



## **SING LEE SOFTWARE (GROUP) LIMITED**

### **新利軟件(集團)股份有限公司**

*(incorporated in Bermuda with limited liability)*

**(Stock Code: 8076)**

#### **ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2006**

#### **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “EXCHANGE”)**

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

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

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

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*This announcement, for which the directors of Sing Lee Software (Group) Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to Sing Lee Software (Group) Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:— (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

\* For identification purposes only

## Results

The board of Directors (“Board”) of Sing Lee Software (Group) Limited (the “Company”) is pleased to announce the audited combined results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2006, together with the comparative figures for the corresponding period of 2005, as follows:

### Consolidated income statement

For the year ended 31 December 2006  
(Expressed in Renminbi)

|  | <i>Note</i> | <b>2006</b><br><i>RMB'000</i> | 2005<br><i>RMB'000</i> |
|--|-------------|-------------------------------|------------------------|
| Revenue  | 5           | <b>21,377</b>                 | 11,276                 |
| Cost of sales  |             | <b>(17,290)</b>               | (15,238)               |
| <b>Gross profit/(loss)</b>   |             | <b>4,087</b>                  | (3,962)                |
| Other operating income/(loss)  | 6           | <b>1,240</b>                  | 4,029                  |
| Distribution costs   |             | <b>(4,506)</b>                | (15,067)               |
| Administrative expenses  |             | <b>(14,509)</b>               | (18,474)               |
| Impairment loss on intangible assets                                   |             | <b>(1,192)</b>                | (2,938)                |
| <b>Loss from operations</b>  |             | <b>(14,880)</b>               | (36,412)               |
| Net finance costs  | 7           | <b>(1,271)</b>                | (809)                  |
| <b>Loss before taxation</b>  | 8           | <b>(16,151)</b>               | (37,221)               |
| Taxation   | 9           | —                             | —                      |
| <b>Loss for the year attributable to equity holders of the Company</b> |             | <b>(16,151)</b>               | (37,221)               |
|  |             | <b>RMB (cents)</b>            | RMB (cents)            |
| <b>Loss per share</b>  | 10          |                               |                        |
| Basic  |             | <b>2.68</b>                   | 6.17                   |
| Diluted  |             | <b>N/A</b>                    | N/A                    |

## Balance sheets

As at 31 December 2006  
(Expressed in Renminbi)

|  | <i>Note</i> | <b>The Group</b> |                 | <b>The Company</b> |                 |
|--|-------------|------------------|-----------------|--------------------|-----------------|
|  |             | <b>2006</b>      | <b>2005</b>     | <b>2006</b>        | <b>2005</b>     |
|  |             | <i>RMB'000</i>   | <i>RMB'000</i>  | <i>RMB'000</i>     | <i>RMB'000</i>  |
| <b>Non-current assets</b>                    |             |                  |                 |                    |                 |
| Property, plant and equipment                |             | 1,021            | 2,992           | 6                  | 24              |
| Intangible assets                            |             | 4,595            | 6,119           | —                  | —               |
| Investments in subsidiaries                  |             | —                | —               | —                  | —               |
|  |             | <b>5,616</b>     | <b>9,111</b>    | <b>6</b>           | <b>24</b>       |
| <b>Current assets</b>                        |             |                  |                 |                    |                 |
| Inventories                                  |             | 7,718            | 18,005          | 7,318              | 11,966          |
| Trade and other receivables                  |             | 7,904            | 12,273          | 6,592              | 57,009          |
| Cash and cash equivalents                    |             | 5,922            | 2,505           | 123                | 1               |
|  |             | <b>21,544</b>    | <b>32,783</b>   | <b>14,033</b>      | <b>68,976</b>   |
| <b>Current liabilities</b>                   |             |                  |                 |                    |                 |
| Bank overdraft                               |             | —                | 5,586           | —                  | 5,586           |
| Loan and borrowings                          |             | 21,315           | 1,785           | 19,315             | 1,785           |
| Trade and other payables                     |             | 17,465           | 31,873          | 9,581              | 20,575          |
| Deferred income                              |             | 2,665            | 1,351           | —                  | —               |
|  |             | <b>(41,445)</b>  | <b>(40,595)</b> | <b>(28,896)</b>    | <b>(27,946)</b> |
| <b>Net current (liabilities)/assets</b>      |             | <b>(19,901)</b>  | <b>(7,812)</b>  | <b>(14,863)</b>    | <b>41,030</b>   |
| <b>Total assets less current liabilities</b> |             | <b>(14,285)</b>  | <b>1,299</b>    | <b>(14,857)</b>    | <b>41,054</b>   |
| <b>Non-current liabilities</b>               |             |                  |                 |                    |                 |
| Loans and borrowings                         |             | (268)            | —               | (268)              | —               |
| <b>Net (liabilities)/assets</b>              |             | <b>(14,553)</b>  | <b>1,299</b>    | <b>(15,125)</b>    | <b>41,054</b>   |
| <b>Capital and reserves</b>                  |             |                  |                 |                    |                 |
| Share capital                                |             | 6,271            | 6,271           | 6,271              | 6,271           |
| Reserves                                     | 11          | (20,824)         | (4,972)         | (21,396)           | 34,783          |
| <b>(Capital deficiency)/total equity</b>     |             | <b>(14,553)</b>  | <b>1,299</b>    | <b>(15,125)</b>    | <b>41,054</b>   |

## Consolidated statement of changes in equity

For the year ended 31 December 2006  
(Expressed in Renminbi)

|  | Attributable to equity holders of the Company |                                    |   |                                       |   | Total<br><i>RMB'000</i> |
|--|---|------------------------------------|---|---------------------------------------|---|-------------------------|
|  | Share<br>capital<br><i>RMB'000</i>            | Share<br>premium<br><i>RMB'000</i> | Statutory<br>surplus<br>reserve<br><i>RMB'000</i> | Exchange<br>reserve<br><i>RMB'000</i> | Accumulated<br>losses<br><i>RMB'000</i> |                         |
| At 1 January 2005  | 6,392   | 59,267                             | 3,613   | 13                                    | (31,043)                                | 38,242                  |
| Exchange difference on<br>translation of financial<br>statements of foreign entities | (121)   | (1,119)                            | —   | 1,518                                 | —                                       | 278                     |
| Loss for the year  | —   | —                                  | —   | —                                     | (37,221)                                | (37,221)                |
| At 31 December 2005 and<br>1 January 2006  | 6,271   | 58,148                             | 3,613   | 1,531                                 | (68,264)                                | 1,299                   |
| Exchange difference on<br>translation of financial<br>statements of foreign entities | —   | —                                  | —   | 299                                   | —                                       | 299                     |
| Loss for the year  | —   | —                                  | —   | —                                     | (16,151)                                | (16,151)                |
| At 31 December 2006  | <u>6,271</u>                                  | <u>58,148</u>                      | <u>3,613</u>                                      | <u>1,830</u>                          | <u>(84,415)</u>                         | <u>(14,553)</u>         |

## Notes to the financial statements

(Expressed in Renminbi)

### 1. Reporting entity

Sing Lee Software (Group) Limited (the “Company”) was incorporated as an exempted company with limited liability in Bermuda on 27 October 2000 under the Companies Act 1981 of Bermuda and its shares were listed on the Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited. The addresses of the registered office and principal place of business of the Company are disclosed in the “Corporate Information” section to the annual report.

The consolidated financial statements of the Company as at and for the year ended 31 December 2006 comprise the Company and its subsidiaries (together referred to as the “Group”). The Group is principally engaged in the businesses of development, manufacture and sale of software products, sale of related hardware products and the provision of software-related technical support services.

## 2. Basis of preparation

### a) Material uncertainties relating to the going concern basis

The Group sustained consolidated loss attributable to equity holders of the Company of approximately RMB16,151,000 for the year ended 31 December 2006. At 31 December 2006, the Group had consolidated net current liabilities of approximately RMB19,901,000 and net liabilities of approximately RMB14,553,000. At 31 December 2006, the Company had net current liabilities of approximately RMB14,863,000 and net liabilities of approximately RMB15,125,000.

The directors are of the opinion that the Company and the Group are able to continue as a going concern and to meet their obligations in full as and when they fall due. In view of the liquidity problems faced by the Company and the Group, the directors have adopted the following measures with a view to improve the Company's and the Group's overall financial and cash flow position and to maintain the Company's and the Group's existence on a going concern basis:

#### (i) Attainment of profitable and positive cash flow operations

The directors continue to implement cost control measures over overheads and various general and administrative expenses, and are actively seeking new investment and business opportunities with an aim to attain profitable and positive cash flow operations.

#### (ii) Ongoing financial support by the controlling shareholder of the Company

Mr. Hung Yung Lai, a director and controlling shareholder of the Company, has undertaken to the Company to provide continuous financial support to the Company and the Group so as to enable the Company and the Group to continue its day-to-day operations as a viable going concern notwithstanding any present or future financial difficulties experienced by the Company and the Group.

#### (iii) Additional external funding

The directors are considering various alternatives to strengthen the capital base of the Company and the Group through various fund raising exercises.

In the opinion of the directors, in light of the measures taken to date, together with expected results of other measures in progress, the Company and the Group will have sufficient cash resources to satisfy its future working capital and other financial requirements, and it is reasonable to expect the Company and the Group to return to a commercially viable going concern. Accordingly, the directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis, notwithstanding the Company's and the Group's financial and liquidity position as at 31 December 2006.

Should the Company and the Group be unable to continue as a going concern, adjustments would have to be made to restate the value of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these potential adjustments have not been reflected in the financial statements.

### b) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"). These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the GEM.

### 3. New and revised IFRSs and IFRIC interpretations

The Group has adopted the following new and revised IFRSs and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect or give rise to additional disclosures on these financial statements.

- IAS 19 Amendment – Employee Benefits;
- IAS 21 Amendment – The Effects of Changes in Foreign Exchange Rates;
- IAS 39 Amendments – Financial Instruments: Recognition and Measurement;
- IFRIC 4 Determining whether an Arrangement contains a Lease;
- IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
- IFRIC 6 Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.

The principle effects of these changes are as follows:

#### i) IAS 19 Employee Benefits

As of 1 January 2006, the Group adopted the amendments to IAS 19, which requires entities who participate in defined benefits plans to make additional disclosures providing information about trends in the assets and liabilities in the defined benefit plans and the assumptions underlying the components of the defined benefit cost. As the Company and its subsidiaries participate in statutory defined contribution retirement plans in their respective jurisdiction, this change did not have any effect on the financial statements.

#### ii) IAS 21 The Effects of Changes in Foreign Exchange Rates

As of 1 January 2006, the Group adopted the amendments to IAS 21. As a result, 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 regardless of the currency in which the monetary item is denominated. This change did not have any effect on the financial statements.

#### iii) IAS 39 Financial Instruments: Recognition and Measurement

Amendment for financial guarantee contracts (issued August 2005) – amended the scope of IAS 39 to require financial guarantee contracts that are not considered to be insurance contracts to be recognised initially at fair value and to be re-measured at the higher of the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 Revenue. This amendment did not have any effect on the financial statements.

Amendment for the fair value option (issued June 2005) – amended IAS 39 to restrict 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, hence the amendment did not have any effect on the financial statements

Amendment for hedges of forecast intragroup transactions (issued April 2005) – amended IAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as the 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 did not have any effect on the financial statements.

#### iv) IFRIC 4 Determining Whether an Arrangement contains a Lease

The Group adopted IFRIC Interpretation 4 with effect from 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This change in accounting policy did not have any impact on the financial statements.

#### v) IFRIC 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

The Group adopted IFRIC Interpretation 5 with effect from 1 January 2006, which establishes the accounting treatment for funds established to help finance decommissioning for a companies assets. As the entity does not currently operate in a country where such funds exist, this interpretation did not have any impact on the financial statements.

vi) **IFRIC 6 Liabilities arising from Participating in a Specific Market- Waste Electrical and Electronic Equipment**

The Group adopted IFRIC Interpretation 6 with effect from 1 January 2006, which established the recognition date for liabilities arising from the EU Directive relating to the disposal of Waste Electrical and Electronic Equipment. As the entity does not currently participate in this specific market nor have any operation in a jurisdiction that implements the EU Directive, this interpretation did not have any impact on the financial statements.

4. **Segment reporting**

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group in making operating and financial decisions.

a) **Business segment**

Throughout the year, the Group has been operating in a single business segment, i.e. the development, manufacture and sale of software products, sale of related hardware products and provision of software-related technical services. Accordingly, no business segment information is presented.

b) **Geographical segment**

As the Group's revenue and results were substantially derived from the People's Republic of China ("PRC") and its operating assets and liabilities are also based in the PRC, no geographical segment information is presented.

5. **Revenue**

The Group is principally engaged in the businesses of development, manufacture and sale of software products, sale of related hardware products and provision of software-related technical support services. Revenue, which is also the Group's turnover, represents the net invoiced value of sales and revenue from provision for maintenance and other services. Turnover excludes sales taxes and is stated after allowances for returns and trade discounts. An analysis of the Group's revenue is as follows:

|  | <b>The Group</b> |                |
|--|------------------|----------------|
|  | <b>2006</b>      | <b>2005</b>    |
|  | <b>RMB'000</b>   | <b>RMB'000</b> |
| Sale of computer software                    | <b>6,986</b>     | 5,253          |
| Sale of computer hardware                    | <b>6,121</b>     | 2,950          |
| Provision for maintenance and other services | <b>8,270</b>     | 3,073          |
|  | <b>21,377</b>    | 11,276         |

6. **Other operating income/(loss)**

|   | <b>The Group</b> |                |
|---|------------------|----------------|
|   | <b>2006</b>      | <b>2005</b>    |
|   | <b>RMB'000</b>   | <b>RMB'000</b> |
| Value added tax refunds   | <b>591</b>       | 784            |
| Government grant  | <b>396</b>       | 1,152          |
| Rental income from subletting properties under operating lease                | <b>196</b>       | 95             |
| Write-off of long outstanding deposits and receipts in advance from customers | —                | 2,145          |
| Sundry income   | <b>31</b>        | 179            |
| Gain/(loss) on disposal of property, plant and equipment                      | <b>26</b>        | (326)          |
|   | <b>1,240</b>     | 4,029          |

7. Net finance costs

|   | The Group              |                        |
|---|------------------------|------------------------|
|   | 2006<br><i>RMB'000</i> | 2005<br><i>RMB'000</i> |
| Interest income on bank deposits  | (15)                   | (17)                   |
| Interest on bank advances and other borrowings wholly repayable within five years | 1,286                  | 635                    |
| Others  | —                      | 191                    |
| Finance expenses  | 1,286                  | 826                    |
| Net finance costs   | 1,271                  | 809                    |

8. Loss before taxation

Loss before taxation is arrived at after charging the following:

|   | The Group              |                        |
|---|------------------------|------------------------|
|   | 2006<br><i>RMB'000</i> | 2005<br><i>RMB'000</i> |
| Research and development costs                                |                        |                        |
| – amortisation of development costs                           | 212                    | 716                    |
| – current year expenditure not qualified as intangible assets | 1,244                  | 7,835                  |
|   | 1,456                  | 8,551                  |
| Staff costs (including directors' remuneration)               |                        |                        |
| – salaries, wages and other benefits                          | 8,419                  | 8,492                  |
| – contributions to defined contribution plans                 | 898                    | 633                    |
|   | 9,317                  | 9,125                  |
| Auditors' remuneration  | 528                    | 356                    |
| Depreciation of property, plant and equipment                 | 1,914                  | 2,662                  |
| Operating lease charges: minimum lease payments               |                        |                        |
| – property rental   | 1,896                  | 2,202                  |
| Impairment loss on other receivables                          | 1,722                  | —                      |
| Impairment loss on trade receivables                          | 650                    | —                      |
| Cost of inventories sold and services rendered <sup>#</sup>   | 17,290                 | 15,238                 |
| Amortisation of software                                      | 120                    | 187                    |
| Impairment loss on intangible assets                          |                        |                        |
| – goodwill  | —                      | 272                    |
| – development costs   | 1,192                  | 2,488                  |
| – software  | —                      | 178                    |

<sup>#</sup> Cost of inventories sold and services rendered includes staff costs of approximately RMB3,489,000 (2005: RMB3,837,000) and depreciation expenses of approximately RMB291,000 (2005: RMB341,000) that are also included in the respective total amounts disclosed separately above for each of these types of expenses.

## 9. Taxation

- a) No provision for Hong Kong profits tax has been made as the Group had no estimated assessable profits arising from Hong Kong during the years ended 31 December 2006 and 2005. Taxes on profits assessable in PRC have been calculated at the applicable rates of tax prevailing in the jurisdiction in which the Group operates, based on existing legislation, interpretations and practices in respect thereof during the year.

Hangzhou Singlee Software Company Limited (“Singlee Software”), the Company’s subsidiary established in the PRC, is subject to PRC enterprise tax at a rate of 33%. No provision for PRC enterprise income tax has been made for the years ended 31 December 2006 and 2005 as Singlee Software made loss in the years.

Hangzhou Singlee Technology Company Limited (“Singlee Technology”), the Company’s subsidiary established in the PRC, is subject to PRC enterprise tax at a rate of 33%. No provision for PRC enterprise income tax has been made for the years ended 31 December 2006 and 2005 as Singlee Technology made loss in the years.

Singlee Software (Zhuhai) Company Limited (“Singlee Zhuhai”), the Company’s subsidiary established in the PRC, is subject to PRC enterprise tax at a rate of 33%. For the year ended 31 December 2006, no provision for PRC income tax has been made as Singlee Zhuhai has accumulated tax losses brought forward which exceeds the estimated assessable profits for the year. For the year ended 31 December 2005, no provision for PRC enterprise income tax has been made as Singlee Zhuhai made loss in that year.

Beijing Century Financial Knowledge Company Limited (“Beijing Century”), the Company’s subsidiary established in the PRC, is subject to PRC enterprise tax at a rate of 33%. For the year ended 31 December 2006, no provision for PRC income tax has been made as Beijing Century has accumulated tax losses brought forward which exceeds the estimated assessable profits for the year. For the year ended 31 December 2005, no provision for PRC enterprise income tax has been made as Beijing Century made loss in that year.

- b) Reconciliation between tax expense and accounting loss at applicable tax rate:

|   | 2006<br><i>RMB'000</i> | 2005<br><i>RMB'000</i> |
|---|------------------------|------------------------|
| Loss before taxation  | <u>(16,151)</u>        | <u>(37,221)</u>        |
| Notional tax on loss before taxation, calculated at the statutory rate of 33% | (5,329)                | (12,283)               |
| Tax effect of non-deductible expenses   | 1,465                  | 3,169                  |
| Tax effect of non-taxable income  | (2)                    | —                      |
| Tax effect of unused tax losses not recognized                                | 3,977                  | 8,195                  |
| Tax effect of utilisation of unused tax losses previously not recognized      | (287)                  | —                      |
| Effect of different tax rates of companies of the Group                       | <u>176</u>             | <u>919</u>             |
| Actual tax expense  | <u>—</u>               | <u>—</u>               |

## 10. Loss per share

- a) **Basic loss per share**

The calculation of basic loss per share is based on the loss attributable to ordinary equity holders of the Company of RMB16,151,000 (2005: RMB37,221,000) and the weighted average of 603,000,000 (2005: 603,000,000) ordinary shares in issue during the year.

- b) **Diluted loss per share**

No disclosure of diluted loss per share for the years ended 31 December 2006 and 31 December 2005 is shown as the Company’s outstanding share options have antidilutive effect.

## 11. Reserves

### a) The Group

|  | Attributable to equity holders of the Company |                                      |                             |                               |                  |
|--|---|--------------------------------------|-----------------------------|-------------------------------|------------------|
|  | Share premium<br>RMB'000                      | Statutory surplus reserve<br>RMB'000 | Exchange reserve<br>RMB'000 | Accumulated losses<br>RMB'000 | Total<br>RMB'000 |
| At 1 January 2005  | 59,267  | 3,613                                | 13                          | (31,043)                      | 31,850           |
| Loss for the year  | —   | —                                    | —                           | (37,221)                      | (37,221)         |
| Exchange difference on translation of financial statements of foreign entities | (1,119)                                       | —                                    | 1,518                       | —                             | 399              |
| At 31 December 2005 and 1 January 2006   | 58,148  | 3,613                                | 1,531                       | (68,264)                      | (4,972)          |
| Loss for the year  | —   | —                                    | —                           | (16,151)                      | (16,151)         |
| Exchange difference on translation of financial statements of foreign entities | —   | —                                    | 299                         | —                             | 299              |
| At 31 December 2006  | 58,148  | 3,613                                | 1,830                       | (84,415)                      | (20,824)         |

### b) The Company

|  | Share premium<br>RMB'000 | Capital reserve<br>RMB'000 | Accumulated losses<br>RMB'000 | Total<br>RMB'000 |
|--|--------------------------|----------------------------|-------------------------------|------------------|
| At 1 January 2005  | 59,267                   | 4,718                      | (22,893)                      | 41,092           |
| Loss for the year  | —                        | —                          | (5,190)                       | (5,190)          |
| Exchange difference on translation of financial statements of foreign entities | (1,119)                  | —                          | —                             | (1,119)          |
| At 31 December 2005 and 1 January 2006   | 58,148                   | 4,718                      | (28,083)                      | 34,783           |
| Loss for the year  | —                        | —                          | (56,179)                      | (56,179)         |
| At 31 December 2006  | 58,148                   | 4,718                      | (84,262)                      | (21,396)         |

PRC accounting rules and regulations required the subsidiaries registered in the PRC to provide for staff and worker's bonus and welfare fund, which are appropriated from net profit after tax, after offsetting prior years' losses, as determined under PRC accounting rules and regulations, but before distribution of a dividend to shareholders. Appropriation to the staff and workers' bonus and welfare fund is at the discretion of the directors of such subsidiaries. The staff and worker's bonus and welfare fund can only be utilized on special bonuses or capital items for the collective benefits of the employees of the individual subsidiary such as the construction of dormitories, canteen and other staff welfare facilities. The fund is non-distributable other than in liquidation. When the relevant assets are disposed of or written off, the original transfers from the fund are reversed. Under IFRSs, appropriations to the fund have been included as expenses and the balance of the fund as a liability of the Group. The directors of such subsidiaries resolved not to make any appropriation to the fund for the years ended 31 December 2006 and 2005.

There are no other material differences between the Group's financial statements prepared in accordance with PRC accounting rules and regulations and IFRSs.

Under the Companies Act 1981 of Bermuda ("Companies Act"), share premium and capital reserve are distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of share premium and capital reserve if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital account.

As at 31 December 2006, the Company had no reserve available for distribution to equity holders of the Company.

As at 31 December 2005, the Company's reserves available for distribution to shareholders amounted to approximately RMB34,783,000, computed in accordance with the Companies Acts and the Company's articles of association. This includes the Company's share premium and capital reserve of approximately RMB58,148,000 and RMB4,718,000 respectively, less accumulated losses of approximately RMB28,083,000, which is available for distribution provided that immediately following the date on which the dividend is proposed, the Company will be able to pay off its debts as they fall due in the ordinary course of business.

## **Dividends**

No dividends have been paid or declared by the Company during the year (2005: HK\$Nil).

## **Management Discussion and Analysis**

### **BUSINESS REVIEW AND ANALYSIS**

2006 was the third year of the Group to undergo strategic conversion. The two major projects and the two major products have commenced the experimental project in the two major economic provinces, Shandong and Zhejiang. Following the experiment, it has been proved that the Group has pursued a completely correct direction in its conversion, which will generate long-term and stable income for customers and the Group. Through practice over the past year, the management of various levels, the technology research and development team and all staff have made significant progress in the aspects of team spirit, technical level and business capability.

### **Banking Business**

Driven by the new business following the conversion, the POS terminal and the upgraded versions of POS-MIS system have seen a breakthrough in the sales amount to a certain extent, with a considerable increase in the market share. The Group continued to top the industry in market share in the PRC in the core banking business of bank capital risk control products. This high degree of difficulty business has also created a high-quality technical team and market brand for the Group. For the EagleEye monitoring product, the Group and a reputable international Company have entered into the intention for strategic cooperation. The market prospects and sales level of this product will be significantly enhanced. The Group will continue to step up its efforts in sales and implementation in this market segment so as to increase the profitability of the Group.

## **Securities Business**

The stock market in China has begun to recover. The demand from securities dealers has also increased. The Group is endeavoring to join hands with major customers to seek for new core business products, in particular, to significantly enhance risk control and safety assurance amidst an upsurge in the trading volume of the securities business. Given its in-depth understanding of the securities business in the PRC and its services and customer relationship, the Group believes that there will be a new point of business growth.

## **Education Business**

For the education business, the Group successfully developed the centralization and general versions of Bank-college Express Charging Administration System and other bank-campus products during the year with an increase in sales. Focused efforts will be made to market these products to more universities and institutes of higher learning in the next two years. A large strategic project jointly developed by the Group and one of the most famous universities in the PRC has passed the acceptance check. It is anticipated that these new projects and products will generate long-term and stable income for the Group in the next couple of years.

## **FUTURE OUTLOOK**

The Group continues to step up its devotion and marketing efforts in products of risk control and information management categories on the core banking business. With a maturing technical team, this product of the Group will maintain its leading position in the PRC market in the coming year. As for the strategic upgrading of the EagleEye monitoring product, the Group has entered into strategic partnership with a world-renowned provider of mainstream products; The group has commenced formulation of a comprehensive and seamless integration solution and to market the solution to the large bank customers. It is predicted that the Group can derive considerable effectiveness from the market in the next two years. Besides, the Group has commenced the experimental project for the two strategic projects. The success of these two projects will significantly increase the stable income from the Group's cash flow and its long-term growth. The Group has been paying close attention to the IT development trend and needs of the international and domestic financial markets and will persist in the guiding principle of: conducting the market survey three years in advance; proceeding with technology research and development two years in advance; entering the market six months in advance so as to ensure that new products of the Group can be launched to the market on a sustained basis.

The Group continued to step up its efforts in implementing the plan for increasing income and reducing cost during the year and has achieved great effectiveness. As for the risk monitoring rules, the Group has made further improvement and increased the actual effectiveness.

## FINANCIAL REVIEW

The Group is principally engaged in the development and sales of information and network technologies and services to the financial industry in the People's Republic of China (the "PRC").

For the year ended 31 December 2006 ("the financial year"), the Group recorded a total turnover of approximately RMB21,377,000, representing an increase of 90% as compared to last year (last year turnover were approximately RMB11,276,000).

Turnover of the Group comprises of:

|                   | Turnover      |               |
|-------------------|---------------|---------------|
|                   | 2006          | 2005          |
|                   | RMB'000       | RMB'000       |
| Sales of software | 6,986         | 5,253         |
| Sales of hardware | 6,121         | 2,950         |
| Maintenace income | 8,270         | 3,073         |
|                   | <u>21,377</u> | <u>11,276</u> |

Although the Group still recorded a loss attributable to shareholders of approximately RMB16,151,000 for the financial year, a significant decrease in loss of 57% as compared to last year (net loss for last year was approximately RMB37,221,000). Increase in turnover is one of the factors leading to the loss decrease. The loss decrease should also be attributable to successful cost control for the financial year.

We will continue trying our best to increase sales and strengthen our cost control. With the products of our group become more mature in the market and the effective cost control, we expect that financial results of the group will be further improved in the coming year.

## LIQUIDITY, FINANCIAL RESOURCES, CAPITAL STRUCTURE AND GEARING RATIO

As at 31 December 2006, the Group's bank loans amounted to approximately RMB17 million (2005: Nil) bear interest at rates of 6.4% to 8% per annum.

No interest was capitalized by the Group during the year (2005: nil).

As at 31 December 2006, the Group held cash and cash equivalents denominated in RMB, US dollars and HK dollars, amounted to approximately RMB6.0 million.

The gearing ratio of the Group, based on total liabilities over total assets, as at 31 December 2006 was approximately 154% (2005: 97%).

## **ACQUISITION AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES**

The group did not have any material acquisitions or disposals of subsidiaries and affiliated companies, or significant investments during the year.

## **SEGMENTAL INFORMATION**

Saved as disclosed on note 4 of the notes to the financial statements, no segmental information is presented for the Group as the Group conducts its business within one geographical and business segment.

## **EMPLOYEE INFORMATION**

As at 31 December 2006, the Group had 94 employees, including both the PRC and Hong Kong employees. Remuneration and bonus policy are basically determined by the performance of the individual employees and financial results of the Group. Total staff costs for the year amounted to approximately RMB9.3 million.

The Group adopted a share option scheme, details of which were set out in the Report of the Directors.

## **CHARGE ON GROUP ASSETS**

As at 31 December 2006, the Group did not have any charges on group assets.

## **FUTURE PLANS FOR MATERIAL INVESTMENTS AND EXPECTED SOURCE OF FUNDING**

Details of the Group's future plans for material investments or capital assets and their expected source of funding have been stated in the Company's prospectus dated 30 August 2001 under the sections headed "Statement of Business Objectives" and "Reasons for the New Issue and Use of Proceeds" respectively.

## **EXPOSURE TO EXCHANGE RATE FLUCTUATION**

The Group's revenue generating operations are mainly transacted in RMB. The directors consider the impact of foreign exchange exposure to the Group is minimal.

## **CONTINGENT LIABILITIES**

As at 31 December 2006, the Group did not have any material contingent liabilities (2005: nil).

## FIVE YEARS FINANCIAL SUMMARY OF THE GROUP

|   | <b>Year ended<br/>31 December<br/>2006<br/>RMB'000</b> | Year ended<br>31 December<br>2005<br>RMB'000 | Year ended<br>31 December<br>2004<br>RMB'000 | Year ended<br>31 December<br>2003<br>RMB'000 | Year ended<br>31 December<br>2002<br>RMB'000 |
|---|--|--|--|--|--|
| Turnover  | <b>21,377</b>  | 11,276                                       | 40,303                                       | 37,848                                       | 62,853                                       |
| (Loss) / Profit attributable to<br>shareholders | <b>(16,151)</b>  | (37,221)                                     | (2,346)                                      | (31,667)                                     | (10,313)                                     |
| Total assets                                    | <b>27,160</b>  | 41,894                                       | 66,873                                       | 80,559                                       | 117,729                                      |
| Total liabilities                               | <b>(41,713)</b>  | (40,595)                                     | (28,631)                                     | (39,970)                                     | (45,456)                                     |
| Net (liabilities)/assets                        | <b>(14,553)</b>  | 1,299  | 38,242                                       | 40,589                                       | 72,273                                       |

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

## CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company believes that corporate governance is essential to the success of the Company and has adopted various measures to ensure that a high standard of corporate governance is maintained. The Company has applied the principles and complied with the requirements set out in the Code on Corporate Governance Practices ("CG code") contained in Appendix 15 of the GEM listing Rules.

## QUALIFIED REPORT ISSUED BY CCIF CPA LIMITED

### Basis for qualified opinion

Scope limitation - Prior year's audit scope limitation affecting opening balances

As detailed in our report dated 24 March 2006, the auditors disclaimed their opinion on the Group's financial statements for the year ended 31 December 2005 because of the significance of the possible effects of the limitation in evidence made available to us that, in particular, the auditors were unable to obtain sufficient and appropriate evidence to satisfy themselves as to whether intangible assets and inventories were fairly stated and free from material misstatement. Any adjustments found to be necessary in respect thereof had the auditors obtained sufficient and appropriate evidence would have had a consequential effect on (i) the net assets of the Company and the Group as at 31 December 2005, and (ii) the Group's loss and cash flows for the current year and the prior year and the related disclosures thereof in the financial statements. In respect of the limitation of scope in prior year in the areas as described above, the auditors are unable to express their opinion as to whether the balances brought forward as at 1 January 2006 and the comparative figures were fairly stated in the financial statements.

### **Qualifications arising from limitation of audit scope**

In their opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the auditors been able to satisfy themselves as to the opening balances of intangible assets and inventories, the consolidated financial statements give a true and fair view of the financial position of the Company and of the Group as at 31 December 2006, and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Without qualifying their opinion, the auditors draw attention to note 2(a) to the financial statements which indicates that the Group incurred consolidated loss of approximately RMB16,151,000 during the year ended 31 December 2006. As of that date, the Company reported net current liabilities of approximately RMB14,863,000 and net liabilities of approximately RMB15,125,000, and the Group reported consolidated net current liabilities of approximately RMB19,901,000 and net liabilities of approximately RMB14,553,000. These conditions, along with other matters as set forth in note 2(a), indicate the existence of a material uncertainty which may cast significant doubt on the Company's and the Group's ability to continue as a going concern.

### **AUDIT COMMITTEE**

The audited financial statements of the Company for the year ended 31 December 2006 have been reviewed by the Audit Committee before recommending it to the Board for approval.

### **DIRECTORS' SECURITIES TRANSACTIONS**

The Company has adopted the code of conduct regarding directors' securities transactions as set out in GEM Listing Rules 5.48 to 5.67. The Company has made specific enquiry of all the Directors and the Company was not aware of any non-compliance with the required standard of dealings regarding the securities transactions by Directors.

By Order of the Board  
**Hung Yung Lai**  
*Chairman*

Hong Kong, 14 May 2007

The Board comprises of:

Hung Yung Lai (*Executive Director*)

Cui Jian (*Executive Director*)

Xu Shu Yi (*Executive Director*)

Pao Ping Wing (*Independent Non-Executive Director*)

Tam Kwok Hing (*Independent Non-Executive Director*)

Lo King Man (*Independent Non-Executive Director*)

*This announcement will remain on the "Latest Company Announcements" page on the GEM website for at least 7 days from the date of its publication.*