FinTronics
银创控股

# FinTronics Holdings Company Limited

(Incorporated in Bermuda with limited liability)(Stock Code: 706)

# Annual Report 2005

# Contents

# Corporate Information

## Directors

### Executive Directors

Mr. Sze Wai, Marco *(Chairman)*
Mr. Chu Chi Shing *(Chief Executive Officer)*
Mr. Song Jing Sheng
Mr. Gu Peijian

### Independent Non-executive Directors

Mr. Wong Po Yan
Mr. Mao Zhenhua
Mr. Chong Yiu Kan, Sherman

## Company Secretary

Mr. Chan Ying Kay, *FCPA*

## Qualified Accountant

Mr. Chan Ying Kay, *FCPA*

## Legal Advisers

Chiu & Partners
41st Floor, Jardine House
1 Connaught Place
Hong Kong

## Auditors

RSM Nelson Wheeler
Certified Public Accountants
7th Floor, Allied Kajima Building
138 Gloucester Road
Hong Kong

## Principal Bankers

Bank of China (Hong Kong) Limited
Citic Ka Wah Bank Limited

## Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

## Head Office and Principal Place of Business in Hong Kong

Units 2003 and 2005, 20th Floor
Great Eagle Centre
23 Harbour Road, Wanchai
Hong Kong

## Bermuda Principal Share Registrar and Transfer Office

The Bank of Bermuda Limited
Bank of Bermuda Building
6 Front Street, Hamilton HM 11
Bermuda

## Hong Kong Branch Share Registrar and Transfer Office

Tengis Limited
26/F Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

# Business Structure

at 31 December 2005

The following chart shows the principal members of the FinTronics Holdings Company Limited and its principal subsidiaries and associates and their respective business activities as at 31 December 2005:

**FinTronics Holdings Company Limited**

- **Software Development and Systems Integration Business**
  - Start-tech (Fujian) Software and System Co., Ltd. 100%
  - Fuzhou Start Medical Systems Co., Ltd. 100%
  - Start-tech (Guangzhou) Medical System Co., Ltd. 100%
  - Fujian Star System Integration Co., Ltd. 47%
  - Anhui Start Technology and System Integration Co., Ltd. 51%
  - Inner Mongolia Start-Tech Software and System Co., Ltd 100%
  - Shanxi Start Technology Co., Ltd 51%
- **Sale of Integrated Circuits and Computer Software**
  - China Star Group (Hong Kong) Corporation Limited 100%
- **ATM Business**
  - Loten Technology Co., Ltd. 30%
  - Beijing Sun Leader Technology Co., Ltd. 30%
- **Information Localisation Services**
  - SJTU Sunway Information Technology Co., Ltd. 32%
  - Fujian Multi Language Translation Service Company Limited 49%

# Chairman's Statement

## To Our Shareholders

After long term tracking and analysis of the financial services industry and the individual consumption market in the PRC, the Group decided to enter the PRC self-service financial services market in early 2005. In order to tap the rapidly developing market, the Group acquired all interest in Loten Technology Co., Ltd. ("Loten") in December this year. Loten is a leading enterprise providing ATM and related services in the self-service financial services market of the PRC. Its core businesses include the provision of automatic teller machines ("ATM") to China Unionpay and other commercial banks, and the provision of related maintenance and technical support. It also provides withdrawal, transfer, inquiry and other value-added services to the cardholders of different banks. Through such acquisition, the Group established itself as the lead player in the ATM market of China, and positioned the self-service financial services as the core business for the future.

The reform of financial industry in China progressed at a rapid pace and the number of joint-stock commercial banks, local commercial banks and agricultural credit cooperatives increased to over 130. In face of the opening up of the PRC financial industry to foreign-owned banks by the end of 2006, local commercial banks develop retail banking and credit card business on top of the original operations. In light of the general low capital adequacy ratio of state-owned commercial banks and the shortage of human resources, local commercial banks are proactively seeking ATM partners to outsource the ATM operations. With a higher per capita income and improvement in application of bank cards, the number of individual consumer using ATM soars, which further heightens the demand for ATM. At the end of 2005, there were nearly 1 billion bank cards issued in China, representing the second largest market in the world. However, the number of ATM barely reached 80,000 units, which translated into 60 ATMs per 1 million people, lagging far behind most developed countries. Therefore, the ATM services market in the PRC will develop rapidly in the coming years and bring tremendous opportunities for the service providers. We believe that this business will bring a long term satisfactory return to the shareholders.

In May 2005, the Group disposed of the less relevant manufacture and sale of computer related products business at a total consideration of RMB33.8 million, so as to cut cost and direct more resources to the self-service financial services market in the PRC that has huge potential.

## Appreciation

On behalf of the Board of Directors, I would like to take this opportunity to express our sincere appreciation to all our clients, bankers, investors and business partners for their continued confidence and support. I would also like to thank our management and staff for their continuing commitment and contribution to our business operations.

**Sze Wai, Marco**
*Chairman*

Hong Kong, 26 April 2006

# Management Discussion and Analysis

## Business Review

### Self-service financial services

In 2005, the Group acquired all interest of Loten at a consideration of RMB194 million. Loten possesses the know-how of ATM business in the PRC and strength in product design, component specification and quality control. On the other hand, Loten is one of the leading enterprises in terms of location, value-added services and continuous maintenance. It also has a wide client base in the financial services industry and involved in the technology development of the ATMP of China Unionpay. As of 2005, Loten currently had over 100 ATMs and the number is expected to increase to over 300 ATMs by the end of the first quartet of 2006. Meanwhile, Loten also entered into contracts with 11 institutions of China Unionpay and over 20 commercial banks in China in relation to the establishment and operation of 15,000 ATMs in the coming five years throughout the country. With these contracts, the Group will become the leading independent operator in China.

### Software Development and Systems Integration Services

The sale of the business in the year under review was HK$49,430,000, accounting for approximately 20.6% of the overall turnover of the Group. The Group focused on the large-scale 福建金保 and 福建機關社保 projects. For the 福建金保 project, it is under review by the authority. In addition, the Group was granted the pilot social insurance project for the organizations under Fujian Provincial People's Government and entered into two contracts with "三明機關社保" and "寧德機關社保". With the active promotion of social insurance in all cities, it is expected that the operation will commence in Fuzhou, Longyan, Zhangzhou and Quanzhou in the coming two years.

In the year under review, the Group entered into contracts in relation to the hospital information management system ("HIS") of 14 hospitals and three laboratory information management system ("LIS"). The aggregate contract value was over HK$10 million.

### Sale of Integrated Circuits and Computer Software

During the year, the sale of integrated circuits and computer software business reached HK$102,364,000 representing 42.7% of the Group's total turnover.

### Manufacture and Sale of Computer Related Products

The sale of the manufacture and sale of computer related products business for the year was HK$87,105,000, accounting for 36.4% of the total turnover. Among fierce competition in the plastic injection processing market, the gross profit margin decreased accordingly. The Group decided to dispose of this business so as to improve the profitability and direct more resources to develop the self-service financial services business

### SJTU Sunway

In the year under review, SJTU Sunway Software Industry Limited, an associate of the Group, continued to focus on strategic transformation and explore new business opportunities so as to further develop the business.

### Prospects

The self-service financial services market in the PRC is at a robust stage. According to the research finding of international retail bankers, there were 48 and 429 ATMs per 1 million people in the PRC and Hong Kong, respectively, showing the huge potential of the PRC market. In light of this, the Group plans to establish about 1,500 ATMs in cities like Shenzhen, Beijing and Shanghai shortly.

# Management Discussion and Analysis

Regarding the development strategy for the value-added services, the Group focuses on the development of value-added services for ATM, while at the same time attaches great importance to derivative businesses in relation to the value-added services for ATM. The Group is currently negotiating with the banker clients on the feasibility of developing utility payment services, electronic lottery and advertisements.

Consolidating the competitiveness of the Group and the extensive experience of Loten in finance e-payment services, the Group will proactively seize market opportunity and speed up the growth, moving towards the aim of becoming the leading self-service financial services provider in the PRC.

## Material Investments and Disposals in Subsidiaries and Associates

In March 2005, the Group acquired 30% interests in ATM Companies at a consideration of RMB60 million. Loten is a solution provider in relation to the management of ATM for financial institutions in the PRC. With reference to the announcement dated 6 December 2005, the Group has entered into a Sale and Purchase Agreement to further acquire the remaining 70% interests in ATM companies at a consideration of RMB144 million, and is conditional upon the fulfillment of certain conditions. The information regarding this transaction was published in conformity with the Listing Rules in the Company's circular dated 30 December 2005.

In March 2005, the Group has established Shanxi Start Technology Co., Ltd ("山西實達") in which the Group holds 51% equity interest and contributed RMB1,530,000 as registered capital. 山西實達 is principally engaged in the provision of software development and systems integration services.

In May 2005, the Group entered into the equity transfer agreement pursuant to which the Group will sell the entire interests in the Plastic Companies at a consideration of RMB33,800,000. The information regarding this transaction was published in the Company's circular dated 23 June 2005 in conformity with the Listing Rules.

## Liquidity and Financial Resources

As at 31 December 2005, the Group had cash and bank balances of HK$29.8 million (2004: HK$218.1 million) of which HK$17.5 million (2004: HK$17.5 million) were pledged to banks for facilities granted to the Group.

Loans and overdraft of the Group as at 31 December 2005 amounted to HK$64.3 million (2004: HK$67.8 million) and were all repayable within one year. As at 31 December 2005, the total asset value of the Group was HK$408.4 million (2004: HK$555.1 million) whereas the total liabilities was HK$143.3 million (2004: HK$184.6 million). The gearing ratio of the Group, calculated as total liabilities over total assets, was 35.1% (2004: 33.2%).

Of the total borrowings as at 31 December 2005, about 15.2% was denominated in Renminbi and the remainder in HK dollars, and 10.5% was at fixed interest rates.

As at 31 December 2005, the Group had available aggregate banking facilities of HK$79.6 million (2004: HK$103.0 million) of which HK$6.0 million (2004: HK$33.3 million) has not been utilised.

Assets charged as security for banking facilities included bank deposits totalling HK$17.5 million (2004: HK$17.5 million), and investment properties of the Group valued at HK$8.3 million (2004: HK$6.3 million) as at 31 December 2005.

The Group maintain a net borrowings (being the total cash and bank balances net of total borrowings) to equity ratio of 13.0% (2004: net cash to equity ratio of 40.5%) as at 31 December 2005. With net borrowings of HK$34.5 million (2004: net cash of HK$150.3 million) as at 31 December 2005, the Group's liquidity position has become tighten and the Directors of the Group has implemented certain financing measures including rights issue in March 2006 to ensure the Company has sufficient financial resources to satisfy its commitments and working capital requirements.

## Contingent Liabilities

As at 31 December 2005, certain buildings held for own use of the Group with an aggregate carrying value of HK$5,642,000 (2004: HK$8,600,000) were pledged and corporate guarantee of the Company was given as security for banking facilities amounting to HK$15,000,000 (2004: HK$15,000,000) granted to a subsidiary of a former related company. As at 31 December 2005, the amount of the facilities utilised was HK$7,985,000 (2004: HK$788,000).

As at 31 December 2005, the Group had contingent liabilities in connection with performance bonds for suppliers amounting to HK$3,588,000.

## Exchange Risk

As the Group's operations are principally in the PRC and all assets and liabilities are denominated either in Renminbi, HK dollars or US dollars, the Directors believe that the operations of the Group are not subject to significant exchange risk.

## Employees, Training and Remuneration Policies

As at 31 December 2005, the Group had approximately 497 (2004: 1,426) employees of which approximately 168 (2004: 149) were technicians. Employees' costs (including directors' emoluments) amounted to approximately HK$25.4 million (2004: HK$29.9 million) for the year. The Group ensures that the pay levels of its employees are competitive and employees are rewarded on a performance related basis.

The Directors believe that experienced staff, in particular its technicians, are the most valuable assets of the Group. Training programme is provided to technicians, especially new recruits, to ensure their technical proficiency.

The Company operates a share option scheme (the "Scheme") whereby the Board may at their absolute discretion, grant options to employees and Executive Directors of the Company and any of its subsidiaries to subscribe for shares in the Company. The subscription price, exercisable period and the maximum number of options to be granted are determined in accordance with the prescribed terms of the Scheme.

# Biographical Details of Directors and Senior Management

## Executive Directors

**Mr. Sze Wai, Marco**, aged 40, is the Chairman of the Company. He joined the Group in February 2001. Mr. Sze has over 15 years of experience in investing in Hong Kong and China. His investment interests cover various sectors including information technology, industrial, property investment and development, transportation and trading. He is responsible for formulating the Group's business strategies. Mr. Sze is also the Chairman of SJTU Sunway Software Industry Limited.

**Mr. Chu Chi Shing**, aged 38, is an Executive Director and Chief Executive Officer of the Company. He joined the Group in June 1998. Mr. Chu graduated from Shanghai Jiaotong University with a bachelor degree in Computer Science. Mr. Chu has extensive experience in the computer industry. He is responsible for the Group's business operations and also responsible for the implementation of the Group's business strategies and policies and investors' relationship.

**Mr. Song Jing Sheng**, aged 48, graduated from the postgraduate school of Chinese Academy of Social Sciences majoring in Finance. He has extensive experience in the banking and finance industry in the PRC. Mr. Song joined the Group in May 2005.

**Mr. Gu Peijian**, aged 39, is an Executive Director of the Company. He re-joined the Group in September 2004. He obtained a master degree from Zhongguo Guoli Huaqiao University. He has 16 years of experience in the computer industry. He was an executive director of the Company from March 1999 to November 2000.

**Mr. Wang Qing**, aged 36, is an Executive Director of the Company. He joined the Group in August 2001. Mr. Wang graduated from Fuzhou University, majoring in Economics. He has extensive experience in trading, high technology product development and investment industries. Mr. Wang left the Group since May 2005.

**Mr. Ye Long**, aged 42, is an Executive Director of the Company. He joined the Group in June 1998. Mr. Ye graduated from Shanghai Jiaotong University with a bachelor degree in Computer Science and obtained from Shanghai University a master degree in Science. He has extensive experience in computer industry and also, responsible for formulating the Group's business strategies. He left the Group in February 2005.

## Independent Non-Executive Directors

**Mr. Wong Po Yan**, aged 82, is an Independent Non-executive Director. He joined the Group in June 1998. He graduated from the National University of Amoy with a bachelor of science degree, and was awarded honorary doctorate degree in Business Administration and Social Sciences respectively by the City University of Hong Kong and the Hong Kong Baptist University. Mr. Wong was a member of the Drafting Committee of Basic Law and a member of the Legislative Council for nine years. Mr. Wong was also a board member of Hong Kong Trade Development Council ("HKTDC"), a board member of the Trade Advisory Board, chairman of HKTDC's China Advisory Committee, a member of the Preliminary Working Committee of the Preparatory Committee for the Hong Kong Special Administrative Region, chairman of the Airport Authority and was a chairman of the Nuclear Safety Consultative Committee for Guangdong Daya Bay Nuclear Power Station.

**Mr. Mao Zhenhua**, aged 42, is an Independent Non-executive Director. He joined the Group in February 2001. Mr. Mao graduated from Wuhan University with a doctorate in Economics. Mr. Mao is currently the Board Chairman and Chief Executive Officer of China Chengxin Credit Management Co., Ltd.. He has extensive experience in investment banking and the management of listed companies in Hong Kong. Mr. Mao had carried out economic analysis and policies research for Hubei Provincial Government, Hainan Provincial Government and Research Office of the State Council. He was also director and chief executive of several other companies listed on the Stock Exchange of Hong Kong Limited.

**Mr. Chong Yiu Kan, Sherman**, aged 42, is an Independent Non-executive Director. He joined the Group in September 2004. Mr. Chong obtained a master degree in Business Administration from the University of Hong Kong. He is a Certified Public Accountant (Practising) of the Hong Kong Institute of Certified Public Accountants. He has over 18 years of working experience in auditing, accounting, taxation and management consultancy. He is the sole proprietor of Sherman Chong & Co. (CPA). He is also an independent non-executive director of China Conservational Power Holdings Limited which shares are listed on the Stock Exchange.

## Senior Management

**Mr. Chan Ying Kay**, aged 42, Company Secretary and Qualified Accountant of the Company. Mr. Chan is also the Chief Financial Officer of the Company. Mr. Chan is responsible for the financial management, corporate finance and company secretarial matters of the Group. Mr. Chan joined the Group in April 2003 and has over 15 years of experience in accounting and finance. Mr. Chan is a fellow member of both the Chartered Association of Certified Accountant and the Hong Kong Institute of Certified Public Accountants.

# Report of the Directors

The Directors hereby present the annual report together with the audited financial statements of the Company and the Group for the year ended 31 December 2005.

## Principal Activities

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries are set out in note 16 on the financial statements.

The analysis of the principal activities and geographical locations of operations of the Company and its subsidiaries during the year are set out in note 16 on the financial statements.

## Financial Statements

The results of the Group for the year ended 31 December 2005 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 23 to 86.

The Directors do not recommend the payment of a dividend for the year ended 31 December 2005.

## Five Years Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five years are set out on page 87.

## Major Customers and Suppliers

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

| | **Percentage of the Group's total** | |
|---|---|---|
| | **Sales** | **Purchases** |
| The largest customer | 42.7 | Nil |
| Five largest customers in aggregate | 47.5 | Nil |
| The largest supplier | Nil | 35.4 |
| Five largest suppliers in aggregate | Nil | 60.4 |

None of the Directors or their respective associates (as defined in the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or shareholders who own more than 5% of the issued share capital of the Company had any interests in any of these major customers and suppliers.

## Fixed Assets

Details of movements in the fixed assets of the Company and the Group during the year ended 31 December 2005 are set out in note 15 on the financial statements.

## Bank Loans and Other Borrowings

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2005 are set out in note 26 on the financial statements.

## Share Capital

Details of movements in the share capital of the Company during the year are set out in note 30 on the financial statements. Shares were issued during the year to broaden the capital base of the Company.

## Share Premium and Reserves

Details of movements in the reserves of the Company and the Group are set out in note 30 on the financial statements.

## Distributable Reserves

As at 31 December 2005, the Company has no reserve available for cash distribution (2004: HK$Nil) as computed in accordance with the Bermuda Companies Act 1981 (as amended). In addition, the Company's share premium account of HK$217,055,000 (2004: HK$217,055,000) as at 31 December 2005 may be distributed in the form of fully paid bonus shares.

## Directors

The Directors during the financial year were:

**Executive Directors**

Mr. Sze Wai, Marco, *Chairman*
Mr. Chu Chi Shing, *Chief Executive Officer*
Mr. Wang Qing (retired on 31 May 2005)
Mr. Gu Peijian
Mr. Ye Long (resigned on 16 February 2005)
Mr. Song Jing Sheng (appointed on 1 May 2005)

**Independent Non-executive Directors**

Mr. Wong Po Yan
Mr. Mao Zhenhua
Mr. Chong Yiu Kan, Sherman

Independent Non-executive Directors are not appointed for a specific term. All the Directors, excluding Chairman, are subject to retirement by rotation and re-election at the annual general meeting in accordance with the bye-laws of the Company.

In accordance with bye-law 111(A) and (B), Mr. Chu Chi Shing and Mr. Gu Peijian will retire by rotation at the forthcoming annual general meeting and being eligible, offers himself for re-election.

In addition, pursuant to bye-law 114, Mr. Song Jing Sheng will hold office until the forthcoming annual general meeting and being eligible, offer themselves for re-election.

# Report of the Directors

## Directors' Service Contracts

None of the Directors for re-election at the forthcoming annual general meeting has an unexpired service contract with the Company which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

## Directors' and Chief Executive's Interest and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2005, the interests and short positions of the Directors and chief executive of the Company in the share or underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provision of the SFO), or which were required pursuant to section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required pursuant to Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

| **Name** | **Name of company** | **Capacity** | **Number and class of securities** (note 1) |
|---|---|---|---|
| Mr. Sze Wai, Marco | The Company | Interest of controlled corporation (note 2) | 132,434,953 ordinary shares (L) |
| | The Company | Beneficial interest | 3,500,000 ordinary shares (L) (note 3) |
| Mr. Chu Chi Shing | The Company | Beneficial interest | 2,500,000 ordinary shares (L) (note 3) |
| Mr. Gu Peijian | The Company | Beneficial interest | 540,000 ordinary shares (L) |
| Mr. Song Jing Sheng | The Company | Beneficial interest | 24,900,000 ordinary shares (L) (note 4) |

Notes:

1. The letter "L" represents the Director's interests in the shares and underlying shares of the Company.

2. These shares were held by Leading Value Industrial Limited which is wholly-owned by Mr. Sze Wai, Marco.

3. These shares were the respective number of shares which would be allotted and issued upon exercise in full of the options granted to each of Mr. Sze Wai, Marco and Mr. Chu Chi Shing under the share option schemes of the Company. The exercise period and the exercise price of these options are set out in the section headed "Share Option Scheme" below.

4. Included in these shares were (i) 18,900,000 issued shares and (ii) 6,000,000 shares which would fall to be alloted and issued pursuant to the exercise of subscription rights attaching to the unlisted warrants issued to him.

## Directors' and Chief Executive's Interest and Short Positions in Shares, Underlying Shares and Debentures *(Continued)*

Save as disclosed above, as at 31 December 2005, none of the Directors and the chief executive of the Company had any interest and short positions in the shares or underlying shares of the Company or its associated corporations (within the meaning of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

## Share Option Scheme

Prior to 23 May 2002, the Company operated an option scheme whereby the Board of Directors could, at their absolute discretion, grant options to employees and executive directors of the Company and any of its subsidiaries to subscribe for shares in the Company (the "Old Scheme"). On 23 May 2002, the Old Scheme was terminated and a new share option scheme (the "New Scheme") was adopted, whereby the Board of Directors may, at their absolute discretion, grant options to any eligible employees, non-executive Directors, any suppliers and customers of the Company or any of its subsidiaries or any invested entity to subscribe for shares in the Company.

For options granted before 1 September 2001, the exercise price of options was the higher of the nominal value of the shares and 80% of the average closing prices of the shares of the Company on the Stock Exchange for the five trading days immediately preceding the date of offer of the options. For options to be granted after 1 September 2001, the exercise price of the options will be the highest of the nominal value of the shares, the closing price of the shares on the Stock Exchange on the date of offer of the options and the average closing price of the shares on the Stock Exchange for the five trading days immediately preceding the date of offer of the options.

The total number of shares which may be issued upon exercise of all options to be granted under the New Scheme and any other operative share option schemes of the Group may not in aggregate exceed 44,064,400, being 10% of the shares in issue of the Company as at 23 May 2002, the date of adoption of the New Scheme.

# Report of the Directors

## **Share Option Scheme** *(Continued)*

At 31 December 2005, the Directors and employees of the Company had the following interests in options to subscribe for shares of the Company (market value per share is HK$0.122 at the balance sheet date) granted at nominal consideration of HK$1.00 for each lot of share options granted under the share option scheme operated by the Company, each option gives the holder the right to subscribe for one share:

| | Date granted | Period during which options exercisable | Exercise price (HK$) | Number of options: Outstanding at 1.1.2005 | Granted during the year | Lapsed during the year | Outstanding at 31.12.2005 | Closing price per share immediately before the date of grant (HK$) |
|---|---|---|---|---|---|---|---|---|
| **Old Scheme** | | | | | | | | |
| **Directors** | | | | | | | | |
| Mr. Chu Chi Shing | 06.07.1999 | 02.10.1999 – 05.07.2009 | 1.08 | 2,100,000 | – | – | 2,100,000 | 1.99 |
| | 17.01.2000 | 02.01.2001 – 16.01.2010 | 1.32 | 200,000 | – | – | 200,000 | 2.70 |
| | 04.06.2001 | 01.10.2001 – 03.06.2011 | 0.58 | 200,000 | – | – | 200,000 | 0.86 |
| Mr. Sze Wai, Marco | 04.06.2001 | 01.10.2001 – 03.06.2011 | 0.58 | 3,500,000 | – | – | 3,500,000 | 0.86 |
| **Former Directors** | | | | | | | | |
| Mr. Ye Long | 06.07.1999 | 02.10.1999 – 05.07.2009 | 1.08 | 3,000,000 | – | (3,000,000) | – | 1.99 |
| Mr. Chiu Chi Shun, Clarence | 04.06.2001 | 01.10.2001 – 03.06.2011 | 0.58 | 3,500,000 | – | – | 3,500,000 | 0.86 |
| **Employees** | 06.07.1999 | 02.10.1999 – 05.07.2009 | 1.08 | 2,881,000 | – | – | 2,881,000 | 1.99 |
| | 30.12.1999 | 02.01.2001 – 29.12.2009 | 1.13 | 100,000 | – | – | 100,000 | 1.67 |
| | 17.01.2000 | 02.01.2001 – 16.01.2010 | 1.32 | 650,000 | – | – | 650,000 | 2.70 |
| | 21.01.2000 | 02.01.2001 – 20.01.2010 | 1.44 | 560,000 | – | – | 560,000 | 2.25 |
| | 07.03.2000 | 02.01.2001 – 06.03.2010 | 2.06 | 40,000 | – | – | 40,000 | 4.025 |
| | 10.08.2000 | 02.01.2001 – 09.08.2010 | 1.14 | 300,000 | – | (100,000) | 200,000 | 1.39 |
| | 04.06.2001 | 01.10.2001 – 03.06.2011 | 0.58 | 8,850,000 | – | (7,100,000) | 1,750,000 | 0.86 |
| | | | | 13,381,000 | – | (7,200,000) | 6,181,000 | |
| **New Scheme** | | | | | | | | |
| **Former Director** | | | | | | | | |
| Mr. Ye Long | 28.05.2002 | 28.05.2002 – 27.05.2012 | 0.67 | 1,000,000 | – | (1,000,000) | – | 0.66 |
| Employees | 28.05.2002 | 28.05.2002 – 27.05.2012 | 0.67 | 500,000 | – | (500,000) | – | 0.66 |

## **Share Option Scheme** *(Continued)*

The share options are exercisable for a period of ten years commencing from the date of grant and subject to the vesting provisions are as follows:

| Date granted | Vesting period | Percentage of options vested |
|---|---|---|
| 06.07.1999 | 06.07.1999-01.10.1999 | Nil |
| | 02.10.1999-01.01.2000 | 10% |
| | 02.01.2000-01.01.2001 | 30% |
| | 02.01.2001-01.01.2002 | 60% |
| | 02.01.2002-01.07.2002 | 90% |
| | 02.07.2002-05.07.2009 | 100% |
| 30.12.1999, 17.01.2000, | Date of grant-01.01.2001 | Nil |
| 21.01.2000, 07.03.2000 | 02.01.2001-01.01.2002 | 30% |
| and 10.08.2000 | 02.01.2002-01.01.2003 | 60% |
| | 02.01.2003-10 years from the date of grant | 100% |
| 04.06.2001 | 04.06.2001-30.09.2001 | Nil |
| | 01.10.2001-01.01.2002 | 40% |
| | 02.01.2002-01.01.2003 | 70% |
| | 02.01.2003-03.06.2011 | 100% |
| 28.05.2002 | 28.05.2002-01.01.2003 | 40% |
| | 02.01.2003-01.01.2004 | 70% |
| | 02.01.2004-27.05.2012 | 100% |

The share options are not recognised in the financial statements until they are exercised. No share option was granted and exercised during the year ended 31 December 2004. The weighted average value per option granted in 2002 estimated at the date of grant using the Black-Scholes pricing model was HK$0.67. The weighted average assumptions used are as follows:

| | 2002 |
|---|---|
| Risk-free interest rate | 3.97% |
| Expected life (in years) | 10 |
| Volatility | 0.08 |
| Expected dividend per share | – |

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, such option pricing model requires input of highly subjective assumptions, including the expected stock price volatility. Because the Company's share options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, the Black-Scholes option pricing model does not necessarily provide a reliable measure of the fair value of the share options.

### Share Option Scheme *(Continued)*

On 20 March 2006, share options entitling the holders thereof to subscribe for an aggregate of 44,060,000 shares were granted to employees of the Company. The fair value of the options was not determined yet as the management considers there is no financial impact in the current year.

Apart from the foregoing, at no time during the year was the Company, its holding company, subsidiaries or fellow subsidiaries a party to any arrangements to enable the Company's Directors or chief executive or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company, or any other body corporate.

### Substantial Shareholders and Other Persons who are Required to Disclose their Interests Pursuant to Part XV of the SFO

As at 31 December 2005, the following persons and entities, other than a Director or chief executive of the Company, had an interest or a short position in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SFO:

| Name of shareholder | Number of ordinary shares | Capacity | Approximate percentage of interest |
|---|---|---|---|
| Leading Value Industrial Limited | 132,434,953 (note 1) | Beneficial owner | 25.05% |
| Fujian Start Computer Group Company Limited | 46,602,000 | Interest of a controlled corporation (note 2) | 8.82% |
| Interstar Holdings Limited | 46,602,000 | Beneficial owner | 8.82% |

Notes:

1. Mr. Sze Wai, Marco's interest in Leading Value Industrial Limited is also disclosed in the section headed "Directors' and Chief Executive's Interest and Short Positions in Shares, Underlying Shares and Debentures".

2. These shares are registered in the name of Interstar Holdings Limited, which is a wholly owned subsidiary of Fujian Start Computer Group Company Limited.

Save as disclosed above, as at 31 December 2005, no person or entity other than a Director or chief executive of the Company, had an interest or a short position in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SFO.

### Purchase, Sale or Redemption of the Company's Listed Securities

During the year ended 31 December 2005, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

## Competing Business Interests of Directors

None of the Directors and their respective associates had any interest in a business which competes or may compete with the business of the Group.

## Pre-emptive Rights

There are no provisions for pre-emptive rights under the bye-laws of the Company or the laws in Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## Retirement Scheme

The Company and its Hong Kong subsidiaries operate Mandatory Provident Fund Schemes (the "MPF schemes") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF schemes are defined contribution retirement schemes administered by independent trustees. Under the MPF schemes, the employers and employees are each required to make contributions to the MPF schemes at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the MPF schemes vest immediately.

The retirement benefits costs under the MPF schemes charged to the income statement amounted to HK$240,000 (2004: HK$77,000) during the year.

The subsidiaries of the Group in the PRC other than Hong Kong participate in pension schemes organised by the respective municipal governments whereby they are required to pay annual contributions at the rates ranging from 14% to 25% (2004: 14% to 25%) of the standard wages determined by the relevant authorities in the PRC.

Under the above schemes, retirement benefits of existing and retired employees are payable by the relevant PRC scheme administrators and the Group has no further obligations beyond the annual contributions.

The aggregate employers' contributions by the Group under the PRC pension schemes amounted to HK$977,000 (2004: HK$1,120,000) during the year.

The Group does not operate any other scheme for retirement benefits provided to the Group's employees.

## Directors' Interests in Contracts

No contract of significance to which the Company, its holding company, subsidiaries or fellow subsidiaries was a party, in which a director of the Company had a material interest subsisted at the end of the year or at any time during the year.

## Connected Transactions

During the year ended 31 December 2005, there were no transactions which are required to be disclosed in accordance with announcement and reporting requirements under the Listing Rules.

# Report of the Directors

## Code on Corporate Governance Practices

The Company is committed to the establishment of good corporate governance practices and procedures. The corporate governance principles of the Company emphasise a quality board, sound internal control, and transparency and accountability to all shareholders. The Company has applied the principles and complied with all code provisions and, where applicable, the recommended best practices of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules ("Code on CG Practices") throughout the year ended 31 December 2005. Details of the Code adopted by the Company is set out in the section of Corporate Governance Report.

## Audit Committee

The Company has established audit committee with written terms of reference. The primary duties of the audit committee are to review, in draft form, the Company's annual report and accounts, half-year report, and to provide advice and comments thereon to the Board. The audit committee is also responsible for reviewing and supervising the financial reporting process and internal controls of the Group. The audit committee comprises three independent non-executive directors, namely Mr. Wong Po Yan, Mr. Mao Zhenhua and Mr. Chong Yiu Kan, Sherman. Mr. Chong Yiu Kan, Sherman is the chairman of the audit committee. The audit committee has reviewed with the management the accounting principles and practices adopted by the Company and discussed internal controls and financial reporting matters, including a review of the annual report for the year ended 31 December 2005 with the Directors.

## Independence of Independent Non-executive Directors

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Board still considers each of the independent non-executive Directors to be independent.

## Auditors

KPMG were auditors of the Company for the year ended 31 December 2004. RSM Nelson Wheeler, who was appointed as auditors of the Company by the Board of Directors to fill the casual vacancy arising from the resignation of KPMG on 8 March 2006.

The financial statements have been audited by RSM Nelson Wheeler, who will retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming Annual General Meeting.

By order of the Board of Directors of
**FinTronics Holdings Company Limited**

**Sze Wai, Marco**
*Chairman*

Hong Kong, 26 April 2006

# Corporate Governance Report

The Company had complied with the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules throughout the year. Below are the major corporate governance practices adopted by the Company with specific reference to the Code.

## Directors' Securities Transactions

The Company has adopted the required standard of dealing set out in Appendix10 of the Listing Rules (the "Required Standard") as the code of conduct regarding securities transactions by the Directors of the Company and has complied with the Required Standard. A copy of the Required Standard is sent to each Director of the Company upon appointment and a reminder is sent to each Director one month before the date of the board meetings to approve the Company's interim results and annual results that the Director cannot deal in the shares of the Company until after such results have been published.

## The Board of Directors

The Board consists of three Independent Non-executive Directors that is more than one-third of the Board. As at the date of this report, the Board comprises seven Directors, of which four are Executive Directors. Members of the Board met regularly throughout the year to discuss the overall strategy as well as the operation and financial performance of the Group. There are total of 6 board meetings held during the year.

Attendance of individual Directors at Board Meetings held during the year:–

| **Executive Directors** | | **Attendance** | **Percentage** |
|---|---|---|---|
| Mr. Sze Wai, Marco | | 6/6 | 100% |
| Mr. Chu Chi Shing | | 6/6 | 100% |
| Mr. Song Jing Sheng | (appointed on 1 May 2005) | 2/2 | 100% |
| Mr. Gu Peijian | | 6/6 | 100% |
| Mr. Wang Qing | (retired on 31 May 2005) | 3/4 | 75% |
| Mr. Ye Long | (resigned on 16 February 2005) | 0/1 | 0% |
| | | | |
| **Independent Non-executive Directors** | | | |
| Mr. Wong Po Yan | | 5/6 | 83% |
| Mr. Mao Zhenhua | | 4/6 | 67% |
| Mr. Chong Yiu Kan, Sherman | | 4/6 | 67% |

The Managing Director of the Company performs the function of chairman and is responsible for leadership and management of the Board, the overall corporate direction, corporate strategy and policy making of the group. The Company's Chief Executive Officer is responsible for overall management, business development, implementation of strategy and policy in achieving the overall commercial objectives. The roles of the Managing Director and the Chief Executive Officer are distinctive. Also, there were no special relationship (including financial, business, family or other material/relevant relationships) among existing members of the Board and in particular, between the Managing Director and the Chief Executive Officer.

# Corporate Governance Report

## Remuneration Committee

The Remuneration Committee comprises four members, a majority of whom are independent Non-executive Directors, and is chaired by Mr. Wong Po Yan. The Remuneration Committee is aimed to review and determine the remuneration policy and packages of the executive directors and executives.

The Remuneration Committee is scheduled to meet at least once a year for the determination of the remuneration packages of Directors and executives of the Group. In addition, the Committee also meets as and when required to consider remuneration related matters. One meeting was held during the financial year. The attendance of each member is set out as follows:

Attendance of individual members at Remuneration Committee Meeting held during the year:–

| Independent Non-executive Directors | Attendance | Percentage |
|---|---|---|
| Mr. Wong Po Yan | 1/1 | 100% |
| Mr. Mao Zhenhua | 1/1 | 100% |
| Mr. Chong Yiu Kan, Sherman | 1/1 | 100% |
| | | |
| **Executive Director** | | |
| Mr. Sze Wai, Marco | 1/1 | 100% |

## Nomination Committee

The Nomination Committee comprises four members, a majority of whom are independent Non-executive Directors, and is chaired by Mr. Mao Zhenhua. The Nomination Committee is responsible for nominating potential candidates for directorship, reviewing the nomination of directors and making recommendations to the Board on such appointments.

The Nomination Committee is scheduled to meet at least once a year for the review of the structure, size and composition of the Board. In addition, the Nomination Committee also meets as and when required to consider nomination related matters. One meeting was held during the financial year. The attendance of each member is set out as follows:

Attendance of individual members at Nomination Committee Meeting held during the year:–

| Independent Non-executive Directors | Attendance | Percentage |
|---|---|---|
| Mr. Wong Po Yan | 1/1 | 100% |
| Mr. Mao Zhenhua | 1/1 | 100% |
| Mr. Chong Yiu Kan, Sherman | 1/1 | 100% |
| | | |
| **Executive Director** | | |
| Mr. Sze Wai, Marco | 1/1 | 100% |

## Auditors' Remuneration

The Company reviews the appointment of external auditors on an annual basis including a review of the audit scope and approval of the audit fee. During the year, the fee payable to the Company's external auditors for the annual audit amounted to HK$1,461,000 and fee for non-audit related activities amounted to HK$1,426,000.

## Audit Committee

Under its terms of reference which are aligned with the code provisions set out in the Code, the Audit Committee is required to evaluate the overall effectiveness of the internal control and risk management frameworks, to review the accounting principles and practices adopted by the Group and other financial reporting matters and ensure the completeness, accuracy and fairness of the financial statements, to monitor compliance with statutory and listing requirements and to oversee the relationship with the external auditors.

The Audit Committee reviews the interim and annual reports before submission to the Board. The Audit Committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with accounting standards, the Listing Rules and the legal requirements in the review of the Company's interim and annual reports.

Senior representatives of the external auditors, Executive Directors and senior executives are invited to attend the meetings, if required. None of the Audit Committee members are members of the former or existing employees of the Company.

The Audit Committee met two times during the year and the attendance of each member is set out as follows:

| Independent Non-executive Directors | Attendance | Percentage |
|---|---|---|
| Mr. Chong Yiu Kan, Sherman *(Chairman)* | 2/2 | 100% |
| Mr. Mao Zhenhua | 2/2 | 100% |
| Mr. Wong Po Yan | 2/2 | 100% |

## Internal Control and Risk Management

The Board is responsible for the effectiveness of the Group's internal control systems. The internal control systems are designed to meet the Group's particular needs and the risks to which it is exposed, and by their nature can only provide reasonable, but not absolute assurance against misstatement or loss.

Procedures have been set up for safeguarding assets against unauthorized use or disposition, controlling over capital expenditure, maintaining proper accounting records and ensuring the reliability of financial information used for business and publication. Qualified management throughout the Group maintains and monitors the internal control systems on an ongoing basis.

## Investor Relations

The Company uses two-way communication channels to account to shareholders and investors for the performance of the company. All the shareholders have 21 days' notice of annual general meeting at which directors are available to answer questions on the business. Extensive information about the Group's activities is provided in its Annual Report and Accounts and Interim Report which are sent to shareholders and investors. The Company's announcements, press release and publication are circulated and are also available on the Stock Exchange website.

In order to provide effective disclosure to shareholders and investors and to ensure they all receive equal access to the same information at the same time, information considered to be of a price sensitive nature is released by way of formal public announcement as required by the Listing Rules.

# Auditors' Report

**RSM! Nelson Wheeler**
**羅 申 美 會 計 師 行**
Certified Public Accountants

**TO THE SHAREHOLDERS OF**
**FINTRONICS HOLDINGS COMPANY LIMITED**
(FORMERLY KNOWN AS START TECHNOLOGY COMPANY LIMITED)
*(Incorporated in Bermuda with limited liability)*

We have audited the financial statements on pages 23 to 86 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## BASIS OF OPINION

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

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

## OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2005 and of the Group's results and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

RSM Nelson Wheeler
Certified Public Accountants

Hong Kong, 26 April 2006

# Consolidated Income Statement

For the year ended 31 December 2005

| | Note | 2005<br>HK$'000 | 2004<br>HK$'000<br>(restated) |
|---|---|---|---|
| **Continuing operations** | | | |
| **Turnover** | 4 | **152,401** | 148,532 |
| Cost of sales | | **(122,630)** | (113,252) |
| | | **29,771** | 35,280 |
| Valuation gains on investment property | 15(d) | **2,050** | 2,350 |
| | | **31,821** | 37,630 |
| Other income | 5 | **8,390** | 5,528 |
| Other net loss | 6 | **–** | (3,311) |
| Impairment losses on associates | | **(3,321)** | – |
| Impairment losses on intangible assets | | **(3,423)** | – |
| Impairment losses on trade and other receivables | | **(35,472)** | – |
| Selling and distribution expenses | | **(6,788)** | (5,821) |
| Administrative expenses | | **(42,028)** | (34,608) |
| Other operating expenses | | **–** | (995) |
| **Loss from operations** | | **(50,821)** | (1,577) |
| Finance costs | 7 | **(2,814)** | (1,682) |
| Share of losses of associates | | **(12,895)** | (8,543) |
| **Loss before taxation** | | **(66,530)** | (11,802) |
| **Income tax** | 8(a) | **(1,727)** | (1,664) |
| **Loss for the year from continuing operations** | | **(68,257)** | (13,466) |
| **Discontinued operation** | | | |
| **(Loss)/profit for the year from discontinued operation** | 9 | **(8,029)** | 24,951 |
| **(Loss)/profit for the year** | 7 | **(76,286)** | 11,485 |
| **Attributable to:** | | | |
| **Equity holder of the Company** | | **(78,240)** | 8,107 |
| **Minority interests** | | **1,954** | 3,378 |
| | | **(76,286)** | 11,485 |

# Consolidated Income Statement

For the year ended 31 December 2005

| | Note | **2005 HK$'000** | 2004 HK$'000 (restated) |
|---|---|---|---|
| Earnings/(loss) per share | | | |
| From continuing and discontinued operations: | | | |
| Basic | 13(a) | **(14.8) cents** | 1.6 cents |
| Diluted | 13(b) | **N/A** | N/A |
| From continuing operations: | | | |
| Basic | 13(a) | **(12.9) cents** | (3.2) cents |
| Diluted | 13(b) | **N/A** | N/A |
| From discontinued operation: | | | |
| Basic | 13(a) | **(1.9) cents** | 4.8 cents |
| Diluted | 13(b) | **N/A** | N/A |

The notes on pages 33 to 86 form an integral part of these financial statements.

# Consolidated Balance Sheet

As at 31 December 2005

| | Note | 2005 HK$'000 | 2004 HK$'000 (restated) |
|---|---|---|---|
| **Non-current assets** | | | |
| Fixed assets | | | |
| – Investment properties | 15(a) | **8,350** | 6,300 |
| – Other property, plant and equipment | 15(a) | **7,975** | 65,946 |
| – Interests in leasehold land held for own use under operating leases | | **4,322** | 4,327 |
| | | **20,647** | 76,573 |
| Construction in progress | 17 | **–** | 11,330 |
| Intangible assets | 18 | **1,469** | 1,157 |
| Interests in associates | 19 | **79,789** | 15,715 |
| Deposits and prepayments for investments | 20 | **141,322** | 33,486 |
| Pledged deposits | 26 | **17,516** | 17,516 |
| Deferred tax assets | 29(b) | **–** | 137 |
| | | **260,743** | 155,914 |
| **Current assets** | | | |
| Inventories | 21 | **1,153** | 27,714 |
| Trade and other receivables | 22 | **133,577** | 170,901 |
| Deposits with bank | | **–** | 126,228 |
| Cash and cash equivalents | 24 | **12,324** | 74,391 |
| Tax recoverable | 29(a) | **603** | – |
| | | **147,657** | 399,234 |
| **Current liabilities** | | | |
| Trade and other payables | 25 | **74,406** | 112,569 |
| Loans and overdraft | 26 | **64,316** | 67,791 |
| Tax payable | 29(a) | **552** | 1,439 |
| | | **139,274** | 181,799 |
| **Net current assets** | | **8,383** | 217,435 |
| **Total assets less current liabilities carried forward** | | **269,126** | 373,349 |

# Consolidated Balance Sheet

As at 31 December 2005

| | Note | 2005 HK$'000 | 2004 HK$'000 (restated) |
|---|---|---|---|
| **Total assets less current liabilities brought forward** | | **269,126** | 373,349 |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 29(b) | **4,044** | 2,832 |
| **NET ASSETS** | | **265,082** | 370,517 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 30(a) | **52,864** | 52,864 |
| Reserves | | **208,533** | 284,842 |
| Total equity attributable to equity holders of the Company | | **261,397** | 337,706 |
| Minority interests | | **3,685** | 32,811 |
| **TOTAL EQUITY** | | **265,082** | 370,517 |

Approved and authorised for issue by the Board of Directors on 26 April 2006

**Sze Wai, Marco**
Director

**Chu Chi Shing**
Director

The notes on pages 33 to 86 form an integral part of these financial statements.

# Balance Sheet

As at 31 December 2005

| | Note | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Fixed assets | | | |
| – Property, plant and equipment | 15(b) | **1,359** | 2,718 |
| Interests in subsidiaries | 16 | **181,395** | 207,785 |
| | | **182,754** | 210,503 |
| **Current assets** | | | |
| Trade and other receivables | 22 | **11,920** | 15,678 |
| Cash and cash equivalents | 24 | **14** | 30 |
| | | **11,934** | 15,708 |
| **Current liabilities** | | | |
| Trade and other payables | 25 | **12,259** | 11,132 |
| Other loans | 26 | **–** | 1,100 |
| | | **12,259** | 12,232 |
| **Net current (liabilities)/assets** | | **(325)** | 3,476 |
| **NET ASSETS** | | **182,429** | 213,979 |
| **Capital and reserves** | | | |
| Share capital | 30(a) | **52,864** | 52,864 |
| Reserves | 30(b) | **129,565** | 161,115 |
| **SHAREHOLDERS' FUNDS** | | **182,429** | 213,979 |

Approved and authorised for issue by the Board of Directors on 26 April 2006

**Sze Wai, Marco**
Director

**Chu Chi Shing**
Director

The notes on pages 33 to 86 form an integral part of these financial statements.

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2005

| | Share capital | Share premium (note i) | General reserve (note ii) | Translation reserve (note iii) | Warrant reserve (note iv) | Buildings revaluation reserve (note v) | Retained profits/ (accumulated losses) | Sub-total | Minority interests | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | Attributable to equity holders of the Company | | | | | | | | | |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 1 January 2004 | | | | | | | | | | |
| – as previously reported as equity | 44,064 | 195,909 | 11,027 | 1,173 | – | – | 47,379 | 299,552 | – | 299,552 |
| – as previously separately reported as minority interest | – | – | – | – | – | – | – | – | 19,723 | 19,723 |
| – prior period adjustment in respect of HKAS 17 | – | – | – | – | – | 96 | 39 | 135 | – | 135 |
| – as restated | 44,064 | 195,909 | 11,027 | 1,173 | – | 96 | 47,418 | 299,687 | 19,723 | 319,410 |
| Deficit on revaluation of buildings held for own use (note 15(d)) | – | – | – | – | – | (24) | – | (24) | – | (24) |
| Deferred tax liability arising from revaluation (note 29(b)) | – | – | – | – | – | (4) | – | (4) | – | (4) |
| Exchange difference on translation of financial statements of subsidiaries outside Hong Kong | – | – | – | (6) | – | – | – | (6) | – | (6) |
| Disposal of one of the subsidiaries | – | – | – | – | – | – | – | – | 3,310 | 3,310 |
| Negative goodwill taken up by minority interest | – | – | – | – | – | – | – | – | 6,361 | 6,361 |
| Net income recognised directly in equity | – | – | – | (6) | – | (28) | – | (34) | 9,671 | 9,637 |
| Profit for the year (restated) | – | – | – | – | – | – | 8,107 | 8,107 | 3,378 | 11,485 |
| Total recognised income and expense for the year | – | – | – | (6) | – | (28) | 8,107 | 8,073 | 13,049 | 21,122 |
| Transfer between reserves | – | – | 2,153 | – | – | – | (2,153) | – | – | – |
| Placing of new shares | 8,800 | 21,146 | – | – | – | – | – | 29,946 | – | 29,946 |
| Dividend paid to minority interest | – | – | – | – | – | – | – | – | (2,197) | (2,197) |
| Injection of share capital | – | – | – | – | – | – | – | – | 2,236 | 2,236 |
| | 8,800 | 21,146 | 2,153 | (6) | – | (28) | 5,954 | 38,019 | 13,088 | 51,107 |
| At 31 December 2004 | 52,864 | 217,055 | 13,180 | 1,167 | – | 68 | 53,372 | 337,706 | 32,811 | 370,517 |

| | Attributable to equity holders of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium (note i) | General reserve (note ii) | Translation reserve (note iii) | Warrant reserve (note iv) | Buildings revaluation reserve (note v) | Retained profits/ (accumulated losses) | Sub-total | Minority interests | Total |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 1 January 2005 as per above | 52,864 | 217,055 | 13,180 | 1,167 | – | 68 | 53,372 | 337,706 | 32,811 | 370,517 |
| Exchange difference on translation of financial statements of subsidiaries outside Hong Kong | – | – | – | 5,582 | – | – | – | 5,582 | – | 5,582 |
| Disposal of subsidiaries | – | – | (8,148) | (39) | – | – | 2,031 | (6,156) | (26,054) | (32,210) |
| Write off of negative goodwill upon disposal of subsidiary | – | – | – | – | – | – | 770 | 770 | – | 770 |
| Net income recognised directly in equity | – | – | (8,148) | 5,543 | – | – | 2,801 | 196 | (26,054) | (25,858) |
| Loss for the year | – | – | – | – | – | – | (78,240) | (78,240) | 1,954 | (76,286) |
| Total recognised income and expense for the year | – | – | (8,148) | 5,543 | – | – | (75,439) | (78,044) | (24,100) | (102,144) |
| Transfer between reserves | – | – | 976 | – | – | – | (976) | – | – | – |
| Issue of warrants | – | – | – | – | 1,735 | – | – | 1,735 | – | 1,735 |
| Further increase in interest in subsidiary | – | – | – | – | – | – | – | – | (4,933) | (4,933) |
| Dividend paid to minority interest | – | – | – | – | – | – | – | – | (1,507) | (1,507) |
| Injection of capital | – | – | – | – | – | – | – | – | 1,414 | 1,414 |
| | – | – | (7,172) | 5,543 | 1,735 | – | (76,415) | (76,309) | (29,126) | (105,435) |
| **At 31 December 2005** | 52,864 | 217,055 | 6,008 | 6,710 | 1,735 | 68 | (23,043) | 261,397 | 3,685 | 265,082 |

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2005

## Nature and purposes of reserves

**(i) Share premium**

Under the Bermuda Companies Act 1981 (as amended), the funds in the share premium account are distributable in the form of fully paid bonus shares.

**(ii) General reserve**

According to the relevant rules and regulations in the PRC, the Group's subsidiaries in the PRC should appropriate part of their profits after taxation to general reserve, which can be used to make good losses and to convert into paid-up capital.

**(iii) Translation reserve**

Translation reserve represents exchange differences arising from the translation of the financial statements of subsidiaries and associates operating outside Hong Kong.

**(iv) Warrant reserve**

Warrant reserve represents the net proceeds received from the issue of warrants of the Company. The reserve will be transferred to share capital and share premium accounts upon the exercise of the warrants.

In January 2005, the Company issued 90,000,000 non-listed warrants at an issue price of HK$0.02 per warrant by private placement. Each warrant entitles the holder to subscribe for one ordinary share of HK$0.1 each at an initial subscription price of HK$0.35 per share during the three-year period from the date of allocation and issue of the warrants.

**(v) Buildings revaluation reserve**

The buildings revaluation reserve has been set up and is dealt with in accordance with the accounting policy adopted for revaluation of buildings held for own use (note 2(g)).

The notes on pages 33 to 86 form an integral part of these financial statements.

# Consolidated Cash Flow Statement

For the year ended 31 December 2005

| | 2005 HK$'000 | 2004 HK$'000 (restated) |
|---|---|---|
| **Operating activities** | | |
| (Loss)/profit for the year | **(76,286)** | 11,485 |
| Adjustments for: | | |
| Income tax expenses | **1,727** | 2,780 |
| Net valuation gain on investment property | **(2,050)** | (2,350) |
| Depreciation | **8,779** | 9,201 |
| Impairment loss on intangible assets | **3,423** | – |
| Impairment loss on associates | **3,321** | – |
| Loss on disposal of subsidiaries | **14,154** | – |
| Gain on partial disposal of subsidiaries | **(3,037)** | – |
| Impairment loss on trade and other receivables | **35,472** | – |
| Amortisation of land lease premium | **5** | 5 |
| Amortisation of intangible assets | **938** | 657 |
| Interest income | **(3,520)** | (3,308) |
| Interest expense | **3,433** | 1,909 |
| Shares of losses of associates | **12,895** | 8,543 |
| Loss on disposal of fixed assets | **635** | 144 |
| Deemed loss on partial disposal of subsidiaries | **–** | 3,311 |
| Excess in the interest in fair value of the net identifiable assets acquired over the cost of acquisition | **–** | (11,886) |
| Write off of inventories | **1,903** | – |
| Provision for alleged claims in relation to a software copyright dispute | **–** | 1,000 |
| **Operating profit before changes in working capital** | **1,792** | 21,491 |
| Increase in inventories | **(6,506)** | (3,757) |
| Increase in accounts receivable | **(14,963)** | (69,167) |
| Decrease in bills receivable | **19** | 75 |
| Decrease/(increase) in retentions receivable from customers | **1,369** | (143) |
| Decrease/(increase) in gross amount due from customers for contract work | **2,134** | (3,011) |
| Increase in prepayments, deposits and other receivables | **(21,522)** | (7,350) |
| Increase in accounts payable | **21,275** | 27,400 |
| Increase in bills payable | **3,712** | 330 |
| (Decrease)/increase in gross amount due to customers for contract work | **(701)** | 2,444 |
| Increase in amount due to a director | **5,684** | – |
| Increase in receipts in advance | **699** | 33 |
| Decrease in other payables and accrued liabilities | **(7,793)** | (2,224) |
| **Cash used in operations** | **(14,801)** | (33,879) |
| Tax paid | | |
| Hong Kong profits tax paid | **(964)** | (37) |
| PRC income tax paid | **(863)** | (1,106) |
| **Net cash used in operating activities** | **(16,628)** | (35,022) |

# Consolidated Cash Flow Statement

For the year ended 31 December 2005

| | Note | 2005 HK$'000 | 2004 HK$'000 (restated) |
|---|---|---|---|
| **Investing activities** | | | |
| Acquisitions of subsidiaries in prior years, net of cash acquired | | **–** | (12,444) |
| Increase in interests in a subsidiary | | **(7,628)** | (1,030) |
| Proceeds on disposal of subsidiaries, net of cash disposed | 32(a) | **28,053** | – |
| Capital injection to an associate | | **(48,075)** | (1,178) |
| Increase in amounts due from associated companies | | **(33,980)** | – |
| Payments for purchases of fixed assets | | **(7,431)** | (9,363) |
| Payments for construction in progress | | **(5,849)** | (9,361) |
| Proceeds from sales of fixed assets | | **86** | 100 |
| Payments for purchases of intangible assets | | **(4,673)** | (942) |
| Payments of deposits and prepayments for investments | | **(107,836)** | (14,150) |
| Repayment of loans receivable | | **11,869** | 44,613 |
| Advances of loans | | **–** | (28,852) |
| Capital injection from minority shareholder to a subsidiary | | **1,414** | 2,235 |
| Proceeds from partial disposal of interests in subsidiaries | | **110** | – |
| Interest received | | **3,520** | 3,308 |
| **Net cash used in investing activities** | | **(170,420)** | (27,064) |
| **Financing activities** | | | |
| Proceeds from issue of warrants | | **1,735** | – |
| Proceeds from share issuance | | **–** | 30,800 |
| Share issuance expenses paid | | **–** | (854) |
| Repayments of bank loans | | **(36,984)** | (21,125) |
| Proceeds from new bank loans | | **33,599** | 62,013 |
| (Repayment of)/proceeds from other loans | | **(90)** | 1,250 |
| Decrease in deposits with bank | | **126,228** | – |
| Dividends paid to minority shareholders | | **(1,507)** | (2,196) |
| Interest paid | | **(3,433)** | (1,909) |
| **Net cash generated from financing activities** | | **119,548** | 67,979 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(67,500)** | 5,893 |
| **Effect of foreign exchange rates changes** | | **5,492** | 31 |
| **Cash and cash equivalents at 1 January** | | **54,390** | 48,466 |
| **Cash and cash equivalents at 31 December** | 24 | **(7,618)** | 54,390 |

The notes on pages 33 to 86 form an integral part of these financial statements.

## 1. CORPORATE INFORMATION

FinTronics Holdings Company Limited (the "Company", formerly known as Start Technology Company Limited) was incorporated as an exempted company with limited liability in Bermuda on 23 December 1997 under the Bermuda Companies Act 1981. The registered address is Clarendon House, 2 Church Street, Hamilton, HM 11, Bermuda.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in note 16 to the financial statements.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange. A summary of the significant accounting policies adopted by the Company and its subsidiaries (the "Group") is set out below.

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs for the current and prior accounting periods reflected in these financial statements is provided in note 3.

### (b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets are stated at their fair value as explained in the accounting policies set out below:

– investment property (see note 2(f));

– Buildings (see note 2(g));

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (b) Basis of preparation of the financial statements *(Continued)*

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only the period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 39.

### (c) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are those entities in which the Company, directly or indirectly, has the power to govern the financial and operating policies so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or capital reserve which was not previously charged or recognised in the consolidated income statement and also any related accumulated foreign currency translation reserve.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet the interests in subsidiaries are stated at cost less impairment losses, if any. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

### (d) Associates

An associate is an entity in which the Group has a significant influence, but not control or joint control, over its management, including participation in the financial and reporting policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associates including any impairment loss on goodwill relating to the investment in associates recognised for the year.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (d) Associates *(Continued)*

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the income statement.

### (e) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 2 (j)). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the interest in the associate.

Any excess of the Group's interest in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate is recognised immediately in the consolidated income statement.

On disposal of a cash generating unit or an associate during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

### (f) Investment property

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 2(i)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use.

Investment properties are stated in the balance sheet at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 2(t)(iv).

### (g) Other property, plant and equipment

The following properties held for own use are stated in the balance sheet at their revalued amount, being their fair value at the date of the revaluation less any subsequent accumulated depreciation:

– buildings held under leasehold land; and

– land held under operating leases and buildings thereon, where the fair values of the leasehold interest in the land and buildings cannot be measured separately at the inception of the lease and the building is not clearly held under an operating lease (see note 2(i)).

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (g) Other property, plant and equipment *(Continued)*

Revaluations are performed with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair values at the balance sheet date.

The following items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 2(j)):

– buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease (see note 2(i)); and

– other items of plants and equipment.

Changes arising on the revaluation of properties held for own use are generally dealt with in reserves. The only exceptions are as follows:

– when a deficit arises on revaluation, it will be charged to profit or loss to the extent that it exceeds the amount held in the reserve in respect of that same asset, immediately prior to the revaluation; and

– when a surplus arises on revaluation, it will be credited to profit or loss to the extent that a deficit on revaluation in respect of that same asset had previously been charged to the income statement.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in the profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits.

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Freehold land is not depreciated.
– Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion.

| | | |
|---|---|---|
| – | Leasehold improvements | 5 years |
| – | Plant and machinery | 10 years |
| – | Furniture, fixtures and office equipment | 3-5 years |
| – | Motor vehicles | 3-8 years |

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (h) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation and impairment losses (see note 2(j)). Amortisation of intangible assets is charged to profit or loss on a straight-line basis over the assets' estimated useful lives unless such lives are indefinite.

### (i) Leased assets

*(i) Classification of assets leased to the Group*

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the exception that land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

*(ii) Operating lease charges*

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

### (j) Impairment of assets

*(i) Impairment of other receivables*

Current and non-current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

– For current receivables that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for current receivables are reversed if in a subsequent period the amount of the impairment loss decreases.

– For financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets).

– If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (j) Impairment of assets *(Continued)*

*(ii) Impairment of other assets*

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment (other than properties carried at revalued amounts);

– pre-paid interests in leasehold land classified as being held under an operating lease;

– investments in subsidiaries and associates;

– intangible assets; and

– goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment. An impairment loss is recognised in the income statement whenever the carrying amount of such an asset exceeds its recoverable amount.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. 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 time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (k) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### (l) Systems integration contracts

The accounting policy for contract revenue of software development and systems integration services is set out in note 2(t)(i). When the outcome of a systems integration contract can be estimated reliably, contract costs are recognised as expenses by reference to the stage of completion of the contract activity at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a systems integration contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Systems integration contracts in progress at the balance sheet date are recorded in the balance sheet at the net amount of costs incurred plus recognised profit less recognised losses and progress billings, and are presented in the balance sheet as the "Gross amount due from customers for contract work" (as an asset) or the "Gross amount due to customers for contract work" (as a liability), as applicable. Progress billings not yet paid by the customer are included in the balance sheet under "Accounts receivable". Amounts received before the related work is performed are included in the balance sheet, as a liability, as "Receipts in advance".

### (m) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 2(j)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 2(j)).

### (n) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings using the effective interest method.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (o) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

### (p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

### (q) Employee benefits

*(i) Short term employee benefits and contributions to defined contribution retirement plans*

Salaries, annual bonuses, paid annual leave, contributions to defined contribution plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance and other defined contribution schemes are recognised as an expense in the income statement as incurred, except to the extent that they are included in the cost of intangible assets and inventories not yet recognised as an expense.

*(ii) Share based payments*

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (where it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (r) Income tax

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investment in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 profits will be available to allow all or part of the asset to be recovered.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (s) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligation, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

### (t) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

*(i) Software development and systems integration services*

Revenue arising from the provision of software development and systems integration services is recognised when services are rendered, which are estimated by apportionment over the expected duration of each job and the outcome of the contracts can be assured with reasonable certainty. Revenue excludes value-added tax and is after deduction of any trade discounts.

*(ii) Sale of goods*

Revenue arising from sale of goods is recognised when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value-added tax or other sales taxes and is after deduction of any trade discounts.

*(iii) Interest income*

Interest income from bank deposits is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable.

*(iv) Rental income from operating leases*

Rental income receivable under operating leases is recognised in the income statement in equal instalments over the accounting periods covered by the lease term.

*(v) Government grants*

Grants that compensate the Group for expenses incurred are recognised as revenue in the income statement on a systematic basis in the same periods in which the expenses are incurred.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (u) Translation of foreign currencies

(i) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(ii) *Transactions and balances in each entity's financial statements*

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the rates ruling on the balance sheet date. Profits and losses resulting from this transaction policy are included in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Transaction difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(iii) *Translation on consolidation*

The result and financial position of all the group entities (none of which has the currency of hyperinflationary economy) that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

– assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

– income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

– all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the consolidated income statement as part of the gain or loss on sale.

### (v) Borrowing costs

Borrowings costs are expensed in profit or loss in the period in which they are incurred.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (w) Discontinued operation

A discontinued operation is a component of the Group's business, the operation and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs when the operation is abandoned.

### (x) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit or employees of the Group or of any entity that is a related party of the Group.

### (y) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or service (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses.

## 3. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2005.

The accounting policies of the Group and/or Company after the adoption of these new and revised HKFRSs have been summarised in note 2. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 40).

### (a) Restatement of prior periods and opening balances

The adoption of the revised HKAS 17 resulted in an increase in opening reserves at 1 January 2004 by HK$135,000.

| | **As at 31.12.2005 HK$'000** | As at 31.12.2004 HK$'000 |
|---|---|---|
| Decrease in other property, plant and equipment | **7,280** | 7,240 |
| Increase in leasehold land held for own use under operating leases | **4,322** | 4,327 |
| Decrease in deferred tax liabilities | **561** | 595 |

| | **Year ended 31.12.2005 HK$'000** | Year ended 31.12.2004 HK$'000 |
|---|---|---|
| Decrease in administrative expenses | **73** | 73 |
| Increase in income tax | **20** | 20 |

### (b) Leasehold land and buildings held for own use (HKAS 17, Leases)

In prior years, leasehold land and buildings held for own use were stated at revalued amounts less accumulated depreciation and accumulated impairment losses. Movements of revaluation surpluses or deficits were normally taken to the land and buildings revaluation reserve.

With the adoption of HKAS 17 as from 1 January 2005, the leasehold interest in the land held for own use is accounted for as being held under an operating lease where the fair value of the interest in any buildings situated on the leasehold land could be separately identified from the fair value of the leasehold interest in the land at the time the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

Such leasehold land will no longer be revalued. Instead, any pre-paid land premiums for acquiring the land leases, or other lease payments, are amortised on a straight line basis over the lease term. If the property is in the course of development or re-development, or the property is otherwise being used in the production of inventory, the amortisation charge is included as part of the costs of the property under development or other inventory. In all other cases the amortisation charge for the period is recognised in the income statement immediately.

## 3. CHANGES IN ACCOUNTING POLICIES *(Continued)*

**(c) Investment properties (HKAS 40, Investment property and HK(SIC) Interpretation 21, Income taxes – Recovery of revalued non-depreciable assets)**

In prior years movements in the fair value of the Group's investment properties were recognised directly in the investment properties revaluation reserve except when, on a portfolio basis, the reserve was insufficient to cover a deficit on the portfolio, or when a deficit previously recognised in the income statement had reversed, or when an individual investment property was disposed of. In these limited circumstances movements in the fair value were recognised in the income statement.

Upon adoption of HKAS 40 as from 1 January 2005, all changes in the fair value of investment properties are recognised directly in the income statement in accordance with the fair value model in HKAS 40.

This change in accounting policies does not have significant impact on the Group's results of operations and financial position as the Group recorded net revaluation deficits on revaluation of the investment properties in prior years. These net revaluation deficits have already been charged to the income statements of the respective periods.

**(d) Minority interests (HKAS 1, Presentation of financial statements and HKAS 27, Consolidated and separate financial statements)**

In prior year, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the income statement as a deduction before arriving at the profit attributable to shareholders (the equity holders of the Company).

With effect from 1 January 2005, in order to comply with HKAS 1 and HKAS 27, the Group has changed its accounting policy relating to presentation of minority interests. Under the new policy, minority interests are presented as part of equity, separately from interests attributable to the equity holders of the Company. Further details of the new policy are set out in note 2(c). These changes in presentation have been applied retrospectively.

## 4. TURNOVER

Turnover represents income arising from the net invoiced value of goods sold after allowances for goods returned, trade discount and value-added tax and the provision of software development and systems integration services and excludes intra-group transactions. The amount of each significant category of revenue recognised in turnover during the year is as follows:

| | 2005<br>HK$'000 | 2004<br>HK$'000 |
|---|---|---|
| Manufacture and sale of computer related products | **87,105** | 142,509 |
| Software development and systems integration services | **49,430** | 55,247 |
| Sale of integrated circuits and computer software | **102,364** | 93,285 |
| Unallocated | **607** | – |
| | **239,506** | 291,041 |
| Representing: | | |
| Continuing operations | **152,401** | 148,532 |
| Discontinued operation | **87,105** | 142,509 |
| | **239,506** | 291,041 |

## 5. OTHER INCOME

| | 2005<br>HK$'000 | 2004<br>HK$'000 |
|---|---|---|
| Interest income | **3,520** | 3,308 |
| Gain on disposal of partial interest in subsidiaries | **3,037** | – |
| Value added tax ("VAT") refund (note a) | **988** | 1,545 |
| Rental income from investment properties | **314** | 556 |
| Government grants (note b) | **–** | 669 |
| Others | **572** | 1,146 |
| | **8,431** | 7,224 |
| Representing: | | |
| Continuing operations | **8,390** | 5,528 |
| Discontinued operation | **41** | 1,696 |
| | **8,431** | 7,224 |

## 5. OTHER INCOME *(Continued)*

Notes:

(a) Pursuant to the relevant approval document issued by the tax authorities in the People's Republic of China ("PRC"), subsidiaries of the Group operated in the PRC are entitled to a refund of VAT on the sales of self-developed software. The VAT refund represents the amount of VAT paid in excess of 3% of income generated from the sales of self-developed software. The amount of VAT refund is recognised as other revenue when the refund is approved by the relevant tax authorities.

(b) During the year ended 31 December 2004, the Group was granted certain financial supports from the PRC government authorities to encourage innovation in software development.

## 6. OTHER NET LOSS

| | **2005**<br>**HK$'000** | 2004<br>HK$'000 |
|---|---|---|
| Deemed loss on partial disposal of subsidiaries | **–** | (3,311) |
| Loss on disposal of subsidiaries | **(14,154)** | – |
| | **(14,154)** | (3,311) |
| Representing: | | |
| Continuing operations | **–** | (3,311) |
| Discontinued operation (note 9) | **(14,154)** | – |
| | **(14,154)** | (3,311) |

## 7. (LOSS)/PROFIT FOR THE YEAR

(Loss)/profit for the year is arrived at after charging/(crediting):

| | | 2005 HK$'000 | 2004 HK$'000 (restated) |
|---|---|---|---|
| (a) | **Finance costs** | | |
| | Interest expense on bank loans and other borrowings wholly repayable within five years | **3,402** | 1,909 |
| | Other borrowing costs | **31** | 354 |
| | | **3,433** | 2,263 |
| | Representing: | | |
| | Continuing operations | **2,814** | 1,682 |
| | Discontinued operation | **619** | 581 |
| | | **3,433** | 2,263 |
| (b) | **Staff costs (including directors)** | | |
| | Contributions to defined contribution schemes | **1,217** | 1,197 |
| | Salaries, wages and other benefits | **24,190** | 28,685 |
| | | **25,407** | 29,882 |
| (c) | **Other items** | | |
| | Amortisation of intangible assets | **938** | 657 |
| | Auditors' remunerations | **1,461** | 1,724 |
| | Cost of inventories sold | **191,421** | 233,363 |
| | (including write down of inventories) | **1,903** | – |
| | Depreciation | **8,779** | 9,201 |
| | Loss on disposal of fixed assets | **635** | 144 |
| | Operating lease charges in respect of properties | **1,852** | 3,643 |
| | Provision for alleged claims in relation to a software copyright dispute | **–** | 1,000 |
| | Rental income from investment properties less direct outgoings of HK$12,000 (2004: HK$111,000) | **(302)** | (445) |

## 8. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

### (a) Taxation in the consolidated income statement represents:

| | Continuing operations | | Discontinued operations | | Total | |
|---|---|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 | **2005** | 2004 |
| | **HK$'000** | HK$'000 (restated) | **HK$'000** | HK$'000 (restated) | **HK$'000** | HK$'000 (restated) |
| **Current tax – Provision for Hong Kong Profits Tax** | | | | | | |
| Tax for the year | **–** | (362) | **–** | – | **–** | (362) |
| Underprovision in respect of prior year | **(19)** | (37) | **–** | – | **(19)** | (37) |
| | **(19)** | (399) | **–** | – | **(19)** | (399) |
| **Current tax – PRC** | | | | | | |
| Tax for the year | **(318)** | (653) | **–** | (766) | **(318)** | (1,419) |
| Overprovision in respect of previous years | **–** | 281 | **–** | – | **–** | 281 |
| | **(318)** | (372) | **–** | (766) | **(318)** | (1,138) |
| **Deferred tax** | | | | | | |
| Origination and reversal of temporary differences | **(1,390)** | (893) | **–** | (350) | **(1,390)** | (1,243) |
| | **(1,727)** | (1,664) | **–** | (1,116) | **(1,727)** | (2,780) |

The provision for Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) of the estimated assessable profits for the year ended 31 December 2005.

The PRC income tax of the Group represents provisions for the PRC income tax on profits of subsidiaries in the PRC which have been calculated at the prevailing income tax rates under the relevant PRC income tax rules and regulations applicable to the subsidiaries. The associates of the Group sustained loss for taxation purpose during the year ended 31 December 2005.

Certain subsidiaries were granted exemptions and relief from the PRC income tax by the relevant local tax bureau.

The PRC subsidiaries of the Group prepared their financial statements for the years ended 31 December 2005 and 2004 in accordance with the PRC accounting standards and regulations (the "PRC GAAP"). Deferred taxation mainly represents differences between the PRC GAAP and HKFRSs in respect of accounting differences in income recognition.

## 8. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT *(Continued)*

### (b) Reconciliation between tax expense and accounting (loss)/profit at applicable tax rate:

| | **2005**<br>**HK$'000** | 2004<br>HK$'000<br>(restated) |
|---|---|---|
| (Loss)/profit before taxation | | |
| – continuing operations | **(66,530)** | (11,802) |
| – discontinued operation | **(8,029)** | 26,067 |
| | **(74,559)** | 14,265 |
| Tax at the income tax rate of 17.5% | **(13,048)** | 2,496 |
| Tax effect of non-deductible expenses | **661** | 764 |
| Tax effect of non-taxable revenue | **(6,800)** | (2,373) |
| Tax effect of unused tax losses not recognised | **21,263** | 2,459 |
| Utilisation of tax losses | **(32)** | (205) |
| Under/(over)-provision in prior years | **19** | (243) |
| Effect of different tax rates of subsidiaries operating in other jurisdiction | **(336)** | (118) |
| Tax expenses | **1,727** | 2,780 |

## 9. DISCONTINUED OPERATION

In May 2005, the Group entered into an equity transfer agreement with an independent third party to dispose of Chatex Investment Ltd. and its subsidiaries (the "Chatex Group"), which carried out all of the Group's manufacturing and selling activities of computer related products ("Computer Related Products Segment"). The disposal was effected in order to generate cash flow for the expansion of the Group's other businesses. The disposal was completed in July 2005.

The (loss)/profit for the year from the discontinued operation is analysed as follows:

| | **2005**<br>**HK$'000** | 2004<br>HK$'000 |
|---|---|---|
| Profit of Chatex Group | **6,125** | 24,951 |
| Loss on disposal of subsidiaries (note 6) | **(14,154)** | – |
| (Loss)/profit for the year from discontinued operation | **(8,029)** | 24,951 |

## 9. DISCONTINUED OPERATION *(Continued)*

The results of the Chatex Group for the period from 1 January 2005 to 30 June 2005 are as follows:

| | **Six-month ended 30.6.2005 HK$'000** | Year ended 31.12.2004 HK$'000 |
|---|---|---|
| Revenue | **87,105** | 142,509 |
| Cost of sales | **(76,763)** | (124,445) |
| Other income | **41** | 13,582 |
| Selling and distribution expenses | **(1,111)** | (1,377) |
| Administrative expenses | **(2,528)** | (3,616) |
| Finance costs | **(619)** | (581) |
| Other operating expenses | **–** | (5) |
| Loss on disposal of subsidiaries | **(14,154)** | – |
| (Loss)/profit before taxation | **(8,029)** | 26,067 |
| Income tax expense | **–** | (1,116) |
| (Loss)/profit for the year | **(8,029)** | 24,951 |

During the year, Chatex Group reduced the Group's net operating cash flows by HK$599,000 (2004: contributed HK$5,547,000), paid HK$12,442,000 (2004: HK$26,337,000) in respect of investing activities and paid HK$617,000 (2004: received HK$13,478,000) in respect of financing activities.

No tax charge or credit arose on gain on disposal of Computer Related Products Segment.

The carrying amounts of the assets and liabilities of the Chatex Group at the date of disposal are disclosed in note 32(a).

## 10. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

### (a) Year ended 31 December 2005

| | Directors' fee HK$'000 | Retirement scheme contributions HK$'000 | 2005 Total HK$'000 |
|---|---|---|---|
| **Executive directors** | | | |
| Sze Wai Marco | 1,200 | 12 | 1,212 |
| Chu Chi Shing | 888 | 12 | 900 |
| Wang Qing | – | – | – |
| Gu Peijian | 300 | 12 | 312 |
| Ye Long | 200 | – | 200 |
| Song Jing Sheng | 480 | 7 | 487 |
| **Independent non-executive directors** | | | |
| Chong Yiu Kan, Sherman | 120 | – | 120 |
| Mao Zhenhua | 120 | – | 120 |
| Wong Po Yan | 120 | – | 120 |
| | 3,428 | 43 | 3,471 |

### (b) Year ended 31 December 2004

| | Directors' fee HK$'000 | Retirement scheme contributions HK$'000 | 2004 Total HK$'000 |
|---|---|---|---|
| **Executive directors** | | | |
| Sze Wai Marco | 1,200 | 12 | 1,212 |
| Chu Chi Shing | 888 | 12 | 900 |
| Wang Qing | – | – | – |
| Gu Peijian | 125 | 4 | 129 |
| Ye Long | 360 | 6 | 366 |
| Song Jing Sheng | – | – | – |
| **Independent non-executive directors** | | | |
| Chong Yiu Kan, Sherman | 120 | – | 120 |
| Mao Zhenhua | 120 | – | 120 |
| Wong Po Yan | 120 | – | 120 |
| | 2,933 | 34 | 2,967 |

## 11. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three of them (2004: three) are directors whose emoluments are disclosed in note 10 above. The aggregate of the emoluments in respect of the other two (2004: two) individuals is as follows:

| | **2005 HK$'000** | 2004 HK$'000 |
|---|---|---|
| Salaries and other emoluments | **1,638** | 1,368 |
| Retirement scheme contributions | **12** | 24 |
| | **1,650** | 1,392 |

The emoluments of the two (2004: two) individuals with the highest emoluments are within the following bands:

| | **2005 Number of individuals** | 2004 Number of individuals |
|---|---|---|
| Nil – HK$1,000,000 | **1** | 1 |
| HK$1,000,001 – HK$1,500,000 | **1** | 1 |

Other than those disclosed above, no emoluments were paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. No director has waived or agreed to waive any emolument during the years ended 31 December 2005 and 2004.

## 12. DIVIDENDS

The directors do not recommend the payment of any dividend for the year ended 31 December 2005 (2004: HK$Nil).

## 13. EARNINGS/(LOSS)/PER SHARE

### (a) Basic earnings/(loss) per share

*From continuing and discontinued operations*

The calculation of basic earnings/(loss) per share attributable to equity holders of the Company is based on the loss attributable to equity holders of HK$78,240,000 (2004 (restated): profit attributable to equity holders of HK$8,107,000) and the weighted average number of ordinary shares of 528,644,000 (2004: 502,123,000) shares in issue during the year.

*From continuing operations*

The calculation of basic earnings/(loss) per share attributable to equity holders of the Company is based on the loss attributable to equity holders of HK$68,336,000 (2004 (restated): loss attributable to equity holders of HK$15,901,000) and the weighted average number of ordinary shares of 528,644,000 (2004: 502,123,000) shares in issue during the year.

## 13. EARNINGS/(LOSS)/PER SHARE *(Continued)*

### (a) Basic earnings/(loss) per share *(Continued)*

*From discontinued operation*

The calculation of basic earnings/(loss) per share attributable to equity holders of the Company is based on the loss attributable to equity holders of HK$9,904,000 (2004 (restated): profit attributable to equity holders of HK$24,008,000) and the weighted average number of ordinary shares of 528,644,000 (2004: 502,123,000) shares in issue during the year.

### (b) Diluted earnings/(loss) per share

The effects of all potential ordinary shares are anti-dilutive for the years ended 31 December 2005 and 2004.

## 14. 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's internal financial reporting system.

### (a) Business segments

The Group comprises the following main business segments:

| | |
|---|---|
| Manufacture and sale of computer related products: | Manufacturing and sale of plastic casings for computer equipment. |
| Software development and systems integration services: | Development of application software and provision of systems integration services for specific industries. |
| Sale of integrated circuits and computer software: | Trading of integrated circuits and computer software. |
| Information localisation services: | Provision of translation and information localisation services and products. |
| Automatic teller machines services: | Provision of services for "automatic teller machines". |

## 14. SEGMENT REPORTING *(Continued)*

### (a) Business segments *(Continued)*

| | Discontinued operation | | Continuing operations | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Manufacture & sale of computer related products | | Software development & systems integration services | | Sale of integrated circuits and computer software | | Information localisation services | | Automatic teller machines services | | Unallocated | | Consolidated | |
| | **2005** **HK$'000** | 2004 HK$'000 (restated) | **2005** **HK$'000** | 2004 HK$'000 (restated) | **2005** **HK$'000** | 2004 HK$'000 (restated) | **2005** **HK$'000** | 2004 HK$'000 (restated) | **2005** **HK$'000** | 2004 HK$'000 (restated) | **2005** **HK$'000** | 2004 HK$'000 (restated) | **2005** **HK$'000** | 2004 HK$'000 (restated) |
| Revenue from external customers | **87,105** | 142,509 | **49,430** | 55,247 | **102,364** | 93,285 | **–** | – | **–** | – | **607** | – | **239,506** | 291,041 |
| Other revenue from external customers | **41** | – | **1,396** | 2,218 | **314** | – | **–** | – | **–** | – | **–** | 1,606 | **1,751** | 3,824 |
| | **87,146** | 142,509 | **50,826** | 57,465 | **102,678** | 93,285 | **–** | – | **–** | – | **607** | 1,606 | **241,257** | 294,865 |
| Segment results (note i) | **(7,410 )** | 13,071 | **(7,554 )** | (3,979 ) | **8,340** | 22,671 | **–** | – | **–** | – | | | **(6,624 )** | 31,763 |
| Unallocated operating income and expenses | | | | | | | | | | | | | **(51,607 )** | (18,578 ) |
| (Loss)/profit from operations | | | | | | | | | | | | | **(58,231 )** | 13,185 |
| Finance costs | | | | | | | | | | | | | **(3,433 )** | (2,263 ) |
| Non-operating income | **–** | 11,886 | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – | **–** | 11,886 |
| Share of losses of associates | **–** | – | **–** | – | **–** | – | **(12,395 )** | (8,543 ) | **(378 )** | – | **(122 )** | – | **(12,895 )** | (8,543 ) |
| Income tax | | | | | | | | | | | | | **(1,727 )** | (2,780 ) |
| Minority interests | | | | | | | | | | | | | **(1,954 )** | (3,378 ) |
| (Loss)/profit attributable to equity holders | | | | | | | | | | | | | **(78,240 )** | 8,107 |
| Impairment losses recognised in profit or loss | **–** | – | **7,092** | – | **–** | – | **11,361** | **2,528** | – | – | | | | |
| Depreciation and amortisation for the year | **4,886** | 5,361 | **2,372** | 2,128 | **2** | 33 | **–** | – | **–** | – | | | | |
| Significant non-cash expenses (other than depreciation and amortisation) | **–** | – | **–** | 1,000 | **–** | – | **–** | – | **–** | – | | | | |
| Segment assets | **–** | 157,878 | **58,760** | 70,305 | **74,621** | 80,940 | **–** | – | **–** | – | | | **133,381** | 309,123 |
| Interest in associates | **–** | – | **3,966** | – | **–** | – | **–** | 15,715 | **75,823** | – | | | **79,789** | 15,715 |
| Unallocated assets | | | | | | | | | | | | | **195,230** | 230,310 |
| Total assets | | | | | | | | | | | | | **408,400** | 555,148 |
| Segment liabilities | **–** | 84,720 | **47,808** | 45,035 | **70,608** | 44,223 | **–** | – | **–** | – | | | **118,416** | 173,978 |
| Unallocated liabilities | | | | | | | | | | | | | **24,902** | 10,653 |
| Total liabilities | | | | | | | | | | | | | **143,318** | 184,631 |
| Capital expenditure incurred during the year | **5,404** | 14,079 | **1,801** | 4,130 | **2** | 288 | **–** | – | **–** | – | | | | |

## 14. SEGMENT REPORTING *(Continued)*

### (a) Business segments *(Continued)*

Note:

i) Segment result, assets and liabilities are before elimination of intra-group transactions and balances, except to the extent that such intra-group transactions and balances are between group companies within the same segment.

### (b) Geographical segments

The Group's business participates in two (2004: two) major economic environment, namely the PRC and Hong Kong.

In presenting information on the basis of geographical segment, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

| | Continuing operations | | | | | | Discontinued operation | | | | | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2005 PRC HK$'000** | 2004 PRC HK$'000 (restated) | **2005 Hong Kong HK$'000** | 2004 Hong Kong HK$'000 (restated) | **2005 Total HK$'000** | 2004 Total HK$'000 (restated) | **2005 PRC HK$'000** | 2004 PRC HK$'000 (restated) | **2005 Hong Kong HK$'000** | 2004 Hong Kong HK$'000 (restated) | **2005 Total HK$'000** | 2004 Total HK$'000 (restated) | **2005 HK$'000** | 2004 HK$'000 (restated) |
| Revenue from external customers | **50,306** | 73,032 | **102,095** | 75,500 | **152,401** | 148,532 | **87,105** | 142,509 | **–** | – | **87,105** | 142,509 | **239,506** | 291,041 |
| Segmental assets | **287,300** | 302,149 | **121,100** | 93,560 | **408,400** | 395,709 | **–** | 157,878 | **–** | 1,561 | **–** | 159,439 | **408,400** | 555,418 |
| Capital expenditure incurred during the year | **1,967** | 19,423 | **60** | 243 | **2,027** | 19,666 | **5,404** | – | **–** | – | **5,404** | – | **7,431** | 19,666 |

## 15. FIXED ASSETS

### (a) The Group

| | Buildings held for own use HK$'000 | Leasehold improvements HK$'000 | Plant and machinery HK$'000 | Furniture, fixtures and office equipment HK$'000 | Motor vehicles HK$'000 | Sub-total HK$'000 | Investment properties HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| **Cost or valuation:** | | | | | | | | |
| At 1 January 2004 (restated) | 3,538 | 2,415 | 29,535 | 6,984 | 10,959 | 53,431 | 3,950 | 57,381 |
| Additions | | | | | | | | |
| – through acquisition of subsidiaries | 15,787 | – | 14,893 | 42 | – | 30,722 | – | 30,722 |
| – others | – | 671 | 3,540 | 3,385 | 1,767 | 9,363 | – | 9,363 |
| Disposals | – | – | (307) | (129) | (500) | (936) | – | (936) |
| Surplus/(deficit) on revaluation | (100) | – | – | – | – | (100) | 2,350 | 2,250 |
| At 31 December 2004 (restated) | 19,225 | 3,086 | 47,661 | 10,282 | 12,226 | 92,480 | 6,300 | 98,780 |
| **Representing:** | | | | | | | | |
| Cost (restated) | – | 3,086 | 47,661 | 10,282 | 12,226 | 73,255 | – | 73,255 |
| Valuation – 2004 (restated) | 19,225 | – | – | – | – | 19,225 | 6,300 | 25,525 |
| | 19,225 | 3,086 | 47,661 | 10,282 | 12,226 | 92,480 | 6,300 | 98,780 |
| **Cost or valuation:** | | | | | | | | |
| At 1 January 2005 (restated) | 19,225 | 3,086 | 47,661 | 10,282 | 12,226 | 92,480 | 6,300 | 98,780 |
| Exchange adjustments | – | 35 | 6 | 132 | 64 | 237 | – | 237 |
| Additions | 309 | 636 | 4,903 | 1,334 | 249 | 7,431 | – | 7,431 |
| Disposals | | | | | | | | |
| – through disposal of subsidiaries | (18,174) | (407) | (52,551) | (2,188) | (2,912) | (76,232) | – | (76,232) |
| – others | – | (636) | – | (583) | – | (1,219) | – | (1,219) |
| Surplus/(deficit) on revaluation | – | – | – | – | – | – | 2,050 | 2,050 |
| *Less:* Elimination of accumulated depreciation | (40) | – | – | – | – | (40) | – | (40) |
| At 31 December 2005 | 1,320 | 2,714 | 19 | 8,977 | 9,627 | 22,657 | 8,350 | 31,007 |
| **Representing:** | | | | | | | | |
| Cost | – | 2,714 | 19 | 8,977 | 9,627 | 21,337 | – | 21,337 |
| Valuation – 2005 | 1,320 | – | – | – | – | 1,320 | 8,350 | 9,670 |
| | 1,320 | 2,714 | 19 | 8,977 | 9,627 | 22,657 | 8,350 | 31,007 |

## 15. FIXED ASSETS *(Continued)*

### (a) The Group *(Continued)*

| | Buildings held for own use HK$'000 | Leasehold improve-ments HK$'000 | Plant and machinery HK$'000 | Furniture, fixtures and office equipment HK$'000 | Motor vehicles HK$'000 | Sub-total HK$'000 | Investment properties HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| **Accumulated depreciation:** | | | | | | | | |
| At 1 January 2004 (restated) | – | 916 | 8,561 | 3,915 | 4,672 | 18,064 | – | 18,064 |
| Charge for the year | 905 | 658 | 4,115 | 1,431 | 2,092 | 9,201 | – | 9,201 |
| Written back on disposals | – | – | (168) | (49) | (475) | (692) | – | (692) |
| Elimination on revaluation | (39) | – | – | – | – | (39) | – | (39) |
| At 31 December 2004 (restated) | 866 | 1,574 | 12,508 | 5,297 | 6,289 | 26,534 | – | 26,534 |
| At 1 January 2005 (restated) | 866 | 1,574 | 12,508 | 5,297 | 6,289 | 26,534 | – | 26,534 |
| Exchange adjustments | – | 18 | 6 | 55 | 23 | 102 | – | 102 |
| Charge for the year | 509 | 539 | 4,216 | 1,662 | 1,853 | 8,779 | – | 8,779 |
| Written back on disposals | | | | | | | | |
| – through disposal of subsidiaries | (1,336) | (42) | (16,730) | (1,126) | (1,102) | (20,336) | – | (20,336) |
| – others | – | (60) | – | (298) | – | (358) | – | (358) |
| Elimination on revaluation | (39) | – | – | – | – | (39) | – | (39) |
| At 31 December 2005 | – | 2,029 | – | 5,590 | 7,063 | 14,682 | – | 14,682 |
| Net book value: | | | | | | | | |
| At 31 December 2005 | 1,320 | 685 | 19 | 3,387 | 2,564 | 7,975 | 8,350 | 16,325 |
| At 31 December 2004 (restated) | 18,359 | 1,512 | 35,153 | 4,985 | 5,937 | 65,946 | 6,300 | 72,246 |

## 15. FIXED ASSETS *(Continued)*

### (b) The Company

| | Leasehold improvements HK$'000 | Furniture, fixtures and office equipment HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **Cost:** | | | | |
| At 1 January 2004 | 931 | 1,189 | 6,744 | 8,864 |
| Additions | 35 | 206 | – | 241 |
| Disposals | – | (10) | (500) | (510) |
| At 31 December 2004 | 966 | 1,385 | 6,244 | 8,595 |
| At 1 January 2005 | 966 | 1,385 | 6,244 | 8,595 |
| Additions | – | 58 | – | 58 |
| At 31 December 2005 | 966 | 1,443 | 6,244 | 8,653 |
| **Accumulated depreciation:** | | | | |
| At 1 January 2004 | 389 | 930 | 3,506 | 4,825 |
| Charge for the year | 187 | 175 | 1,175 | 1,537 |
| Written back on disposal | – | (10) | (475) | (485) |
| At 31 December 2004 | 576 | 1,095 | 4,206 | 5,877 |
| At 1 January 2005 | 576 | 1,095 | 4,206 | 5,877 |
| Charge for the year | 194 | 147 | 1,076 | 1,417 |
| At 31 December 2005 | 770 | 1,242 | 5,282 | 7,294 |
| **Net book value:** | | | | |
| At 31 December 2005 | 196 | 201 | 962 | 1,359 |
| At 31 December 2004 | 390 | 290 | 2,038 | 2,718 |

## 15. FIXED ASSETS *(Continued)*

**(c) An analysis of the net book value of the Group's leasehold land and properties is as follows:**

| | 2005<br>HK$'000 | 2004<br>HK$'000<br>(restated) |
|---|---|---|
| In Hong Kong | | |
| – long leases | 5,642 | 5,687 |
| – medium-term leases | 8,350 | 6,300 |
| Outside Hong Kong under medium-term leases | – | 16,999 |
| | 13,992 | 28,986 |
| Representing: | | |
| Building carried at fair value | 9,670 | 24,659 |
| Interest in leasehold land held for own use under operating leases | 4,322 | 4,327 |
| | 13,992 | 28,986 |

**(d)** The Group's investment properties and buildings held for own use in Hong Kong were revalued at 31 December 2005 by an independent firm of surveyors, B.I. Appraisals Limited, who have among their staff Fellows of the Hong Kong Institute of Surveyors and Royal Institution of Chartered Surveyors, on an open market value basis. The valuation basis for investment properties was arrived at by reference to net rental income allowing for reversionary income potential. The revaluation surplus of HK$2,050,000 (2004 (restated): HK$2,350,000) in relation to the Group's investment properties have been credited to the income statement.

The revaluation basis for buildings held for own use was arrived at by reference to recent market transactions in comparable properties. The revaluation deficit of HK$1,000 (2004 deficit (restated): HK$24,000) in relation to the Group's buildings held for own use in Hong Kong has been transferred to the revaluation reserve.

The carrying amount of the buildings held for own use of the Group at 31 December 2005 would have been HK$1,267,000 (2004 (restated): HK$1,305,000 had they been carried at cost less accumulated depreciation.

**(e)** At 31 December 2005, the Group's investment properties with an aggregate carrying value of HK$8,350,000 (2004 (restated): HK$6,300,000) were pledged as security for banking facilities granted to the Group (see note 26(i)). In addition, the Group's certain buildings and interests in leasehold land under operating leases held for own use with an aggregate carrying value of HK$1,267,000 (2004 (restated): HK$1,305,000) and HK$4,322,000 (2004 (restated): HK$4,327,000) were pledged as security for banking facilities granted to a subsidiary of a former related company (see note 34).

## 15. FIXED ASSETS *(Continued)*

**(f)** The Group leases out investment properties under operating leases. The leases typically run for an initial period of one to two years, with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals.

All properties held under operating leases that would otherwise meet the definition of investment properties are classified as investment properties.

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

| | 2005<br>HK$'000 | 2004<br>HK$'000 |
|---|---|---|
| Within one year | **204** | 311 |
| After 1 year but within 5 years | **–** | 111 |
| | **204** | 422 |

## 16. INTERESTS IN SUBSIDIARIES

| | The Company | |
|---|---|---|
| | **2005**<br>**HK$'000** | 2004<br>HK$'000 |
| Unlisted shares, at cost | **5,594** | 5,586 |
| Amounts due from subsidiaries | **274,232** | 287,694 |
| Amounts due to subsidiaries | **(37,395)** | (35,429) |
| | **242,431** | 257,851 |
| Less: Impairment loss | **(61,036)** | (50,066) |
| | **181,395** | 207,785 |

The amounts due from/(to) subsidiaries are unsecured, interest free and have no fixed terms of repayment.

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

## 16. INTERESTS IN SUBSIDIARIES *(Continued)*

| Name of company | Place of incorporation/ establishment and operation | Attributable ownership interest percentage Direct | Indirect | Issued and paid up/ registered capital | Principal activities |
|---|---|---|---|---|---|
| Win Perfect Limited | British Virgin Islands ("BVI") | 100 | – | US$11,000 | Investment holding |
| Futart Industry Company Limited | BVI | 100 | – | US$10,000 | Investment holding |
| Stepping Stones Limited | BVI | – | 100 | US$11,000 | Investment holding |
| Kayford Investment Limited | BVI | – | 100 | US$1 | Investment holding |
| Emperor Dragon International Limited | BVI | – | 100 | US$500 | Dormant |
| Pearl King International Limited | BVI | – | 100 | US$500 | Dormant |
| China Star Group (Hong Kong) Corporation Limited | Hong Kong | – | 100 | HK$100,000 | Sale of integrated circuits and computer software |
| Fortune Jet International Limited | Hong Kong | – | 100 | HK$10,000,000 | Investment holding |
| Regal Harbour Limited | Hong Kong | – | 100 | HK$2 | Property holding |
| Fortune Years Limited | Hong Kong | – | 100 | HK$2 | Property holding |
| Start-tech (Guangzhou) Medical System Co., Ltd. ("formerly known as Start Technology (Guangzhou) Software Co., Ltd.") (note i) | PRC | – | 100 | RMB15,955,000 | Provision of software development and systems integration services |
| Start-tech (Fujian) Software and System Co., Ltd. ("Start-tech (Fujian)") (note i) | PRC | – | 100 | RMB50,713,450 | Provision of software development and systems integration services |
| Fuzhou Start Medical Systems Co., Ltd. (Formerly known as Fuzhou Start Dragon Information Technology Co., Ltd.) (note i) | PRC | – | 100 | RMB2,000,000 | Provision of software development and systems integration services |

## 16. INTERESTS IN SUBSIDIARIES *(Continued)*

| Name of company | Place of incorporation/ establishment and operation | Attributable ownership interest percentage Direct | Indirect | Issued and paid up/ registered capital | Principal activities |
|---|---|---|---|---|---|
| Fujian Gallop Information Co., Ltd. (note i) | PRC | 100 | – | RMB5,754,428 | Dormant |
| Start Technology (Beijing) Co., Ltd. (Note i) | PRC | – | 100 | RMB5,020,490 | Dormant |
| Fujian Hai Tong Technology Development Co., Ltd. (note ii) | PRC | – | 100 | RMB3,000,000 | Trading of medical equipment |
| Fujian Start Technology Medical System Facility Ltd. ("formerly known as Fuzhou Hai Kang Medical Equipment Co., Ltd.") (note ii) | PRC | – | 100 | RMB5,000,000 | Trading of medical equipment |
| Anhui Start Technology and System Integration Co., Ltd. (note ii) | PRC | – | 51 | RMB2,550,000 | Provision of software development and systems integration services |
| Inner Mongolia Start-Tech Software and System Co., Ltd. (note ii) | PRC | – | 100 | RMB3,000,000 | Provision of software development and systems integration services |
| Fujian Start Information Facility Co., Ltd. (note i) | PRC | – | 100 | RMB4,404,940 | Not yet commenced operation |
| Shanxi Start Technology Co., Ltd. (note ii) | PRC | – | 51 | RMB3,000,000 | Provision of software development and systems integration services |

Notes:

(i) These are wholly foreign-owned companies established in the PRC

(ii) These are domestic limited liability companies established in the PRC.

## 17. CONSTRUCTION IN PROGRESS

| | The Group | |
|---|---|---|
| | **2005** | 2004 |
| | **HK$'000** | HK$'000 |
| Balance at 1 January | **11,330** | 1,969 |
| Additions | **–** | 9,361 |
| Disposals | **(11,330)** | – |
| Balance at 31 December | **–** | 11,330 |

## 18. INTANGIBLE ASSETS

**The Group**

| | **Computer software** HK$'000 |
|---|---|
| **Cost:** | |
| At 1 January 2004 | 3,036 |
| Additions | 942 |
| At 31 December 2004 | 3,978 |
| At 1 January 2005 | 3,978 |
| Additions | 4,673 |
| At 31 December 2005 | 8,651 |
| Accumulated amortisation and impairment losses: | |
| At 1 January 2004 | 2,164 |
| Amortisation for the year | 657 |
| At 31 December 2004 | 2,821 |
| At 1 January 2005 | 2,821 |
| Amortisation for the year | 938 |
| Impairment loss | 3,423 |
| At 31 December 2005 | 7,182 |
| **Net book value:** | |
| At 31 December 2005 | 1,469 |
| At 31 December 2004 | 1,157 |

The amortisation charge for the year is included in "cost of sales" in the consolidated income statement.

## 19. INTERESTS IN ASSOCIATES

### The Group

| | The Group 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| Share of net assets | 21,516 | 15,715 |
| Goodwill | 27,614 | – |
| | 49,130 | 15,715 |
| Amounts due from associates | 33,980 | – |
| | 83,110 | 15,715 |
| Less: Impairment loss | (3,321) | – |
| | 79,789 | 15,715 |

The amounts due from associates are unsecured, interest free and have no fixed terms of repayment.

The following list contains only the particulars of associates, all of which are unlisted corporate entities (except SJTU Sunway which is listed in GEM), which principally affected the results or assets of the Group:

| Name of associates | Form of business structure | Place of incorporation/ establishment | Place of operation | Particulars of issued and paid up capital | Attributable ownership interest percentage Direct | Attributable ownership interest percentage Indirect | Principal activities |
|---|---|---|---|---|---|---|---|
| SJTU Sunway Software Industry Limited ("SJTU Sunway") | Limited company | Cayman Islands | Hong Kong | HK$2,000,000 | – | 32.2 | Investment holding |
| Besto Investment Limited | Limited company | BVI | Hong Kong | US$14,833 | – | 32.2 | Investment holding |
| Sun Leader Limited ("Sun Leader") | Limited company | BVI | Hong Kong | US$500 | – | 30 | Investment holding |
| SJTU Sunway Information Technology Co., Ltd. ("SJTU Sunway (Beijing)") | Wholly foreign-owned enterprise | PRC | PRC | RMB15,000,000 | – | 32.2 | Provision of information localisation services |
| SUNV (Beijing) Century Information Technology Co., Ltd. | Wholly foreign-owned enterprise | PRC | PRC | RMB6,000,000 | – | 32.2 | Provision of information localisation services |
| Beijing Guoxin Sunway IT Co., Ltd. | Limited company | PRC | PRC | RMB2,000,000 | – | 32.2 | Provision of information localisation services |
| Shanghai Sunway Century IT Co., Ltd. | Limited company | PRC | PRC | RMB5,000,000 | – | 32.2 | Provision of information localisation services |

## 19. INTEREST IN ASSOCIATES *(Continued)*

| Name of associates | Form of business structure | Place of incorporation/ establishment | Place of operation | Particulars of issued and paid up capital | Attributable ownership interest percentage Direct | Indirect | Principal activities |
|---|---|---|---|---|---|---|---|
| Fujian Multi Language Translation Service Company Limited ("FMLT")* | Limited company | PRC | PRC | RMB5,000,000 | – | 49.1 | Provision of information localisation services |
| Fujian Star System Integration Co. Ltd. | Limited company | PRC | PRC | RMB4,800,000 | – | 47 | Provision of software development and systems integration services |
| 福建實達軟件系統開發有限公司 | Limited company | PRC | PRC | RMB1,000,000 | – | 44 | Provision of software development and systems integration services |
| 北京太陽先鋒科技有限公司 | Limited company | PRC | PRC | RMB1,000,000 | – | 30 | Not yet commenced business |
| 龍騰科技有限公司 | Limited company | PRC | PRC | RMB50,000,000 | – | 30 | Provision of services for "automatic teller machines" |

* FMLT is owned as to 75% by SJTJ Sunway (Beijing) and 25% by a subsidiary, Start-tech (Fujian).

| | Assets HK$'000 | Liabilities HK$'000 | Equity HK$'000 | Share of associates' net assets HK$'000 | Revenues HK$'000 | Loss HK$'000 | Share of associates loss HK$'000 |
|---|---|---|---|---|---|---|---|
| **2005** | **114,880** | **61,243** | **53,638** | **27,370** | **8,634** | **(49,445)** | **(1,050)** |
| 2004 | 77,022 | 25,162 | 51,860 | 15,715 | 14,221 | (27,112) | (13,945) |

The market value of the Group's 32.2% shareholding interest in SJTU Sunway held by the Group as at 31 December 2005 is HK$10,297,000 (2004: HK$30,891,000).

During the year, the share of loss amounted to HK$576,000 was not recognised in the financial statements as the carrying value of the associate was reduced to zero.

## 20. DEPOSITS AND PREPAYMENTS FOR INVESTMENTS

(a) Pursuant to an agreement dated 5 September 2003 and a supplementary agreement dated 15 December 2003, a subsidiary of the Group entered into an agreement with two PRC domestic companies for the provision of ongoing financial advisory services in sourcing IT related development projects or other acquisition projects. As at 31 December 2005, prepayment for investment of HK$19,711,000 (2004: HK$19,336,000) was placed with the PRC domestic company. Service fee calculated at 20% of any investment returns received is payable to the PRC domestic company at the end of the service term.

(b) On 25 November 2004, the Group entered into a memorandum of understanding with an independent third party to acquire 51% equity interest in certain PRC domestic companies. As at 31 December 2005, prepayment for investment of HK$12,000,000 (2004: HK$12,000,000) was placed with this independent third party as a deposit for the acquisition.

(c) As at 31 December 2005, deposit of HK$57,690,000 (2004: HK$Nil) was paid to one of a shareholder of an associate and an amount of HK$51,921,000 (2004: HK$Nil) was placed in PRC domestic companies for further investment in an associate (see note 33(b)).

## 21. INVENTORIES

| | The Group | |
|---|---|---|
| | **2005** | 2004 |
| | **HK$'000** | HK$'000 |
| Raw materials | – | 18,568 |
| Work in progress | – | 225 |
| Finished goods | **1,153** | 8,921 |
| | **1,153** | 27,714 |

## 22. TRADE AND OTHER RECEIVABLES

| | Note | The Group 2005 HK$'000 | The Group 2004 HK$'000 | The Company 2005 HK$'000 | The Company 2004 HK$'000 |
|---|---|---|---|---|---|
| Accounts receivable | (i) | **70,760** | 120,009 | **–** | – |
| Bills receivable | (i) | **–** | 19 | **–** | – |
| Retentions receivable from customers (note 23) | | **1,888** | 3,257 | **–** | – |
| Gross amount due from customers for contract work (note 23) | | **10,464** | 12,598 | **–** | – |
| Prepayments, deposits and other receivables | | **50,465** | 23,149 | **11,920** | 11,622 |
| Loans receivable | | **–** | 11,869 | **–** | 4,056 |
| | | **133,577** | 170,901 | **11,920** | 15,678 |

Note:

(i) Included in trade and other receivables are accounts receivable and bills receivable (net of impairment losses for bad and doubtful debts) with the following ageing analysis as of the balance sheet date:

| | The Group 2005 HK$'000 | The Group 2004 HK$'000 |
|---|---|---|
| Current | **24,385** | 100,392 |
| 1 to 3 months overdue | **43,415** | 6,743 |
| More than 3 months overdue but less than 12 months overdue | **1,647** | 8,796 |
| Overdue beyond 1 year | **1,313** | 4,097 |
| | **70,760** | 120,028 |

Credit terms granted by the Group to the customers generally range from 30 days to 150 days. Accounts receivable with balances that are more than 6 months overdue are requested to settle all outstanding balances before any further credit is granted.

## 22. TRADE AND OTHER RECEIVABLES *(Continued)*

Included in trade and other receivables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | **'000** | '000 | **'000** | '000 |
| Renminbi ("RMB") | **81,814** | 109,046 | **–** | – |
| United States Dollars | **6,005** | 5,472 | **–** | – |

## 23. SYSTEMS INTEGRATION CONTRACTS

The aggregate amount of costs incurred plus recognised profits less recognised losses to date, including the gross amount due from/to customers for contract work, during the year ended 31 December 2005 amounted to HK$54,053,000 (2004: HK$61,013,000).

The gross amount due from customers for contract work at 31 December 2005 and 2004 are expected to be recovered within one year. The gross amount due to customers for contract work at 31 December 2005 and 2004 are expected to be settled within one year.

In respect of systems integration contracts in progress at the balance sheet date, the amount of retentions receivable from customers at 31 December 2005 is HK$1,888,000 (2004: HK$3,257,000). The amount of retentions at 31 December 2005 are expected to be recovered within one year.

## 24. CASH AND CASH EQUIVALENTS

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Cash at bank and in hand | **12,324** | 74,391 | **14** | 30 |
| Bank overdraft (note 26) | **(19,942)** | (20,001) | | |
| Cash and cash equivalents in the cash flow statement | **(7,618)** | 54,390 | | |

Included in cash at bank and in hand of the Group is an amount of HK$12,250,000 (2004: HK$74,281,000) as at 31 December 2005 denominated in RMB. Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

## 25. TRADE AND OTHER PAYABLES

| | Note | The Group 2005 HK$'000 | The Group 2004 HK$'000 | The Company 2005 HK$'000 | The Company 2004 HK$'000 |
|---|---|---|---|---|---|
| Accounts payable | (i) | **25,988** | 73,978 | **–** | – |
| Bills payable | (i) | **6,845** | 3,133 | **–** | – |
| Gross amount due to customers for contract work (note 23) | | **4,068** | 4,769 | **–** | – |
| Receipts in advance | | **1,197** | 498 | **–** | – |
| Other payables and accrued liabilities | | **30,624** | 30,191 | **12,259** | 11,132 |
| Amounts due to directors | | **5,684** | – | **–** | – |
| | | **74,406** | 112,569 | **12,259** | 11,132 |

All of the trade and other payables are expected to be settled within one year.

Note:

(i) Included in trade and other payables are accounts payable and bills payable with the following ageing analysis as of the balance sheet date:

| | The Group 2005 HK$'000 | The Group 2004 HK$'000 |
|---|---|---|
| Due within 3 months or on demand | **31,444** | 46,026 |
| Overdue 3 months to 1 year | **491** | 30,618 |
| Overdue beyond 1 year | **898** | 467 |
| | **32,833** | 77,111 |

Included in trade and other payables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

| | The Group 2005 '000 | The Group 2004 '000 | The Company 2005 '000 | The Company 2004 '000 |
|---|---|---|---|---|
| RMB | **52,704** | 108,405 | **–** | – |
| United States Dollars | **878** | – | **–** | – |

## 26. LOANS AND OVERDRAFT

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Secured bank overdraft (note 24) | **19,942** | 20,001 | **–** | – |
| Bank loans – secured | **33,599** | – | **–** | – |
| Bank loans – unsecured | **9,615** | 46,540 | **–** | – |
| Other loans – unsecured | **1,160** | 1,250 | **–** | 1,100 |
| | **64,316** | 67,791 | **–** | 1,100 |

At 31 December 2005, all loans and overdraft were repayable within one year or on demand. The interest rates of the above loans and overdraft are as follows:

| | | |
|---|---|---|
| Secured bank overdraft | : | 5% – 13% |
| Bank loans | : | 2% – 7% |
| Other loans | : | Interest free |

Included in bank loans and overdrafts are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | **'000** | '000 | **'000** | '000 |
| RMB | **10,000** | 25,187 | **–** | – |

As at 31 December 2005, the Group had banking facilities totalling of HK$79,615,000 (2004: HK$102,970,000) of which HK$70,000,000 (2004: HK$70,000,000) was secured by the following:

(i) Mortgages over the Group's investment properties with an aggregate carrying value of HK$8,350,000 at 31 December 2005 (2004: HK$6,300,000).

(ii) A charge over the Group's fixed deposits with banks of HK$17,516,000 (2004: HK$17,516,000) at 31 December 2005.

(iii) Corporate guarantee given by the Company.

The banking facilities were utilised to the extent of HK$73,589,000 (2004: HK$69,674,000) at 31 December 2005.

## 27. EMPLOYEE RETIREMENT BENEFITS

The Company and its Hong Kong subsidiaries operate Mandatory Provident Fund Schemes (the "MPF schemes") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF schemes are defined contribution retirement schemes administered by independent trustees. Under the MPF schemes, the employers and employees are each required to make contributions to the MPF schemes at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the schemes vest immediately.

The retirement benefits costs under the MPF schemes charged to the income statement amounted to HK$230,000 (2004: HK$77,000) during the year.

The subsidiaries of the Group in the PRC other than Hong Kong participate in pension schemes organised by the respective municipal governments whereby they are required to pay annual contributions at the rates ranging from 14% to 25% (2004: 14% to 25%) of the standard wages determined by the relevant authorities in the PRC.

Under the above schemes, retirement benefits of existing and retired employees are payable by the relevant PRC scheme administrators and the Group has no further obligations beyond the annual contributions.

The aggregate employers' contributions by the Group under the PRC pension schemes amounted to HK$987,000 (2004: HK$1,120,000) during the year.

The Group does not operate any other scheme for retirement benefits provided to the Group's employees.

## 28. EQUITY SETTLED SHARE-BASED TRANSACTIONS

Prior to 23 May 2002, the Company operated an option scheme whereby the Board of Directors could, at their absolute discretion, grant options to employees and executive directors of the Company and any of its subsidiaries to subscribe for shares in the Company (the "Old Scheme"). On 23 May 2002, the Old Scheme was terminated and a new share option scheme (the "New Scheme") was adopted, whereby the Board of Directors may, at their absolute discretion, grant options to any eligible employees, non-executive directors, any suppliers and customers of the Company or any of its subsidiaries or any invested entity to subscribe for shares in the Company.

For options granted before 1 September 2001, the exercise price of options was the higher of the nominal value of the shares and 80% of the average closing prices of the shares of the Company on the Stock Exchange for the five trading days immediately preceding the date of offer of the options. For options granted after 1 September 2001, the exercise price of the options will be the highest of the nominal value of the shares, the closing price of the shares on the Stock Exchange on the date of offer of the options and the average closing price of the shares on the Stock Exchange for the five trading days immediately preceding the date of offer of the options.

The total number of shares which may be issued upon exercise of all options to be granted under the New Scheme and any other operative share option schemes of the Group may not in aggregate exceed 44,064,400, being 10% of the shares in issue of the Company as at 23 May 2002, the date of adoption of the New Scheme.

## 28. EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

At 31 December 2005, the Directors and employees of the Company had the following interests in options to subscribe for shares of the Company (market value per share is HK$0.275 at the balance sheet date) granted at nominal consideration of HK$1.00 for each lot of share options granted under the share option scheme operated by the Company, each option gives the shareholder the right to subscribe for one share. As at 31 December 2005, all options granted were vested:

| | Date granted | Period during which options exercisable | Exercise price (HK$) | Number of options outstanding at 1.1.2005 | Granted during the year | Lapsed during the year | Outstanding at 31.12.2005 | Closing price per share immediately before the date of grant (HK$) |
|---|---|---|---|---|---|---|---|---|
| **Old Scheme** | | | | | | | | |
| **Directors** | | | | | | | | |
| Mr. CHU Chi Shing | 06.07.1999 | 02.10.1999-05.07.2009 | 1.08 | 2,100,000 | – | – | 2,100,000 | 1.99 |
| | 17.01.2000 | 02.01.2001-16.01.2010 | 1.32 | 200,000 | – | – | 200,000 | 2.70 |
| | 04.06.2001 | 01.10.2001-03.06.2011 | 0.58 | 200,000 | – | – | 200,000 | 0.86 |
| Mr. SZE Wai, Marco | 04.06.2001 | 01.10.2001-03.06.2011 | 0.58 | 3,500,000 | – | – | 3,500,000 | 0.86 |
| **Former Directors** | | | | | | | | |
| Mr. YE Long | 06.07.1999 | 02.10.1999-05.07.2009 | 1.08 | 3,000,000 | – | (3,000,000) | – | 1.99 |
| Mr. CHIU Chi Shun, Clarence | 04.06.2001 | 01.10.2001-03.06.2011 | 0.58 | 3,500,000 | – | – | 3,500,000 | 0.86 |
| **Employees** | 06.07.1999 | 02.10.1999-05.07.2009 | 1.08 | 2,881,000 | – | – | 2,881,000 | 1.99 |
| | 30.12.1999 | 02.01.2001-29.12.2009 | 1.13 | 100,000 | – | – | 100,000 | 1.67 |
| | 17.01.2000 | 02.01.2001-16.01.2010 | 1.32 | 650,000 | – | – | 650,000 | 2.70 |
| | 21.01.2000 | 02.01.2001-20.01.2010 | 1.44 | 560,000 | – | – | 560,000 | 2.25 |
| | 07.03.2000 | 02.01.2001-03.06.2010 | 2.06 | 40,000 | – | – | 40,000 | 4.025 |
| | 10.08.2000 | 02.01.2001-09.08.2010 | 1.14 | 300,000 | – | (100,000) | 200,000 | 1.39 |
| | 04.06.2001 | 01.10.2001-03.06.2011 | 0.58 | 8,850,000 | – | (7,100,000) | 1,750,000 | 0.86 |
| | | | | 13,381,000 | – | (7,200,000) | 6,181,000 | |
| **New Scheme** | | | | | | | | |
| **Former Director** | | | | | | | | |
| Mr. YE Long | 28.05.2002 | 28.05.2002-27.05.2012 | 0.67 | 1,000,000 | – | (1,000,000) | – | 0.66 |
| **Employees** | 28.05.2002 | 28.05.2002-27.05.2012 | 0.67 | 500,000 | – | (500,000) | – | 0.66 |

## 28. EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

The Company has taken advantage of the transitional provisions set out in paragraph 53 of HKFRS 2 and the share options are not recognised in the financial report until they are exercised. No share option was granted and exercised during the year ended 31 December 2005. The weighted average value per option granted in 2002 estimated at the date of grant using the Black-Scholes pricing model was HK$0.67. The weighted average assumptions used are as follows:

| | **2002** |
|---|---|
| Risk-free interest rate | 3.97% |
| Expected life (in years) | 10 |
| Volatility | 0.08 |
| Expected dividend per share | – |

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and fully transferable. In addition, such option pricing model requires input of highly subjective assumptions, including the expected stock price volatility. Because the Company's share options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, the Black-Scholes option pricing model does not necessarily provide a reliable measure of the fair value of the share options.

## 29. INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the balance sheet represents:

| | **The Group** | |
|---|---|---|
| | **2005** | 2004 |
| | **HK$'000** | HK$'000 |
| Hong Kong profits tax (recoverable)/payable | **(603)** | 342 |
| PRC income tax payable | **552** | 1,097 |
| | **(51)** | 1,439 |

## 29. INCOME TAX IN THE BALANCE SHEET *(Continued)*

(b) Deferred tax assets and liabilities recognised:

The Group

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

| | Revaluation of properties held for own use HK$'000 | Cut-off difference income recognition between the PRC GAAP and HKFRSs HK$'000 | Total HK$'000 |
|---|---|---|---|
| Deferred tax arising from: | | | |
| At 1 January 2004 (restated) | 139 | 1,309 | 1,448 |
| Charged to consolidated income statement | 143 | 1,100 | 1,243 |
| Charged to reserve | 4 | – | 4 |
| At 31 December 2004 (restated) | 286 | 2,409 | 2,695 |
| At 1 January 2005 (restated) | 286 | 2,409 | 2,695 |
| Charged to consolidated income statement | 286 | 1,104 | 1,390 |
| Disposal of subsidiary | – | (192) | (192) |
| Exchange realignment | – | 151 | 151 |
| **At 31 December 2005** | **572** | **3,472** | **4,044** |

| | **The Group** | |
|---|---|---|
| | **2005 HK$'000** | 2004 HK$'000 (restated) |
| Net deferred tax asset recognised on the balance sheet | **–** | (137) |
| Net deferred tax liability recognised on the balance sheet | **4,044** | 2,832 |
| | **4,044** | 2,695 |

(c) The Group has not recognised deferred tax assets in respect of tax losses of HK$57,841,000 (2004: HK$50,035,000). The tax losses do not expire under current tax legislation.

## 30. CAPITAL AND RESERVES

### (a) Share Capital

| | 2005 | | 2004 | |
|---|---|---|---|---|
| | **No. of shares ’000** | **HK$’000** | No. of shares ’000 | HK$’000 |
| Authorised: | | | | |
| Ordinary shares of $0.10 each | **3,000,000** | **300,000** | 3,000,000 | 300,000 |
| Issued and fully paid: | | | | |
| At 1 January | **528,644** | **52,864** | 440,644 | 44,064 |
| Placing of new shares | **–** | **–** | 88,000 | 8,800 |
| At 31 December | **528,644** | **52,864** | 528,644 | 52,864 |

All the shares issued by the Company rank pari passu and do not carrying pre-emptive rights

### (b) The Company – Reserves

| | **Share premium** HK$’000 | **Accumulated losses** HK$’000 | **Warrant reserve** HK$’000 | **Total** HK$’000 |
|---|---|---|---|---|
| At 1 January 2004 | 195,909 | (3,897) | – | 192,012 |
| Placing of new shares | 21,146 | – | – | 21,146 |
| Loss for the year | – | (52,043) | – | (52,043) |
| At 31 December 2004 | 217,055 | (55,940) | – | 161,115 |
| At 1 January 2005 | 217,055 | (55,940) | – | 161,115 |
| Issue of warrants | – | – | 1,735 | 1,735 |
| Loss for the year | – | (33,285) | – | (33,285) |
| **At 31 December 2005** | **217,055** | **(89,225)** | **1,735** | **129,565** |

(c) The capital and reserves of the Group can be referred to the consolidated statement of changes in equity.

## 31. FINANCIAL INSTRUMENTS

The Group's major financial instruments include trade receivables, other receivables, prepayments for investments, deposit for acquisition of a subsidiary, trade and other payables and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

### (a) Credit risk

The Group's maximum exposure to credit risk in the event of counterparties failure to perform their obligations as at 31 December 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated responsibility for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regards, the directors of the Company consider that the Group's credit risk is significantly reduced.

### (b) Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its current obligations when they fall due. Individuals operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realizable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the shorter and longer term.

### (c) Interest rate risk

The Group's fair value interest rate risk relates primarily to fixed and floating rate bank borrowings.

## 32. DISPOSAL AND ACQUISITION OF SUBSIDIARIES

### (a) Disposals of subsidiaries

The Group disposed of the Chatex Group in July 2005, the net assets of the Chatex Group at the date of disposal were as follows:

| | 2005<br>HK$'000 | 2004<br>HK$'000 |
|---|---|---|
| Net assets of: | | |
| Fixed assets | 50,577 | – |
| Construction in progress | 17,179 | – |
| Inventories | 30,993 | – |
| Accounts receivable | 57,796 | – |
| Prepayments, deposits and other receivables | 5,080 | – |
| Cash and cash equivalents | 3,787 | – |
| Accounts payables | (68,027) | – |
| Other payables and accrued liabilities | (665) | – |
| Bank loans and overdraft | (24,480) | – |
| Deferred tax | (192) | – |
| | 72,048 | – |
| Minority interests | (26,054) | – |
| Loss on disposal | (14,154) | – |
| | 31,840 | – |
| Satisfied by: | | |
| Cash received | 31,840 | – |
| Analysis of net inflow of cash and cash equivalents in connection with the disposals of subsidiaries: | | |
| Cash consideration | 31,840 | – |
| Cash and cash equivalents of the subsidiaries disposed | (3,787) | – |
| Net inflow of cash and cash equivalents in respect of disposals of subsidiaries | 28,053 | – |

The impact of Chatex Group on the Group's results and cash flows in the current and prior periods is disclosed in note 9.

In addition to the disposal of the Chatex Group, the Group disposed of its partial interest in Fujian Star System Integration Co., Limited and 福建實達軟件系統開發有限公司 during the year. No disclosure to the net assets of these companies have been made on the above as the amounts are insignificant to the Group.

## 32. DISPOSAL AND ACQUISITION OF SUBSIDIARIES *(Continued)*

### (b) Acquisitions of subsidiaries

| | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| Net assets acquired: | | |
| Fixed assets | – | 30,722 |
| Accounts receivable | – | 206 |
| Cash and cash equivalents | – | 129 |
| Other payables and accrued liabilities | – | (262) |
| | – | 30,795 |
| Minority interest | – | (7,390) |
| Excess in the interest in the fair value of the net identifiable assets acquired over the cost of acquisition | – | (11,886) |
| | – | 11,519 |
| Satisfied by: | | |
| Cash paid | – | 11,519 |
| Analysis of net outflow of cash and cash equivalents in connection with the acquisitions of subsidiaries: | | |
| Cash paid | – | 11,519 |
| Cash and cash equivalents of the subsidiaries acquired | – | (129) |
| Net outflow of cash and cash equivalents in respect of acquisitions of subsidiaries | – | 11,390 |

## 33. COMMITMENTS UNDER OPERATING LEASES

### (a) Commitments under operating leases

At 31 December 2005, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Within 1 year | **2,390** | 2,078 | **1,084** | 202 |
| After 1 year but within 5 years | **1,128** | 422 | **593** | – |
| | **3,518** | 2,500 | **1,677** | 202 |

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to three years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

### (b) Capital commitments

Capital commitments outstanding at 31 December 2005 not provided for in the financial statements were as follows:

| | The Group | |
|---|---|---|
| | **2005** | 2004 |
| | **HK$'000** | HK$'000 |
| Contracted for | **93,535** | 13,440 |
| Authorised but not contracted for | **–** | – |
| | **93,535** | 13,440 |

On 6 December 2005, the Group entered into an agreement with a shareholder of an associate to acquire the remaining 70% interest in the associate. As at 31 December 2005, a deposit of HK$57,690,000 was already paid to the shareholder. An amount of HK$51,921,000 was also paid to PRC domestic companies for the intended acquisition (see note 20(c)). The balance of HK$28,845,000 would be satisfied by allotment and issue of 100,000,000 shares at a price of HK$0.3 each.

## 34. CONTINGENT LIABILITIES

At 31 December 2005, there were contingent liabilities in respect of the following:

| | | The Group | | The Company | |
|---|---|---|---|---|---|
| | Note | **2005 HK$'000** | 2004 HK$'000 | **2005 HK$'000** | 2004 HK$'000 |
| Guarantees given to banks by the Company in respect of banking facilities utilised by a wholly owned subsidiary | | **–** | – | **63,974** | 42,814 |
| Assets pledged and guarantee given | (i) | **7,985** | 788 | **7,985** | 788 |
| | | **7,985** | 788 | **71,959** | 43,602 |

Note:

(i) Certain land and buildings held for own use of the Group with an aggregate carrying value of HK$5,642,000 (2004 (restated): HK$5,687,000) were pledged and corporate guarantee of the Company was given as security for banking facilities amounting to HK$15,000,000 (2004: HK$15,000,000) granted to a subsidiary of a former related company. As at 31 December 2005, the amount of the facilities utilised was HK$7,985,000 (2004: HK$788,000).

## 35. MATERIAL RELATED PARTY TRANSACTIONS

During the year ended 31 December 2005, the Group has the following material transactions with associates and certain related parties in which a director or shareholder of the Group is in a position to exercise significant influence:

| | Note | **2005 HK$'000** | 2004 HK$'000 |
|---|---|---|---|
| Trading transaction | | | |
| Purchase from an associate | (i) | **2,673** | – |
| Non-trading transactions | | | |
| Purchase on behalf of an associate | (ii) | **21,745** | – |
| Advancement of loans | (iii) | **–** | 2,322 |
| Rental income | (iv) | **–** | 274 |

## 35. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

Notes:

(i) The amount represented purchase of a system integration contract from an associate at an agreed contract price.

(ii) The amount represented purchase of automatic teller machines on behalf of an associate.

(iii) Loans to associates were unsecured, bearing interest ranged from 1.6% to 2.7% per annum and were settled during the year.

(iv) These represented rental income received from an associate. Certain directors of the Company are also directors of the associate.

Except for note (ii) above, the directors of the Company are of the opinion that the above transactions with related parties were conducted on normal commercial terms and in the ordinary course of business.

## 36. POST BALANCE SHEET EVENTS

(i) On 20 March 2006, share options entitling the holders thereof to subscribe for an aggregate of 44,060,000 shares were granted to employees of the Company. The fair value of the options was not determined yet as the management considers there is no financial impact in the current financial year.

(ii) On 27 March 2006, the Company has raised approximately HK$51 million, net of expenses, by issuing 528,644,000 Rights Shares at the Subscription price of HK$0.10 per Rights Shares on the basis of one Rights Share for every existing Share in issue on the Record Date. Details of the Rights Issue please refer to the Company prospectus dated 7 March 2006.

## 37. COMPARATIVE FIGURES

Certain comparative figures have been adjusted or re-classified as a result of the changes in accounting policies. Further details are disclosed in note 3.

## 38. PARENT COMPANY

The directors consider the parent company at 31 December 2005 to be Leading Value Industrial Limited, which is incorporated in the BVI.

## 39. ACCOUNTING ESTIMATES AND JUDGEMENTS

### (a) Key sources of estimation uncertainty

*Systems integration contracts*

As explained in policy notes 2(l) and 2(t)(i) revenue and profit recognition on an uncompleted project is dependent on estimating the total outcome of the systems integration contract, as well as the work done to date. Based on the Group's recent experience and the nature of the systems integration activity undertaken by the Group, the Group makes estimates of the point at which it considers the work is sufficiently advanced such that the costs to complete and revenue can be reliably estimated. As a result, until this point is reached the amounts due from customers for contract work as disclosed in note 23 will not include profit which the group may eventually realise from the work done to date. In addition, actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the balance sheet date, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

### (b) Critical accounting judgements in applying the Group's accounting policies

Certain critical accounting judgements in applying the Group's accounting policies are described below.

*Depreciation of property, plant and equipment*

Property, plant and equipment are depreciated on a straight line basis over their estimated useful lives, after taking into account of their estimated residual value. The determination of the useful lives and residual values involve management's estimation. The Group assesses annually the residual value and useful life of the property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation in the year and the estimate will be changed in the future period.

*Amortisation of intangible assets*

Intangible assets are amortised on a straight-line basis over their estimated useful lives. The determination of the useful lives involves management's estimation. The Group re-assesses the useful life of the intangible assets and if the expectation differs from the original estimate, such a difference may impact the amortization in the year and the estimate will be changed in the future period.

*Estimated impairment of intangible assets (excluding goodwill)*

The Group evaluates whether intangible assets (excluding goodwill) have suffered any impairment whenever events or changes in circumstances indicated that the carrying amount of the assets may not be recoverable, in accordance with the accounting policy 2(j). The recoverable amounts of cash generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

*Allowance for bad and doubtful debts*

The Group performs ongoing credit evaluations of its customers and to adjust credit limits based on payment history and the customer's current credit-worthiness, as determined by the review of their current credit information. The Group continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon is historical experience and any specific customer collection issues that its has been identified. Credit losses have historically been within the Group's expectations and the Group will continue to monitor the collections from customers and maintain an appropriate level of estimated credit losses.

## 40. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 DECEMBER 2005

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the accounting period ended 31 December 2005 and which have not been adopted in these financial statements:

| | **Effective for accounting period beginning on or after** |
|---|---|
| HKFRS 6, Exploration for and evaluation of mineral resources | 1 January 2006 |
| HK(IRIC) 4, Determining whether an arrangement contains a lease | 1 January 2006 |
| HK(IFRIC) 5, Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds | 1 January 2006 |
| HK(IFRIC) 6, Liabilities arising from participating in a specific market – Waste electrical and electronic equipment | 1 December 2005 |
| Amendments to HKAS 19, Employee benefits – Actuarial Gains and Losses, Group Plans and Disclosures | 1 January 2006 |
| Amendments to HKAS 39, Financial instruments: Recognition and measurement: | |
| – Cash flow hedge accounting of forecast intragroup transactions | 1 January 2006 |
| – The fair value option | 1 January 2006 |
| – Financial guarantee contracts | 1 January 2006 |
| Amendments, as a consequence of the Hong Kong Companies (Amendment) Ordinance 2005, to: | |
| – HKAS 1, Presentation of financial statements | 1 January 2006 |
| – HKAS 27, Consolidated and separate financial statements | 1 January 2006 |
| – HKFS 3, Business combinations | 1 January 2006 |
| HKFRS 7, Financial instruments: disclosures | 1 January 2007 |
| Amendment to HKAS 1, Presentation of financial statements: capital disclosures | 1 January 2007 |

**40. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 DECEMBER 2005**

*(Continued)*

In addition, the Hong Kong Companies (Amendment) Ordinance 2005 came into effect on 1 December 2005 and would be first applicable to the group's financial statements for the period beginning 1 January 2006.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the amendments to HKAS 1, HKAS 27 and HKFRS 3 made as a result of the Hong Kong Companies (Amendment) Ordinance 2005 are not applicable to any of the Group's operations and that the adoption of the rest of them is unlikely to have a significant impact on the Group's results of operations and financial position.

# Five Years Financial Summary

| | Note | 2005 HK$'000 | 2004 HK$'000 (restated) | 2003 HK$'000 (restated) | 2002 HK$'000 (restated) | 2001 HK$'000 (restated) |
|---|---|---|---|---|---|---|
| **Results** | | | | | | |
| Turnover | | **239,506** | 291,041 | 154,882 | 637,389 | 1,051,397 |
| (Loss)/profit from ordinary activities before taxation | 2 | **(74,559)** | 14,265 | (1,620) | 13,917 | 49,533 |
| Income tax | | **(1,727)** | (2,780) | (3,112) | (6,258) | (6,365) |
| (Loss)/profit from ordinary activities after taxation | | **(76,286)** | 11,485 | (4,732) | 7,659 | 43,168 |
| Minority interests | | **(1,954)** | (3,378) | (5,436) | (18,585) | (21,878) |
| (Loss)/profit attributable to equity holders | | **(78,240)** | 8,107 | (10,168) | (10,926) | 21,290 |
| **Assets and liabilities** | | | | | | |
| Fixed assets | | **20,647** | 76,573 | 43,476 | 44,977 | 46,871 |
| Construction in progress | | **–** | 11,330 | 1,969 | – | – |
| Intangible assets | | **1,469** | 1,157 | 872 | 1,320 | 1,270 |
| Interest in associates | | **79,789** | 15,715 | – | – | – |
| Interest in jointly controlled entities | | **–** | – | 23,080 | 12,296 | 7,739 |
| Deposits and prepayments for investments | | **141,322** | 33,486 | 19,336 | 16,956 | – |
| Investments – unlisted | | **–** | – | – | – | 4,651 |
| Pledged deposits | | **17,516** | 17,516 | 17,516 | 17,516 | 25,322 |
| Deferred tax assets | | **–** | 137 | 121 | – | – |
| Net current assets | | **8,383** | 217,435 | 214,416 | 238,091 | 304,131 |
| Total assets less current liabilities | | **269,126** | 373,349 | 320,786 | 331,156 | 389,984 |
| Non-current liabilities | | **(4,044)** | (2,832) | (1,652) | (628) | (3,458) |
| | | **265,082** | 370,517 | 319,134 | 330,528 | 386,526 |
| Share capital | | **52,864** | 52,864 | 44,064 | 44,064 | 44,064 |
| Reserves | | **208,533** | 284,842 | 255,347 | 268,479 | 257,342 |
| Minority interests | | **3,685** | 32,811 | 19,723 | 17,985 | 85,120 |
| | | **265,082** | 370,517 | 319,314 | 330,528 | 386,526 |
| Earnings/(loss) per share (cents) | | | | | | |
| Basic | | **(14.8)** | 1.6 | (2.3) | (2.5) | 4.8 |
| Diluted | | **N/A** | N/A | N/A | N/A | N/A |

# Five Years Financial Summary

1. The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs is provided in note 3 to the financial statements. Figures for 2004 and 2005 have been adjusted for these new and revised policies in accordance with the transitional provisions and as disclosed in note 3. Earlier years have only been restated to the extent that the new accounting policies are adopted retrospectively as disclosed in note 3.

2. Prior to 2001 positive or negative goodwill was taken directly to reserves at the time it arose and was not recognised in profit or loss until disposal or impairment of the acquired business. Pursuant to the transitional provision set out in Hong Kong Statement of Standard Accounting Practice No. 30 "Business Combinations", the change in accounting policy for goodwill in 2001 was applied to the figures for 2001 and onwards and no adjustments were made in respect of goodwill which arose previously, whether or not the acquired business was still held.