in previous paragraph, the charge on the disposed property with net book value of approximately HK\$120.9 million was released during the year. As at 31 March 2006, a commercial property with net book value of HK\$2.3 million (2005: HK\$3.1 million) situated in Guangzhou held by a PRC subsidiary was pledged to bank to secure the loan of approximately HK\$1.4 million (2005: HK\$1.5 million).

Bank deposits totaling of approximately HK\$10.3 million (2005: HK\$10.2 million) were pledged to banks to secure the banking facilities. In which, credit facilities of HK\$5 million (2005: HK\$5 million) were available to its subsidiaries and loan facility of approximately HK\$4.8 million (2005: HK\$4.7 million) were available to a jointly controlled entity.

CAPITAL STRUCTURE

As at 31 March 2006, the Company's total number of issued shares was 1,031,481,503 (2005: 1,009,481,503). During the year, certain directors and employees of the Group exercised share options granted to them under the 2003 share option scheme and 22,000,000 shares of the Company were issued and allotted thereof.

As at 31 March 2006, the Group had outstanding bank loan of HK\$1.4 million (2005: HK\$36.5 million). The bank loan is denominated in Renminbi and will become mature on 15 March 2015. Such loan is secured and carries fixed interest at a rate of 5.31% (2005: 6.21%) per annum.

SEGMENTAL INFORMATION

In respect of business segments, the Group continues to focus on software development. Turnover contributed from software development accounted for over 99% of the Group's total turnover for the year ended 31 March 2006 and 2005.

In respect of geographical segments, there was no significant change in the percentage of turnover generated from Hong Kong and Mainland China during the year. Turnover contributed from Hong Kong and Mainland China accounted for approximately 60% and 40% compared to last year of approximately 63% and 37% respectively.

ORDER BOOK AND PROSPECTS FOR NEW BUSINESS

The amount of orders on hand of the Group was over HK\$4.3 million as at 31 March 2006. In respect of those large projects of relatively longer term in nature in Ningxia Province in Mainland China, progress will be made when funding for these projects becomes certain. Please refer to Chairman's statement for the prospects of the Group.

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

There was no disposal of acquisition of subsidiaries and affiliated companies during the year under review.

FUTURE PLANS FOR MATERIAL INVESTMENTS

The Group does not have any plan for material investments in the near future.

EXPOSURE TO EXCHANGE RISKS

Since the Group's borrowings and its source of income are primarily denominated in Hong Kong dollars, Renminbi and United States dollars, the exposure to foreign exchange rate fluctuations is minimal. Following the appreciation of Renminbi in July 2005, it is expected to have a positive impact on the future cashflow from Mainland China.

CONTINGENT LIABILITIES

As at 31 March 2006, the Group has given guarantee of RMB5 million (2005: RMB5 million) to a bank to secure the credit facilities granted to a jointly controlled entity. At 31 March 2006, the amount of facilities utilized was approximately RMB5 million (2005: RMB5 million).

As at 31 March 2006, the Company has given corporate guarantees of HK\$5 million (2005: HK\$45 million) to certain banks to secure the credit facilities granted to its subsidiaries.

EMPLOYEE INFORMATION

As at 31 March 2006, the Group employed a total staff of 46. Staff remuneration is reviewed by the Group from time to time and increases are granted normally annually or by special adjustment depending on length of service and performance when warranted. In addition to salaries, the Group provides staff benefits including medical insurance and provident fund. Share options and bonuses are also available to employees of the Group at the discretion of the Directors and depending upon the financial performance of the Group.

Biographical Details of Directors and Senior Management

DIRECTORS

Executive directors

Mr. Cheng Kin Kwan, aged 67, is the founder and Chairman and Chief Executive Officer of the Company. Prior to establishing the Company, Mr. Cheng has been serving the IT industry for over 30 years. He was the inventor who developed the first Chinese processing system and brought into China the first generation of image processing PC, the first dealer of Novell system in Hong Kong and China, and also, the developer of the first computer system for Hong Kong Futures Exchange. He took up various senior positions in software development companies and provided services as technical consultant for multinational vendors.

Mr. Chung Yiu Fai, aged 42, joined the Group in February 1998. Mr. Chung became the Chief Information Officer since February 2001 and assists the CEO to strategize and execute the Group's business directions and IT strategies. He has over 14 years of IT experience and substantial experience in project management in Hong Kong and China. He obtained a Bachelor of Science degree in Computer Information Science from Ohio State University and gained the Engineering Honour Student Award.

Mr. Law Kwai Lam, aged 59, is the Corporate Affairs Director and the Company Secretary of the Company. Mr. Law has been with the Group since its establishment, and has since been responsible for the Company's and the Group's administrative, legal and secretarial matters. Mr. Law holds a Bachelor degree in Biochemistry from the University of Kansas. Prior to joining the Group, Mr. Law was the Company Secretary of a listed company in Hong Kong for 10 years.

Ms. Leung Mei Sheung, Eliza, aged 41, is the Administration Director of the Group and is responsible for the overall administrative management of the Group and special assignments by the CEO. Ms. Leung joined the Group in June 1996. She has over 20 years of experience in office administration and accounting in the IT field.

Ms. Zheng Ying Yu, aged 32, is the Chief Representative of the Group's Guangzhou subsidiary, responsible for market promotion, business development and the overall operation of the Guangzhou office. She joined the Group in 1998 and has ten years experience in the IT industry. Ms. Zheng holds a Bachelor of Science degree in Computer Science from ZhongShan University.

Mr. Fung Chun Pong, Louis, aged 53, is the Head of Operations, Hong Kong and is responsible for the overall operations of the Hong Kong region. Mr. Fung joined the Group in October 1998. He has over 28 years of experience in the IT industry and specialises in financial systems.

Mr. Liao Yun, aged 33, is the Head of Development-Guangzhou, responsible for planning and executing project development and Timeless Consolidated Platform development. Mr. Liao holds a Bachelor's Degree in Computer Software from South China University of Technology. He joined the Group in July 1998 and has over 10 years experience in the IT industry.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ng Kwok Tung, aged 55, was appointed as an independent non-executive director in 2003. Mr. Ng is a practising accountant. He holds a Bachelor of Commerce Degree and a Licentiate in Accountancy from McGill University, Canada and a Diploma in Chinese Law from the University of East Asia, Macau. Mr. Ng is a member of the Hong Kong Institute of Certified Public Accountants, the Institute of Chartered Accountants of British Columbia, the Order of Chartered Accountants of Quebec, the Canadian Institute of Chartered Accountants and the Taxation Institute of Hong Kong.

Ms. Tsang Wai Chun, Marianna, aged 51, is the director of Chan & Wat, Certified Public Accountants. She is a member of the Institute of Chartered Secretaries and Administrators, the Hong Kong Institute of Company Secretaries and the Association of Professionals in Business Management. Ms. Tsang has around 20 years of company secretarial, corporate affairs, and related legal working experience in major commercial corporations and in professional firms. She has an MBA and a postgraduate certificate in Advanced Taxation. She was appointed as an independent non-executive director in October 2003.

Mr. Chan Mei Ying, Spencer, aged 50, is a director of Ubique Solutions Ltd. Mr. Chan has all round experience in corporate finance, business development, sales and marketing. Mr. Chan studied Computer Science in Melbourne, Australia, before receiving a Master's Degree in Business Administration from the Chinese University of Hong Kong. He also has attended an executive management program at INSEAD, Fontainebleau, France.

SENIOR MANAGEMENT

Mr. Kan Siu Kei, Laurie, aged 45, is the Deputy Chief Executive Officer of the Group. He is a veteran in the Asian IT industry. Mr. Kan has held senior positions at PointCast Asia, China Internet Corporation (now Chinadotcom), Microsoft (Hong Kong) Limited and Compaq. He graduated in Business Management from Hong Kong Baptist College and from Stanford University's Executive Program.

Corporate Governance Report

INTRODUCTION

The Company strives to attain and maintain the highest standard of corporate governance as it believes that effective corporate governance practices are fundamental to enhancing shareholder value and safeguarding shareholder interests.

The principles of corporate governance adopted by the Group emphasize a quality board, sound internal control, and transparency and accountability to all shareholders.

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the GEM Listing Rules. Unless otherwise disclosed herein, the Company has complied with the Code throughout the year ended 31 March 2006.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding the securities transactions by directors on terms no less exacting than the required standard of dealings set out in rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors, all directors confirmed that they have complied with the required standard of dealings and the code of conduct regarding securities transactions by directors adopted by the Company throughout the year ended 31 March 2006.

THE BOARD

The Board is responsible for directing the strategic objectives of the Company and overseeing the management of the business. The directors are charged with the task of promoting the success of the Company and making decisions in the best interest of the Company.

The Board led by the Chairman, Mr. Cheng Kin Kwan, approves and monitors group wide strategies and policies, annual budgets and business plans, evaluates the performance of the Company, and supervises the management. Management is responsible for the day-to-day operations of the Group under the leadership of the Chairman.

As at 31 March 2006, the Board comprised ten directors, including the Chairman, six executive directors and three independent non-executive directors. Biographical details of the directors are set out in the "Biographical Details of Directors and Senior Management" section on pages 7 to 8.

The Board meets regularly and held 19 meetings during the year ended 31 March 2006 with an average attendance rate of approximately 94%.

Attendance

Executive directors

Cheng Kin Kwan (<i>Chairman</i>)	19/19
Law Kwai Lam	19/19
Chung Yiu Fai	18/19
Leung Mei Sheung Eliza	19/19
Zheng Ying Yu	14/19
Fung Chun Pong Louis ^{note}	5/5
Liao Yun ^{note}	4/5

Independent non-executive directors

Ng Kwok Tung	18/19
Tsang Wai Chun Marianna	19/19
Chan Mei Ying Spencer ^{note}	5/5

Note: These directors were appointed on 25 October 2005.

The Company confirmed that annual confirmations of independence were received from each of the Company's independent non-executive directors pursuant to rule 5.09 of the GEM Listing Rules and all independent non-executive directors are considered to be independent.

The Company's Articles of Association have been amended on 27 March 2006 to provide that all directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment and every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

Each of the executive directors has entered into service contract with the Company when they are appointed as directors of the Company. These service contracts will continue thereafter until terminated by either party giving to the other party not less than three months' notice in writing.

Save as disclosed above, none of the directors proposed for re-election at the forthcoming annual general meeting has any service contract with the Company or any of its subsidiaries which is not determinable by the group within one year without payment of compensation, other than the statutory compensation.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Company does not have a separate chairman and chief executive officer and Mr. Cheng Kin Kwan currently holds both positions.

Given the Group's current stage of development, the Board considers that vesting the roles of chairman and chief executive officer in the same person facilitates the execution of the Group's business strategies and maximizes effectiveness of its operation. The Board shall nevertheless review the structure from time to time and shall consider the appropriate move to take should suitable circumstance arise.

NON-EXECUTIVE DIRECTORS

Each of the independent non-executive directors was appointed for a term of one year.

REMUNERATION OF DIRECTORS

A remuneration committee was set up in March 2006. The primary aim of the Remuneration Committee is to formulate transparent procedures for developing remuneration policies and compensation packages for the employees of the Group. The Remuneration Committee comprises four members, the majority of whom are independent non-executive directors. They are:

Mr. Cheng Kin Kwan (*Chairman of the Remuneration Committee*),
Mr. Ng Kwok Tung,
Ms. Tsang Wai Chun Marianna and
Mr. Chan Mei Ying Spencer.

The Remuneration Committee has reviewed the performance of some of the directors for the year based on their performances. The emoluments of each of the directors are set out in this annual report on page 45.

NOMINATION OF DIRECTORS

The Company has established a nomination committee (the "Nomination Committee") in March 2006 in compliance with the GEM Listing Rules, terms of reference of which have been adopted by the Company are consistent with the requirements of the Code. The Nomination Committee currently comprises three independent non-executive directors and one executive director, namely, Mr. Ng Kwok Tung, Ms. Tsang Wai Chun Marianna, Mr. Chan Mei Ying Spencer and Mr. Fung Chun Pong Louis.

The Nomination Committee meets at least once a year or as needed where vacancies arise at the Board.

AUDITORS' REMUNERATION

For the year ended 31 March 2006, the fee payable to the auditors in respect of the audit, non-audit and tax and consultancy services were as follows:

Types of services	Amount (HK\$)
Audit services	741,000
Non-audit services	500,000
Tax and consultancy services	260,000

AUDIT COMMITTEE

The audit committee comprises three independent non-executive directors, Mr. Ng Kwok Tung, Ms. Tsang Wai Chun Marianna and Mr. Chan Mei Ying Spencer. During the year ended 31 March 2006, the audit committee held 4 meetings with 100% attendance.

Name of members	Attendance
Tsang Wai Chun Marianna (<i>Chairman</i>)	4/4
Ng Kwok Tung	4/4
Chan Mei Ying Spencer ⁽¹⁾	2/2
Chong Siu Pui ⁽²⁾	2/2

Notes:

(1) Appointed as an independent non-executive director on 25 October 2005.

(2) Resigned as an independent non-executive director on 25 October 2005.

The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the group. The audit committee has reviewed the annual report for the year ended 31 March 2006 in conjunction with the Company's external auditors.

Under the terms of reference of the audit committee, the committee is required, amongst other things, to oversee the relationship with the external auditors, review the group's preliminary results, interim results and annual financial statements, monitor compliance with statutory and GEM Listing Rules requirements, review the scope, extent and effectiveness of the activities of the group's internal control, engage independent legal or other advisers as it determines is necessary and perform investigations.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The following statements, which set out the responsibilities of the directors in relation to the financial statements, should be read in conjunction with, but distinguished from, the Auditors' report on page 22 which acknowledges the reporting responsibilities of the group's auditors.

The directors acknowledge that they are responsible for the preparation of financial statements which give a true and fair view. In preparing the financial statements which give a true and fair view, the directors consider that the group uses appropriate accounting policies that are consistently applied, makes judgments and estimates that are reasonable and prudent, and that all applicable accounting standards are followed. The directors are responsible for ensuring that the group keeps accounting records which disclose the financial position of the group and enable the preparation of financial statements in accordance with Hong Kong Companies Ordinance and the applicable Statements of Accounting Standards issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the group and to prevent and detect fraud and other irregularities. Having made appropriate enquiries, the directors consider that the group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

REVIEW OF RISK MANAGEMENT AND INTERNAL CONTROL

The audit committee assists the Board in meeting its responsibilities for maintaining an effective system of internal control. It reviews the process by which the group evaluates its control environment and risk assessment process, and the way in which business and control risks are managed.

The Board recognises its responsibility for maintaining an adequate system of internal control and prompt and transparent reporting of the Company's activities to the shareholders and to the public.

The internal control system is designed to facilitate the effectiveness and efficiency of operations, safeguard assets against unauthorised use and disposition, ensure the maintenance of proper accounting records and the truth and fairness of the financial statements, and ensure compliance with relevant legislation and regulations. It aims to achieve reasonable assurance against material mis-statement or loss in the management of the Group's business activities.

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 March 2006.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company and is engaged in the provision of computer consultancy and software maintenance services, software development and sales of computer hardware and software.

The principal activities of the Company's principal subsidiaries are set out in note 36 to the financial statements.

RESULTS

The results of the Group for the year are set out in the consolidated income statement on page 23.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 26 to the financial statements.

RESERVES

Details of the movements in reserves of the Group and the Company during the year are set out on page 26 and note 28 to the financial statements respectively.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and the Company during the year are set out in note 13 to the financial statements.

PRINCIPAL ASSOCIATES AND PRINCIPAL JOINTLY CONTROLLED ENTITIES

The principal activities of the Group's principal associates and principal jointly controlled entities are set out in notes 16 and 17 to the financial statements respectively.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Cheng Kin Kwan (*Chairman and Chief Executive Officer*)

Law Kwai Lam

Chung Yiu Fai

Leung Mei Sheung, Eliza

Zheng Ying Yu

Fung Chun Pong, Louis (appointed on 25 October 2005)

Liao Yun (appointed on 25 October 2005)

Pun Chung Sang, Trevor (resigned on 28 May 2005)

Wong Wai Ping, Mandy (resigned on 3 September 2005)

So Mi Ling, Winnie (resigned on 1 March 2006)

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS (continued)

Independent non-executive directors:

Ng Kwok Tung
 Tsang Wai Chun, Marianna
 Chan Mei Ying, Spencer (appointed on 25 October 2005)
 Chong Siu Pui (resigned on 25 October 2005)

In accordance with Article 105(A) of the Company's Articles of Association, Messrs. Cheng Kin Kwan, Law Kwai Lam, Chung Yiu Fai and Ng Kwok Tung retire and, being eligible, offer themselves for re-election.

Each of the executive directors has entered into a service contract with the Company when he or she is appointed as a director of the Company. These service contracts will continue thereafter until terminated by either party giving to the other party not less than three months' notice in writing.

Each of the independent non-executive directors was appointed for a term of one year.

Save as disclosed above, none of the directors proposed for re-election at the forthcoming annual general meeting has any service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

At 31 March 2006, the interests and short positions of the directors and the chief executives of the Company and their associates in the shares, underlying shares or debentures of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Rule 5.46 of the Rules Governing the Listing of Securities on the Growth Enterprise Market (the "GEM") of the Stock Exchange (the "GEM Listing Rules"), were as follows:

Long positions

(a) Ordinary shares of HK\$0.05 each of the Company

Name of director	Number of ordinary shares held in the capacity of			Total number of shares	Percentage of shareholding
	Beneficial owner	Controlled corporation			
Cheng Kin Kwan	161,426,000	—		161,426,000	15.65%
Law Kwai Lam	10,000,000	28,325,000*		38,325,000	3.72%
Chung Yiu Fai	5,170,000	—		5,170,000	0.50%
Leung Mei Sheung, Eliza	5,330,000	—		5,330,000	0.52%
Zheng Ying Yu	1,000,000	—		1,000,000	0.10%
Fung Chun Pong, Louis	2,488,000	—		2,488,000	0.24%
Liao Yun	1,010,000	—		1,010,000	0.10%

* These shares were held by a private company which is wholly-owned by Mr. Law Kwai Lam.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY (continued)

(b) Options to subscribe for ordinary shares of the Company

Particulars of the directors' interests in share options to subscribe for shares in the Company pursuant to the Company's 2000 share option scheme and 2003 share option scheme were as follows:

Name of director	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options and number of underlying shares				
				Outstanding at 1.4.2005	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.3.2006
Cheng Kin Kwan	27.4.2001	27.4.2002 - 26.4.2005	0.8180	500,000	—	—	(500,000)	—
	3.10.2001	3.10.2002 - 2.10.2005	0.4450	800,000	—	—	(800,000)	—
	22.4.2002	22.4.2003 - 21.4.2006	0.4550	650,000	—	—	—	650,000
	5.9.2003	5.9.2003 - 4.9.2013	0.2280	6,960,000	—	—	—	6,960,000
	8.12.2003	8.12.2003 - 7.12.2013	0.2130	800,000	—	—	—	800,000
	25.2.2004	25.2.2004 - 24.2.2014	0.1900	7,700,000	—	—	—	7,700,000
	24.3.2006	24.3.2006 - 23.3.2016	0.1530	—	800,000	—	—	800,000
Law Kwai Lam	27.4.2001	27.4.2002 - 26.4.2005	0.8180	200,000	—	—	(200,000)	—
	3.10.2001	3.10.2002 - 2.10.2005	0.4450	200,000	—	—	(200,000)	—
	5.9.2003	5.9.2003 - 4.9.2013	0.2280	2,000,000	—	—	—	2,000,000
	9.1.2004	9.1.2004 - 8.1.2014	0.1900	1,000,000	—	—	—	1,000,000
	28.2.2005	28.2.2005 - 27.2.2015	0.0722	1,000,000	—	—	—	1,000,000
Chung Yiu Fai	27.4.2001	27.4.2002 - 26.4.2005	0.8180	200,000	—	—	(200,000)	—
	3.10.2001	3.10.2002 - 2.10.2005	0.4450	500,000	—	—	(500,000)	—
	22.4.2002	22.4.2003 - 21.4.2006	0.4550	300,000	—	—	—	300,000
	5.9.2003	5.9.2003 - 4.9.2013	0.2280	5,500,000	—	—	—	5,500,000
	8.12.2003	8.12.2003 - 7.12.2013	0.2130	400,000	—	—	—	400,000
	25.2.2004	25.2.2004 - 24.2.2014	0.1900	6,450,000	—	—	—	6,450,000
	16.9.2004	16.9.2004 - 15.9.2014	0.0870	2,300,000	—	—	—	2,300,000
	13.12.2004	13.12.2004 - 12.12.2014	0.0982	300,000	—	—	—	300,000
	28.2.2005	28.2.2005 - 27.2.2015	0.0722	6,000,000	—	(1,000,000)	—	5,000,000
	22.9.2005	22.9.2005 - 21.9.2015	0.0920	—	2,400,000	—	—	2,400,000
24.3.2006	24.3.2006 - 23.3.2016	0.1530	—	300,000	—	—	300,000	
Leung Mei Sheung, Eliza	27.4.2001	27.4.2002 - 26.4.2005	0.8180	200,000	—	—	(200,000)	—
	3.10.2001	3.10.2002 - 2.10.2005	0.4450	500,000	—	—	(500,000)	—
	5.9.2003	5.9.2003 - 4.9.2013	0.2280	5,500,000	—	—	—	5,500,000
	8.12.2003	8.12.2003 - 7.12.2013	0.2130	4,300,000	—	—	—	4,300,000
	25.2.2004	25.2.2004 - 24.2.2014	0.1900	5,800,000	—	—	—	5,800,000
	13.12.2004	13.12.2004 - 12.12.2014	0.0982	3,430,000	—	—	—	3,430,000
	28.2.2005	28.2.2005 - 27.2.2015	0.0722	5,500,000	—	(3,000,000)	—	2,500,000
	22.9.2005	22.9.2005 - 21.9.2015	0.0920	—	400,000	—	—	400,000
	24.3.2006	24.3.2006 - 23.3.2016	0.1530	—	300,000	—	—	300,000

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY (continued)

(b) Options to subscribe for ordinary shares of the Company (continued)

Name of director	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options and number of underlying shares				
				Outstanding at 1.4.2005	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.3.2006
Zheng Ying Yu	27.4.2001	27.4.2002 - 26.4.2005	0.8180	100,000	—	—	(100,000)	—
	3.10.2001	3.10.2002 - 2.10.2005	0.4450	300,000	—	—	(300,000)	—
	22.4.2002	22.4.2003 - 21.4.2006	0.4550	300,000	—	—	—	300,000
	5.9.2003	5.9.2003 - 4.9.2013	0.2280	2,000,000	—	—	—	2,000,000
	8.12.2003	8.12.2003 - 7.12.2013	0.2130	400,000	—	—	—	400,000
	9.1.2004	9.1.2004 - 8.1.2014	0.1900	7,000,000	—	—	—	7,000,000
	13.12.2004	13.12.2004 - 12.12.2014	0.0982	500,000	—	—	—	500,000
	28.2.2005	28.2.2005 - 27.2.2015	0.0722	2,000,000	—	(1,000,000)	—	1,000,000
	22.9.2005	22.9.2005 - 21.9.2015	0.0920	—	400,000	—	—	400,000
24.3.2006	24.3.2006 - 23.3.2016	0.1530	—	300,000	—	—	300,000	
Fung Chun Pong, Louis (appointed on 25 October 2005)	3.10.2001	3.10.2002 - 2.10.2005	0.4450	300,000	—	—	(300,000)	—
	5.9.2003	5.9.2003 - 4.9.2013	0.2280	2,000,000	—	—	—	2,000,000
	9.1.2004	9.1.2004 - 8.1.2014	0.1900	1,000,000	—	—	—	1,000,000
	19.4.2004	19.4.2004 - 18.4.2014	0.2096	300,000	—	—	—	300,000
	30.9.2004	30.9.2004 - 29.9.2014	0.0900	300,000	—	—	—	300,000
	13.12.2004	13.12.2004 - 12.12.2014	0.0982	300,000	—	—	—	300,000
	22.9.2005	22.9.2005 - 21.9.2015	0.0920	—	400,000	—	—	400,000
	24.3.2006	24.3.2006 - 23.3.2016	0.1530	—	300,000	—	—	300,000
Liao Yun (appointed on 25 October 2005)	3.10.2001	3.10.2002 - 2.10.2005	0.4450	100,000	—	—	(100,000)	—
	22.4.2002	22.4.2003 - 21.4.2006	0.4550	200,000	—	—	—	200,000
	5.9.2003	5.9.2003 - 4.9.2013	0.2280	800,000	—	—	—	800,000
	26.11.2003	26.11.2003 - 25.11.2013	0.2300	400,000	—	—	—	400,000
	9.1.2004	9.1.2004 - 8.1.2014	0.1900	790,000	—	—	—	790,000
	19.4.2004	19.4.2004 - 18.4.2014	0.2096	300,000	—	—	—	300,000
	16.9.2004	16.9.2004 - 15.9.2014	0.0870	800,000	—	(300,000)	—	500,000
	30.9.2004	30.9.2004 - 29.9.2014	0.0900	500,000	—	—	—	500,000
	13.12.2004	13.12.2004 - 12.12.2014	0.0982	300,000	—	—	—	300,000
	28.2.2005	28.2.2005 - 27.2.2015	0.0722	2,000,000	—	—	—	2,000,000
	22.9.2005	22.9.2005 - 21.9.2015	0.0920	—	400,000	—	—	400,000
24.3.2006	24.3.2006 - 23.3.2016	0.1530	—	300,000	—	—	300,000	
Pun Chung Sang, Trevor (resigned on 28 May 2005)	9.4.2001	9.4.2002 - 8.4.2005	0.5920	100,000	—	—	(100,000)	—
	27.4.2001	27.4.2002 - 26.4.2005	0.8180	100,000	—	—	(100,000)	—
	3.10.2001	3.10.2002 - 2.10.2005	0.4450	200,000	—	—	(200,000)	—
	5.9.2003	5.9.2003 - 4.9.2013	0.2280	3,500,000	—	—	(3,500,000)	—
	26.11.2003	26.11.2003 - 25.11.2013	0.2300	400,000	—	—	(400,000)	—
	9.1.2004	9.1.2004 - 8.1.2014	0.1900	3,000,000	—	—	(3,000,000)	—

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY (continued)

(b) Options to subscribe for ordinary shares of the Company (continued)

Name of director	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options and number of underlying shares				
				Outstanding at 1.4.2005	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.3.2006
Wong Wai Ping,	27.4.2001	27.4.2002 - 26.4.2005	0.8180	200,000	—	—	(200,000)	—
Mandy	3.10.2001	3.10.2002 - 2.10.2005	0.4450	500,000	—	—	(500,000)	—
(resigned on	5.9.2003	5.9.2003 - 4.9.2013	0.2280	5,500,000	—	—	(5,500,000)	—
3 September 2005)	8.12.2003	8.12.2003 - 7.12.2013	0.2130	400,000	—	—	(400,000)	—
	25.2.2004	25.2.2004 - 24.2.2014	0.1900	5,680,000	—	—	(5,680,000)	—
	13.12.2004	13.12.2004 - 12.12.2014	0.0982	300,000	—	—	(300,000)	—
	28.2.2005	28.2.2005 - 27.2.2015	0.0722	1,500,000	—	(500,000)	(1,000,000)	—
So Mi Ling, Winnie	27.4.2001	27.4.2002 - 26.4.2005	0.8180	200,000	—	—	(200,000)	—
(resigned on	3.10.2001	3.10.2002 - 2.10.2005	0.4450	200,000	—	—	(200,000)	—
1 March 2006)	5.9.2003	5.9.2003 - 4.9.2013	0.2280	2,000,000	—	—	(2,000,000)	—
	9.1.2004	9.1.2004 - 8.1.2014	0.1900	1,000,000	—	—	(1,000,000)	—
	28.2.2005	28.2.2005 - 27.2.2015	0.0722	1,000,000	—	—	(1,000,000)	—
Ng Kwok Tung	28.2.2005	28.2.2005 - 27.2.2015	0.0722	1,000,000	—	—	—	1,000,000
	24.3.2006	24.3.2006 - 23.3.2016	0.1530	—	500,000	—	—	500,000
Tsang Wai Chun,	28.2.2005	28.2.2005 - 27.2.2015	0.0722	1,000,000	—	(1,000,000)	—	—
Marianna	24.3.2006	24.3.2006 - 23.3.2016	0.1530	—	500,000	—	—	500,000
Chan Mei Ying,	24.3.2006	24.3.2006 - 23.3.2016	0.1530	—	500,000	—	—	500,000
Spencer								
(appointed on								
25 October 2005)								
Chong Siu Pui	28.2.2005	28.2.2005 - 27.2.2015	0.0722	1,000,000	—	(1,000,000)	—	—
(resigned on								
25 October 2005)								
				120,760,000	7,800,000	(7,800,000)	(29,180,000)	91,580,000

Save as disclosed above and other than nominee shares in certain wholly-owned subsidiaries held by certain directors in trust for the Group, at 31 March 2006, none of the directors or chief executive or any of their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations which fall to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO, or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required to be notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 March 2006, according to the register maintained by the Company pursuant to Section 336 of the SFO, the following persons (not being a director or the chief executive of the Company) were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital of the Company.

Name of substantial shareholder	Number of ordinary shares held	Number of share options and underlying shares held	Aggregate long position	Percentage of the issued share capital as at 31 March 2006
Educational Information Technology (HK) Company Limited *	108,057,374	—	108,057,374	10.48%
Crimson Asia Capital Limited, L.P.**	105,203,591	—	105,203,591	10.20%
Kan Siu Kei, Laurie**	41,978,000	17,000,000	58,978,000	5.72%

* These shares were held in trust for 寧夏教育信息技術股份有限公司 (Ningxia Educational Information Technology Co., Ltd.), a company in which the Group has 25% interest.

** These shares were beneficially owned by the respective parties.

Save as disclosed in the section "Directors' and chief executive's interests and short positions in shares and underlying shares of the Company", at 31 March 2006, the Company had not been notified of any other interests or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under Part XV of the SFO.

SHARE OPTIONS

Details of the Company's share option schemes are set out in note 27 to the financial statements.

DIRECTORS' INTERESTS IN CONTRACTS

During the year, the Group paid property rentals of HK\$82,000 to Mr. Cheng Kin Kwan, a director of the Company.

Save as disclosed above, there were no contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received written confirmation from each of its independent non-executive directors in respect of their independence during the year and all independent non-executive directors are still being considered to be independent.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 64% of the Group's total sales while the sales attributable to the Group's largest customer was approximately 23% of the Group's total sales.

The aggregate purchases during the year attributable to the Group's five largest suppliers comprised approximately 88% of the Group's total purchases while the purchases attributable to the Group's largest supplier was approximately 23% of the Group's total purchases.

Save as disclosed above, none of the directors, their associates or any shareholder, which to the knowledge of the directors owned more than 5% of the Company's issued share capital, had any interest in the share capital of any of the five largest customers or suppliers of the Group.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the remuneration committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme are set out in note 27 to the financial statements.

CORPORATE GOVERNANCE

Principal corporate governance policies adopted by the Company are set out in the Corporate Governance Report on pages 9 to 13.

COMPETING INTEREST

As at 31 March 2006, none of the directors or the management shareholders (as defined in the GEM Listing Rules) of the Company or their respective associates had any interest in a business which competes or may compete with the business of the Group.

AUDITORS

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Cheng Kin Kwan

Chairman and Chief Executive Officer

Hong Kong, 20 June 2006

Deloitte.

德勤

TO THE SHAREHOLDERS OF TIMELESS SOFTWARE LIMITED

天時軟件有限公司

(incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 23 to 69 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 141 of the Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and the Group, as at 31 March 2006 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

20 June 2006

Consolidated Income Statement

For the Year Ended 31 March 2006

	NOTES	2006 HK\$'000	2005 HK\$'000
Turnover	6	3,638	3,441
Gain on disposal of land and buildings		37,945	—
Other income		4,246	820
Cost of computer software and hardware sold		(704)	(25)
Staff costs		(12,930)	(13,336)
Depreciation and amortisation		(8,519)	(14,286)
Other expenses		(14,121)	(7,905)
Impairment in value of available-for-sale financial assets		(1,187)	—
Impairment in value of investment securities		—	(334)
Gain on disposal of available-for-sale financial assets		168	—
Loss on disposal of investment securities		—	(5,664)
Impairment in value of goodwill		—	(11,938)
Finance costs	7	(756)	(578)
Share of losses of associates		(1,274)	(23,867)
Share of losses of jointly controlled entities		(4,362)	(8,824)
Profit (loss) for the year	8 & 11	2,144	(82,496)
Attributable to:			
Equity holders of the Company		2,355	(82,478)
Minority interests		(211)	(18)
		2,144	(82,496)
Earnings (loss) per share	12		
Basic		0.230 cents	(8.302) cents
Diluted		0.229 cents	N/A

Consolidated Balance Sheet

At 31 March 2006

	NOTES	2006 HK\$'000	2005 HK\$'000
Non-current assets			
Property, plant and equipment	13	4,288	131,370
Product development costs	14	—	2,291
Interests in associates	16	6,775	6,460
Interests in jointly controlled entities	17	1,226	5,430
Investments in securities	18	—	1,234
		12,289	146,785
Current assets			
Amounts due from customers for contract work	19	613	4,775
Trade and other receivables	20	3,835	11,246
Pledged bank deposits	21	10,327	10,205
Bank balances and cash	20	132,461	17,246
		147,236	43,472
Current liabilities			
Accounts payables	22	5,205	8,878
Obligations under a finance lease due within one year	23	49	60
Current portion of secured long-term bank loans	24	122	3,904
		5,376	12,842
Net current assets		141,860	30,630
Total assets less current liabilities		154,149	177,415
Non-current liabilities			
Obligations under a finance lease due after one year	23	51	128
Secured long-term bank loans	24	1,232	32,560
		1,283	32,688
Net assets		152,866	144,727
Capital and reserves			
Share capital	26	51,574	50,474
Reserves		94,527	87,466
Equity attributable to equity holders of the Company		146,101	137,940
Minority interests		6,765	6,787
Total equity		152,866	144,727

The financial statements on pages 23 to 69 were approved and authorised for issue by the Board of Directors on 20 June 2006 and are signed on its behalf by:

Cheng Kin Kwan
Chairman and
Chief Executive Officer

Law Kwai Lam
Director

Balance Sheet

At 31 March 2006

	NOTES	2006 HK\$'000	2005 HK\$'000
Non-current assets			
Property, plant and equipment	13	960	5,102
Product development costs	14	—	2,291
Investments in subsidiaries	15	8,000	8,000
Interests in associates	16	6,775	6,460
Interests in jointly controlled entities	17	1,226	5,430
Investments in securities	18	—	133
		<u>16,961</u>	<u>27,416</u>
Current assets			
Amounts due from customers for contract work	19	203	98
Trade and other receivables	20	3,445	1,377
Amounts due from subsidiaries	25	—	87,100
Pledged bank deposits	21	5,000	5,000
Bank balances and cash	20	119,366	1,799
		<u>128,014</u>	<u>95,374</u>
Current liabilities			
Accounts payables	22	1,800	2,141
Obligations under a finance lease due within one year	23	49	60
Amounts due to subsidiaries	25	35,965	2,370
		<u>37,814</u>	<u>4,571</u>
Net current assets		<u>90,200</u>	<u>90,803</u>
Total assets less current liabilities		<u>107,161</u>	<u>118,219</u>
Non-current liabilities			
Obligations under a finance lease due after one year	23	51	128
Net assets		<u>107,110</u>	<u>118,091</u>
Capital and reserves			
Share capital	26	51,574	50,474
Reserves	28	55,536	67,617
Equity attributable to equity holders of the Company		<u>107,110</u>	<u>118,091</u>

Cheng Kin Kwan
Chairman and
Chief Executive Officer

Law Kwai Lam
Director

Consolidated Statement of Changes in Equity

For the Year Ended 31 March 2006

	Share capital	Share premium	Share options reserve	Goodwill reserve	Investment revaluation reserve	Translation reserve	Attributable to equity holders of the Company Deficit	Minority interests	Total	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 April 2004	49,503	629,932	—	(9,080)	—	—	(460,681)	209,674	2,360	212,034
Loss for the year and total recognised expenses	—	—	—	—	—	—	(82,478)	(82,478)	(18)	(82,496)
Issue of shares	971	708	—	—	—	—	—	1,679	—	1,679
Expenses incurred in connection with the issue of shares	—	(15)	—	—	—	—	—	(15)	—	(15)
Impairment in value recognised	—	—	—	9,080	—	—	—	9,080	—	9,080
Acquisition of non wholly-owned subsidiaries	—	—	—	—	—	—	—	—	4,445	4,445
	971	693	—	9,080	—	—	—	10,744	4,445	15,189
At 31 March 2005	50,474	630,625	—	—	—	—	(543,159)	137,940	6,787	144,727
Exchange differences arising from translation of financial statements of overseas operations recognised directly in equity	—	—	—	—	—	728	—	728	189	917
Exchange differences arising from translation of associates and jointly controlled entities	—	—	—	—	—	528	—	528	—	528
Share of post-acquisition reserve of associates	—	—	—	—	1,183	—	—	1,183	—	1,183
Net income recognised in equity	—	—	—	—	1,183	1,256	—	2,439	189	2,628
Profit (loss) for the year	—	—	—	—	—	—	2,355	2,355	(211)	2,144
Total recognised income and expenses for the year	—	—	—	—	1,183	1,256	2,355	4,794	(22)	4,772
Issue of shares	1,100	513	—	—	—	—	—	1,613	—	1,613
Expenses incurred in connection with the issue of shares	—	(16)	—	—	—	—	—	(16)	—	(16)
Recognition of equity settled share-based payments	—	—	1,770	—	—	—	—	1,770	—	1,770
	1,100	497	1,770	—	—	—	—	3,367	—	3,367
At 31 March 2006	51,574	631,122	1,770	—	1,183	1,256	(540,804)	146,101	6,765	152,866

Consolidated Cash Flow Statement

For the Year Ended 31 March 2006

	NOTE	2006 HK\$'000	2005 HK\$'000
Operating activities			
Profit (loss) for the year		2,144	(82,496)
Adjustments for:			
Interest income		(1,787)	(208)
Interest expenses		756	578
Share of losses of associates		1,274	23,867
Share of losses of jointly controlled entities		4,362	8,824
Depreciation and amortisation		8,519	14,286
(Gain) loss on disposal of property, plant and equipment		(37,916)	102
Impairment in value of goodwill		—	11,938
Impairment in value of available-for-sale financial assets		1,187	—
Net gain on disposal of available-for-sale financial assets		(168)	—
Loss on disposal of investment securities		—	5,664
Impairment in value of investment securities		—	334
Impairment for amounts due from customers for contract work		4,173	353
Reversal of impairment for amounts due from customers for contract work		—	(453)
Allowance for other receivables		556	—
Share-based payments		1,770	—
		<hr/>	<hr/>
Operating cash flows before movements in working capital		(15,130)	(17,211)
Decrease in amounts due from customers for contract work		124	250
Decrease (increase) in trade and other receivables		7,142	(488)
Decrease in accounts payables		(3,849)	(567)
		<hr/>	<hr/>
Net cash used in operating activities		(11,713)	(18,016)
Investing activities			
Interest received		1,751	173
Purchase of property, plant and equipment		(221)	(265)
Proceeds from disposal of property, plant and equipment		159,144	102
Purchase of a subsidiary (net of cash and cash equivalents acquired)	29	—	(3,703)
Proceeds from disposal of available-for-sale financial assets		215	—
Proceeds from disposal of investment securities		—	2,915
Increase in pledged bank deposits		28	—
		<hr/>	<hr/>
Net cash from (used in) investing activities		160,917	(778)

Consolidated Cash Flow Statement (Continued)
For the Year Ended 31 March 2006

	2006 HK\$'000	2005 HK\$'000
Financing activities		
Interest paid	(756)	(578)
Proceeds from issue of shares	1,613	1,679
Expenses incurred in connection with the issue of shares	(16)	(15)
Repayment of obligations under a finance lease	(88)	(57)
Repayment of bank loan	(35,152)	(3,750)
	<hr/>	<hr/>
Net cash used in financing activities	(34,399)	(2,721)
	<hr/>	<hr/>
Increase (decrease) in cash and cash equivalents	114,805	(21,515)
Cash and cash equivalents at 1 April	17,246	38,761
Effect of foreign exchange rate changes	410	—
	<hr/>	<hr/>
Cash and cash equivalents at 31 March	132,461	17,246
	<hr/> <hr/>	<hr/> <hr/>
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	132,461	17,246
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Financial Statements

For the Year Ended 31 March 2006

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). It acts as an investment holding company and is engaged in the provision of computer consultancy and software maintenance services, software development and sales of computer hardware and software. The address of the registered office and principal place of business of the Company are disclosed in the corporate information to the annual report.

The financial statements are presented in Hong Kong dollars which is the same as the functional currency of the Group.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations ("INTs") (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and prior accounting years are prepared and presented.

Share-based payments

In the current year, the Group has applied HKFRS 2 "Share-based payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to directors and employees of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1 April 2005. In relation to share options granted before 1 April 2005, the Group has not applied HKFRS 2 to share options granted on or before 7 November 2002 and share options that were granted after 7 November 2002 and had vested before 1 April 2005 in accordance with the relevant transitional provisions (see note 3 for the financial impact).

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

Financial instruments

In the current year, the Group has applied HKAS 32 "Financial instruments: Disclosure and Presentation" and HKAS 39 "Financial instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact on how financial instruments of the Group are presented for current and prior accounting periods. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31 March 2005, the Group classified and measured its equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice ("SSAP") 24. Under SSAP 24, investments or equity securities are classified as "investment securities" or "other investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in profit or loss.

From 1 April 2005 onwards, the Group has classified and measured its equity securities in accordance with HKAS 39. Financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets" or "loans and receivables". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured are measured at cost less impairment after initial recognition. "Loans and receivables" are measured at amortised cost using the effective interest method after initial recognition.

On 1 April 2005, the Group has reclassified its investments in securities with a carrying amount of HK\$1,234,000 to available-for-sale financial assets (see note 3 for the financial impact).

Financial assets and financial liabilities other than debt and equity securities

From 1 April 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

Owner-occupied leasehold interest in land

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current period, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight line basis. However as the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described above for the current year are as follows:

	HK\$'000
Income statement item	
Expenses in relation to share options granted to employees included in staff costs and decrease in profit for the year	1,770
	<u>1,770</u>
Balance sheet item	
Increase in share options reserve	1,770
	<u>1,770</u>

The cumulative effects of the application of the new HKFRSs as at 1 April 2005 are summarised below:

	1.4.2005	Adjustment	1.4.2005
	HK\$'000	HK\$'000	HK\$'000
	(originally stated)		(restated)
Balance sheet items			
Available-for-sale financial assets *	—	1,234	1,234
Investments in securities *	1,234	(1,234)	—
	<u>1,234</u>	<u>(1,234)</u>	<u>—</u>

* Upon the adoption of HKAS 39, the investments in securities were reclassified as available-for-sale financial assets.

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (continued)

The Group has not early applied the following Standards and INTs that have been issued but are not yet effective:

HKAS 1 (Amendment)	Capital disclosures ¹
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures ²
HKAS 21 (Amendment)	Net investment in a foreign operation ²
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions ²
HKAS 39 (Amendment)	The fair value option ²
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts ²
HKFRS 6	Exploration for and evaluation of mineral resources ²
HKFRS 7	Financial instruments: Disclosures ¹
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease ²
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds ²
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment ³
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ⁴
HK(IFRIC) – INT 8	Scope of HKFRS 2 ⁵
HK(IFRIC) – INT 9	Reassessment of embedded derivatives ⁶

1 Effective for annual periods beginning on or after 1 January 2007.

2 Effective for annual periods beginning on or after 1 January 2006.

3 Effective for annual periods beginning on or after 1 December 2005.

4 Effective for annual periods beginning on or after 1 March 2006.

5 Effective for annual periods beginning on or after 1 May 2006.

6 Effective for annual periods beginning on or after 1 June 2006.

The directors of the Company anticipate that the application of the above Standards and INTs will have no material impact on the financial statements of the Group except for the adoption of HKAS 39 and HKFRS 4 (Amendments) "Financial guarantee contracts" which requires financial guarantee contracts within the scope of HKAS 39 to be initially measured at fair value. The Group has commenced considering the potential impact of HKAS 39 and HKFRS 4 (Amendments) but is not yet in a position to determine whether they would have a significant impact on how its results of operations and financial position are prepared and presented.

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and by the Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Investments in associates

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint ventures

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

When the outcome of a contract for software development can be estimated reliably, revenue from fixed price contracts is recognised on the percentage of completion method, measured by reference to the proportion that costs incurred to date bear to estimated total costs for each contract. When the outcome of a contract cannot be estimated reliably, revenue is recognised to the extent of contract costs incurred that it is probable that they are recoverable.

Sales of computer hardware and software are recognised when the goods are delivered and title has passed.

Revenue from software maintenance services is recognised when the services are provided.

Subscription income is recognised on a straight line basis over the period when the publication items are dispatched to subscribers.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial assets to that asset's net carrying amount.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight line basis over the period of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight line basis over the lease term.

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

The cost of buildings is depreciated over 15 years using the straight line method.

Depreciation is provided to write off the cost of other property, plant and equipment over their estimated useful lives, using the straight line method, at the rate of 20% per annum.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the period of the relevant lease.

Product development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Software development contracts

When the outcome of a contract for software development can be estimated reliably, contract costs are charged to the income statement with reference to the stage of completion of the contract activity at the balance sheet date as measured by reference to the proportion that costs incurred to date bear to estimated costs for each contract.

When the outcome of a contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Where it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Impairment losses

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets

The Group's financial assets include loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including amounts due from customers for contract work, trade and other receivables, pledged bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories (set out above). At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in subsequent periods.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

The Group's financial liabilities include other financial liabilities. The accounting policies adopted in respect of other financial liabilities and equity instruments are set out below.

Other financial liabilities

Other financial liabilities including other payables, obligations under a financial lease and bank loan are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration received or receivable is recognised in profit or loss.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes income statement items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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 asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees of the Company

The fair value of services received determined by reference to the fair value of share options granted at the grant date is recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share option reserve).

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to revenue reserve.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include equity investments, borrowings, trade receivables, other payables and bank deposits. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies applied by the Group to mitigate these risks are set out below. Management monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

Currency risk

Certain bank loans of the Group are denominated in foreign currencies (see note 24). The Group currently does not have a foreign currency hedging policy in respect of foreign currency debt. However, management monitors the related foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

Credit risk

The Group's maximum exposure to credit risk in the event that counterparties fail to perform their obligations at 31 March 2006 in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the balance sheet. The Group's credit risk is primarily attributable to its trade and other receivables. Credit risk of the Group was concentrated to a few customers. In order to minimise credit risk, management has delegated a team to be responsible for the determination of credit limits, credit approvals and other monitoring procedures. In addition, management reviews the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Fair value interest rate risk

The Group's fair value interest rate risk relates to its fixed-rate borrowings. However, the management considered the risk is insignificant to the Group.

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group's operations are organised into three operating divisions namely software development, investments and other operations. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Software development	—	software development, provision of computer consultancy and software maintenance services and sales of computer hardware and software
Investments	—	investments in securities excluding investments in associates and jointly controlled entities
Other operations	—	magazine publishing, provision of computer platform for educational purposes and operation of a software park

Turnover represents the aggregate of the net amounts received and receivable from third parties in connection with software development, provision of computer consultancy and software maintenance services, as well as sales of computer hardware and software.

Business segments for the year are as follows:

	Turnover		Results	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Software development	3,633	3,432	(19,422)	(27,231)
Investments	—	—	(1,018)	(5,955)
Other operations	5	9	(174)	(9,514)
	3,638	3,441	(20,614)	(42,700)
Gain on disposal of land and buildings			37,945	—
Central administrative expenses			(8,795)	(6,527)
Finance costs			(756)	(578)
Share of losses of associates				
— software development			—	(11,419)
— other operations			(1,274)	(12,448)
Share of losses of jointly controlled entities				
— software development			—	(4,068)
— other operations			(4,362)	(4,756)
Profit (loss) for the year			2,144	(82,496)

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

	2006	2005
	HK\$'000	HK\$'000
BALANCE SHEET		
Assets		
Segment assets		
• software development	141,192	166,858
• investments	—	1,234
• other operations		
– the Company and subsidiaries	5	70
– associates	6,775	6,460
– jointly controlled entities	1,226	5,430
Unallocated corporate assets	10,327	10,205
	159,525	190,257
Liabilities		
Segment liabilities		
• software development	5,115	8,788
• investments	45	45
• other operations	45	45
Unallocated corporate liabilities	1,454	36,652
	6,659	45,530
OTHER INFORMATION		
Capital additions		
• software development	221	5,500
Depreciation and amortisation		
• software development	8,466	14,063
• other operations	53	223
	8,519	14,286
Share-based payments		
• software development	1,770	—
Impairment in value of goodwill		
• software development	—	(2,858)
• other operations	—	(9,080)
	—	(11,938)
Loss on disposal of investment securities		
• investments	—	(5,664)

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Geographical segments

The Group's operations are mainly situated in Hong Kong and Mainland China (the "PRC"). The following table provides an analysis of the Group's geographical segment information by location of operations:

	Turnover	
	2006	2005
	HK\$'000	HK\$'000
Hong Kong	2,149	2,174
PRC	1,489	1,267
	<u>3,638</u>	<u>3,441</u>

The following is an analysis of the carrying amount of segment assets and capital additions, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Capital additions	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	137,083	138,960	147	149
PRC	14,441	39,407	74	5,351
	<u>151,524</u>	<u>178,367</u>	<u>221</u>	<u>5,500</u>
Interests in associates	6,775	6,460		
Interests in jointly controlled entities	1,226	5,430		
	<u>159,525</u>	<u>190,257</u>		

7. FINANCE COSTS

	2006	2005
	HK\$'000	HK\$'000
Interest on		
– a finance lease	(8)	(12)
– bank and other borrowings wholly repayable within five years	(7)	—
– bank borrowings not wholly repayable within five years	(741)	(566)
	<u>(756)</u>	<u>(578)</u>

8. PROFIT (LOSS) FOR THE YEAR

	2006	2005
	HK\$'000	HK\$'000
Profit (loss) for the year has been arrived at after charging:		
Directors' remuneration (note 9)	4,454	4,589
Other staff's retirement benefits scheme contributions	154	167
Other staff's share-based payments	1,096	—
Other staff costs	7,226	8,580
	12,930	13,336
Depreciation and amortisation of property, plant and equipment		
– owned by the Group	6,169	10,510
– held under a finance lease	59	59
	6,228	10,569
Amortisation of product development costs	2,291	3,717
	8,519	14,286
Allowance for other receivables	556	—
Auditors' remuneration	741	861
Impairment for amounts due from customers for contract work	4,173	353
Loss on disposal of property, plant and equipment, other than land and buildings	29	102
Net exchange loss	460	72
Operating lease rentals in respect of rented premises	2,027	778
and after crediting:		
Bad debts recovered	2,289	—
Interest income	1,787	208
Reversal of impairment for amounts due from customers for contract work	—	453

9. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the 14 (2005: 11) directors were as follows:

	Mr. Cheng Kin Kwan	Mr. Law Kwai Lam	Mr. Leung Mei Sheung	Ms. Eliza	Mr. Fung Louis	Mr. Liao Yun	Mr. Winnie	Ms. So Wai Ping,	Ms. Mandy	Mr. Pun Trevor	Mr. Ng Tung	Ms. Marianna	Mr. Chan Mei Ying	Mr. Chong Siu Pui	2006 Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fees	—	—	—	—	—	—	—	—	—	—	90	90	39	45	264
Other emoluments	1,378	186	502	457	114	224	49	309	148	92	—	—	—	—	3,459
- salaries and other benefits	—	9	12	12	—	5	—	11	6	2	—	—	—	—	57
- contributions to retirement benefits schemes	97	—	197	63	62	36	36	—	—	—	61	61	61	—	674
- share-based payments	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Total emoluments	1,475	195	711	532	176	265	85	320	154	94	151	151	100	45	4,454
	Mr. Cheng Kin Kwan	Mr. Law Kwai Lam	Mr. Leung Mei Sheung	Ms. Eliza	Mr. Fung Louis	Mr. Liao Yun	Mr. Winnie	Ms. So Wai Ping,	Ms. Mandy	Mr. Pun Trevor	Mr. Ng Tung	Ms. Marianna	Mr. Chan Mei Ying	Mr. Chong Siu Pui	2005 Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fees	—	—	—	—	—	—	—	—	—	—	97	96	97	97	290
Other emoluments	1,600	285	522	457	110	389	350	515	—	—	—	—	—	—	4,228
- salaries and other benefits	—	11	12	12	—	12	12	12	12	12	—	—	—	—	71
- contributions to retirement benefits schemes	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Total emoluments	1,600	296	534	469	110	401	362	527	97	96	97	96	97	97	4,589

During the year, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

10. EMPLOYEES' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals included three executive directors of the Company, whose emoluments are included in note 9 above. The aggregate emoluments of the remaining highest paid individual are as follows:

	2006	2005
	HK\$'000	HK\$'000
Basic salaries and allowances	811	996
Retirement benefits scheme contributions	24	24
	<u>835</u>	<u>1,020</u>

11. TAXATION

No provision for taxation has been made in the financial statements as the Group had no assessable profit for the year.

Pursuant to the relevant laws and regulations in the PRC, the subsidiary in Beijing is entitled to exemption from PRC income tax for the two years ended 31 December 2003 and a 50% relief for the three years ending 31 December 2006. No provision for taxation has been made in the financial statements as the PRC subsidiaries had no assessable profit for the year.

Taxation for the year is reconciled to the profit (loss) for the year as follows:

	2006		2005	
	HK\$'000	%	HK\$'000	%
Profit (loss) for the year	<u>2,144</u>		<u>(82,496)</u>	
Tax at the applicable income tax rate	(375)	(17.5)	14,437	17.5
Tax effect of share of losses of associates	(223)	(10.4)	(4,177)	(5.1)
Tax effect of share of losses of jointly controlled entities	(763)	(35.6)	(1,544)	(1.9)
Tax effect of expenses not deductible for tax purposes	(1,932)	(90.1)	(3,837)	(4.7)
Tax effect of income not taxable for tax purposes	6,585	307.1	10	—
Tax effect of unrecognised tax losses	(4,265)	(198.9)	(4,254)	(5.1)
Utilisation of tax losses previously not recognised	1,290	60.2	12	—
Effect of different tax rate for subsidiaries operating in other jurisdiction	330	15.4	(106)	(0.1)
Others	(647)	(30.2)	(541)	(0.6)
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Tax effect and effective tax rate for the year	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

12. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share is based on the following data:

	2006	2005
Profit (loss) attributable to equity holders of the Company for the purposes of basic and diluted earnings (loss) per share	<u>HK\$2,355,000</u>	<u>HK\$(82,478,000)</u>
Number of ordinary shares:		
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	<u>1,022,285,200</u>	<u>993,439,947</u>
Effect of dilutive potential ordinary shares in respect of share options granted	<u>6,212,366</u>	
Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share	<u>1,028,497,566</u>	

No diluted loss per share has been presented in 2005 as the share options granted by the Company are anti-dilutive.

Impact of changes in accounting policies:

Changes in the Group's accounting policies during the year are described in detail in note 3. To the extent that those changes have had an impact on results reported for 2006 and 2005, they have had an impact on the amounts reported for earnings per share. The following table summarises that impact on both basic and diluted earnings (loss) per share:

	Impact on basic earnings (loss) per share		Impact on diluted earnings per share
	2006	2005	2006
	HK cents	HK cents	HK cents
Figures before adjustments	0.403	(8.302)	0.401
Adjustments arising from changes in accounting policies	<u>(0.173)</u>	<u>—</u>	<u>(0.172)</u>
As reported	<u>0.230</u>	<u>(8.302)</u>	<u>0.229</u>

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK\$'000	Computer equipment HK\$'000	Furniture and fixtures HK\$'000	Leasehold improvements HK\$'000	Motor vehicles HK\$'000	Office equipment HK\$'000	Total HK\$'000
THE GROUP							
COST							
At 1 April 2004	190,156	19,077	1,453	10,021	911	11,023	232,641
Additions	—	178	—	29	—	58	265
Disposals	—	(180)	—	—	(627)	(9)	(816)
Acquired on purchase of a subsidiary	2,377	—	—	—	—	—	2,377
At 31 March 2005	192,533	19,075	1,453	10,050	284	11,072	234,467
Currency realignment	172	154	18	45	—	33	422
Additions	—	187	—	—	—	34	221
Disposals	(128,198)	(2,146)	—	(2,328)	—	(564)	(133,236)
At 31 March 2006	64,507	17,270	1,471	7,767	284	10,575	101,874
DEPRECIATION AND AMORTISATION AND IMPAIRMENT							
At 1 April 2004	65,093	12,335	872	7,262	445	7,133	93,140
Provided for the year	3,478	3,250	272	1,394	174	2,001	10,569
Eliminated on disposals	—	(108)	—	—	(502)	(2)	(612)
At 31 March 2005	68,571	15,477	1,144	8,656	117	9,132	103,097
Currency realignment	83	116	13	35	—	22	269
Provided for the year	577	2,572	243	1,190	57	1,589	6,228
Eliminated on disposals	(7,004)	(2,114)	—	(2,328)	—	(562)	(12,008)
At 31 March 2006	62,227	16,051	1,400	7,553	174	10,181	97,586
NET BOOK VALUES							
At 31 March 2006	2,280	1,219	71	214	110	394	4,288
At 31 March 2005	123,962	3,598	309	1,394	167	1,940	131,370

13. PROPERTY, PLANT AND EQUIPMENT (continued)

	Land and buildings HK\$'000	Computer equipment HK\$'000	Furniture and fixtures HK\$'000	Leasehold improvements HK\$'000	Motor vehicles HK\$'000	Office equipment HK\$'000	Total HK\$'000
THE COMPANY							
COST							
At 1 April 2004	—	11,811	832	6,153	284	8,338	27,418
Additions	—	130	—	—	—	18	148
Disposals	—	(145)	—	—	—	(9)	(154)
At 31 March 2005	—	11,796	832	6,153	284	8,347	27,412
Additions	—	139	—	—	—	8	147
Disposals	—	(619)	—	—	—	(4)	(623)
At 31 March 2006	—	11,316	832	6,153	284	8,351	26,936
DEPRECIATION							
At 1 April 2004	—	7,383	520	3,948	62	5,201	17,114
Provided for the year	—	2,244	160	1,170	57	1,645	5,276
Eliminated on disposals	—	(78)	—	—	—	(2)	(80)
At 31 March 2005	—	9,549	680	5,118	119	6,844	22,310
Provided for the year	—	1,717	128	992	57	1,370	4,264
Eliminated on disposals	—	(597)	—	—	—	(1)	(598)
At 31 March 2006	—	10,669	808	6,110	176	8,213	25,976
NET BOOK VALUES							
At 31 March 2006	—	647	24	43	108	138	960
At 31 March 2005	—	2,247	152	1,035	165	1,503	5,102

THE GROUP

2006 2005
HK\$'000 HK\$'000

The net book value of property interests comprises:

Land and buildings held under medium-term leases in Hong Kong	—	120,872
Buildings held under long-term land use right in the PRC	2,280	3,090
	2,280	123,962

At the balance sheet date, the Group has pledged its property interests with a net book value of HK\$2,280,000 (2005: HK\$123,249,000) to certain banks to secure the credit facilities granted to the Group.

In addition, at the balance sheet date, the net book value of the Group's and the Company's office equipment held under a finance lease was HK\$120,000 (2005: HK\$179,000).

14. PRODUCT DEVELOPMENT COSTS

	THE GROUP AND THE COMPANY HK\$'000
COST	
At 1 April 2004, 31 March 2005 and 31 March 2006	11,150
AMORTISATION	
At 1 April 2004	5,142
Amortised for the year	3,717
At 31 March 2005	8,859
Amortised for the year	2,291
At 31 March 2006	11,150
CARRYING VALUE	
At 31 March 2006	—
At 31 March 2005	2,291

The product development costs are amortised on a straight line basis over its estimated useful life of three years.

15. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY 2006 & 2005 HK\$'000
Unlisted investments, at cost	21,310
Less: Impairment loss recognised	(13,310)
	8,000

Details of the Company's principal subsidiaries at 31 March 2006 are set out in note 36.

The Company undertook a review of its investments in subsidiaries to assess the recoverable amounts. The directors determined that a number of these subsidiaries were impaired due to deteriorating business environment and operating results.

16. INTERESTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Unlisted shares, at cost	94,255	94,255	94,255	94,255
Share of post-acquisition reserves	(87,480)	(87,795)	—	—
Less: Impairment in value	—	—	(87,480)	(87,795)
	6,775	6,460	6,775	6,460

The principal investment in associates at 31 March 2006 represents the Company's equity interest in 25% of registered capital of 寧夏教育信息技術股份有限公司 (Ningxia Educational Information & Technology Co., Ltd.) ("NEITC"), a sino-foreign joint stock limited company established in the PRC and engaged in the development of Education Informatisation Program in Ningxia Hui Autonomous Region of the PRC.

In the opinion of the directors, the above associate principally affected the results of the year or form a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

The summarised financial information in respect of the associates is set out below:

	2006 HK\$'000	2005 HK\$'000
Total assets	31,865	32,175
Total liabilities	(4,803)	(6,371)
Net assets	27,062	25,804
Group's share of net assets of associates	6,775	6,460
Revenue	14,459	20,917
Loss for the year	(5,087)	(95,330)
Loss for the year attributable to the Group	(1,274)	(23,867)

The Company undertook a review of its investments in associates to assess the recoverable amounts from the investments. The directors determined that certain associates were impaired due to deteriorating business environment and operating results.

17. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	THE GROUP		THE COMPANY	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted capital contributions, at cost	29,615	29,615	29,615	29,615
Share of post-acquisition losses	(29,615)	(25,375)	—	—
Less: Impairment in value	—	—	(29,615)	(25,375)
Loan to a jointly controlled entity	568	568	568	568
Amount due from a jointly controlled entity	658	622	658	622
	1,226	5,430	1,226	5,430

The loan is unsecured, carries interest at 6.21% per annum and is repayable in August 2008.

The amount due from a jointly controlled entity is interest free, unsecured and repayable in August 2008.

The fair value of the Group's and the Company's loan to and amount due from a jointly controlled entity approximates to the corresponding carrying amount.

The principal investment in jointly controlled entities at 31 March 2006 represents the Company's interest in 29% of registered capital of 珠海南方軟件園發展有限公司 (Zhuhai Southern Software Park Development Company Limited) ("ZSSP"), a sino-foreign joint venture established in the PRC and engaged in development and operation of a software park for a term of 30 years commencing November 2000.

In the opinion of the directors, the above jointly controlled entity principally affected the results of the year or form a substantial portion of the net assets of the Group. To give details of other jointly controlled entities would, in the opinion of the directors, result in particulars of excessive length.

17. INTERESTS IN JOINTLY CONTROLLED ENTITIES (continued)

The summarised financial information in respect of share of jointly controlled entities which was accounted for using the equity method is set out below:

	2006 HK\$'000	2005 HK\$'000
Current assets	<u>2,814</u>	<u>9,372</u>
Non-current assets	<u>93,492</u>	<u>88,099</u>
Current liabilities	<u>(16,802)</u>	<u>(15,223)</u>
Non-current liabilities	<u>(81,702)</u>	<u>(78,008)</u>
Income	<u>2,386</u>	<u>1,852</u>
Expenses	<u>(8,946)</u>	<u>(10,676)</u>

The Group has discontinued recognition of its share of losses of certain jointly controlled entities. The amounts of unrecognised share of those jointly controlled entities, both for the year and cumulatively, are as follows:

	2006 HK\$'000	2005 HK\$'000
Unrecognised share of losses of jointly controlled entities for the year	<u>(2,198)</u>	<u>—</u>
Accumulated unrecognised share of losses of jointly controlled entities	<u>(2,198)</u>	<u>—</u>

The Company undertook a review of its investments in the jointly controlled entities to assess the recoverable amounts from the investments. The directors determined that certain jointly controlled entities were impaired due to unfavourable business environment and operating results. The recoverable amounts of investments have been determined on the basis of their fair values less cost to sell.

18. INVESTMENTS IN SECURITIES

Investment securities as at 31 March 2005 are set out below. Upon the adoption of HKAS 39 on 1 April 2005, investment securities were reclassified to available-for-sale financial assets under HKAS 39 (see note 3 for details).

	THE GROUP		THE COMPANY	
	2005	2005	2005	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Investment securities				
– Hong Kong listed shares, at cost	315		315	
– overseas unlisted shares, at cost	9,201		—	
Less: Impairment in value	(8,282)		(182)	
	<u>1,234</u>		<u>133</u>	
Market value of listed shares at 31 March	<u>133</u>		<u>133</u>	

19. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

	THE GROUP		THE COMPANY	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contract costs incurred to date plus recognised profits less recognised loss	55,500	54,203	870	444
Less: Progress billings	(46,311)	(45,150)	(579)	(346)
Less: Impairment in value	(8,576)	(4,278)	(88)	—
	<u>613</u>	<u>4,775</u>	<u>203</u>	<u>98</u>

The fair value of the Group's and the Company's amounts due from customers for contract work at 31 March 2006 approximates to the corresponding carrying amount.

During the year, the Group and the Company undertook a review of the amounts due from customers for contract work to assess the recoverability of the amount. The directors determined that a number of these amounts due from customers were impaired due to the worsen financial position of the customers. The recoverable amounts due from the relevant customers amounting to HK\$4,173,000 (2005: HK\$353,000) have been determined to be impaired and written off to the income statement.

20. OTHER FINANCIAL ASSETS

Trade and other receivables

	THE GROUP		THE COMPANY	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Trade receivables	100	471	90	364
Prepayments to suppliers	396	1,128	372	337
Rental and utility deposits	2,457	700	2,385	600
Other receivables	882	8,947	598	76
	3,835	11,246	3,445	1,377

Payment terms with customers are mainly on credit together with deposits. Invoices are normally payable within 30 days of issuance, except for certain well established customers. The following is an aged analysis of trade receivables at the balance sheet date:

	THE GROUP	
	2006 HK\$'000	2005 HK\$'000
Age		
0 to 30 days	92	307
31 to 60 days	8	107
Over 90 days	—	57
	100	471

The fair value of the Group's trade and other receivables at 31 March 2006 approximates to the corresponding carrying amount.

Bank balances and cash

Bank balances and cash comprise cash held by the Group and the Company and short-term bank deposits carry interest rate between 1.07% and 4.3% (2005: between 0.01% and 0.99%) per annum with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

21. PLEDGED BANK DEPOSITS

The balance represents deposits pledged to banks to secure the credit facilities granted to the Group and the Company.

The deposits carry interest rate between 2.13% and 4% (2005: between 0.01% and 1.98%) per annum and will be released upon repayment of certain secured bank loans. The fair value of bank deposits at 31 March 2006 approximates to the corresponding carrying amount.

22. ACCOUNTS PAYABLES

	THE GROUP		THE COMPANY	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Customers' deposits received	1,785	2,691	249	635
Other payables	3,420	6,187	1,551	1,506
	5,205	8,878	1,800	2,141

The fair value of other payables at 31 March 2006 approximates to the corresponding carrying amount.

23. OBLIGATIONS UNDER A FINANCE LEASE

	THE GROUP AND THE COMPANY			
	Minimum lease payments		Present value of minimum lease payments	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Amount payable under a finance lease:				
Within one year	54	69	49	60
Between one to two years	54	69	51	63
Between two to three years	—	69	—	65
	108	207	100	188
Less: Future finance charges	8	19	—	—
Present value of lease obligations	100	188	100	188
Less: Amount due within one year shown under current liabilities			49	60
Amount due after one year			51	128

The effective borrowing rate was 5.25% (2005: 5.25%) per annum. Interest rate was fixed at the contract date, and thus expose the Group to fair value interest risk.

The fair value of finance lease obligation as at the balance sheet date, determined based on the present value of the estimated future cash flows discounted using the rate at the balance sheet date, approximates to their carrying amount.

24. BANK LOANS

	THE GROUP	
	2006	2005
	HK\$'000	HK\$'000
The bank loans are repayable as follows:		
Within one year	122	3,904
Between one to two years	129	3,972
Between two to five years	430	12,364
After five years	673	16,224
	1,354	36,464
Less: Amount due within one year shown under current liabilities	122	3,904
Amount due after one year	1,232	32,560

The exposure of the Group's fixed-rate borrowings and the contractual maturity dates (or repricing dates) are as follows:

	THE GROUP	
	2006	2005
	HK\$'000	HK\$'000
Fixed-rate borrowings:		
Within one year	122	108
In more than one year but not more than two years	129	115
In more than two years but not more than three years	147	123
In more than three years but not more than four years	144	131
In more than four years but not more than five years	139	139
In more than five years	673	838
	1,354	1,454

The bank loans carry fixed interest at 5.31% (2005: 6.21%) per annum.

Included in the above bank loan, an amount of HK\$1,354,000 (2005: HK\$1,454,000) is denominated in Renminbi.

24. BANK LOANS (continued)

Borrowings comprise:

	Maturity date	Security	Effective interest rate	Carrying amount	
				2006	2005
				HK\$'000	HK\$'000
Fixed-rate borrowings:					
5.31% to 6.21% secured bank loan of RMB2,040,000 ⁽¹⁾⁽³⁾	15 March 2015	Buildings in the PRC	5.31% to 6.21%	1,354	1,454
Floating-rate borrowings:					
Hong Kong Interbank Offered Rate plus 0.5% secured Hong Kong dollars bank loan of HK\$40,000,000 ⁽²⁾⁽³⁾	25 March 2015	Land and buildings in Hong Kong	1.66% to 5.45%	—	35,010
Total borrowings				<u>1,354</u>	<u>36,464</u>

⁽¹⁾ Repayable in 180 equal monthly instalments of RMB17,000 each commencing from 15 March 2000 through to 15 March 2015.

⁽²⁾ Fully repaid on 30 December 2005.

⁽³⁾ Interest was repriced annually.

The directors consider that the carrying amount of bank loan approximates its fair value.

At 31 March 2006, the Group had available HK\$5 million (2005: HK\$5 million) of undrawn borrowing facilities in respect of which all conditions precedent had been met.

25. AMOUNTS DUE FROM/TO SUBSIDIARIES

The amounts are unsecured, interest-free and are repayable on demand. The directors consider that the carrying amounts approximate to their fair value.

26. SHARE CAPITAL

	Number of ordinary shares	Amount HK\$'000
Authorised:		
Ordinary shares of HK\$0.05 each		
– at 1 April 2004, 31 March 2005 and 31 March 2006	2,500,000,000	125,000
	<u>2,500,000,000</u>	<u>125,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.05 each		
– at 1 April 2004	990,061,503	49,503
– exercise of share options	19,420,000	971
	<u>1,009,481,503</u>	<u>50,474</u>
– at 31 March 2005	1,009,481,503	50,474
– exercise of share options	22,000,000	1,100
	<u>1,031,481,503</u>	<u>51,574</u>
– at 31 March 2006	<u>1,031,481,503</u>	<u>51,574</u>

During the year, 750,000, 100,000, 450,000 and 20,700,000 (2005: 1,650,000, 3,300,000, 900,000, 670,000 and 12,900,000) share options were exercised at a subscription price of HK\$0.0870 per share, HK\$0.0900 per share, HK\$0.0982 per share and HK\$0.0722 per share respectively (2005: HK\$0.1900 per share, HK\$0.0870 per share, HK\$0.0900 per share, HK\$0.0982 per share and HK\$0.0722 per share respectively), resulting in an aggregate issue of 22,000,000 (2005: 19,420,000) ordinary shares of HK\$0.05 each in the Company. All the shares issued during the year ranked pari passu with the then existing shares in all respects.

27. SHARE OPTIONS

(a) 2000 share option scheme

Pursuant to the share option scheme adopted by the Company on 21 November 2000 (the "2000 share option scheme"), the Company may grant options at HK\$1 per offer to any full-time employees including executive directors of the Company or its subsidiaries, for the primary purpose of providing incentives to them, to subscribe for shares in the Company. The exercise price of the share option will be determined at the higher of the average of closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the options; the closing price of the shares on the Stock Exchange on the date of grant; and the nominal value of the shares.

Details of the movements in the number of share options during the year under the Company's 2000 share option scheme are as follows:

Type of participants	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options					
				Outstanding at 1.4.2004	Lapsed during the year	Outstanding at 31.3.2005	Reclassified during the year	Lapsed during the year	Outstanding at 31.3.2006
Directors	6.3.2001	6.3.2002 - 5.3.2005	0.630	5,600,000	(5,600,000)	—	—	—	—
	9.4.2001	9.4.2002 - 8.4.2005	0.592	100,000	—	100,000	—	(100,000)	—
	27.4.2001	27.4.2002 - 26.4.2005	0.818	1,700,000	—	1,700,000	—	(1,700,000)	—
	3.10.2001	3.10.2002 - 2.10.2005	0.445	3,200,000	—	3,200,000	400,000	(3,600,000)	—
	22.4.2002	22.4.2003 - 21.4.2006	0.455	1,250,000	—	1,250,000	200,000	—	1,450,000
Employees	16.2.2001	16.2.2002 - 15.2.2005	0.734	1,500,000	(1,500,000)	—	—	—	—
	6.3.2001	6.3.2002 - 5.3.2005	0.630	3,600,000	(3,600,000)	—	—	—	—
	9.4.2001	9.4.2002 - 8.4.2005	0.592	50,000	(50,000)	—	—	—	—
	27.4.2001	27.4.2002 - 26.4.2005	0.818	250,000	(100,000)	150,000	—	(150,000)	—
	3.10.2001	3.10.2002 - 2.10.2005	0.445	3,710,000	(910,000)	2,800,000	(400,000)	(2,400,000)	—
	22.4.2002	22.4.2003 - 21.4.2006	0.455	3,900,000	(1,600,000)	2,300,000	(200,000)	(600,000)	1,500,000
				<u>24,860,000</u>	<u>(13,360,000)</u>	<u>11,500,000</u>	<u>—</u>	<u>(8,550,000)</u>	<u>2,950,000</u>

Pursuant to an ordinary resolution passed in the Company's extraordinary general meeting held on 28 April 2003, the Company has terminated the operation of the 2000 share option scheme (such that no further options could thereafter be offered under the 2000 share option scheme but outstanding options granted under the 2000 share option scheme shall remain effective subject to the relevant provisions of the 2000 share option scheme) and approved and adopted the 2003 new share option scheme. After the balance sheet date, the 2,950,000 outstanding options were all lapsed upon expiring of the exercisable period for those options. There were no share options outstanding under the 2000 share option scheme at 20 June 2006.

27. SHARE OPTIONS (continued)

(b) 2003 share option scheme

The options of the 2003 share option scheme may be granted to any director, employee, consultant, customer, supplier, agent, partner, provider of financial assistance, shareholder or adviser of or contractor to the Group or a company in which the Group holds an interest or a subsidiary of such company ("Eligible Participants"), the trustee of the Eligible Participants or a company beneficially owned by the Eligible Participants. The purpose of the 2003 share option scheme is to recognise and acknowledge the contributions that the Eligible Participants had made or may make to the Group. The total number of shares available for issue under the 2003 share option scheme is 186,042,550 shares, representing 18% of the issued share capital of the Company at 20 June 2006. The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the 2003 share option scheme and other share option schemes of the Company shall not, in aggregate, exceed 30% of the shares of the Company in issue from time to time. No options may be granted to any Eligible Participants which if exercised in full would result in the total number of shares issued and to be issued upon exercise of the share options already granted to such Eligible Participants in the 12-month period up to and including the date of such new grant exceeding 1% of the issued share capital of the Company as at the date of grant unless approval is obtained from the shareholders of the Company. Pursuant to an extraordinary general meeting held on 25 February 2004, ordinary resolutions were passed by the shareholders to approve the granting of options exceeding 1% limit that entitle certain Eligible Participants to subscribe for an aggregate of 49,000,000 shares. The exercisable period is determined by the board of directors in its absolute discretion, save that such period shall not be more than ten years from the date of grant. There is no generally applicable minimum period for which the options must be held before it can be exercised.

An offer of the grant of an option shall be accepted when the Company receives in writing the acceptance of the offer from the grantee together with a remittance in favour of the Company of HK\$1 by way of consideration for the grant thereof. The option shall remain open for acceptance by the Eligible Participants concerned for a period of 28 days from the date of offer. The exercise price shall be determined by the board of directors at the time of grant of the relevant option and notified to each grantee and shall not be less than the highest of:

- (i) the closing price of a share as stated in the Stock Exchange's daily quotation sheet on the date of grant of the relevant option, which must be a business day;
- (ii) an amount equivalent to the average closing price of shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the relevant option; and
- (iii) the nominal value of a share.

The 2003 share option scheme is valid for a period of ten years commencing on the adoption date.

27. SHARE OPTIONS (continued)

Details of the movements in the number of share options granted during the year under the Company's 2003 share option scheme are as follows:

Type of participants	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options								Outstanding at 2006 Notes	2005 Notes		
				Outstanding at 1.4.2004	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.3.2005	Reclassified during the year	Granted during the year	Exercised during the year			Lapsed during the year	Outstanding at 31.3.2006
Directors	5.9.2003	5.9.2003-4.9.2013	0.2280	32,960,000	-	-	-	32,960,000	2,800,000	-	-	(11,000,000)	24,760,000	N/A	N/A
	26.11.2003	26.11.2003-25.11.2013	0.2300	400,000	-	-	-	400,000	400,000	-	-	(400,000)	400,000	N/A	N/A
	8.12.2003	8.12.2003-7.12.2013	0.2130	6,300,000	-	-	-	6,300,000	-	-	-	(400,000)	5,900,000	N/A	N/A
	9.1.2004	9.1.2004-8.1.2014	0.1900	12,000,000	-	-	-	12,000,000	1,790,000	-	-	(4,000,000)	9,790,000	N/A	N/A
	25.2.2004	25.2.2004-24.2.2014	0.1900	26,700,000	-	(1,070,000)	-	25,630,000	-	-	-	(5,680,000)	19,950,000	N/A	(1)
	19.4.2004	19.4.2004-18.4.2014	0.2096	-	-	-	-	-	600,000	-	-	-	600,000	N/A	N/A
	16.9.2004	16.9.2004-15.9.2014	0.0670	-	2,500,000	(200,000)	-	2,300,000	800,000	-	(300,000)	-	2,800,000	(1)	(2)
	30.9.2004	30.9.2004-29.9.2014	0.0900	-	-	-	-	-	800,000	-	-	-	800,000	N/A	N/A
	13.12.2004	13.12.2004-12.12.2014	0.0982	-	5,200,000	(670,000)	-	4,530,000	600,000	-	-	(300,000)	4,830,000	N/A	(3)
	28.2.2005	28.2.2005-27.2.2015	0.0722	-	32,900,000	(12,900,000)	-	20,000,000	2,000,000	-	(7,500,000)	(2,000,000)	12,500,000	(2)	(4)
	22.9.2005	22.9.2005-21.9.2015	0.0920	-	-	-	-	-	-	4,000,000	-	-	4,000,000	(3)	N/A
	24.3.2006	24.3.2006-23.3.2016	0.1530	-	-	-	-	-	-	3,800,000	-	-	3,800,000	(4)	N/A
	Employees	5.9.2003	5.9.2003-4.9.2013	0.2280	33,500,000	-	-	(5,000,000)	28,500,000	(2,800,000)	-	-	(900,000)	24,800,000	N/A
15.9.2003		15.9.2003-14.9.2013	0.2550	11,000,000	-	-	(1,500,000)	9,500,000	-	-	-	(900,000)	8,600,000	N/A	N/A
26.11.2003		26.11.2003-25.11.2013	0.2300	7,200,000	-	-	(2,800,000)	4,400,000	(400,000)	-	-	(1,400,000)	2,600,000	N/A	N/A
8.12.2003		8.12.2003-7.12.2013	0.2130	800,000	-	-	-	800,000	-	-	-	-	800,000	N/A	N/A
9.1.2004		9.1.2004-8.1.2014	0.1900	18,778,000	-	(558,000)	(6,194,000)	12,024,000	(1,790,000)	-	-	(2,940,000)	7,294,000	N/A	(5)
25.2.2004		25.2.2004-24.2.2014	0.1900	20,000,000	-	-	-	20,000,000	-	-	-	-	20,000,000	N/A	N/A
19.4.2004		19.4.2004-18.4.2014	0.2096	-	4,650,000	-	(1,500,000)	3,150,000	(600,000)	-	-	(1,350,000)	1,200,000	N/A	(6)
16.9.2004		16.9.2004-15.9.2014	0.0670	-	13,000,000	(3,100,000)	(2,000,000)	7,900,000	(800,000)	-	(450,000)	(800,000)	5,850,000	(5)	(7)
30.9.2004		30.9.2004-29.9.2014	0.0900	-	11,100,000	(900,000)	(1,300,000)	8,900,000	(800,000)	-	(100,000)	(3,600,000)	4,400,000	(6)	(8)
13.12.2004		13.12.2004-12.12.2014	0.0982	-	3,400,000	-	(300,000)	3,100,000	(600,000)	-	(450,000)	-	2,050,000	(7)	(9)
28.2.2005		28.2.2005-27.2.2015	0.0722	-	24,600,000	(4,650,000)	(200,000)	19,750,000	(2,000,000)	-	(8,550,000)	(2,500,000)	6,700,000	(8)	(10)
11.5.2005		11.5.2005-10.5.2015	1.0380	-	-	-	-	-	-	3,000,000	-	-	3,000,000	(9)	N/A
22.9.2005		22.9.2005-21.9.2015	0.0920	-	-	-	-	-	-	4,800,000	-	-	4,800,000	(3)	N/A
24.3.2006		24.3.2006-23.3.2016	0.1530	-	-	-	-	-	-	3,800,000	-	-	3,800,000	(4)	N/A
					<u>168,638,000</u>	<u>97,350,000</u>	<u>(24,048,000)</u>	<u>(20,796,000)</u>	<u>222,144,000</u>	<u>-</u>	<u>19,400,000</u>	<u>(17,350,000)</u>	<u>(38,170,000)</u>	<u>186,024,000</u>	

2006 Notes:

- (1) The weighted average closing price of the Company's shares immediately before the date of exercise of 300,000 options on 13 April 2005 was HK\$0.110.
- (2) The weighted average closing prices of the Company's shares immediately before the date of exercise of 1,000,000 options on 6 April 2005, 2,000,000 options on 7 April 2005, 1,000,000 options on 18 April 2005, 500,000 options on 31 August 2005, 1,000,000 options on 3 January 2006, 1,000,000 options on 10 March 2006 and 1,000,000 options on 17 March 2006 were HK\$0.1180, HK\$0.1080, H\$0.1000, HK\$0.0850, HK\$0.0790, HK\$0.1080 and HK\$0.1440 respectively.
- (3) The closing price of the Company's shares immediately before the date of grant on 21 September 2005 was HK\$0.0880.

27. SHARE OPTIONS (continued)

- (4) The closing price of the Company's shares immediately before the date of grant on 23 March 2006 was HK\$0.1580.
- (5) The weighted average closing prices of the Company's shares immediately before the date of exercise of 150,000 options on 15 April 2005 and 300,000 options on 15 March 2006 were HK\$0.1080 and HK\$0.1410 respectively.
- (6) The weighted average closing price of the Company's shares immediately before the date of exercise of 100,000 options on 22 March 2006 was HK\$0.1580.
- (7) The weighted average closing price of the Company's shares immediately before the date of exercise of 450,000 options on 14 March 2006 was HK\$0.1731.
- (8) The weighted average closing prices of the Company's shares immediately before the date of exercise of 600,000 options on 1 April 2005, 100,000 options on 4 April 2005, 100,000 options on 8 April 2005, 100,000 options on 12 April 2005, 200,000 options on 14 April 2005, 200,000 options on 15 April 2005, 50,000 options on 20 April 2005, 100,000 options on 13 May 2005, 3,000,000 options on 13 September 2005, 1,000,000 options on 13 October 2005, 1,000,000 options on 10 March 2006, 400,000 options on 14 March 2006, 1,000,000 options on 17 March 2006, 400,000 options on 20 March 2006, 200,000 options on 21 March 2006 and 100,000 options on 22 March 2006 were HK\$0.1420, HK\$0.1300, HK\$0.1000, HK\$0.1140, HK\$0.1040, HK\$0.1080, HK\$0.1140, HK\$0.0880, HK\$0.0920, HK\$0.0900, HK\$0.1080, HK\$0.1380, HK\$0.1440, HK\$0.1370, HK\$0.1640 and HK\$0.1580 respectively.
- (9) The closing price of the Company's shares immediately before the date of grant on 10 May 2005 was HK\$0.1020.
- (10) The weighted average share price for the year is HK\$0.0914.

2005 Notes:

- (1) The weighted average closing prices of the Company's shares immediately before the date of exercise of 550,000 options on 13 April 2004, 200,000 options on 22 November 2004 and 320,000 options on 23 November 2004 were HK\$0.2270, HK\$0.0950 and HK\$0.0900 respectively.
- (2) The closing price of the Company's shares immediately before the date of grant on 16 September 2004 was HK\$0.0810 while the weighted average closing price of the Company's shares immediately before the date of exercise of 200,000 options on 21 February 2005 was HK\$0.0740.
- (3) The closing price of the Company's shares immediately before the date of grant on 13 December 2004 was HK\$0.0980 while the weighted average closing price of the Company's shares immediately before the date of exercise of 370,000 options on 21 February 2005 and 300,000 options on 23 February 2005 was HK\$0.0704.
- (4) The closing price of the Company's shares immediately before the date of grant on 28 February 2005 was HK\$0.0690 while the weighted average closing prices of the Company's shares immediately before the date of exercise of 9,900,000 options on 10 March 2005, 2,000,000 options on 14 March 2005 and 1,000,000 options on 31 March 2005 were HK\$0.0800, HK\$0.0740 and HK\$0.0870 respectively.
- (5) The weighted average closing prices of the Company's shares immediately before the date of exercise of 550,000 options on 8 April 2004, 2,000 options on 10 June 2004 and 6,000 options on 9 August 2004 were HK\$0.2050, HK\$0.1810 and HK\$0.1690 respectively.
- (6) The closing price of the Company's shares immediately before the date of grant on 19 April 2004 was HK\$0.1940.

27. SHARE OPTIONS (continued)

- (7) The closing price of the Company's shares immediately before the date of grant on 16 September 2004 was HK\$0.0810 while the weighted average closing prices of the Company's shares immediately before the date of exercise of 1,300,000 options on 8 October 2004, 200,000 options on 11 November 2004, 700,000 options on 17 November 2004, 200,000 options on 8 December 2004, 200,000 options on 11 January 2005, 250,000 option on 12 January 2005, 50,000 options on 24 January 2005 and 200,000 options on 18 February 2005 were HK\$0.0930, HK\$0.0900, HK\$0.0910, HK\$0.0980, HK\$0.0890, HK\$0.0890, HK\$0.0830 and HK\$0.0720 respectively.
- (8) The closing price of the Company's shares immediately before the date of grant on 30 September 2004 was HK\$0.0880 while the weighted average closing prices of the Company's shares immediately before the date of exercise of 300,000 options on 11 November 2004, 200,000 options on 18 November 2004, 200,000 options on 25 November 2004 and 200,000 options on 20 December 2004 were HK\$0.0900, HK\$0.0910, HK\$0.0980 and HK\$0.1040 respectively.
- (9) The closing price of the Company's shares immediately before the date of grant on 13 December 2004 was HK\$0.0980.
- (10) The closing price of the Company's shares immediately before the date of grant on 28 February 2005 was HK\$0.0690 while the weighted average closing prices of the Company's shares immediately before the date of exercise of 1,000,000 options on 11 March 2005 and 3,650,000 options on 31 March 2005 were HK\$0.0710 and HK\$0.0870 respectively.
- (11) The weighted average share price for the year 2005 is HK\$0.1211.

(c) Share-based payment transactions

During the year ended 31 March 2006, options were granted on 11 May 2005, 22 September 2005 and 24 March 2006. The estimated fair values of the options granted on those dates are HK\$0.087, HK\$0.067 and HK\$0.121 respectively.

The Company has used the Black-Scholes option pricing model (the "Model") to value the share options granted during the year. The Model is one of the commonly used models to estimate the fair value of the option. The value of an option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.

27. SHARE OPTIONS (continued)

Details of the fair values of share options determined at the date of grant using the Model with the inputs are as follows:

	11.5.2005	22.9.2005	24.3.2006
Weighted average share price	HK\$0.1020	HK\$0.0880	HK\$0.1530
Exercise price	HK\$0.1038	HK\$0.0920	HK\$0.1530
Expected volatility	125.18%	102.30%	106.95%
Expected life	5 years	5 years	5 years
Risk-free rate	3.351%	3.944%	4.467%
Expected dividend yield	0%	0%	0%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous year. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

The Group recognised the total expense of approximately HK\$1,770,000 for the year ended 31 March 2006 in relation to share options granted by the Company.

28. RESERVES

	Share premium	Share options reserve	Deficit	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE COMPANY				
At 1 April 2004	629,932	—	(493,862)	136,070
Issue of shares	708	—	—	708
Expenses incurred in connection with the issue of shares	(15)	—	—	(15)
Loss for the year	—	—	(69,146)	(69,146)
At 31 March 2005	630,625	—	(563,008)	67,617
Issue of shares	513	—	—	513
Expenses incurred in connection with the issue of shares	(16)	—	—	(16)
Recognition of equity settled share-based payments	—	1,770	—	1,770
Loss for the year	—	—	(14,348)	(14,348)
At 31 March 2006	631,122	1,770	(577,356)	55,536

At the balance sheet date, the Company had no reserves available for distribution to shareholders.

29. PURCHASE OF A SUBSIDIARY

On 31 March 2005, the Group acquired the 70% equity interest in 廣州市新信睿智信息產業有限公司 (Talent Valley Company Limited) ("Talent Valley") for a cash consideration of HK\$13,230,000. This transaction has been accounted for by the purchase method of accounting.

	2005 HK\$'000
Net assets acquired:	
Property, plant and equipment	2,377
Trade and other receivables	7,581
Bank balances and cash	9,527
Other payables	(3,213)
Secured long-term bank loan	(1,455)
Minority interests	(4,445)
	<u>10,372</u>
Goodwill arising on acquisition	2,858
	<u>13,230</u>
Total consideration	<u>13,230</u>
Satisfied by cash	<u>13,230</u>
Net cash outflow arising on acquisition:	
Cash consideration paid	(13,230)
Bank balances and cash acquired	9,527
	<u>(3,703)</u>

30. UNRECOGNISED DEFERRED TAXATION

At the balance sheet date, the Group and the Company has unutilised tax losses of approximately HK\$285 million (2005: HK\$268 million) and HK\$165 million (2005: HK\$146 million) respectively available to set off against future assessable profits. No deferred tax asset has been recognised in respect of the unutilised tax losses due to the unpredictability of future profit stream. These tax losses may be carried forward indefinitely except an amount of approximately HK\$21 million (2005: HK\$16 million) which may be carried forward for a maximum of five years.

31. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group and the Company were committed to make the following future minimum lease payments in respect of rented premises under non-cancellable operating leases which fall due as follows:

	THE GROUP		THE COMPANY	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Within one year	2,390	396	2,155	—
In the second to fifth year inclusive	1,346	432	1,115	—
	3,736	828	3,270	—

Leases are negotiated for an average term of three years.

32. CAPITAL COMMITMENTS

	THE GROUP		THE COMPANY	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	1,163	—	1,105	—

33. CONTINGENT LIABILITIES

At the balance sheet date, the Group has given guarantee of RMB5 million (2005: RMB5 million) to a bank to secure the credit facilities granted to ZSSP. At 31 March 2006, the amount of facilities utilised by ZSSP was RMB5 million (2005: RMB5 million).

At the balance sheet date, the Company has given corporate guarantees of HK\$5 million (2005: HK\$45 million) to certain banks to secure the credit facilities granted to its subsidiaries.

34. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme (the "Scheme") for all qualifying employees in Hong Kong. The assets of the Scheme are held separately from those of the Group in funds under the control of trustee. The Group contributes 5% of the relevant payroll costs to the Scheme up to a limit of HK\$1,000, which contribution is matched by employees.

The employees of the Company's PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The Company's PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligations of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

35. RELATED PARTY TRANSACTIONS

Guarantee given to a jointly controlled entity

A subsidiary of the Company, Timeless Software (Guangzhou) Limited ("Timeless Guangzhou") has given a guarantee to the extent of RMB5 million (2005: RMB5 million) in favour of a bank to secure an aggregate RMB5 million (2005: RMB 5 million) loan facility granted to ZSSP, a jointly controlled entity of the Company. The amount utilised as at 31 March 2006 amounted to RMB5 million (2005: RMB5 million).

Compensation of key management personnel

The key management personnel are the directors of the Company. The details of the remuneration paid to them are set out in note 9.

36. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries, all of which, excluding those explained below, are limited liability companies, at 31 March 2006 are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operations	Nominal value of issued and fully paid ordinary share/ registered capital	Attributable proportion of nominal value of issued/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
Corp-Vision Publishing Limited	Hong Kong	HK\$100,000	100%	—	Magazine publishing
Expert Consulting Limited	Hong Kong	HK\$5,000,000	100%	—	Provision of computer consultancy services, and development and sales of computer software
Three Principles Computer Service Company Limited	Hong Kong	HK\$5,000,000	100%	—	Provision of computer consultancy services, and development and sales of computer software
天時北方軟件（北京） 有限公司 (Timeless Software Beijing) Limited)	PRC	RMB2,000,000	—	100%	Design, development and maintenance of computer software and systems as well as provision of computer consultancy services for a term of 12 years commencing July 2000

36. PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ establishment/ operations	Nominal value of issued and fully paid ordinary share/ registered capital	Attributable proportion of nominal value of issued/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
天時軟件（廣州）有限公司 (Timeless Guangzhou)	PRC	RMB10,000,000	—	100%	Design, development and maintenance of computer software and systems as well as provision of computer consultancy services for a term of 10 years commencing January 1998
廣州市新信薈智信息產業有限公司 (Talent Valley)	PRC	RMB20,000,000	—	70%	Provision of computer consultancy services for a term of 30 years commencing November 2004

Timeless Software (Beijing) Limited is a foreign wholly-owned enterprise established in the PRC while Timeless Guangzhou and Talent Valley Company Limited are sino-foreign co-operative joint venture companies established in the PRC. Pursuant to the joint venture agreement, the PRC joint venture partner of Timeless Guangzhou has forfeited its economic interests in connection with the operation and management of Timeless Guangzhou in consideration for a contracted annual payment of RMB120,000. Accordingly, the Group is entitled to all the net results, risks and liabilities of Timeless Guangzhou throughout the entire co-operative joint venture period, after the payment of the pre-determined annual payment to the PRC joint venture partner. At the expiry of the co-operation period, the Group is entitled to all the remaining assets of Timeless Guangzhou.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities outstanding at the end of the year, or at any time during the year.

