



Beijing Development (Hong Kong) Limited
(Stock Code 154)



Annual Report **2006**

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CORPORATE INFORMATION

DIRECTORS

Executive directors:

Mr. Zhang Honghai (*Chairman*)
Mr. Li Kangying
Mr. E Meng
Mr. Wang Yong
Mr. Cao Wei
Dr. Yu Xiaoyang
Mr. Ng Kong Fat, Brian

Independent non-executive directors:

Mr. Cao Guixing
Prof. Liu Wei
Dr. Jin Lizuo

COMPANY SECRETARY

Mr. Wong Kwok Wai, Robin

QUALIFIED ACCOUNTANT

Mr. Wong Kwok Wai, Robin

AUTHORISED REPRESENTATIVES

Mr. Ng Kong Fat, Brian
Mr. Wong Kwok Wai, Robin

REGISTERED OFFICE

Room 3401, West Tower
Shun Tak Centre
200 Connaught Road Central
Hong Kong

WEBSITE

<http://www.bdhk.com.hk>

STOCK CODE

154

SHARE REGISTRARS

Tengis Limited
Level 25
Three Pacific Place
1 Queen's Road East
Hong Kong

AUDITORS

Ernst & Young

PUBLIC RELATIONS

Strategic Financial Relations (China) Limited

PRINCIPAL BANKERS

In Hong Kong:

Bank of China (Hong Kong) Limited

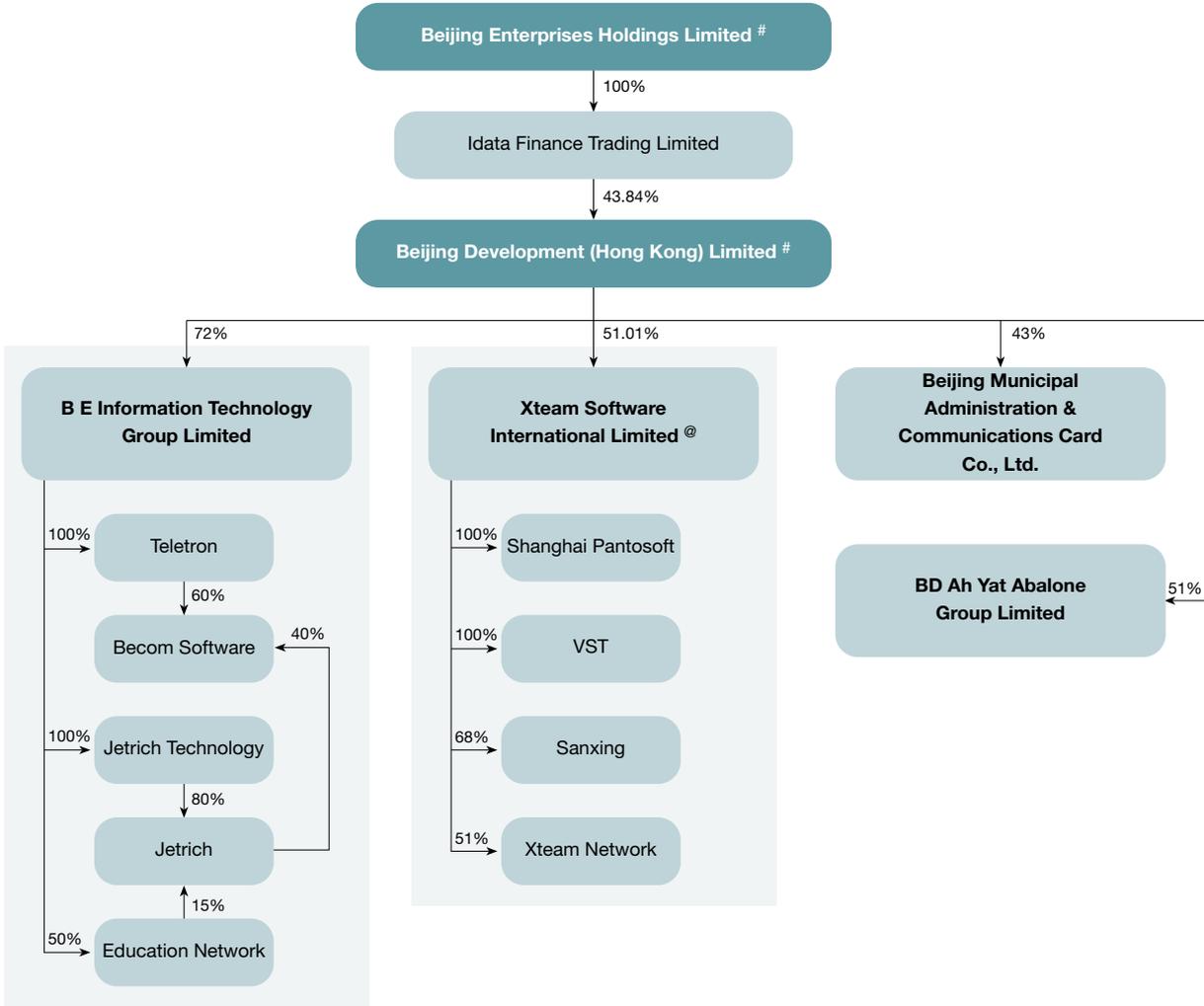
In Mainland China:

Bank of Beijing
Bank of Communications
China CITIC Bank
China Construction Bank
China Minsheng Banking Corp., Ltd.
Huaxia Bank



CORPORATE STRUCTURE

As at 3 April 2007



Listed on the Main Board of The Stock Exchange of Hong Kong Limited

@ Listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited





CHAIRMAN'S STATEMENT

I am pleased to announce that Beijing Development (Hong Kong) Limited (the “Company”) and its subsidiaries (together the “Group”) recorded satisfactory growth and profit in its annual results for the year ended 31 December 2006. The Group’s turnover amounted to HK\$585 million, an increase of 10% when compared with 2005. Profit attributable to shareholders was HK\$12.08 million against loss of HK\$35.04 million incurred in 2005. Basic earnings per share were 2.42 HK cents. The board of directors does not recommend payment of final dividend for the year.

In 2006, the Company identified the construction, operation and maintenance of the electronic settlement and clearance platform for infrastructure and public utilities as its core business. Under the guidance of its new business strategy, it began a series of initiatives and achieved concrete results.

1. Set clear strategic direction and core business focus. The Company focused on growing Beijing’s Smart Card business and, with card business at the core, it extended business coverage onto other related areas. Building on the infrastructure co-developed by Smart Card and Teletron Group and targeting to serve public utilities, the Group brought to the foreground its core emphasis on providing construction, operation and maintenance services for electronic payment and clearance platform. It also developed the Jetric Group which led business of education-related IT provisions construction, operation and technical service, and restructured the strategic business of electronic government and network technical service provided by Xteam.
2. Restructured business and clarified operational focuses. The Company gradually exited from non-core businesses and optimized and streamlined its organizational structure. Guided by the new development strategies, it reviewed and consolidated its businesses into three core segments. The first is the business of Smart Card entailing the operation and marketing of Smart Cards, promotion of small payment application and engineering, building and maintenance of Smart Card related operations. The second is the IT service segment covering the development of Beijing Subway’s public communications information system platform and aiding the adoption of IT by the education sector. The last segment is the Xteam business of the research and development of IT software.
3. Strengthened internal management and lowered management cost. The Company boosted corporate governance and ensured orderly operation of its listed businesses, increased transparency and enhanced strategic decision-making, as well as reinforced management and control of its subsidiaries to gradually realize their strategic management.
4. Gained exposure in the capital market. The Company strengthened communication and interaction with the capital market, and projected a clear corporate image. This has helped to invigorate the Company’s financing capability with attention and recognition drawn from the capital market. In 2006, the Company made concrete achievement in raising capital. Through share placement and with boosted share price, a strong foundation was laid for future fund raising initiatives.



CHAIRMAN'S STATEMENT

In 2007, the Company will continue its development strategies. Through measures such as capital injection, strategic re-engineering and adjustment of organizational structure and business integration, it will grow its core business further in scale and scope.

1. Strengthen controlling rights on Smart Card business, increase issue volume and card usage rate, and establish effective mechanism to consolidate the Smart Card platform. The Group will actively look for suitable partners for different Smart Card application areas and promote the application of Smart Cards in small payments. It will also pursue in-depth strategic R&D of Smart Card and electronic settlement and clearance, and closely monitor development of overseas Smart Card operations, as well as to collect related information for the exploration of investment opportunities.
2. Continue to develop related projects of rail transportation and start construction of public communications information system platform. The Company will focus on these projects in 2007, aiming at delivering projects of guaranteed qualitative and quantitative standards. Apart from focusing on unearthing the potential and enhancing the efficiency of existing projects, the Company will also explore other development projects in the sector. For instance, it will closely monitor the progress of the Beijing Subway projects and actively explore cooperative opportunities in relation to subway projects with other provinces and cities.
3. Speed up and step up organization restructuring and adjustment efforts. The Company will let go of non-core businesses and dispose of ineffective assets and consolidate existing businesses. It will strengthen strategic management and control on its subsidiaries, especially Xteam, and actively identify new opportunities that agree with the Company's development strategies.

In the coming year, the Company will strive to apply capital more effectively, work on improving investor relations, boosting investor confidence and to build a favourable market image. It aims to fully realize its financing capacity as a Hong Kong main board-listed company to ensure it has adequate financial back up for implementing future plans and development strategies. Moreover, the Company will focus on developing its core businesses and markets to increase profitability. It is committed to delivering optimal value for shareholders, rewarding them and contributing to the society through outstanding performance.

On behalf of the Board, I would like to thank all employees, the society and different associated parties for supporting the Group in the past year.

Zhang Honghai

Chairman

Hong Kong

3 April 2007





MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

1. Smart Card Business

On 10 May 2006, the Smart Card system was fully launched to replace paper tickets used on the Beijing subway, public buses and taxis. The public buses monthly ticket policy reform kick off in the beginning of 2007 has given a strong push to public adoption of Smart Cards. At the end of March 2007, 10 million Smart Cards were issued and more than 10 million transactions were registered daily. During the year, Smart Card service was made available on 31 December at six tolling stations covering 15 lanes on the Badaling Expressway and nine tolling stations covering 16 lanes on the Beijing-Tianjin-Tanggu Expressway. Starting from October onwards, Smart Cards can also be used to purchase movie tickets at 23 cinemas of Beijing New Film Association. That has provided a constructive trial base for using Smart Card to conduct small payment transactions.

In June 2006, the Group and Beijing Education Bureau signed a Cooperation Agreement regarding the issuance, management, application and promotion of Student IC Cards to primary and secondary school students in Beijing. Student IC Cards were subsequently issued in batches to the students and a three-tier management system covering the city, districts (counties) and schools was set up to promote a full scope of applications of the cards. As at the end of March 2007, one million Student IC Cards were issued.

2. Rail Transportation Business

During the period under review, the Company signed several contracts for projects including the Automated Fare Collection (“AFC”) System for the Beijing Metro Lines 1 and 2 and the Batong Line; the Automated Fare Collection and Clearing Center (“ACC”) System for the Beijing Mass Transit Network Management and Support Project. Other rail transportation related projects it undertook primarily for the Beijing Subway during the year are the safety door system for Lines 5, 10 and 4; the re-engineering of trains and equipment concealment for Lines 1 and 2; and the establishment of the Building Automation System (“BAS”) for Lines 1 and 5, etc. These projects together carry a total contractual value of RMB840 million, RMB570 million of which was the value of direct contracts won by the Company.

3. e-Government Administration Business

The e-government and education information projects in Beijing landed by the Company carry a total contract value of RMB160 million.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (continued)

4. New Project Development

In November 2006, the Company signed a Cooperation Agreement with Beijing Subway Operation Company Limited to build Beijing Subway's Public Communications Information System Platform. Setting up a public communication platform for the Beijing Subway is one of the key technological projects for the 2008 Beijing Olympics. This platform will facilitate the construction and integration of the public communication and passenger information direction systems of Lines 1 and 2 of the Beijing Subway. It will be able to support public signaling inflow thus provide the link between all kinds of information operators and value-added service suppliers and passengers. Passengers will have access to different audio, graphic, data and multimedia broadcast and mobile data application services.

FINANCIAL REVIEW

For the year ended 31 December 2006, the Group recorded a consolidated revenue of HK\$585 million, representing an increase of 10% from HK\$531 million in 2005. Profit attributable to shareholders amounted to HK\$12.08 million, as compared to the loss of HK\$35.04 million in 2005.

1. Revenue of the information technology business segment increased by 6.1% from HK\$273 million in 2005 to HK\$290 million, occupying 49.6% of the Group's total revenue. Of the impairment of HK\$40.1 million for trade and other receivables made by the Group for its information technology subsidiaries last year, HK\$23.15 million was written back in 2006. During the year, affected by Xteam's deteriorated performance, segment profit amounted to HK\$51 million, against the loss of HK\$7.4 million recorded in 2005.
2. Restaurant business segment brought in HK\$292 million in revenue, 15.4% more than last year's HK\$253 million, accounting for 50% of total revenue of the Group. Segment profit reached HK\$11.25 million, representing a decrease of 37.2% from HK\$17.9 million in the previous year.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL POSITION

In November 2006, the Company placed up to a total of 98 million new shares at HK\$ 1.1 per share and raised HK\$104 million as general working capital.

As at the end of 2006, the Group had total assets of HK\$1.025 billion, increased by HK\$170 million from HK\$855 million at the beginning of the year. Its total liabilities increased to HK\$360 million, HK\$22 million more than HK\$338 million at the beginning of the year. Equity attributable to equity holders of the Company reached HK\$565 million, HK\$129 million higher than HK\$436 million at the beginning of this year. Net asset value per share was HK\$0.955, representing an increase of HK\$0.072 from HK\$0.883 at the beginning of the year.

	As at 31 December 2006 HK\$ million	As at 31 December 2005 HK\$ million
Cash and bank balances	302.38	150.45
Bank borrowings	83.35	112.31
Advance from a holding company	–	50.00
Net cash/(borrowings)	219.03	(11.86)
Net gearing ratio	N/A	2.7%
Current assets	670.78	470.65
Current liabilities	353.86	334.45
Current ratio	189.6%	140.7%

About 84% of the Group's bank borrowings were denominated in Renminbi, unsecured and carried fixed annual interest rates of between 5.5% and 6.1%. The total value of the Group's pledged assets amounted to HK\$66.61 million, HK\$21.33 million of which was pledged deposits. Around 80% of the cash and bank balances of the Group were denominated in Renminbi. The management believes the financial risk posed by fluctuation of exchange rates on the Group is limited.

EMPLOYEES

As at the end of 2006, the Group had approximately 2,050 employees, as compared to 1,840 at the end of 2005. Total expense on employee benefits in 2006 reached HK\$113.92 million (excluding share options), increased by 22% as compared to HK\$93.4 million last year. The management believes the salaries offered by the Group to its employees are competitive.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. ZHANG Honghai, aged 54, is the chairman of the Company, a vice chairman and the CEO of Beijing Enterprises Holdings Limited (“Beijing Enterprises”, the listed holding company of the Company, stock code: 392). Mr. Zhang graduated from Beijing University in 1982 and subsequently obtained a post-graduate qualification in business studies at The International Business School of Hunan University and was awarded the title of senior economist. Mr. Zhang has worked for the Beijing Municipal Government for many years. Prior to joining the Company, Mr. Zhang was the director of the Foreign Affairs Office of the People’s Government of Beijing Municipality and Hong Kong and Macao Affairs Office of the People’s Government of Beijing Municipality. He also served as vice president of the Beijing Chinese Overseas Friendship Association. Mr. Zhang initially worked as deputy general manager and was then promoted to vice chairman and general manager of Beijing International Trust Investment Limited during the period from 1990 to 1998, and has accumulated extensive experience in corporate management. Mr. Zhang joined the Group in March 2004.

Mr. LI Kangying, aged 50, is the president of the Company, the chairman and an executive director of Xteam Software International Limited (“Xteam”, a listed subsidiary of the Company, stock code: 8178) and the chairman of Beijing Enterprises Teletron Information Technology Co., Ltd. (“Teletron”, a subsidiary of the Company). Mr. Li graduated from North China University of Electric Power majoring in telecommunications and is a qualified engineer in the PRC. Prior to joining the Company, Mr. Li was the deputy director of Beijing New Technology Development Zone (“BNTDZ”) and has accumulated extensive experience in corporate management. From 1992 to 1997, Mr. Li worked as the deputy general manager of Beijing Strong Technology Co., Ltd. From 1997 to 2001, he served as the assistant to chairman of Beijing Enterprises. Mr. Li joined the Group in October 2001.

Mr. E Meng, aged 48, is a vice president and an executive director of Beijing Enterprises, an executive director of Xteam and is also an independent non-executive director of Macro-Link International Holdings Limited (stock code: 472). Mr. E graduated from China Science and Technology University with a master degree in engineering. He is a PRC senior accountant with the qualifications of PRC certified accountant, asset appraiser, certified real estate appraiser and tax appraiser. From 1988 to 1997, Mr. E was the deputy director of BNTDZ, and concurrently acting as the director of the Department of Financial Auditing, the general manager of Investment Operation Company, the chief accountant of Beijing Tianping Accounting Firm and the deputy director of the State-owned Assets Management Office of Beijing Haidian District. Mr. E has extensive experience in economics, finance and enterprise management. Mr. E joined the Group in April 2001.



DIRECTORS AND SENIOR MANAGEMENT

Mr. WANG Yong, aged 53, is a vice president of the Company, the chairman of Beijing Municipal Administration & Communications Card Co., Ltd. (a jointly-controlled entity of the Company) and Shenzhen Guanshun Road & Bridge Co., Ltd. (a subsidiary of Beijing Enterprises). Mr. Wang graduated from the Chinese Faculty of Lanzhou University. From 1969 to 1989, he worked for the Chinese People's Liberation Army (Force 84501). From 1989 to 1993, he worked for the Office of Beijing Haidian District Government. From 1993 to 1998, he served as the secretary to the General Office of Beijing People's Municipal Government. Since 1998, he has been the assistant to general manager of Beijing Holdings Limited and the assistant to president of Beijing Enterprises. Mr. Wang has extensive experience in investment, corporate finance and management. Mr. Wang joined the Group in March 2005.

Mr. CAO Wei, aged 43, is a vice president of the Company, an executive director of Xteam and a director and the CEO of Teletron. He is the president of Union of Network Beijing and is one of the founders of Teletron. Mr. Cao graduated from Harbin Industrial University and was awarded the title of senior engineer. Mr. Cao has over 15 years' experience in the telecommunications and information technology field. From 1988 to 1993, he worked as the general manager of Beijing Hehai Technology Development Co., Ltd. From 1993 to 1996, he worked as the general manager of Beijing Enyi Technology Development Co., Ltd. Mr. Cao joined the Group in October 2001.

Dr. YU Xiaoyang, aged 53, is the deputy general manager of Beijing Ever Source Science & Technology Development Co., Ltd. (a subsidiary of Beijing Enterprises). Dr. Yu received his bachelor and master degrees from Peking University in 1982 and 1984, and obtained his Ph.D and MBA degrees from Southern Illinois University, USA in 1991 and 1993. Dr. Yu worked for US consulting and telecommunication corporations in software development and information technology management. Dr. Yu joined the Group in March 2005.

Mr. NG Kong Fat, Brian, aged 51, is an executive director of Xteam. Mr. Ng graduated from the University of Stirling in Scotland in 1983 and is a member of the Institute of Chartered Accountants of Scotland. Mr. Ng has over 20 years' experience in corporate, investment and financial management. Mr. Ng joined the Group in July 1993.

DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CAO Guixing, aged 66, graduated from South China University in 1962 and has worked for the Liaoning Provincial Municipal Government for over 25 years. From 1995 to 2000, he served as the vice president and the general manager of China Unicom Group. Mr. Cao joined the Group in June 2001.

Prof. LIU Wei, aged 50, is the Dean of Peking University School of Economics, the chief editor of “Economic Science”, the vice president of Chinese Research Association of Market Economy, Chinese Research Association of Private Capital Economy and Chinese Association of Productivity Science. Prof. Liu received his bachelor degree, master degree and doctorate degree in Economics from Peking University. Since his graduate, Prof. Liu was teaching in Peking University and was conferred the tutorship of doctoral student qualification in 1994. Prof. Liu has been awarded with the “Talent across the Century” in liberal arts by the Ministry of Education and the Chief Specialist in the study of “Research of Chinese Market Economy Development”. Prof. Liu joined the Group in September 2004.

Dr. JIN Lizuo, aged 50, holds a doctorate degree in Economics from Oxford University and has been the chief councilor of Shanghai Institute of Law & Economics, the chairman of Zhonghe Yingtai Management Consultancy Co., Ltd., the specialist committee member of China Xinda Assets Management Corporation. Dr. Jin graduated from Peking University School of Economics in 1982 and has been teaching in the university. From 1983 to 1988, Dr. Jin served as the member of State Economic Structure Reforms Committee and was the First President (1988-89) of Chinese Economic Association (UK). From 1993 to 1995, Dr. Jin has worked for N.M. Rothschild and Morgan Stanley and thereafter accumulated extensive experience in investment banking and financial management. Dr. Jin joined the Group in September 2004.





DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. YAN Qing, aged 45, is a vice president of the Company. He graduated from Renmin University of China in 1985 with a bachelor degree in Business, and obtained a master degree from Graduate School of Research Institute of the Ministry of Finance in 2000. Mr. Yan has over 15 years' experience in finance and management. Mr. Yan joined the Group in February 2005.

Mr. WONG Kwok Wai, Robin, aged 40, is the financial controller, company secretary and qualified accountant of the Company. He is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. He previously worked for a major international accounting firm and has over 15 years' experience in administration, auditing, accounting and corporate finance.

Ms. CAO Muya, aged 53, is an assistant to president of the Company. She graduated from the Beijing Administrative College. From 1988, Ms. Cao worked as the finance manager of Beijing Holdings Limited and Beijing Enterprises. From 2001, she served as a director and a vice president of Teletron and a vice president of Xteam. Ms. Cao has over 20 years' experience in finance and enterprise management. Ms. Cao joined the Group in October 2001.

Mr. WU Miao Lin, aged 43, is an assistant to president of the Company. He graduated from Peking University in 1984 with a bachelor degree in Law and was awarded the title of economist. Since 1984, he served as a committee member in Peking University. From 1987, he worked as the operation director of Software Laboratory of China Science Academy, the deputy general manager of Beijing United Software Company, the general manager of Dalu Computer Company of China Science Academy, the chairman of Top Computer Company. From 1989, he set up and served as the chairman and general manager of Beijing Gaoli Computer Co., Ltd. Mr. Wu joined the Group in September 2005.

Mr. LI Chun Li, aged 35, is an assistant to president of the Company. He graduated from the School of Business of University of Science and Technology of China in 1993. From 1995 to 2005, he worked in Beijing Escom Photoelectricity Technology Co., Ltd. Mr. Li joined the Group in February 2005.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) are effective for accounting periods commencing on or after 1 January 2005. Subject to the deviations as disclosed on this report, in the opinion of the directors, the Company complied with the code provisions of the Code by establishing a formal and transparent procedures to protect and maximise the interests of shareholders throughout the year under review.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 of the Listing Rules to govern securities transactions by the directors. After having made specific enquiry of all directors, all directors have complied with the required standard set out in the Model Code and its code of conduct throughout the year under review.

BOARD OF DIRECTORS

The board of directors (the “Board”) currently comprises ten directors, including seven executive directors and three independent non-executive directors. The Board is mainly accountable to the shareholders and is also in charge of the management, business, strategy, annual and interim results, risk management, major acquisitions, disposals and capital transactions and other major operation and financial aspects of the Group. Major corporate matters that are specifically delegated by the Board to the management include the preparation of annual and interim accounts for Board approval before public reporting, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

Details of backgrounds and qualifications of the chairman and the directors of the Company are set out on pages 9 to 11. All directors have given sufficient time and attention to the affairs of the Group. Each executive director has sufficient experience to hold the position so as to carry out his duties effectively and efficiently. There is no relationship among the members of the Board.





CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (continued)

The Board fulfilled the requirement under rules 3.10(1) and (2) of the Listing Rules and have three independent non-executive directors and have an independent non-executive director with appropriate professional accounting or financial management expertise. They have appropriate and sufficient experience and qualification to carry out their duties so as to fully represent the interests of the shareholders. The Company has received annual confirmations of independence from all independent non-executive directors and as at the date of this report still considers them to be independent.

The Board held three regular meetings during the year under review, which constitutes a deviation from code provision A.1.1 of the Model Code which stipulates members of the board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals and such regular board meetings will normally involve the active participation, either in person or through other electronic means of communication. However, the Company considers it is more efficient to hold board meetings to address emerging issues as appropriate. Sufficient measures will be taken to ensure that the Company's corporate governance practices are no less exacting than those in the Model Code.

Details of the attendance of the regular board meetings are as follows:

Name of directors	Positions	Attendance
Mr. Zhang Honghai	Chairman and executive director	3 at 3 meetings
Mr. Li Kangying	Executive director	3 at 3 meetings
Mr. E Meng	Executive director	3 at 3 meetings
Mr. Wang Yong	Executive director	3 at 3 meetings
Mr. Cao Wei	Executive director	3 at 3 meetings
Dr. Yu Xiaoyang	Executive director	3 at 3 meetings
Mr. Ng Kong Fat, Brian	Executive director	3 at 3 meetings
Mr. Cao Guixing	Independent non-executive director	3 at 3 meetings
Prof. Liu Wei	Independent non-executive director	2 at 3 meetings
Dr. Jin Lizuo	Independent non-executive director	3 at 3 meetings



CORPORATE GOVERNANCE REPORT

CHAIRMAN AND PRESIDENT

As the leader of the Board, Mr. Zhang Honghai, the executive Chairman is responsible for the approval and supervision of the overall strategies and policies of the Group, approval of annual budgets and business plans, evaluation of the Company's performance and oversight of the management. Mr. Li Kangying, the President is responsible for the day-to-day operations of the Group.

NON-EXECUTIVE DIRECTORS

None of the existing non-executive directors of the Company is appointed for a specific term, which constitutes a deviation from code provision A.4.1 of the Model Code which stipulates non-executive directors should be appointed for a specific term, subject to re-election. However, all of the non-executive directors are subject to retirement by rotation in accordance with the Company's articles of association. As such, the Company considers that sufficient measures are in place to ensure that the corporate governance practices of the Company are no less exacting than those of the Model Code.

REMUNERATION OF DIRECTORS

The remuneration committee of the Company was established in accordance with the Model Code on 6 April 2006. The role and function of the remuneration committee include the determination of the specific remuneration packages of all executive directors, including benefits in kind, pension rights and compensation payments, any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of non-executive directors. The remuneration committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration. Details of directors' remuneration are set out in note 8 to the financial statements.

Members of the remuneration committee include two independent non-executive directors, Dr. Jin Lizuo and Mr. Cao Guixing and the chairman of the Board, Mr. Zhang Honghai. Dr. Jin Lizuo is the chairman of the remuneration committee. The remuneration committee held a meeting during the year under review. Details of the attendance of the remuneration committee meeting are as follows:

Members	Attendance
Dr. Jin Lizuo	1 at 1 meeting
Mr. Cao Guixing	1 at 1 meeting
Mr. Zhang Honghai	1 at 1 meeting





CORPORATE GOVERNANCE REPORT

NOMINATION OF DIRECTORS

The Board is empowered under the Company's articles of association to appoint any person as a director either to fill a casual vacancy or as an addition to the Board. Qualified candidates will be proposed to the Board for consideration and the selection criteria are mainly based on the assessment of their professional qualifications and experience. The Board selects and recommends candidates for directorship having regard to the balance of skills and experience appropriate to the Group's business.

AUDITORS' REMUNERATION

The audit committee of the Company is responsible for considering the appointment of the external auditors and reviewing any non-audit functions performed by the external auditors, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year under review, auditors' remuneration for audit services is approximately HK\$3,750,000. There was no significant non-audit service assignment performed by the external auditors.

AUDIT COMMITTEE

The audit committee of the Company was established in compliance with rule 3.21 of the Listing Rules. The role and function of the audit committee include supervising the accounting and financial reporting procedure and auditing the financial statements of the Group, examining and monitoring the internal control system adopted by the Group and reviewing the relevant work of the Group's external auditors. Members of the audit committee include three independent non-executive directors, Mr. Cao Guixing, Prof. Liu Wei and Dr. Jin Lizuo. Mr. Cao Guixing is the chairman of the audit committee.

The audit committee held two meetings during the year under review. Details of the attendance of the audit committee meetings are as follows:

Members	Attendance
Mr. Cao Guixing	2 at 2 meetings
Prof. Liu Wei	2 at 2 meetings
Dr. Jin Lizuo	1 at 2 meetings

The audit committee has reviewed the interim and annual results, financial positions, internal control and the management issues of the Company during the year under review.

CORPORATE GOVERNANCE REPORT

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR ACCOUNTS

The directors' responsibilities for preparing the accounts and the responsibilities of the auditors to the shareholders are set out on page 24. The directors have confirmed that the Group's financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards, accounting principles generally accepted in Hong Kong and the Companies Ordinance.

INTERNAL CONTROL

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. The Board will conduct regular review regarding internal control systems of the Group. The Company convened meeting periodically to discuss financial, operational and risk management control. During the year under review, the Board has reviewed the operational and financial reports, budgets and business plans provided by the management. Besides, the audit committee and the Board will perform half-yearly review on the Group's performance and internal control system in order to ensure effective measures are in place to protect material assets and identities.





REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 17 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 26 to 101.

The directors do not recommend the payment of any dividend in respect of the year.

FIVE YEAR FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 102. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment, and investment properties of the Company and the Group during the year are set out in notes 13 and 14 to the financial statements, respectively.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options are set out in notes 30 and 31 to the financial statements, respectively.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 32(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

REPORT OF THE DIRECTORS

DISTRIBUTABLE RESERVES

At 31 December 2006, the Company had no reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Companies Ordinance.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the Group's total sales for the year. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

DIRECTORS

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

Executive directors:

Mr. Zhang Honghai
Mr. Li Kangying
Mr. E Meng
Mr. Wang Yong
Mr. Cao Wei
Dr. Yu Xiaoyang
Mr. Ng Kong Fat, Brian

Independent non-executive directors:

Mr. Cao Guixing
Prof. Liu Wei
Dr. Jin Lizuo

In accordance with the Company's articles of association, Mr. Zhang Honghai, Mr. Cao Wei and Prof. Liu Wei will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence from Mr. Cao Guixing, Prof. Liu Wei and Dr. Jin Lizuo and, as at the date of this report, still considers them to be independent.





REPORT OF THE DIRECTORS

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 38 to the financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its holding companies, subsidiaries and fellow subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2006, the interests of the directors in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Long positions in ordinary shares of the Company:

Name of director	Number of shares held	Capacity and nature of interest	Percentage of the Company's issued share capital
Mr. Ng Kong Fat, Brian	8,792,755 (Note)	Through a controlled corporation	1.49
Mr. Cao Wei	<u>8,000,000</u>	Directly beneficially owned	<u>1.35</u>

Note:

The 8,792,755 shares are held by Sunbird Holdings Limited, a company beneficially owned by Mr. Ng Kong Fat, Brian.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

(continued)

Long positions in ordinary shares of an associated corporation of the Company:

Name of director	Name of associated corporation	Relationship with the Company	Number of shares held	Capacity and nature of interest	Percentage of the associated corporation's issued share capital
Mr. Ng Kong Fat, Brian	BD Ah Yat Abalone Group Limited	Company's subsidiary	1,462,000	Directly beneficially owned	21.5

The interests of the directors in the share options of the Company are separately disclosed in note 31 to the financial statements.

In addition to the above, Mr. Ng Kong Fat, Brian has non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, as at 31 December 2006, none of the directors and the associates had registered an interest or a short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in note 31 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its holding companies, subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.



REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2006, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in ordinary shares of the Company:

Name		Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Idata Finance Trading Limited ("IFTL")	(Note)	Directly beneficially owned	275,675,000	46.57
Beijing Enterprises Holdings Limited ("BEHL")	(Note)	Through a controlled corporation	275,675,000	46.57
Beijing Enterprises Investments Limited ("BEIL")	(Note)	Through a controlled corporation	275,675,000	46.57
Beijing Holdings Limited ("BHL")	(Note)	Through a controlled corporation	<u>275,675,000</u>	<u>46.57</u>

Note:

IFTL is a direct wholly-owned subsidiary of BEHL, which is held directly as to approximately 44% and indirectly as to approximately 16% by BEIL. BEIL is held indirectly as to approximately 66.5% by BHL. Accordingly, the shares in which IFTL is shown to be interested are also the shares in which BEHL, BEIL and BHL are interested.

Save as disclosed above, as at 31 December 2006, no person had registered an interest or a short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.



REPORT OF THE DIRECTORS

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group are set out in note 40 to the financial statements.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Zhang Honghai

Chairman

Hong Kong

3 April 2007





INDEPENDENT AUDITORS' REPORT



To the shareholders of

Beijing Development (Hong Kong) Limited

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements of Beijing Development (Hong Kong) Limited set out on pages 26 to 101, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 141 of the Hong Kong 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.



INDEPENDENT AUDITORS' REPORT

AUDITORS' RESPONSIBILITY (continued)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

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

Ernst & Young

Certified Public Accountants

18th Floor, Two International Finance Centre

8 Finance Street

Central

Hong Kong

3 April 2007



CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2006

	Notes	2006 HK\$'000	2005 HK\$'000
REVENUE	5	584,832	531,298
Cost of sales		(341,667)	(297,598)
Gross profit		243,165	233,700
Bank interest income	6	1,563	737
Other income and gains	5	17,351	10,744
Selling and distribution costs		(155,406)	(131,609)
Administrative expenses		(81,547)	(73,830)
Other expenses, net		16,515	(49,140)
Changes in fair value of investment properties	14	1,490	(4,900)
Finance costs	7	(8,293)	(10,229)
Share of profits and losses of:			
Associates		(398)	(659)
Jointly-controlled entities		688	(264)
PROFIT/(LOSS) BEFORE TAX	6	35,128	(25,450)
Tax	10	(6,663)	(3,088)
PROFIT/(LOSS) FOR THE YEAR		28,465	(28,538)
Attributable to:			
Equity holders of the Company	11	12,080	(35,042)
Minority interests		16,385	6,504
		28,465	(28,538)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	12		
Basic (HK cents)		2.42	(7.09)
Diluted (HK cents)		N/A	N/A

CONSOLIDATED BALANCE SHEET

31 December 2006

	Notes	2006 HK\$'000	2005 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	68,858	72,628
Investment properties	14	48,390	34,400
Goodwill	15	140,964	140,964
Other intangible assets	16	11,789	12,773
Interests in associates	18	6,824	12,521
Interests in jointly-controlled entities	19	67,520	67,716
Available-for-sale investments	20	1,160	1,896
Trade receivables	23	7,756	33,202
Other receivables	24	797	7,546
Deferred tax assets	29	484	733
Total non-current assets		354,542	384,379
CURRENT ASSETS			
Inventories	21	65,687	66,827
Amounts due from customers for contract works	22	12,717	7,585
Trade and bills receivables	23	161,369	182,042
Other receivables, prepayments and deposits	24	128,621	63,755
Pledged deposits	25	21,331	3,612
Cash and bank balances	25	281,052	146,833
Total current assets		670,777	470,654
CURRENT LIABILITIES			
Trade and bills payables	26	96,191	62,639
Amounts due to customers for contract works	22	15,998	14,074
Tax payable		6,058	2,951
Other payables and accruals	27	158,681	146,502
Interest-bearing bank borrowings	28	76,928	108,287
Total current liabilities		353,856	334,453
NET CURRENT ASSETS		316,921	136,201
TOTAL ASSETS LESS CURRENT LIABILITIES		671,463	520,580
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	28	6,423	4,020
Net assets		665,040	516,560
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	30	591,981	493,981
Reserves	32(a)	(26,646)	(57,964)
		565,335	436,017
Minority interests		99,705	80,543
Total equity		665,040	516,560

Zhang Honghai
Director

Li Kangying
Director



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2006

	Attributable to equity holders of the Company										
	Notes	Issued share capital HK\$'000	Share premium account HK\$'000	Share option reserve HK\$'000	Asset revaluation reserve HK\$'000	PRC reserve funds HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
						(Note 32(a))					
At 1 January 2005		493,981	-	-	32,721	28,397	(2,919)	(84,879)	467,301	66,124	533,425
Exchange realignment		-	-	-	-	-	3,758	-	3,758	1,148	4,906
Total income and expense for the year recognised directly in equity		-	-	-	-	-	3,758	-	3,758	1,148	4,906
Profit/(loss) for the year		-	-	-	-	-	-	(35,042)	(35,042)	6,504	(28,538)
Total income and expense for the year		-	-	-	-	-	3,758	(35,042)	(31,284)	7,652	(23,632)
Transfer to PRC reserve funds		-	-	-	-	1,995	-	(1,995)	-	-	-
Transfer to accumulated losses		-	-	-	(922)	-	-	922	-	-	-
Dividends paid to minority shareholders		-	-	-	-	-	-	-	-	(866)	(866)
Acquisition of subsidiaries	33	-	-	-	-	-	-	-	-	7,633	7,633
At 31 December 2005 and 1 January 2006		493,981	-	-	31,799*	30,392*	839*	(120,994)*	436,017	80,543	516,560
Exchange realignment		-	-	-	-	-	8,063	-	8,063	3,992	12,055
Total income and expense for the year recognised directly in equity		-	-	-	-	-	8,063	-	8,063	3,992	12,055
Profit for the year		-	-	-	-	-	-	12,080	12,080	16,385	28,465
Total income and expense for the year		-	-	-	-	-	8,063	12,080	20,143	20,377	40,520
Transfer to PRC reserve funds		-	-	-	-	4,491	-	(4,491)	-	-	-
Transfer to accumulated losses		-	-	-	(922)	-	-	922	-	-	-
Dividends paid to minority shareholders		-	-	-	-	-	-	-	-	(1,215)	(1,215)
Issue of shares	32(b)	98,000	9,800	-	-	-	-	-	107,800	-	107,800
Share issue expenses	32(b)	-	(3,839)	-	-	-	-	-	(3,839)	-	(3,839)
Equity-settled share option arrangements	31	-	-	5,214	-	-	-	-	5,214	-	5,214
At 31 December 2006		591,981	5,961*	5,214*	30,877*	34,883*	8,902*	(112,483)*	565,335	99,705	665,040

* These reserve accounts comprise the negative reserves of HK\$26,646,000 (2005: HK\$57,964,000) in the consolidated balance sheet.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2006

	Notes	2006 HK\$'000	2005 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		35,128	(25,450)
Adjustments for:			
Finance costs	7	8,293	10,229
Share of profits and losses of associates		398	659
Share of profits and losses of jointly-controlled entities		(688)	264
Bank interest income	6	(1,563)	(737)
Loss on disposal of items of property, plant and equipment	6	249	69
Impairment of property, plant and equipment	6, 13	-	3,780
Imputed interest on interest-free trade and other receivables	5	(12,520)	(3,788)
Depreciation	6	14,036	14,418
Release of goodwill upon disposal of partial interests in subsidiaries	6	-	629
Amortisation of other intangible assets	6	3,119	2,311
Impairment of available-for-sale investments	6	811	99
Changes in fair value of investment properties	6, 14	(1,490)	4,900
Provision against an amount due from an associate	6	5,500	4,500
Equity-settled shared option expense	6	5,214	-
		56,487	11,883
Decrease in inventories		3,749	10,769
Increase in amounts due from customers for contract works		(4,829)	(1,903)
Decrease in properties held for sale		-	1,250
Decrease in trade and bills receivables		53,743	70,573
Decrease/(increase) in other receivables, prepayments and deposits		(43,838)	16,794
Increase/(decrease) in trade and bills payables		30,883	(35,971)
Increase in amounts due to customers for contract works		1,361	5,554
Increase in other payables and accruals		59,141	7,316
Cash generated from operations		156,697	86,265
Interest received		1,563	737
Interest paid		(8,917)	(9,606)
Hong Kong profits tax paid		(938)	(419)
Overseas (or Mainland China corporate income) taxes paid		(2,367)	(2,883)
Dividends paid to minority shareholders		(1,215)	(866)
Net cash inflow from operating activities		144,823	73,228

continued/...



CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2006

	Notes	2006 HK\$'000	2005 HK\$'000
Net cash inflow from operating activities		144,823	73,228
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	13	(21,911)	(7,259)
Proceeds from disposal of items of property, plant and equipment		537	102
Purchases of other intangible assets	16	(1,639)	(472)
Acquisition of subsidiaries	33	-	2,576
Balance payment for the acquisition of subsidiaries		-	(2,328)
Investment in jointly-controlled entities		(580)	(1,637)
Decrease in an amount due from a jointly-controlled entity		3,135	-
Investment in an associate		-	(2,358)
Increase in amounts due from an associate		(195)	(570)
Decrease/(increase) in pledged deposits		(17,569)	20,579
Net cash inflow/(outflow) from investing activities		(38,222)	8,633
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	30	107,800	-
Share issue expenses	30	(3,839)	-
Increase in trust receipt loans		3,001	-
New bank loans		76,493	43,942
Repayment of bank loans		(104,659)	(130,419)
Advance from/(repayment to) an intermediate holding company		(50,000)	50,000
Advance from/(repayment to) minority shareholders		(190)	2,454
Net cash inflow/(outflow) from financing activities		28,606	(34,023)
NET INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		138,765	88,930
Effect of foreign exchange rate changes, net		7,080	1,997
CASH AND CASH EQUIVALENTS AT END OF YEAR		281,052	138,765
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		281,052	146,833
Bank overdrafts	28	-	(8,068)
		281,052	138,765



BALANCE SHEET

31 December 2006

	Notes	2006 HK\$'000	2005 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	32,436	33,491
Interests in subsidiaries	17	308,763	361,579
Total non-current assets		341,199	395,070
CURRENT ASSETS			
Other receivables, prepayments and deposits	24	58,869	76,131
Cash and bank balances	25	46,160	74
Total current assets		105,029	76,205
CURRENT LIABILITIES			
Other payables and accruals	27	4,884	55,303
Bank loans	28	–	8,068
Total current liabilities		4,884	63,371
NET CURRENT ASSETS		100,145	12,834
Net assets		441,344	407,904
EQUITY			
Issued capital	30	591,981	493,981
Reserves	32(b)	(150,637)	(86,077)
Total equity		441,344	407,904

Zhang Honghai
Director

Li Kangying
Director





NOTES TO FINANCIAL STATEMENTS

31 December 2006

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in Hong Kong.

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

- provision of information technology services
- restaurant operations
- property investment

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which also include Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and available-for-sale investments, which have been measured at fair value, and certain buildings, which are stated at valuation at 31 December 1994. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK\$’000) except when otherwise indicated.

Basis of consolidation

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

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

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company’s subsidiaries.

NOTES TO FINANCIAL STATEMENTS

31 December 2006

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

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

The principal changes in accounting policies are as follows:

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

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

(b) **HKAS 27 *Consolidated and Separate Financial Statements***

The adoption of the revised HKAS 27 has resulted in a change in accounting policy relating to the definition of a subsidiary for the purpose of consolidated financial statements as described in note 2.4 "Summary of Significant Accounting Policies" below.





NOTES TO FINANCIAL STATEMENTS

31 December 2006

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

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

(i) Amendment for financial guarantee contracts

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

(ii) Amendment for the fair value option

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

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

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

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

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2006

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

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

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

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

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

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

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

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment, HKFRS 7 and HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.





NOTES TO FINANCIAL STATEMENTS

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to that entity's financial and operating policies.

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

Joint ventures

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

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

A joint venture is treated as:

- (a) a subsidiary, if the Group, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to the joint venture's financial and operating policies;
- (b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;
- (c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or
- (d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

NOTES TO FINANCIAL STATEMENTS

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill arising from the acquisition of jointly-controlled entities is included as part of the Group's interests in jointly-controlled entities.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Goodwill

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

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of jointly-controlled entities, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

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





NOTES TO FINANCIAL STATEMENTS

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

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

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

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

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

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

Impairment of non-financial assets other than goodwill

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets other than goodwill (continued)

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

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

Related parties

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

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is an associate;
- (c) the party is a jointly-controlled entity;
- (d) the party is a member of the key management personnel of the Group or its holding companies;
- (e) the party is a close member of the family of any individual referred to in (a) or (d); or
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).





NOTES TO FINANCIAL STATEMENTS

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

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

Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. The asset revaluation reserve is transferred directly to retained profits when the reserve is realised completely on the disposal or retirement of the asset, or partially as the asset is used by the Group.

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

Leasehold land and buildings	Over the lease terms or 4%
Leasehold improvements	Over the lease terms or 10 years, whichever is shorter
Furniture, fixtures and equipment	10% to 20%
Motor vehicles	12.5% to 20%

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

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

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



NOTES TO FINANCIAL STATEMENTS

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

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

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

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

If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above.

Intangible assets (other than goodwill)

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

Management information systems and licences

Management information systems and licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 5 to 10 years.





NOTES TO FINANCIAL STATEMENTS

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

Research and development costs

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

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

Operating leases

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

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

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Loans and receivables

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

Available-for-sale financial assets

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

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

Impairment of financial assets

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

Assets carried at amortised cost

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





NOTES TO FINANCIAL STATEMENTS

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Assets carried at amortised cost (continued)

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

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

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

Assets carried at cost

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

Available-for-sale financial assets

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

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

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

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

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group’s continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing bank borrowings)

Financial liabilities including trade and other payables, and interest-bearing bank borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

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





NOTES TO FINANCIAL STATEMENTS

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial liabilities

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and includes all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on the estimated selling prices less any estimated costs necessary to make the sale.

Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads. Revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract. Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Cash and cash equivalents

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

For the purpose of the balance sheets, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

NOTES TO FINANCIAL STATEMENTS

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

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

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

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

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

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.





NOTES TO FINANCIAL STATEMENTS

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Revenue recognition

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) rental income, on a time proportion basis over the lease terms;
- (c) receipts from restaurant operations, upon the delivery of food and beverages to customers;
- (d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;

NOTES TO FINANCIAL STATEMENTS

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

- (e) from the sale of properties, when the legally binding unconditional sales contracts are signed and exchanged;
- (f) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for “Construction contracts” above; and
- (g) from the rendering of services, when the services are rendered.

Employee benefits

Share-based payment transactions

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a Black-Scholes-Merton option pricing model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company (“market conditions”), if applicable.

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





NOTES TO FINANCIAL STATEMENTS

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share-based payment transactions (continued)

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

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

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

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

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

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

NOTES TO FINANCIAL STATEMENTS

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Pension schemes

Certain companies within the Group have participated in the retirement benefits schemes required by the respective governments of the places in which they operate for their employees. Contributions are made based on a certain percentage of the covered payroll and are charged to the income statement as they become payable in accordance with the rules of the schemes. The Group's employer contributions vest fully with the employees when contributed into the schemes. The assets of the schemes are held separately from those of the Group in independently administered funds.

Foreign currencies

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

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

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





NOTES TO FINANCIAL STATEMENTS

31 December 2006

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

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

Operating lease commitments – Group as lessor

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

Classification between investment properties and owner-occupied properties

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of goodwill arising from the acquisition of subsidiaries and a jointly-controlled entity at 31 December 2006 were HK\$140,964,000 (2005: HK\$140,964,000) and HK\$23,067,000 (2005: HK\$23,067,000), respectively. Further details are set out in notes 15 and 19, respectively.

Provision for impairment of trade and other receivables

The policy for provision for impairment of trade and other receivables of the Group is based on the evaluation of collectibility and aging analysis of accounts and on management's estimation. A considerable amount of estimation is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors are to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Percentage of completion of construction works

The Group recognises revenue according to the percentage of completion of the individual contract of construction works. The Group's management estimates the percentage of completion of construction works based on the actual cost incurred over the total budgeted cost, corresponding contract revenue is also estimated by management. Because of the nature of the activity undertaken in construction contracts, the date at which the activity is entered into and the date when the activity is completed usually fall into different accounting periods. The Group reviews and revises the estimates of both contract revenue and contract costs in the budget prepared for each construction contract as the contract progresses.





NOTES TO FINANCIAL STATEMENTS

31 December 2006

4. SEGMENT INFORMATION

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

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

- (a) the information technology segment engages in: (i) systems integration; (ii) the construction of information networks and sale of related equipment; (iii) the provision of IT technical support and consultation services; (iv) the development and sale of software; and (v) the implementation of smart card systems;
- (b) the restaurants segment engages in the operations of restaurants;
- (c) the property investment segment invests in office space for its rental income potential; and
- (d) the corporate segment comprises corporate income and expense items.

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

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

NOTES TO FINANCIAL STATEMENTS

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4. SEGMENT INFORMATION (continued)

(a) Business segments

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

Group

	Information technology HK\$'000	Restaurants HK\$'000	Property investment HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
2006					
Segment revenue:					
Sales to external customers	289,787	292,413	2,632	-	584,832
Intersegment sales	-	-	240	(240)	-
Other income and gains	16,187	1,111	53	-	17,351
Total	305,974	293,524	2,925	(240)	602,183
Segment results	50,999	11,248	(3,939)	-	58,308
Bank interest income					1,563
Unallocated corporate expenses, net					(16,740)
Finance costs					(8,293)
Share of profits and losses of:					
Associates	(96)	-	(302)	-	(398)
Jointly-controlled entities	1,163	(475)	-	-	688
Profit before tax					35,128
Tax					(6,663)
Profit for the year					28,465
2005					
Segment revenue:					
Sales to external customers	273,199	253,408	4,691	-	531,298
Intersegment sales	-	-	902	(902)	-
Other income and gains	9,981	742	21	-	10,744
Total	283,180	254,150	5,614	(902)	542,042
Segment results	(7,431)	17,901	(11,897)	-	(1,427)
Bank interest income					737
Unallocated corporate expenses, net					(13,608)
Finance costs					(10,229)
Share of profits and losses of:					
Associates	(411)	-	(248)	-	(659)
Jointly-controlled entities	(264)	-	-	-	(264)
Loss before tax					(25,450)
Tax					(3,088)
Loss for the year					(28,538)

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31 December 2006

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

	Information technology HK\$'000	Restaurants HK\$'000	Property investment HK\$'000	Corporate HK\$'000	Consolidated HK\$'000
2006					
Assets and liabilities					
Segment assets	714,566	104,657	51,298	79,970	950,491
Interests in associates	2,118	-	4,706	-	6,824
Interests in jointly-controlled entities	67,415	105	-	-	67,520
Unallocated assets					484
Total assets					1,025,319
Segment liabilities	216,307	43,791	7,816	2,956	270,870
Unallocated liabilities					89,409
Total liabilities					360,279
Other segment information:					
Depreciation	5,448	6,744	-	1,844*	14,036
Amortisation of other intangible assets	3,119	-	-	-	3,119
Impairment of available-for-sale investments recognised in the income statement	811	-	-	-	811
Changes in fair value of investment properties	-	-	(1,490)	-	(1,490)
Capital expenditure	6,880	14,227	-	804	21,911

* Included in "Unallocated corporate expenses, net" above.

NOTES TO FINANCIAL STATEMENTS

31 December 2006

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group	Information technology HK\$'000	Restaurants HK\$'000	Property investment HK\$'000	Corporate HK\$'000	Consolidated HK\$'000
2005					
Assets and liabilities					
Segment assets	596,071	93,695	48,926	27,303	765,995
Interests in associates	2,129	–	10,392	–	12,521
Interests in jointly-controlled entities	67,716	–	–	–	67,716
Bank overdrafts included in segment assets	–	–	–	8,068	8,068
Unallocated assets					733
Total assets					<u>855,033</u>
Segment liabilities	121,252	41,695	6,953	53,315	223,215
Bank overdrafts included in segment assets	–	–	–	8,068	8,068
Unallocated liabilities					107,190
Total liabilities					<u>338,473</u>
Other segment information:					
Depreciation	5,490	6,787	370	1,771*	14,418
Amortisation of other intangible assets	2,311	–	–	–	2,311
Impairment of available-for-sale investments recognised in the income statement	99	–	–	–	99
Impairment of property, plant and equipment recognised in the income statement	–	–	3,780	–	3,780
Changes in fair value of investment properties	–	–	4,900	–	4,900
Capital expenditure	5,071	1,903	–	285	<u>7,259</u>

* Included in "Unallocated corporate expenses, net" above.

NOTES TO FINANCIAL STATEMENTS

31 December 2006

4. SEGMENT INFORMATION (continued)

(b) Geographical segments

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

Group

	Hong Kong HK\$'000	Mainland China HK\$'000	Singapore HK\$'000	Indonesia HK\$'000	Malaysia HK\$'000	Thailand HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
2006								
Segment revenue:								
Sales to external customers	631	354,159	100,623	59,830	50,655	18,934	-	584,832
Intersegment sales	1,237	-	32,422	-	-	-	(33,659)	-
Other income and gains	1,171	15,078	416	20	-	666	-	17,351
Total	3,039	369,237	133,461	59,850	50,655	19,600	(33,659)	602,183
Other segment information:								
Segment assets	85,853	784,210	48,676	12,206	15,967	3,579	-	950,491
Interests in associates	-	6,824	-	-	-	-	-	6,824
Interests in jointly-controlled entities	-	67,274	-	-	246	-	-	67,520
Unallocated assets	-	-	-	-	-	-	-	484
Total assets								1,025,319
Capital expenditure	754	7,119	12,633	431	969	5	-	21,911
2005								
Segment revenue:								
Sales to external customers	2,402	340,852	66,550	59,086	43,664	18,744	-	531,298
Intersegment sales	4,642	-	40,381	-	-	-	(45,023)	-
Other income and gains	46	9,983	17	18	-	680	-	10,744
Total	7,090	350,835	106,948	59,104	43,664	19,424	(45,023)	542,042
Other segment information:								
Segment assets	32,949	666,636	34,735	16,411	10,645	4,619	-	765,995
Interests in associates	-	12,521	-	-	-	-	-	12,521
Interests in jointly-controlled entities	-	67,716	-	-	-	-	-	67,716
Bank overdrafts included in segment assets	8,068	-	-	-	-	-	-	8,068
Unallocated assets	-	-	-	-	-	-	-	733
Total assets								855,033
Capital expenditure	285	5,703	279	770	84	138	-	7,259



NOTES TO FINANCIAL STATEMENTS

31 December 2006

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts; an appropriate proportion of contract revenue of construction contracts; the value of services rendered; proceeds from the sale of properties held for sale; gross rental income; and receipts from restaurant operations during the year.

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

	Group	
	2006	2005
	HK\$'000	HK\$'000
Revenue		
Construction contracts	188,453	179,099
Sale of softwares	44,895	44,538
Rendering of services	56,439	49,562
Receipts from restaurant operations	292,413	253,408
Gross rental income	2,632	2,341
Sale of properties held for sale	–	2,350
	584,832	531,298
Other income and gains		
Imputed interest on interest-free trade and other receivables	12,520	3,788
PRC and overseas tax subsidies	3,179	6,703
Others	1,652	253
	17,351	10,744

NOTES TO FINANCIAL STATEMENTS

31 December 2006

6. PROFIT/(LOSS) BEFORE TAX

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

	Notes	2006 HK\$'000	2005 HK\$'000
Cost of inventories sold		290,236	256,274
Cost of properties sold		–	1,360
Cost of services provided		49,461	38,172
Depreciation	13	14,036	14,418
Operating lease rentals for land and buildings:			
Minimum lease payments		27,168	24,748
Contingent rents		3,071	1,745
		30,239	26,493
Release of goodwill upon disposal of partial interests in subsidiaries*	15	–	629
Amortisation of other intangible assets@	16	3,119	2,311
Research and development costs:			
Current year expenditure		9,521	6,007
Less: Government grants received+		(1,600)	–
		7,921	6,007
Foreign exchange differences, net		690	226
Impairment of available-for-sale investments*		811	99
Impairment of property, plant and equipment*	13	–	3,780
Impairment/(reversal of impairment) of trade and other receivables*		(23,147)	40,132
Provision against an amount due from an associate*		5,500	4,500
Auditors' remuneration:			
Current year's provision		3,610	3,434
Prior year's underprovision		140	135
		3,750	3,569
Employee benefits expense (including directors' remuneration – note 8):			
Wages and salaries		109,820	90,093
Pension scheme contributions		4,104	3,268
Equity-settled share option expense		5,214	–
		119,138	93,361
Net rental income		(281)	(455)
Bank interest income		(1,563)	(737)
Changes in fair value of investment properties	14	(1,490)	4,900
Loss on disposal of items of property, plant and equipment		249	69

@ The amortisation of other intangible assets is included in "Cost of sales" on the face of the consolidated income statement.

+ Various government grants were received for the research and development of management information systems for the education sector in Beijing, Mainland China. The government grants received were deducted from the research and development costs to which they related. There are no unfulfilled conditions or contingencies relating to these grants.

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

NOTES TO FINANCIAL STATEMENTS

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7. FINANCE COSTS

	Group	
	2006 HK\$'000	2005 HK\$'000
Interest on bank loans and overdrafts	6,309	9,606
Interest on other loans wholly repayable within five years	1,984	623
	8,293	10,229

8. DIRECTORS' REMUNERATION

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

	Group	
	2006 HK\$'000	2005 HK\$'000
Fees	300	300
Other emoluments:		
Salaries, allowances and benefits in kind	2,132	1,886
Performance related bonuses	–	379
Pension scheme contributions	12	12
Employee share option benefits	2,607	–
	4,751	2,277
	5,051	2,577

During the year, all (2005: None) executive directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 31 to the financial statements. The fair value of such options, which has been recognised to the income statement, was determined as at the date of grant, and is included in the above directors' remuneration disclosures.



NOTES TO FINANCIAL STATEMENTS

31 December 2006

8. DIRECTORS' REMUNERATION (continued)

(a) Independent non-executive directors

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

	2006 HK\$'000	2005 HK\$'000
Mr. Cao Guixing	100	100
Prof. Liu Wei	100	100
Dr. Jin Lizuo	100	100
	300	300

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

(b) Executive directors

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Performance related bonuses HK\$'000	Pension scheme contributions HK\$'000	Employee share option benefits HK\$'000	Total remuneration HK\$'000
2006						
Mr. Zhang Honghai	-	-	-	-	729	729
Mr. Li Kangying	-	339	-	-	146	485
Mr. E Meng	-	-	-	-	292	292
Mr. Wang Yong	-	319	-	-	547	866
Mr. Cao Wei	-	339	-	-	91	430
Dr. Yu Xiaoyang	-	-	-	-	510	510
Mr. Ng Kong Fat, Brian	-	1,135	-	12	292	1,439
	-	2,132	-	12	2,607	4,751
2005						
Mr. Ng Kong Fat, Brian	-	1,320	220	12	-	1,552
Mr. Li Kangying	-	283	62	-	-	345
Mr. Cao Wei	-	283	62	-	-	345
Mr. Zhao Jifeng	-	-	35	-	-	35
	-	1,886	379	12	-	2,277

There was no arrangement under which a director waived or agreed to waive any remuneration during both years.



NOTES TO FINANCIAL STATEMENTS

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2005: one) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2005: four) non-director, highest paid employees for the year are as follows:

	Group	
	2006	2005
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	2,806	3,153
Performance related bonuses	–	306
Pension scheme contributions	53	96
Employee share option benefits	711	–
	3,570	3,555

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2006	2005
Nil to HK\$1,000,000	1	3
HK\$1,000,001 to HK\$1,500,000	1	–
HK\$1,500,001 to HK\$2,000,000	1	1
	3	4

During the year, share options were granted to two non-director, highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 31 to the financial statements. The fair value of such options, which has been recognised to the income statement, was determined as at the date of grant and the amount is included in the above non-director, highest paid employees' remuneration disclosures.



NOTES TO FINANCIAL STATEMENTS

31 December 2006

10. TAX

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

In accordance with the relevant tax rules and regulations of the People's Republic of China ("PRC"), certain of the Company's PRC subsidiaries, associates and jointly-controlled entities enjoy income tax exemptions and reductions. Certain PRC subsidiaries, associates and jointly-controlled entities are subject to income tax rates ranging from 7.5% to 33%.

	Group	
	2006	2005
	HK\$'000	HK\$'000
Current – Hong Kong		
Charge for the year	27	290
Underprovision in prior years	–	408
Current – Elsewhere		
Charge for the year	6,374	2,654
Underprovision/(overprovision) in prior years	(17)	455
Deferred (note 29)	279	(719)
Total tax charge for the year	6,663	3,088

NOTES TO FINANCIAL STATEMENTS

31 December 2006

10. TAX (continued)

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rates for the countries in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

Group

	Hong Kong		Mainland China		Others		Total HK\$'000
	HK\$'000	%	HK\$'000	%	HK\$'000	%	
2006							
Profit/(loss) before tax	<u>(27,445)</u>		<u>51,621</u>		<u>10,952</u>		<u>35,128</u>
Tax at the statutory or applicable tax rate	(4,803)	17.5	17,035	33.0	3,286	30.0	15,518
Lower tax rate for specific provinces or local authority	-		(12,936)		(1,440)		(14,376)
Adjustments in respect of current tax of previous periods	-		(21)		4		(17)
Profits and losses attributable to jointly-controlled entities*	-		(255)		25		(230)
Profits and losses attributable to associates*	9		90		-		99
Income not subject to tax	(551)		(5,723)		(492)		(6,766)
Expenses not deductible for tax	3,401		3,665		254		7,320
Tax losses utilised from previous periods	-		(86)		(153)		(239)
Tax losses not recognised	1,971		3,377		6		5,354
Tax charge at the Group's effective rate	<u>27</u>		<u>5,146</u>		<u>1,490</u>		<u>6,663</u>
2005							
Profit/(loss) before tax	<u>(20,021)</u>		<u>(15,098)</u>		<u>9,669</u>		<u>(25,450)</u>
Tax at the statutory or applicable tax rate	(3,504)	17.5	(4,982)	33.0	2,901	30.0	(5,585)
Lower tax rate for specific provinces or local authority	-		(351)		(2,009)		(2,360)
Adjustments in respect of current tax of previous periods	408		455		-		863
Profits and losses attributable to jointly-controlled entities*	-		232		-		232
Profits and losses attributable to associates*	58		109		-		167
Income not subject to tax	(1,706)		(4,775)		(150)		(6,631)
Expenses not deductible for tax	3,434		8,309		1,405		13,148
Tax losses utilised from previous periods	-		(393)		(1,086)		(1,479)
Tax losses not recognised	2,008		2,689		36		4,733
Tax charge at the Group's effective rate	<u>698</u>		<u>1,293</u>		<u>1,097</u>		<u>3,088</u>

* The share of tax attributable to jointly-controlled entities and associates is included in "Share of profits and losses of jointly-controlled entities and associates" on the face of the consolidated income statement.



NOTES TO FINANCIAL STATEMENTS

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11. PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company for the year ended 31 December 2006 includes a loss of HK\$75,735,000 (2005: HK\$16,468,000) which has been dealt with in the financial statements of the Company (note 32(b)).

12. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings/(loss) per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company of HK\$12,080,000 (2005: loss of HK\$35,042,000) and the weighted average number of 499,351,013 (2005: 493,981,150) ordinary shares in issue during the year.

A diluted earnings per share amount for the year ended 31 December 2006 has not been disclosed as the average share price of the Company for the year ended 31 December 2006 is lower than the exercise prices of the share options outstanding throughout the year.

A diluted loss per share amount for the year ended 31 December 2005 has not been disclosed as the share options outstanding during that year had an anti-dilutive effect on the basic loss per share for that year.

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13. PROPERTY, PLANT AND EQUIPMENT

Group

	Note	Leasehold land and buildings HK\$'000	Leasehold improve- ments HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
31 December 2006						
At 31 December 2005 and at 1 January 2006:						
Cost or valuation		63,881	47,086	49,985	8,283	169,235
Accumulated depreciation and impairment		(18,149)	(38,992)	(34,884)	(4,582)	(96,607)
Net carrying amount		<u>45,732</u>	<u>8,094</u>	<u>15,101</u>	<u>3,701</u>	<u>72,628</u>
At 1 January 2006, net of accumulated depreciation and impairment		45,732	8,094	15,101	3,701	72,628
Additions		864	8,297	10,894	1,856	21,911
Disposals		-	(430)	(204)	(152)	(786)
Depreciation provided during the year		(1,096)	(4,214)	(7,387)	(1,339)	(14,036)
Transfer to investment properties	14	(11,750)	-	-	-	(11,750)
Exchange realignment		43	202	534	112	891
At 31 December 2006, net of accumulated depreciation and impairment		<u>33,793</u>	<u>11,949</u>	<u>18,938</u>	<u>4,178</u>	<u>68,858</u>
At 31 December 2006:						
Cost or valuation		45,563	49,401	59,512	8,702	163,178
Accumulated depreciation and impairment		(11,770)	(37,452)	(40,574)	(4,524)	(94,320)
Net carrying amount		<u>33,793</u>	<u>11,949</u>	<u>18,938</u>	<u>4,178</u>	<u>68,858</u>
Analysis of cost or valuation:						
At cost		2,063	49,401	59,512	8,702	119,678
At 31 December 1994 valuation		43,500	-	-	-	43,500
		<u>45,563</u>	<u>49,401</u>	<u>59,512</u>	<u>8,702</u>	<u>163,178</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2006

13. PROPERTY, PLANT AND EQUIPMENT (continued)

Group

	Leasehold land and buildings HK\$'000	Leasehold improve- ments HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
31 December 2005					
At 31 December 2004 and at 1 January 2005:					
Cost or valuation	63,040	54,541	47,812	8,193	173,586
Accumulated depreciation	(12,776)	(45,232)	(28,458)	(3,835)	(90,301)
Net carrying amount	<u>50,264</u>	<u>9,309</u>	<u>19,354</u>	<u>4,358</u>	<u>83,285</u>
At 1 January 2005, net of accumulated depreciation	50,264	9,309	19,354	4,358	83,285
Additions	-	3,053	3,489	717	7,259
Acquisition of subsidiaries (note 33)	-	-	72	-	72
Disposals	-	(26)	(31)	(114)	(171)
Impairment*	(3,780)	-	-	-	(3,780)
Depreciation provided during the year	(1,449)	(4,126)	(7,547)	(1,296)	(14,418)
Exchange realignment	697	(116)	(236)	36	381
At 31 December 2005, net of accumulated depreciation and impairment	<u>45,732</u>	<u>8,094</u>	<u>15,101</u>	<u>3,701</u>	<u>72,628</u>
At 31 December 2005:					
Cost or valuation	63,881	47,086	49,985	8,283	169,235
Accumulated depreciation and impairment	(18,149)	(38,992)	(34,884)	(4,582)	(96,607)
Net carrying amount	<u>45,732</u>	<u>8,094</u>	<u>15,101</u>	<u>3,701</u>	<u>72,628</u>
Analysis of cost or valuation:					
At cost	20,381	47,086	49,985	8,283	125,735
At 31 December 1994 valuation	43,500	-	-	-	43,500
	<u>63,881</u>	<u>47,086</u>	<u>49,985</u>	<u>8,283</u>	<u>169,235</u>

* During the year ended 31 December 2005, due to the downturn of the property market in Singapore, an impairment loss of HK\$3,780,000 relating to a property being used by the Group as restaurant in Singapore was recognised. It was included in "Other expenses, net" on the face of the consolidated income statement and was reported in the "property investment" business segment. The recoverable amount of the property was its fair value less costs to sell determined with reference to the open market value at the prior balance sheet date.

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13. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Leasehold land and buildings HK\$'000	Leasehold improve- ments HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
31 December 2006					
At 1 January 2006, net of accumulated depreciation	32,898	160	190	243	33,491
Additions	-	681	73	-	754
Disposals	-	(89)	(14)	-	(103)
Depreciation provided during the year	(1,027)	(461)	(71)	(147)	(1,706)
At 31 December 2006, net of accumulated depreciation	31,871	291	178	96	32,436
At 31 December 2006:					
Cost or valuation	43,500	1,148	374	234	45,256
Accumulated depreciation	(11,629)	(857)	(196)	(138)	(12,820)
Net carrying amount	31,871	291	178	96	32,436
Analysis of cost or valuation:					
At cost	-	1,148	374	234	1,756
At 31 December 1994 valuation	43,500	-	-	-	43,500
	43,500	1,148	374	234	45,256
31 December 2005					
At 1 January 2005					
Cost or valuation	43,500	1,102	411	1,188	46,201
Accumulated depreciation	(9,576)	(699)	(185)	(872)	(11,332)
Net carrying amount	33,924	403	226	316	34,869
At 1 January 2005, net of accumulated depreciation	33,924	403	226	316	34,869
Additions	-	-	52	233	285
Disposals	-	-	(13)	-	(13)
Depreciation provided during the year	(1,026)	(243)	(75)	(306)	(1,650)
At 31 December 2005, net of accumulated depreciation	32,898	160	190	243	33,491
At 31 December 2005:					
Cost or valuation	43,500	1,102	420	1,421	46,443
Accumulated depreciation	(10,602)	(942)	(230)	(1,178)	(12,952)
Net carrying amount	32,898	160	190	243	33,491
Analysis of cost or valuation:					
At cost	-	1,102	420	1,421	2,943
At 31 December 1994 valuation	43,500	-	-	-	43,500
	43,500	1,102	420	1,421	46,443

NOTES TO FINANCIAL STATEMENTS

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13. PROPERTY, PLANT AND EQUIPMENT (continued)

An analysis of the leasehold land and buildings, which are held under medium term leases, at the balance sheet date is as follows:

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Situated in Hong Kong:				
At 1994 valuation	43,500	43,500	43,500	43,500
Situated in Singapore:				
At cost	–	19,228	–	–
Situated in Mainland China:				
At cost	1,198	1,153	–	–
Situated in Malaysia:				
At cost	865	–	–	–
	45,563	63,881	43,500	43,500

A revaluation of the leasehold land and buildings situated in Hong Kong was carried out by CB Richard Ellis Limited, an independent professionally qualified valuer, on an open market, existing use basis at 31 December 1994. Since 1995, no further revaluations of those Group's leasehold land and buildings have been carried out, as the Group has relied upon the exemption granted under the transitional provisions in paragraph 80A of HKAS 16, from the requirement to carry out future revaluations of its property, plant and equipment which were stated at valuation at that time. These land and buildings are stated at a carrying amount of HK\$31,871,000 (2005: HK\$32,898,000) at the balance sheet date. Had the land and buildings been carried at historical cost less accumulated depreciation and impairment losses, their carrying amount would have been approximately HK\$2,855,000 (2005: HK\$2,959,000).

At 31 December 2006, certain of the Group's leasehold land and buildings with a net book value of approximately HK\$31,871,000 (2005: HK\$45,732,000) were pledged to secure general banking facilities granted to the Group and the Company (note 28).

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14. INVESTMENT PROPERTIES

	Note	Group	
		2006 HK\$'000	2005 HK\$'000
Carrying amount at 1 January		34,400	39,300
Transfer from property, plant and equipment	13	11,750	–
Net profit/(loss) from a fair value adjustment		1,490	(4,900)
Exchange realignment		750	–
Carrying amount at 31 December		48,390	34,400

The Group's investment properties were revalued on 31 December 2006 by 北京德威評估有限責任公司 and Ancla Realty Pte. Ltd., independent professionally qualified valuers, on an open market, existing use basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 35(a) to the financial statements.

At 31 December 2006, the Group's investment properties with a value of HK\$12,750,000 (2005: Nil) were pledged to secure general banking facilities granted to the Group (note 28).

Details of the investment properties, which are held under medium term leases, are as follows:

Location	Use	Attributable interest of the Group
Part of the second floor and the entire third floor, A No. 1 Jian Guo Men Wai Avenue, Chao Yang District, Beijing, PRC	Office building	85.5%
190 Clemenceau Avenue #01-01/10, Singapore Shopping Centre, Singapore	Shop unit	90%

15. GOODWILL

	Group	
	2006 HK\$'000	2005 HK\$'000
Cost and carrying amount:		
At 1 January	140,964	134,221
Acquisition of subsidiaries (note 33)	–	7,372
Release upon disposal of partial interests in subsidiaries	–	(629)
At 31 December	140,964	140,964

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15. GOODWILL (continued)

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the following cash-generating units in terms of principal subsidiaries for impairment testing.

	Notes	Group	
		2006 HK\$'000	2005 HK\$'000
北京北控電信通信息技術有限公司	(a)	85,236	85,236
Beijing Enterprises Jetrich Holdings Limited	(a)	18,734	18,734
Astoria Innovations Limited, Wisdom Elite Holdings Limited and Xteam Software International Limited	(b)	28,077	28,077
廣州市東山區富臨飯店	(a)	1,545	1,545
北京博大電信通網絡技術有限公司	(a)	1,527	1,527
Asren Holdings Limited	(c)	5,845	5,845
		140,964	140,964

Notes:

- (a) The recoverable amount of each of these cash-generating units is determined based on a value in use calculation. The calculation used cash flow projections based on financial budgets covering a five-year period as approved by senior management. The discount rate applied to the cash flow projections is 12% (2005: 10%), which is before tax and reflects specific risk relating to the relevant units. Budgeted gross margins are based on both the historical gross margin of the information technology and restaurant businesses and the expected market growth rate ranges from 5% to 15%. The values assigned to the key assumptions are consistent with external information sources.
- (b) The recoverable amount of the cash-generating unit is determined based on a value in use calculation. To calculate this, cash flow projection is based on financial budgets covering a ten-year period approved by senior management. Cash flows beyond the first five-year period are extrapolated using a steady declining growth rate. The discount rate used for value in use calculations is 11% (2005: 10%), which is before tax and reflects specific risk relating to the relevant unit. Management determined the budgeted gross margins based on past performances and the average growth rate used is comparable with the forecast of the information technology market in the PRC.
- (c) The recoverable amount of the cash-generating unit is determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by the senior management. The discount rate applied to the cash flow projection is 11% (2005: 10%), which is before tax and reflects specific risk relating to the relevant unit. The Group is the pioneer of such technology in the market and the Group determined the sales volume based on management's past experience in the information technology market and their expectations for the market development. Budgeted gross margins are determined by management based on past records and the expected growth rate of the market.



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16. OTHER INTANGIBLE ASSETS

Group

	Management information systems <i>HK\$'000</i>	Licences <i>HK\$'000</i>	Deferred development cost <i>HK\$'000</i>	Total <i>HK\$'000</i>
31 December 2006				
Cost at 1 January 2006, net of accumulated amortisation	11,218	1,555	–	12,773
Additions	–	–	1,639	1,639
Amortisation provided during the year	(2,000)	(449)	(670)	(3,119)
Exchange realignment	449	61	(14)	496
At 31 December 2006	9,667	1,167	955	11,789
At 31 December 2006:				
Cost	20,000	2,500	1,639	24,139
Accumulated amortisation	(10,333)	(1,333)	(684)	(12,350)
Net carrying amount	9,667	1,167	955	11,789
31 December 2005				
Cost at 1 January 2005, net of accumulated amortisation	12,893	1,478	–	14,371
Additions	–	472	–	472
Amortisation provided during the year	(1,887)	(424)	–	(2,311)
Exchange realignment	212	29	–	241
At 31 December 2005	11,218	1,555	–	12,773
At 31 December 2005:				
Cost	19,231	2,404	–	21,635
Accumulated amortisation	(8,013)	(849)	–	(8,862)
Net carrying amount	11,218	1,555	–	12,773

NOTES TO FINANCIAL STATEMENTS

31 December 2006

17. INTERESTS IN SUBSIDIARIES

	Company	
	2006 HK\$'000	2005 HK\$'000
Unlisted shares, at cost	218,924	218,924
Loans to subsidiaries	220,673	213,491
	439,597	432,415
Less: Provision for impairment	(3,836)	(3,836)
Provision against amounts due from subsidiaries	(126,998)	(67,000)
	(130,834)	(70,836)
	308,763	361,579

The amounts advanced to the subsidiaries included in the interests in subsidiaries above are unsecured, interest-free and have no fixed terms of repayment, except for a loan to a subsidiary of HK\$6,000,000 (2005: Nil) which bears interest at 4.5% per annum and is repayable in 2008. The carrying amounts of these amounts due from subsidiaries approximate to their fair values.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			2006	2005	
Ah Yat Abalone Food Industry Pte. Ltd. (note (a))	Singapore	S\$2	51	51	Manufacture and sale of canned food and sauces
Ah Yat Abalone Forum Restaurant Holdings Pte. Ltd. (note (a))	Singapore	S\$250,000	51	51	Restaurant operations and investment holding
Ah Yat Seafood Market Pte. Ltd. (note (a))	Singapore	S\$200,000	23 [®]	23 [®]	Restaurant operations
Asren Holdings Limited (note (b))	British Virgin Islands/ Hong Kong	US\$200	28.1 [®]	28.1 [®]	Investment holding

NOTES TO FINANCIAL STATEMENTS

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17. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			2006	2005	
Astoria Innovations Limited	British Virgin Islands/PRC	US\$1,000	37.4 [@]	37.4 [@]	Investment holding
B E Information Technology Group Limited	British Virgin Islands/PRC	US\$1,000	72	72	Investment holding
BD Ah Yat Abalone Group Limited (note (c))	Hong Kong	HK\$6,800,000	51	51	Investment holding, trading of dried seafood and restaurant operations
Beijing Development Properties (Hong Kong) Limited (note (c))	Hong Kong	HK\$100,000	100	100	Property investment
Beijing Singapore Investments Pte. Ltd. (notes (a) and (c))	Singapore	S\$800,000	90	90	Property and investment holding
Business Net Limited (note (c))	British Virgin Islands/PRC	US\$100	100	100	Investment holding
Go Good Holdings Limited	British Virgin Islands/ Hong Kong	US\$100	55.1	55.1	Investment holding
Wisdom Elite Holdings Limited	British Virgin Islands/ Hong Kong	US\$100	55.1	55.1	Investment holding
Xteam Software (Hong Kong) Limited	Hong Kong	HK\$100	55.1	55.1	Office management
Xteam Software International Limited (listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"))	Cayman Islands/ Hong Kong	HK\$38,426,064	55.1	55.1	Investment holding
上海鵬達計算機系統開發有限公司 (note (d))	PRC	HK\$10,000,000	55.1	55.1	Development and sale of computer software and provision of system integration and related services

NOTES TO FINANCIAL STATEMENTS

31 December 2006

17. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			2006	2005	
北京北控三興信息技術有限公司 (note (d))	PRC	RMB3,000,000	37.4[®]	37.4 [®]	Development and sale of computer software and provision of system integration and related services
北京北控偉仕軟件工程技術有限公司 (note (d))	PRC	RMB20,000,000	55.1	55.1	Development and sale of computer software and provision of system integration and related services
北京北控電信通信息技術有限公司 (note (d))	PRC	RMB100,000,000	72.0	72.0	Construction of information networks and provision of IT technical support and consultation services
北京市電信通系統集成有限公司 (note (e))	PRC	RMB1,000,000	36.7[®]	36.7 [®]	Provision of networking services
北京阿一鮑魚酒家有限公司 (note (d))	PRC	US\$1,400,000	48.5[®]	48.5 [®]	Restaurant operations
北京捷通瑞奇信息技術有限公司 (note (f))	PRC	RMB5,000,000	63.0	63.0	Construction of information networks and provision of IT technical support services
北京發展物業投資管理有限公司 (note (d))	PRC	US\$4,000,000	85.5	85.5	Property investment
北京電信通智能科技有限公司 (note (d))	PRC	RMB1,100,000	57.6	57.6	Provision of system integration services
北京博大電信通網絡技術有限公司 (notes (b) and (f))	PRC	RMB8,000,000	36.7[®]	36.7 [®]	Lease of underground optical fiber pores



NOTES TO FINANCIAL STATEMENTS

31 December 2006

17. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			2006	2005	
北控捷通(北京)科技發展有限公司 (note (d))	PRC	US\$2,450,000	72.0	72.0	Provision of total education solutions
北控軟件有限公司 (note (d))	PRC	RMB50,000,000	68.4	68.4	Provision of management information system services
湖南教育信息服務有限公司 (note (f))	PRC	RMB10,000,000	41.0 [@]	41.0 [@]	Construction of information networks and provision of IT technical support services
埃力生阿一鮑魚酒家(上海)有限公司 (note (d))	PRC	US\$200,000	51.0	51.0	Restaurant operations
溫州阿一鮑魚酒家有限公司 (note (f))	PRC	RMB1,000,000	24.7 [@]	24.7 [@]	Restaurant operations
衝浪平台(中國)軟件技術有限公司 (note (d))	PRC	US\$3,000,000	55.1	55.1	Sale of computer software and provision of related services
衝浪平台(北京)網絡技術有限公司 (notes (d) and (g))	PRC	US\$1,220,000	28.1 [@]	–	Development and sale of internet equipment and provision of related services

[@] These entities are subsidiaries of non-wholly-owned subsidiaries of the Company and, accordingly, are accounted for as subsidiaries by virtue of the Company's control over the entities.

Notes:

- (a) Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.
- (b) Acquired by the Company during the year ended 31 December 2005. Further details of the acquisition are included in note 33 to the financial statements.



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31 December 2006

17. INTERESTS IN SUBSIDIARIES (continued)

- (c) Directly held by the Company.
- (d) Registered as wholly-foreign-owned enterprises under the PRC law.
- (e) Registered as Sino-foreign joint venture under the PRC law.
- (f) Registered as limited liability companies under the PRC law.
- (g) Set up during the year.

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

18. INTERESTS IN ASSOCIATES

	Group	
	2006 HK\$'000	2005 HK\$'000
Share of net assets	1,247	2,129
Due from an associate	15,577	15,366
	16,824	17,495
<i>Less: Provision against an amount due from an associate</i>	(10,000)	(4,974)
	6,824	12,521

The balance with the associate is unsecured, interest-free and has no fixed terms of repayment. The carrying amount of this balance approximates to its fair value.

NOTES TO FINANCIAL STATEMENTS

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18. INTERESTS IN ASSOCIATES (continued)

Particulars of the principal associates, all of which are indirectly held by the Company, are as follows:

Name	Particulars of issued shares held	Place of registration/ incorporation and operations	Percentage of ownership interest attributable to the Group		Principal activities
			2006	2005	
Overseas Union Investments Limited	Ordinary shares of HK\$1 each	Hong Kong	50	50	Investment holding
北京千龍網都科技有限公司	RMB2,500,000 Registered	PRC	25	25	Sale of IT products
北京北控電信通智能科技有限公司	RMB2,500,000 Registered	PRC	25	25	Provision for system integration services

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

The following table illustrates the summarised information of the Group's associates shared by the Group:

	2006 HK\$'000	2005 HK\$'000
Total assets	22,532	22,287
Total liabilities	(21,285)	(20,158)
Revenues	4,492	2,401
Loss for the year	(398)	(659)

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19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2006 HK\$'000	2005 HK\$'000
Share of net assets	44,453	42,514
Goodwill on acquisition	23,067	23,067
Due from a jointly-controlled entity	–	2,135
	67,520	67,716

The balance with the jointly-controlled entity is unsecured, interest-free and has no fixed terms of repayment. The carrying amount of this balance approximates to its fair value.

Particulars of the principal jointly-controlled entities, all of which are indirectly held by the Company, are as follows:

Name	Particulars of issued shares held	Place of registration and operations	Percentage of			Principal activities
			Ownership interest	Voting power	Profit sharing	
北京教育信息網服務中心有限公司	Registered capital of RMB6 million	PRC	36	50	36	Provision of information network services
北京市政交通一卡通有限公司(「一卡通」)	Registered capital of RMB43 million	PRC	43	44.4	43	Operations of contactless multi-purpose electronic payment cards

The above table lists the jointly-controlled entities of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other jointly-controlled entities would, in the opinion of the directors, result in particulars of excessive length.

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19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (continued)

The following table illustrates the summarised information of the Group's jointly-controlled entities:

	2006 HK\$'000	2005 <i>HK\$'000</i>
Share of the jointly-controlled entities' assets and liabilities:		
Current assets	104,287	39,982
Non-current assets	144,974	88,029
Current liabilities	(146,758)	(21,411)
Non-current liabilities	(58,050)	(64,086)
Net assets	44,453	42,514
Share of the jointly-controlled entities' results:		
Turnover	165,444	19,829
Other revenue	97	373
Total revenue	165,541	20,202
Total expenses	(164,249)	(20,234)
Tax	(604)	(232)
Profit/(loss) after tax	688	(264)

The amount of goodwill in the consolidated balance sheet arising from the acquisition of a jointly-controlled entity, 一卡通, is as follows:

	Group 2006 HK\$'000	2005 <i>HK\$'000</i>
Cost and carrying amount at 1 January and 31 December	23,067	23,067

NOTES TO FINANCIAL STATEMENTS

31 December 2006

19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (continued)

Impairment testing of goodwill

The recoverable amount of the jointly-controlled entity, 一卡通, has been determined based on a value in use calculation. The calculation used cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to cash flow projections is 12% (2005: 10%), which reflects specific risks relating to the industry of which 一卡通 operates. The growth rate used to extrapolate the cash flows of the electronic payment card operation ranges from 5% to 8%. Other assumptions used in the forecast include the penetration rate of the multi-purpose electronic payment cards and the rollout plan for the use of the electronic payment cards in the public transportation system. The values assigned to the key assumptions are consistent with external information sources.

20. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2006 HK\$'000	2005 HK\$'000
Unlisted equity investments, at cost	1,415	1,415
Less: Provision for impairment	(1,017)	(206)
Exchange realignment	72	23
	<hr/> 470	<hr/> 1,232
Golf club debenture, at fair value	651	651
Exchange realignment	39	13
	<hr/> 690	<hr/> 664
	<hr/> 1,160	<hr/> 1,896

The Group's unlisted equity investments are measured at cost. Their fair values cannot be measured reliably because the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating the fair value.

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21. INVENTORIES

	Group	
	2006 HK\$'000	2005 HK\$'000
Materials	65,687	66,827

22. AMOUNTS DUE FROM/TO CUSTOMERS FOR CONTRACT WORKS

	Group	
	2006 HK\$'000	2005 HK\$'000
Amounts due from customers for contract works	12,717	7,585
Amounts due to customers for contract works	(15,998)	(14,074)
	(3,281)	(6,489)
Contract costs incurred plus recognised profits less recognised losses to date	16,298	8,631
Less: Progress billings	(19,579)	(15,120)
	(3,281)	(6,489)

23. TRADE AND BILLS RECEIVABLES

	Group	
	2006 HK\$'000	2005 HK\$'000
Due from third parties:		
Trade receivables	155,051	194,547
Bills receivable	–	601
	155,051	195,148
Due from a jointly-controlled entity	1,024	3,251
Due from related companies	13,050	16,845
	169,125	215,244
Portion classified as current assets	(161,369)	(182,042)
Long term portion	7,756	33,202

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31 December 2006

23. TRADE AND BILLS RECEIVABLES (continued)

The balances with the jointly-controlled entity and related companies are unsecured, interest-free and are repayable on demand.

Included in the amounts due from related companies, an amount of HK\$11,800,000 was due from a company controlled by one of the directors of the Company. The maximum outstanding amount during the year was approximately HK\$32,062,000.

The various group companies have different credit policies, depending on the requirements of their markets in which they operate and the businesses they engage in. Certain customers are allowed to settle the construction contract sum by three annual instalments. An aged analysis of the trade receivables is regularly prepared and closely monitored in order to minimise any related credit risk. Trade and bills receivables are non-interest-bearing.

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

	Group	
	2006	2005
	HK\$'000	HK\$'000
Current and within 3 months	137,094	177,682
4 to 6 months	1,346	4,022
7 to 12 months	14,369	12,668
Over 1 year	16,316	20,872
	169,125	215,244

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24. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Prepayments	81,769	5,171	295	420
Deposits and other receivables	25,613	54,214	347	174
Due from subsidiaries	–	–	57,495	74,805
Due from fellow subsidiaries	2,558	2,488	732	732
Due from jointly-controlled entities	5,570	–	–	–
Due from an associate	5	4	–	–
Due from related companies	12,278	9,400	–	–
Due from minority shareholders	1,625	24	–	–
	129,418	71,301	58,869	76,131
Portion classified as current assets	(128,621)	(63,755)	(58,869)	(76,131)
Long term portion	797	7,546	–	–

The balances with subsidiaries, fellow subsidiaries, jointly-controlled entities, related companies, an associate and minority shareholders are unsecured, interest-free and are repayable on demand, except for:

- (a) two of the amounts due from subsidiaries of HK\$12,913,000 which bears interest at 5.0% per annum and are repayable in 2007 and HK\$25,014,000 which bears interest at 4.75% per annum. As at 31 December 2005, there were two amounts due from subsidiaries of HK\$5,769,000 which bore interest at 4.5% per annum and were repayable in 2006 and HK\$34,643,000 which bore interest at 4.75% per annum; and
- (b) an amount of approximately HK\$11,297,000 (2005: HK\$7,546,000) due from a related company which is repayable by instalments by 2008. The related company is controlled by one of the directors of the Company and the maximum amount outstanding during the year was HK\$19,187,000.



NOTES TO FINANCIAL STATEMENTS

31 December 2006

25. CASH AND BANK BALANCES

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$243,284,000 (2005: HK\$143,387,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

26. TRADE AND BILLS PAYABLES

	Group	
	2006 HK\$'000	2005 HK\$'000
Due to third parties:		
Trade payables	73,195	40,594
Bills payable	18,065	18,137
	<u>91,260</u>	<u>58,731</u>
Due to a jointly-controlled entity	1,056	1,016
Due to associates	3,875	2,892
	<u>96,191</u>	<u>62,639</u>

The balances with the jointly-controlled entity and associates are unsecured, interest-free and have no fixed terms of repayment.

The trade payables are non-interest-bearing and normally settled on 30 to 90 days.

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26. TRADE AND BILLS PAYABLES (continued)

An aged analysis of the Group's trade and bills payables as at the balance sheet date, based on the invoice date, is as follows:

	Group	
	2006 HK\$'000	2005 HK\$'000
Within 3 months	74,992	47,754
4 to 6 months	4,542	2,332
7 to 12 months	3,026	3,038
Over 1 year	13,631	9,515
	96,191	62,639

27. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Other payables	110,474	40,331	989	1,240
Accruals	37,187	41,299	1,968	1,439
Due to a holding company	-	50,623	-	50,623
Due to a subsidiary	-	-	1,927	2,001
Due to a jointly-controlled entity	10	49	-	-
Due to an associate	2	12	-	-
Due to related companies	-	2,990	-	-
Due to minority shareholders	11,008	11,198	-	-
	158,681	146,502	4,884	55,303

The balances with the subsidiary, jointly-controlled entity, associate, related companies and minority shareholders are unsecured, interest-free and have no fixed terms of repayment, except for the balance due to the subsidiary, which is repayable on demand. As at 31 December 2005, an amount due to an intermediate holding company of HK\$50,000,000 bore interest at 4% per annum and was fully repaid in 2006.

Other payables are non-interest-bearing and have an average term of 3 to 6 months.



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28. INTEREST-BEARING BANK BORROWINGS

	Effective interest rate	Maturity	Group		Company		
			2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	
Current							
Bank overdrafts							
– secured	HK Prime – 1%	On demand	–	8,068	–	8,068	
Trust receipt loans	Singapore						
– secured	Prime + 1%	2007	3,001	–	–	–	
Bank loans							
– unsecured							
In Renminbi							
– 2006	5.22% – 6.12%	2007	70,000	–	–	–	
In Renminbi							
– 2005	5% – 7%	2006	–	99,038	–	–	
In Singapore dollars	6.25%	2007	2,447	–	–	–	
In Indonesian Rupiah	14.75%	On demand	833	–	–	–	
			73,280	99,038	–	–	
Bank loans – secured							
In Renminbi	5.36%	2006	–	673	–	–	
In Singapore dollars							
– 2006	SIBOR + 0.75%	2007	599	–	–	–	
In Singapore dollars							
– 2005	SIBOR + 0.25%	2006	–	508	–	–	
In Malaysian Ringgits	7.05%	2007	48	–	–	–	
			647	1,181	–	–	
			76,928	108,287	–	8,068	
Non-current							
Bank loans – secured							
In Singapore dollars	SIBOR + 0.75%	2012	3,656	4,020	–	–	
In Malaysian Ringgits	7.05%	2016	608	–	–	–	
			4,264	4,020	–	–	
Bank loans							
– unsecured							
In Singapore dollars	6.25%	2008	2,159	–	–	–	
			6,423	4,020	–	–	
			83,351	112,307	–	8,068	



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31 December 2006

28. INTEREST-BEARING BANK BORROWINGS (continued)

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Analysed into amounts repayable:				
Within one year	76,928	108,287	–	8,068
In the second year	2,850	566	–	–
In the third to fifth years, inclusive	2,363	1,877	–	–
After five years	1,210	1,577	–	–
	83,351	112,307	–	8,068

Certain of the Group's and the Company's banking facilities are secured by:

- (i) the Group's leasehold land and buildings which had an aggregate net book value at 31 December 2006 of HK\$31,871,000 (2005: HK\$45,732,000);
- (ii) the Group's investment properties which had an aggregate carrying value of HK\$12,750,000 at 31 December 2006 (2005: Nil);
- (iii) the Group's bank deposits at 31 December 2006 of HK\$523,000 (2005: HK\$499,000); and
- (iv) leasehold land and buildings which had an aggregate net book value at 31 December 2006 of HK\$656,000 (2005: Nil), held by a minority shareholder of a subsidiary.

The carrying amounts of the Group's and the Company's borrowings approximate to their fair values.



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29. DEFERRED TAX

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

	Decelerate tax depreciation <i>HK\$'000</i>	Impairment of trade receivables <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2005	–	–	–
Deferred tax credited to the income statement during the year (note 10)	119	600	719
Exchange realignment	2	12	14
At 31 December 2005 and 1 January 2006	121	612	733
Deferred tax charged to the income statement during the year (note 10)	(195)	(84)	(279)
Exchange realignment	5	25	30
At 31 December 2006	(69)	553	484

The Group has tax losses arising in Hong Kong and Singapore of HK\$139,010,000 (2005: HK\$135,298,000) that are available indefinitely, and in Mainland China of HK\$42,066,000 (2005: HK\$31,467,000) that are available for a maximum of five years, for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

At 31 December 2006, there was no significant unrecognised deferred tax liability (2005: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associates or jointly-controlled entities.

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30. SHARE CAPITAL

	Company	
	2006 HK\$'000	2005 HK\$'000
Authorised: 1,000,000,000 ordinary shares of HK\$1 each	1,000,000	1,000,000
Issued and fully paid: 591,981,150 (2005: 493,981,150) ordinary shares of HK\$1 each	591,981	493,981

Pursuant to the placing and subscription agreement dated 30 November 2006, 98,000,000 ordinary shares of the Company were allotted at HK\$1.1 each to its shareholders for a total cash consideration, before expenses, of HK\$107,800,000.

A summary of the transaction during the year with reference to the above movement in the Company's issued ordinary share capital is as follows:

	Number of shares in issue	Issued share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1 January 2005 and 1 January 2006	493,981,150	493,981	–	493,981
Allotment of new shares	98,000,000	98,000	9,800	107,800
Share issue expenses	–	–	(3,839)	(3,839)
At 31 December 2006	591,981,150	591,981	5,961	597,942





NOTES TO FINANCIAL STATEMENTS

31 December 2006

31. SHARE OPTION SCHEME

The Company operates a share option scheme (the “Scheme”) to give executives and key employees of the Group an interest in preserving and maximising shareholders’ value in the longer term, to enable the Company and the relevant subsidiaries to attract and retain individuals with experience and ability and to reward individuals for future performance. Eligible participants of the Scheme include the executive directors and employees of the Company or any of its subsidiaries. The Scheme became effective on 18 June 2001 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme is limited to 25% of the aggregate number of shares for the time being issued and issuable under the Scheme.

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

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

Share options do not confer rights on the holders to dividends or to vote at shareholders’ meetings.

NOTES TO FINANCIAL STATEMENTS

31 December 2006

31. SHARE OPTION SCHEME (continued)

The following share options were outstanding under the Scheme during the year:

Name or category of participant	Notes	Number of share options			
		At 1 January 2006	Granted during the year	Lapsed/ forfeited during 31 December the year	At 31 December 2006
Executive directors:					
Mr. Zhang Honghai	(c)	–	4,000,000	–	4,000,000
Mr. Li Kangying	(b)	2,700,000	–	–	2,700,000
	(c)	–	800,000	–	800,000
		2,700,000	800,000	–	3,500,000
Mr. E Meng	(a)	1,600,000	–	(1,600,000)	–
	(b)	1,200,000	–	–	1,200,000
	(c)	–	1,600,000	–	1,600,000
		2,800,000	1,600,000	(1,600,000)	2,800,000
Mr. Wang Yong	(c)	–	3,000,000	–	3,000,000
Mr. Cao Wei	(b)	2,500,000	–	–	2,500,000
	(c)	–	500,000	–	500,000
		2,500,000	500,000	–	3,000,000
Dr. Yu Xiaoyang	(c)	–	2,800,000	–	2,800,000
Mr. Ng Kong Fat, Brian	(a)	2,300,000	–	(2,300,000)	–
	(b)	1,200,000	–	–	1,200,000
	(c)	–	1,600,000	–	1,600,000
		3,500,000	1,600,000	(2,300,000)	2,800,000
Other employees	(a)	4,060,000	–	(4,060,000)	–
	(b)	12,500,000	–	(6,300,000)	6,200,000
	(c)	–	17,200,000	(100,000)	17,100,000
		16,560,000	17,200,000	(10,460,000)	23,300,000
		28,060,000	31,500,000	(14,360,000)	45,200,000

Notes:

- (a) These options were granted on 19 June 2001 at an exercise price of HK\$1.13 per share and lapsed on 26 June 2006.

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31. SHARE OPTION SCHEME (continued)

- (b) These options were granted on 18 January 2002 at an exercise price of HK\$1.00* per share. The options may be exercised in three equal portions. The first portion is exercisable at any time commencing on 18 January 2002, and each further portion becomes exercisable on 1 January in each of the following years. All of the options were subsequently exercised in January 2007.
- (c) These options were granted on 27 June 2006 at an exercise price of HK\$1.00* per share. The closing price of the Company's shares on the Stock Exchange on the trading day immediately prior to the date of grant of the share options was HK\$0.84. The options may be exercised at any time commencing on 27 June 2006 and, if not otherwise exercised, will lapse on 16 June 2011. There were 23,000,000 share options subsequently exercised in January 2007.
- * The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

31,500,000 share options were granted during the year. The fair value of the share options granted during the year was HK\$5,214,000 which was fully recognised by the Group as a share option expense during the year ended 31 December 2006.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using the Black-Scholes-Merton option pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the input to the model used for the year ended 31 December 2006:

Dividend yield (%)	–
Expected volatility (%)	48.27 – 48.44
Risk-free interest rate (%)	4.68 – 4.71
Expected life of option (months)	24 – 30
Weighted average share price (HK\$)	0.753

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the volatility for the last 24 to 30 months is indicative of future trends, which may also not necessarily be the actual outcome.

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

No share options were exercised during the year. At the balance sheet date, the Company had 45,200,000 share options outstanding under the Scheme, which represented approximately 7.6% of the Company's shares in issue. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 45,200,000 additional ordinary shares of the Company and additional share capital of HK\$45,200,000. Subsequent to the balance sheet date, at the date of approval of these financial statements, 36,800,000 share options outstanding at 31 December 2006 were exercised, which increased the share capital of the Company by HK\$36,800,000.



NOTES TO FINANCIAL STATEMENTS

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32. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 28 of the financial statements.

Pursuant to the relevant laws and regulations of the PRC, a portion of the profits of the Group's subsidiaries, jointly-controlled entities and associates in the PRC has been transferred to PRC reserve funds which are restricted as to use.

(b) Company

	Note	Share premium account HK\$'000	Share option reserve HK\$'000	Asset revaluation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Balance at 1 January 2005		-	-	32,721	(102,330)	(69,609)
Loss for the year		-	-	-	(16,468)	(16,468)
Transfer to accumulated losses		-	-	(922)	922	-
At 31 December 2005		-	-	31,799	(117,876)	(86,077)
Issue of shares	30	9,800	-	-	-	9,800
Share issue expenses	30	(3,839)	-	-	-	(3,839)
Loss for the year		-	-	-	(75,735)	(75,735)
Transfer to accumulated losses		-	-	(922)	922	-
Equity-settled share option arrangements		-	5,214	-	-	5,214
At 31 December 2006		5,961	5,214	30,877	(192,689)	(150,637)

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy of share-based payment transactions in note 2.4 to the financial statements. The amount will either to be transferred to the share premium account when the related options are exercised, or transferred to accumulated losses should the related options expire or be forfeited.



NOTES TO FINANCIAL STATEMENTS

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33. BUSINESS COMBINATIONS

(a) Acquisition of Asren Holdings Limited (“Asren”)

On 7 December 2005, Go Good Holdings Limited, a non-wholly-owned subsidiary of the Group, acquired a 51% equity interest in Asren from independent third parties. The purchase consideration for the acquisition was in the form of 84,134,616 new shares of Xteam Software International Limited at its market price of HK\$0.058 per share on 7 December 2005 and a promissory note amounting to HK\$9,615,000 issued by the Group to Asren.

(b) Acquisition of 北京博大電信通網絡技術有限公司 (「北京博大」)

On 1 January 2005, the Group acquired from independent third parties a 51% equity interest in 北京博大 for a cash consideration of approximately HK\$3,849,000.

The fair values of the identifiable assets and liabilities of Asren and 北京博大 acquired as at the dates of acquisition and the corresponding carrying amounts immediately before the acquisitions were as follows:

	Notes	Fair value recognised on acquisitions and carrying amount 2005 HK\$'000
Property, plant and equipment	13	72
Cash and bank balances		6,850
Trade receivables		9
Inventories		25
Other receivables, prepayments and deposits		10,007
Other payables and accruals		(2,813)
Minority interests		(7,633)
		<hr/> 6,517
Goodwill on acquisition	15	<hr/> 7,372
		<hr/> 13,889
Satisfied by:		
Cash		3,849
Promissory note		9,615
Costs associated with the acquisition		425
		<hr/> 13,889

NOTES TO FINANCIAL STATEMENTS

31 December 2006

33. BUSINESS COMBINATIONS (continued)

An analysis of the net inflow of cash and cash equivalents in respect of the acquisitions of subsidiaries is as follows:

	2005 HK\$'000
Cash paid	(4,274)
Cash and bank balances acquired	6,850
Net cash inflow of cash and cash equivalents in respect of the acquisition of the subsidiaries	<u>2,576</u>

34. CONTINGENT LIABILITIES

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

	Company	2005 HK\$'000
	2006 HK\$'000	
Guarantees given to banks in connection with facilities granted to subsidiaries	<u>181,500</u>	<u>222,456</u>

As at 31 December 2006, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK\$74,255,198 (2005: HK\$100,681,000).

NOTES TO FINANCIAL STATEMENTS

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35. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 14) under operating lease arrangements, with leases negotiated for terms ranging from one to five years. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

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

	Group	
	2006 HK\$'000	2005 HK\$'000
Within one year	2,964	1,968
In the second to fifth years, inclusive	6,059	756
	9,023	2,724

(b) As lessee

The Group leases certain of its office properties, restaurant premises and staff quarters under operating lease arrangements. Leases are negotiated for terms ranging from 1 to 10 years. Under certain lease agreements for the restaurant premises, contingent rentals in excess of the minimum lease payments are payable if the turnover of such restaurants reaches the pre-determined level.

At the balance sheet date, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Within one year	21,475	22,635	858	297
In the second to fifth years, inclusive	23,459	28,320	385	-
After five years	1,353	2,627	-	-
	46,287	53,582	1,243	297

NOTES TO FINANCIAL STATEMENTS

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36. COMMITMENTS

In addition to the operating lease commitments detailed in note 35(b) above, the Group's share of the jointly-controlled entities' capital commitments is as follows:

	Group	
	2006 HK\$'000	2005 HK\$'000
Contracted, but not provided for	16,363	22,797

At the balance sheet date, the Company had no significant commitments (2005: Nil).

37. PLEDGE OF ASSETS

Details of the Group's borrowings secured by the assets of the Group are set out in note 28 to the financial statements.

Bank deposits of HK\$20,808,000 (2005: HK\$3,113,000) were pledged as guarantees for tenders and contracts.



NOTES TO FINANCIAL STATEMENTS

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38. RELATED PARTY TRANSACTIONS

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

		Group	
	Notes	2006 HK\$'000	2005 HK\$'000
Interest paid for a loan from an intermediate holding company	(i)	1,984	623
Subcontracting fee paid to an associate	(ii)	4,863	4,686
Jointly-controlled entities:			
Sale of products	(ii)	4,055	5,157
Purchases of products	(ii)	4	1,457
Service fee	(ii)	278	–
Entities which have the common directors with the Company:			
Sale of products	(ii)	631	–
Subcontracting fee expense	(ii)	24,552	–
Subcontracting fee income	(ii)	4,500	–

Notes:

- (i) The interest paid was charged at 4% per annum on the outstanding loan principal.
- (ii) The sale to, purchases from, provision of services and subcontracting fee expenses and income to related parties were conducted in terms and conditions mutually agreed between the parties.
- (b) Compensation of key management personnel of the Group:

	2006 HK\$'000	2005 HK\$'000
Short term employee benefits	6,228	7,391
Post-employment benefits	64	179
Share-based payments	3,884	–
Total compensation paid to key management personnel	10,176	7,570

Further details of directors' emoluments are included in note 8 to the financial statements.



NOTES TO FINANCIAL STATEMENTS

31 December 2006

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and short term deposits and interest-bearing loans. These financial instruments are used for the Group's working capital. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

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

Cash flow interest rate risk

The Group's exposure to the risk of change in market interest rates relates primarily to the Group's bank loans with floating interest rates. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts.

Foreign currency risk

The sales and purchases made by each subsidiary of the Group are conducted in the local currencies and hence, the Group's transactional currency exposure is minimal.

Credit risk

The Group trades only with recognised and creditworthy third parties. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The Group places its cash deposits with major international banks in Hong Kong and South East Asia, and state-owned banks in Mainland China. This investment policy limits the Group's exposure to the concentration of credit risk.

Since the Group trades only with recognised and creditworthy third parties, there is usually no requirement for collateral.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank borrowings.

40. EVENT AFTER BALANCE SHEET DATE

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the financial impact of the New Corporate Income Tax Law to the Group cannot be reasonably estimated at this stage.

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 3 April 2007.



FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below.

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
RESULTS					
REVENUE	584,832	531,298	531,848	481,345	387,377
Profit/(loss) before tax	35,128	(25,450)	31,719	32,796	18,611
Tax	(6,663)	(3,088)	(2,800)	(522)	2,284
Profit/(loss) for the year	28,465	(28,538)	28,919	32,274	20,895
Attributable to:					
Equity holders of the Company	12,080	(35,042)	14,886	21,721	15,416
Minority interests	16,385	6,504	14,033	10,553	5,479
	28,465	(28,538)	28,919	32,274	20,895
ASSETS, LIABILITIES AND MINORITY INTERESTS					
Total assets	1,025,319	855,033	948,473	842,277	700,372
Total liabilities	(360,279)	(338,473)	(397,395)	(330,360)	(285,022)
Minority interests	(99,705)	(80,543)	(71,067)	(49,742)	(18,487)
	565,335	436,017	480,011	462,175	396,863