

FinTronics

银创控股

FINTRONICS HOLDINGS COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code : 706

FinTronics
银创控股

ATM

自动柜员机

服务热线
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ANNUAL REPORT 2006

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Corporate Information

DIRECTORS

Executive Directors

Mr. Sze Wai, Marco (*Chairman*)
Mr. Chu Chi Shing (*Chief Executive Officer*)
Mr. Robert Kenneth Gaunt
Mr. Robertus Martinus Andreas Broers
Mr. Song Jing Sheng
Mr. Tan Shu Jiang

Non-executive Director

Mr. Zee Zin Yee

Independent Non-executive Directors

Mr. Wong Po Yan
Mr. Mao Zenhua
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

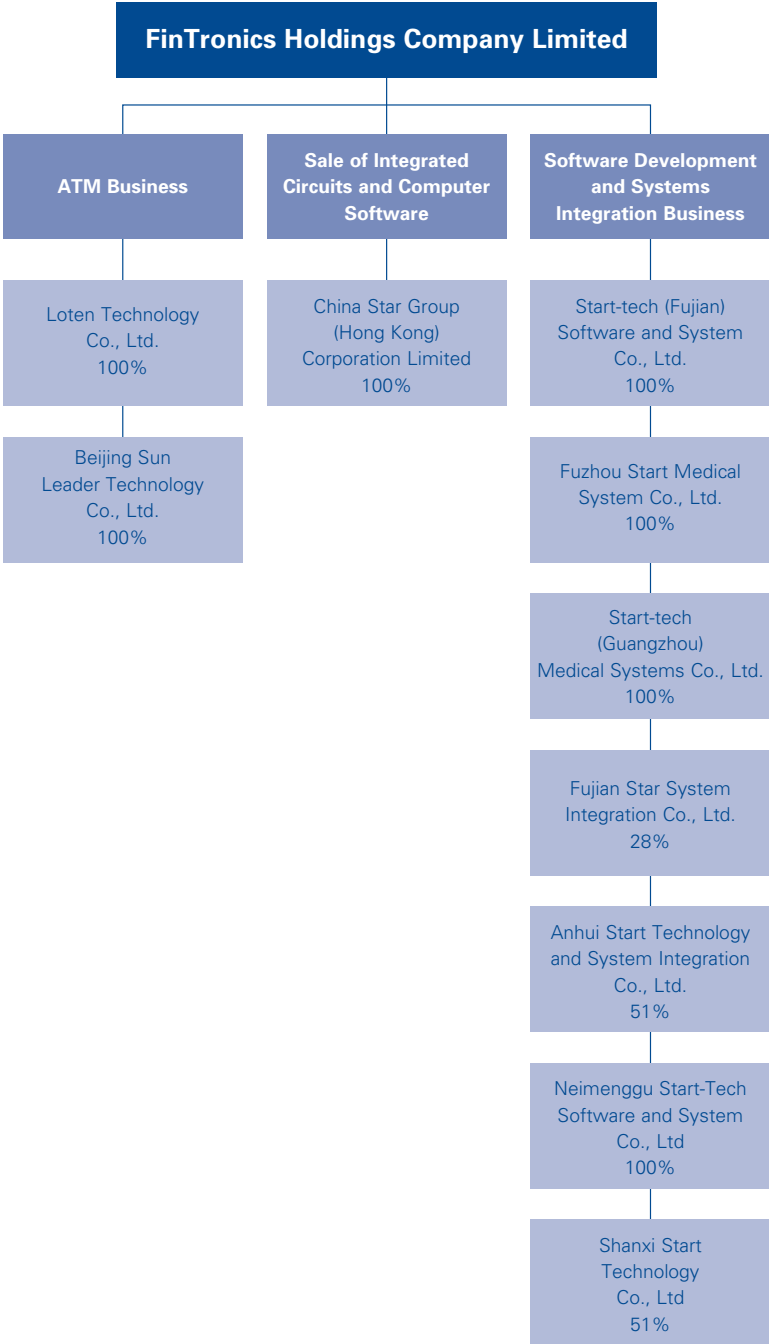
HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

Business Structure

At 31 December 2006

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 2006:



Chairman's Statement

2006 marked an important milestone for FinTronics. During the year, the Group was pleased to have Customers Asia Limited ("Customers Asia") become one of its largest shareholders. Customers Asia is a subsidiary of Australian electronics payment expert, Customer Limited, an Australian Stock Exchange listed company (ASX code: CUS) that owns one of the largest merchant ATM networks in Australia. Our cooperation with Customers Asia marks another great leap forward for FinTronics as it enters the promising e-payment service sector in Mainland China; the Group having earlier acquired a leading enterprise providing ATM and related services in the self-service financial services market of Mainland China - Loten Technology Co., Ltd. ("Loten").

Spurred by a strong cash-based economy with a large and growing debit card population, Mainland China is becoming one of the most significant ATM markets in the world. In order to achieve efficient resource allocation so as to seize on rising opportunities, the Group has disposed of its non-core businesses - the SI Companies - thus enabling FinTronics to fully dedicate energy and capital to the ATM business.

Backed by the expertise and financial resources of Customers Asia, together with the Group's experience in Mainland China's ATM sector, we are confident that FinTronics will establish a top-tier ATM service network and become one of the largest ATM network providers within the next few years. As always, our ultimate goal is to deliver substantial value to our shareholders.

APPRECIATION

On behalf of the Board of Directors, I would like to take this opportunity to express my 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 ongoing commitment and contribution to our business operations.

Sze Wai, Marco

Chairman

Hong Kong, 16 April 2007

Management Discussion and Analysis

BUSINESS REVIEW

After the acquisition of the ATM ISO company, Loten, late in 2005, the Group spent the first quarter of 2006 integrating Loten into the Group whilst continuing to deploy ATMs throughout Mainland China. These ATMs were deployed in line with the various signed partnership and deployment contracts inherited during the acquisition. The Group also undertook the task of restructuring and realigning the business to focus on the ATM ISO business model. The Group not only employed a number of extremely experienced and knowledgeable staff but also contracted the services of an industry-leading consulting group to help with the business refocusing process. Throughout the year, the Group continued to create the ATM ISO business infrastructure required to enable the implementation of the business strategy and business plan.

In the fourth quarter of the year, the Group entered into negotiations with a number of parties to secure the capital investment that was required to fund the aggressive expansion of the ATM ISO business. In November 2006, the Group finalised an agreement with Customers Asia Limited ("Customers Asia"), a company registered in Hong Kong, to provide the required investment capital in two transactions - a subscription share agreement and a convertible loan agreement. The value of the investment was approximately HK\$117,000,000. Customers Asia is a joint venture company between Customers Limited Australia, the leading ATM ISO company in Australia, and FCP BrenCorp, a Hong Kong and PRC registered equity investment company.

In December 2006, the Group took the opportunity to offer full-time employment to a number of extremely experienced ATM industry veterans (in Mainland China) who had been providing ATM ISO related consulting services to the Group on an exclusive basis. Customers Asia, as part of the investment agreements, appointed two leading industry experts as Executive Directors of the Group. Both these Executives are also Directors of Customers Asia and have owned and built extensive ATM ISO companies in Australia. One of the Executive Directors transferred from Australia to Hong Kong to take up a full time role in the Group, leading the Operations and Business Development areas of the Group.

The Group continued to deploy ATMs throughout the year with the owned, operated and supported ATM network growing to 340 devices. The Group also continued to grow its signed contract portfolio and at the end of 2006 had signed contracts with over 20 regional Banks to deploy over 6,000 ATMs in the next 3 years.

Software Development and Systems Integration Services

The sale of the business in the year under review was HK\$79,193,000, accounting for approximately 51% of the overall turnover of the Group. However, in order to better allocate its resources on the ATM business, in January 2007, the Group agreed to dispose of its SI companies at a total consideration of HK\$14,330,000.

Management Discussion and Analysis

SJTU Sunway

On 23 November 2006, the Group has also disposed of its non-core businesses. FinTronics entered into an agreement to sell an aggregate of 64,355,828 sale shares at a total consideration of HK\$8,750,000 (equivalent to approximately HK\$0.1360 per Sale Share). The sale shares represented approximately 32.18% of the issued share capital of SJTU.

PROSPECTS

The financial self-service market in Mainland China continues to show signs of significant and robust growth. The number of ATMs in Mainland China grew from approximately 80,000 at the end of 2005 to 88,000 at the end of 2006. This equates to approximately 65 ATMs per million people - well below the trends and figures in other regions in Asia and other countries around the world where this figure is well over 1,000 ATMs per million people.

Although the Group will continue to focus its activities to take early advantage of the emerging ATM ISO opportunities in Mainland China and to have 2,000 operating ATMs by the end of 2007, we will also be continually seeking to expand and extend the business by investing in or acquiring self-service and payments business that are directly related to the ATM ISO industry.

The Group will make use of its international industry knowledge and experience to continue to grow its ATM deployment signed contract portfolio in line with the stated objective of being the leading ATM and self-service provider in Mainland China. Growth of the owned and operated ATM network will be achieved by a combination of organic growth and growth through the acquisition of existing off-premise ATM networks and smaller ATM ISO companies.

In addition to growing the network of ATM devices, the Group will continue to work with its chosen partners to achieve additional ATM transaction revenue by providing value-added transactions on its network of ATM - value-added transactions such as utility bill payment, mobile phone top-ups, lottery ticket dispensing, advertising and the like.

Looking ahead, leveraging our local market knowledge and technology, together with international ATM operations expertise, we will firmly grasp the new opportunities arising and consolidate FinTronics' leading position in the dynamic and fast-growing ATM market in Mainland China.

Management Discussion and Analysis

MATERIAL INVESTMENTS AND DISPOSALS IN SUBSIDIARIES AND ASSOCIATES

In May 2006, the Group had completed its acquisition in two PRC incorporated companies which were engaged in the provision of ATM related services in China. In order to capitalise its resources in the core business, the Group entered into a sale and purchase agreement in January 2007 to dispose of its non-core business which was engaged in the provision of software development and system integration services.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2006, the Group had cash and bank balances of HK\$128.3 million (2005: HK\$29.8 million) of which HK\$17.5 million (2005: HK\$17.5 million) were pledged to banks for facilities granted to the Group.

Loans and overdraft of the Group as at 31 December 2006 amounted to HK\$66.9 million (2005: HK\$64.3 million) of which HK\$66.2 million were repayable within one year. As at 31 December 2006, the total asset value of the Group was HK\$371.9 million (2005: HK\$408.4 million) whereas the total liabilities was HK\$157.5 million (2005: HK\$143.3 million). The gearing ratio of the Group, calculated as total liabilities over total assets, was 42.4% (2005: 35.1%).

Of the total borrowings as at 31 December 2006, about 46.3% was denominated in United States dollars, 29.9% were denominated in Renminbi and the remainder in HK dollars, and HK\$20 million was at fixed interest rates.

As at 31 December 2006, the Group had available aggregate banking facilities of HK\$87.0 million (2005: HK\$79.6 million) of which HK\$11.9 million (2005: HK\$6.0 million) has not been utilised.

Assets charged as security for banking facilities included bank deposits totalling HK\$17.5 million (2005: HK\$17.5 million), and investment properties of the Group valued at HK\$8.3 million (2005: HK\$8.3 million) as at 31 December 2006.

The Group maintained a net cash (being the total cash and bank balances net of total borrowings) to equity ratio of 28.7% (2005: net borrowings to equity ratio of 13.0%) as at 31 December 2006. With net cash of HK\$61.5 million (2005: net borrowings of HK\$34.5 million) as at 31 December 2006, the Group's liquidity position has improved significantly and the Directors of the Group believe that the Company has sufficient financial resources to satisfy its commitments and working capital requirements.

Management Discussion and Analysis

CONTINGENT LIABILITIES

As at 31 December 2006, certain buildings held for own use of the Group with an aggregate carrying value of HK\$5,599,000 (2005: HK\$5,642,000) were pledged and corporate guarantee of the Company was given as security for banking facilities amounting to HK\$6,000,000 (2005: HK\$15,000,000) granted to a former related company. As at 31 December 2006, the amount of the facilities utilised was HK\$5,984,000 (2005: HK\$7,985,000).

As at 31 December 2006, the Group had contingent liabilities in connection with performance bonds for suppliers amounting to HK\$5,148,000 (2005: HK\$5,148,000).

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 2006, the Group had approximately 549 (2005: 497) employees of which approximately 202 (2005: 168) were technicians. Employees' costs (including directors' emoluments) amounted to approximately HK\$26.7 million (2005: HK\$25.4 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. During the year 64,060,000 share options were granted to directors, executives, employees and consultants for their contribution to the Group.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Sze Wai, Marco, aged 41, 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 39, 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. Robert Kenneth Gaunt, aged 45, has extensive experience in the Financial Services, ATM ISO industry. After joining the Group, Mr. Gaunt will be responsible for overseeing the strategic growth of the ATM related business of the Group in the PRC. Mr. Gaunt has spent the last seven years owning and building ATM ISO companies in Australia. As a previous owner of Electronic Banking Solutions Pty Limited ("**EBS**") (at the time Australia's largest ATM ISO company), Mr. Gaunt was instrumental in the merger of EBS with Cashcard Australia Limited. He joined the Group in December 2006.

Mr. Robertus Martinus Andreas Broers, aged 46, has extensive experience in ATM ISO industry. Mr. Broers will be responsible for overseeing the operations and business development areas of the ATM related business of the Group in the PRC. Mr. Broers has spent the last six years running various ATM ISO companies. After spending two years as the General Manager of EBS in Australia, Mr. Broers spent two years heading up the ATM Division of Pulse International Pty Limited, then one of two independent device driving and electronic fund transfer transaction switching companies in Australia. Until his move to the Company, Mr. Broers was General Manager Operations of Customers Limited Australia – Australia's second largest non-bank ATM network owner and operator. He joined the Group in December 2006.

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. Tan Shu Jiang, aged 38, holds a bachelor degree of German Language from Shanghai International Studies University. Mr. Tan has over 10 years of experience in the sales and marketing, technical and general management in the information technology businesses. He is a director of Barwinstart Cultural Communication Co., Limited which is principally engaged in the operation of internet business in the People's Republic of China. He joined the Group in January 2007.

Biographical Details of Directors and Senior Management

Mr. Gu Peijian, aged 41, is an Executive Director of the Company. He re-joined the Group in September 2004 and left the Group in January 2007. 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.

NON-EXECUTIVE DIRECTOR

Mr. Zee Zin Yee, aged 59, has extensive business, sales, marketing, engineering and manufacturing knowledge and experience around the world and specifically in China, Hong Kong, the United States, Canada, Scotland and Asia Pacific region. He retired from NCR Corporation in January 2004 after 34 years of services. The last position, prior to his retirement, Mr. Zee held was the head of Vice President of Asia Pacific Region for NCR Retail Solutions Division (RSD) since October 2002. He joined the Group in January 2007.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wong Po Yan, aged 83, 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 43, 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. and a director of Qinghai Huading Industrial Co., Ltd., a company listed on the Shanghai Stock Exchange. 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.

Biographical Details of Directors and Senior Management

Mr. Chong Yiu Kan, Sherman, aged 43, 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 19 years of working experience in auditing, accounting, taxation and management consultancy. He is the sole proprietor of Sherman Chong & Co. (CPA).

SENIOR MANAGEMENT

Mr. Chan Ying Kay, aged 43, 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 Association of Chartered Certified Accountants 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 2006.

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 43 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 2006 and the state of the Group's affairs as at that date are set out in the financial statements on pages 34 to 115.

The Directors do not recommend the payment of a dividend for the year ended 31 December 2006.

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 116.

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	70.7	Nil
Five largest customers in aggregate	98.2	Nil
The largest supplier	Nil	53.7
Five largest suppliers in aggregate	Nil	90.8

Report of the Directors

MAJOR CUSTOMERS AND SUPPLIERS *(Continued)*

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.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2006 are set out in note 18 on the financial statements.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2006 are set out in notes 30 and 31 on the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 35 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 Group are set out in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

As at 31 December 2006, the Company has no reserve available for cash distribution (2005: Nil) as computed in accordance with the Bermuda Companies Act 1981 (as amended). In addition, the Company's share premium account of HK\$268,970,000 (2005: HK\$217,055,000) as at 31 December 2006 may be distributed in the form of fully paid bonus shares.

Report of the Directors

DIRECTORS

The Directors during the financial year and to the date of this report were:

Executive Directors

Mr. Sze Wai, Marco, *Chairman*

Mr. Chu Chi Shing, *Chief Executive Officer*

Mr. Robert Kenneth Gaunt (appointed on 18 December 2006)

Mr. Robertus Martinus Andreas Broers (appointed on 18 December 2006)

Mr. Song Jing Sheng

Mr. Tan Shu Jiang (appointed on 29 January 2007)

Mr. Gu Peijian (resigned on 29 January 2007)

Non-executive Director

Mr. Zee Zin Yee (appointed on 29 January 2007)

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 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-laws 111(A) and (B), Mr. Sze Wai, Marco and Mr. Mao Zhenhua will retire by rotation at the forthcoming annual general meeting and being eligible, offers themselves for re-election.

In addition, pursuant to bye-law 115, Mr. Robert Kenneth Gaunt, Mr. Robertus Martinus Andreas Broers, Mr. Tan Shu Jiang and Mr. Zee Zin Yee will hold office until the forthcoming annual general meeting and being eligible, offer themselves for re-election.

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.

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVE'S INTEREST AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2006, 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 <i>(note 1)</i>
Sze Wai, Marco	The Company	Interest of controlled corporation <i>(note 2)</i>	264,869,906 ordinary shares (L)
	The Company	Beneficial owner	4,500,000 ordinary shares (L) <i>(note 3)</i>
Chu Chi Shing	The Company	Beneficial owner	4,500,000 ordinary shares (L) <i>(note 3)</i>
Song Jing Sheng	The Company	Beneficial owner	43,800,000 ordinary shares (L) <i>(note 4)</i>
	The Company	Beneficial owner	2,000,000 ordinary shares (L) <i>(note 3)</i>

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVE'S INTEREST AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(Continued)*

Name	Name of company	Capacity	Number and class of securities <i>(note 1)</i>
Robert Kenneth Gaunt	The Company	Interest of controlled corporation <i>(note 5)</i>	1,700,000 ordinary shares (L)
Wong Po Yan	The Company	Beneficial owner	1,000,000 ordinary shares (L) <i>(note 3)</i>
Mao Zhenhua	The Company	Beneficial owner	1,000,000 ordinary shares (L) <i>(note 3)</i>
Chong Yiu Kan, Sherman	The Company	Beneficial owner	1,000,000 ordinary shares (L) <i>(note 3)</i>

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, a company wholly owned by Sze Wai, Marco.
3. These shares were the shares which would be allotted and issued upon exercise in full of the options granted to such Director under the share option schemes of the Company.
4. Included in these shares were (i) 37,800,000 issued shares and (ii) 6,000,000 shares which would fall to be allotted and issued pursuant to the exercise of the subscription rights attaching to the unlisted warrants issued to him by the Company.
5. These shares were held by Blazzed Pty Ltd., a company wholly owned by Robert Kenneth Gaunt.

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVE'S INTEREST AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(Continued)*

Save as disclosed above, as at 31 December 2006, 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 granted after 1 September 2001, the exercise price of the options shall not be lower than the highest of (i) the nominal value of the shares, (ii) the closing price of the shares on the Hong Kong Stock Exchange on the date of offer of the options, which must be a trading day, and (iii) 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 105,778,000, being 10% of the shares in issue of the Company as at 30 June 2006, the date of which the resolution is passed pursuant to the share option scheme.

Report of the Directors

SHARE OPTION SCHEME (Continued)

The unexercised outstanding share options as at 31 December 2006 are as follows:

	Date granted	Period during which options exercisable	Exercise price (HK\$)	Outstanding at 1.1.2006	Number of options		Outstanding at 31.12.2006	Closing price per share immediately before the date of grant (HK\$)
					Granted during the year	Exercised/lapsed during the year		
Old Scheme								
Directors								
Mr. CHU Chi Shing	16.6.1999	10 years	1.08	2,100,000	-	-	2,100,000	1.99
	28.12.2000	10 years	1.32	200,000	-	-	200,000	2.70
	14.5.2001	10 years	0.58	200,000	-	-	200,000	0.86
Mr. SZE Wai, Marco	14.5.2001	10 years	0.58	3,500,000	-	-	3,500,000	0.86
Former Director								
Mr. CHIU Chi Shun, Clarence	14.5.2001	10 years	0.58	3,500,000	-	-	3,500,000	0.86
Employees								
	16.6.1999	10 years	1.08	2,881,000	-	-	2,881,000	1.99
	20.12.1999	10 years	1.13	100,000	-	-	100,000	1.67
	28.12.2000	10 years	1.32	650,000	-	-	650,000	2.70
	3.1.2000	10 years	1.44	560,000	-	-	560,000	2.25
	28.2.2000	10 years	2.06	40,000	-	-	40,000	4.025
	21.6.2000	10 years	1.14	200,000	-	-	200,000	1.39
	14.5.2001	10 years	0.58	1,750,000	-	-	1,750,000	0.86
				15,681,000	-	-	15,681,000	

Report of the Directors

SHARE OPTION SCHEME (Continued)

	Date granted	Period during which options exercisable	Exercise price (HK\$)	Outstanding at 1.1.2006	Number of options		Outstanding at 31.12.2006	Closing price per share immediately before the date of grant (HK\$)
					Granted during the year	Exercised/ lapsed during the year		
New Scheme								
Directors								
Mr. SZE Wai, Marco	31.10.2006	10 years	0.250	-	1,000,000	-	1,000,000	0.245
Mr. CHU Chi Shing	31.10.2006	10 years	0.250	-	2,000,000	-	2,000,000	0.245
Mr. SONG Jing Sheng	31.10.2006	10 years	0.250	-	2,000,000	-	2,000,000	0.245
Mr. MAO Zhenhua	31.10.2006	10 years	0.250	-	1,000,000	-	1,000,000	0.245
Mr. WONG Po Yan	31.10.2006	10 years	0.250	-	1,000,000	-	1,000,000	0.245
Mr. CHONG Yiu Kan	31.10.2006	10 years	0.250	-	1,000,000	-	1,000,000	0.245
Former Director								
Mr. GU Peijian	31.10.2006	10 years	0.250	-	1,000,000	-	1,000,000	0.245
Employees and Consultants								
Employees	20.03.2006	10 years	0.122	-	37,060,000	(500,000)	36,560,000	0.130
	04.10.2006	10 years	0.213	-	3,000,000	-	3,000,000	0.211
Consultants	20.03.2006	10 years	0.122	-	7,000,000	-	7,000,000	0.130
	04.10.2006	10 years	0.213	-	8,000,000	-	8,000,000	0.211
				-	64,060,000	(500,000)	63,560,000	
				15,681,000	64,060,000	(500,000)	79,241,000	

Report of the Directors

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
16.06.1999	16.06.1999-01.10.1999	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%
20.12.1999, 03.01.2000, 28.02.2000 and 21.07.2000	Date of grant-01.01.2001	Nil
	02.01.2001-01.01.2002	30%
	02.01.2002-01.01.2003	60%
	02.01.2003-10 years from the date of grant	100%
28.12.1999	28.12.1999-31.01.2001	Nil
	01.02.2001-27.12.2009	100%
14.05.2001	14.05.2001-30.09.2001	Nil
	01.10.2001-01.01.2002	40%
	02.01.2002-01.01.2003	70%
	02.01.2003-13.05.2011	100%
20.3.2006	21.03.2006-20.03.2016	100%
04.10.2006	04.10.2006-03.04.2007	Nil
	04.04.2007-03.10.2007	50%
	04.10.2007-03.10.2016	100%
31.10.2006	31.10.2006-30.04.2007	Nil
	01.05.2007-31.10.2007	50%
	01.11.2007-30.10.2016	100%

Report of the Directors

SHARE OPTION SCHEME *(Continued)*

The weighted average share price at the exercise date of the share options during the year was HK\$0.21. The options outstanding at the end of the year have a weighted average remaining contractual life of 8.27 years (2005: 4.67 years) and the exercise prices range from HK\$0.122 to HK\$2.06 (2005: HK\$0.58 to HK\$2.06).

The fair value of options granted during the year determined at the grant date using the binomial option pricing model was approximately HK\$4,533,000. The significant inputs into the model were as follows:

	20 March 2006	4 October 2006	31 October 2006
Option value	HK\$0.040	HK\$0.125	HK\$0.155
Total fair value	HK\$1,762,400	HK\$1,375,000	HK\$1,395,000
Share price at date of grant	HK\$0.12	HK\$0.21	HK\$0.25
Exercisable price	HK\$0.122	HK\$0.213	HK\$0.25
Expected volatility	83%	84%	84%
Risk-free interest rate	4.390%	3.973%	3.867%
Suboptimal exercise factor	1.5	2.1	2.1
Dividend yield	0%	0%	0%

The expected volatility was determined by calculating the historical volatility of the Company's share price from the date of listing to grant dates. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The total share-based compensation costs recognised during the year amounted to HK\$4,533,000 (2005: Nil).

Report of the Directors

SHARE OPTION SCHEME *(Continued)*

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. Those share options are not recognised in the financial statements until they are exercised. 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.

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.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTERESTS PURSUANT TO PART XV OF THE SFO

As at 31 December 2006, 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 (Note 1)	Capacity	Approximate percentage of interest
Leading Value Industrial Limited (note 2)	264,869,906 (L)	Beneficial owner	19.36
Customers Asia Limited	450,000,000 (L)	Beneficial owner (note 3)	32.90
Customers Limited	450,000,000 (L)	Interest of controlled corporation (note 3)	32.90
FCP Brencorp Limited	450,000,000 (L)	Interest of controlled corporation (note 3)	32.90
FCP Direct Investments Limited	450,000,000 (L)	Interest of controlled corporation (notes 3 and 4)	32.90
First Capital Partners Offshore Limited	450,000,000 (L)	Interest of controlled corporation (notes 3 and 4)	32.90
Andrew Wyles Waters	450,000,000 (L)	Interest of controlled corporation (notes 3 and 4)	32.90
Brencorp No. 12 Pty Ltd	450,000,000 (L)	Interest of controlled corporation (notes 3 and 5)	32.90

Report of the Directors

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTERESTS PURSUANT TO PART XV OF THE SFO *(Continued)*

Name of shareholder	Number of ordinary shares <i>(Note 1)</i>	Capacity	Approximate percentage of interest
Brencorp Holdings Pty Ltd	450,000,000 (L)	Interest of controlled corporation <i>(notes 3 and 5)</i>	32.90
Brencorp Pty Ltd	450,000,000 (L)	Interest of controlled corporation <i>(notes 3 and 5)</i>	32.90
Peter Darnian Scanlon	450,000,000 (L)	Interest of controlled corporation <i>(notes 3 and 5)</i>	32.90
Wen Jian Zhu	100,000,000 (L)	Beneficial owner	7.31

Notes:

1. The letter "L" represents the entity's interests in the Shares.
2. Leading Value Industrial Limited is a company wholly owned by Sze Wai, Marco, who is an executive Director.
3. Customers Asia Limited is owned as to 50% by Customers Limited and FCP Brencorp Limited each. Customers Limited is a company whose shares are listed on the Australian Stock Exchange. FCP Brencorp Limited is owned as to 50% each by Brencorp No.12 Pty Ltd and FCP Direct Investments Limited.
4. FCP Direct Investments Limited is wholly owned by First Capital Partners Offshore Limited, a company wholly owned by Andrew Wyles Waters.
5. Brencorp No.12 Pty Ltd is wholly owned by Brencorp Holdings Pty Ltd, a company wholly owned by Brencorp Pty Ltd which is in turn owned as to 33.33% by Peter Darnian Scanlon.

Save as disclosed above, as at 31 December 2006, 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.

Report of the Directors

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

During the year ended 31 December 2006, 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\$139,000 (2005: HK\$230,000) 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% (2005: 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.

Report of the Directors

RETIREMENT SCHEME *(Continued)*

The aggregate employers' contributions by the Group under the PRC pension schemes amounted to HK\$1,226,000 (2005: HK\$987,000) 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 or its holding company or its subsidiaries was a party, subsisted at the end of the year or at any time during the year in which a director of the Company had a material interest.

CONNECTED TRANSACTIONS

During the year ended 31 December 2006, there were no transactions which are required to be disclosed in accordance with announcement and reporting requirements under the Listing Rules.

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 emphasis 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 2006. 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 2006 with the Directors.

Report of 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

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, 16 April 2007

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 Appendix 10 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 and one Non-executive Director that is more than one-third of the Board. As at the date of this report, the Board comprises ten Directors, of which six 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 fourteen 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		14/14	100%
Mr. Chu Chi Shing		14/14	100%
Mr. Robert Kenneth Gaunt	(appointed on 18 December 2006)	1/1	100%
Mr. Robertus Martinus Andreas Broers	(appointed on 18 December 2006)	1/1	100%
Mr. Song Jing Sheng		10/14	71%
Mr. Gu Peijian	(resigned on 29 January 2007)	8/14	57%
Mr. Tan Shu Jiang	(appointed on 29 January 2007)	N/A	N/A
Non-executive Director			
Mr. Zee Zin Yee	(appointed on 29 January 2007)	N/A	N/A
Independent Non-executive Directors			
Mr. Wong Po Yan		6/14	43%
Mr. Mao Zhenhua		6/14	43%
Mr. Chong Yiu Kan, Sherman		6/14	43%

Corporate Governance Report

THE BOARD OF DIRECTORS *(Continued)*

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.

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 (<i>Chairman</i>)	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.

Corporate Governance Report

NOMINATION COMMITTEE *(Continued)*

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. Mao Zhenhua <i>(Chairman)</i>	1/1	100%
Mr. Wong Po Yan	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\$1,562,000 and fee for non-audit related activities amounted to HK\$380,000.

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.

Corporate Governance Report

AUDIT COMMITTEE *(Continued)*

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 (<i>Chairman</i>)	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.

Independent Auditor's Report

RSM! Nelson Wheeler

羅 申 美 會 計 師 行

Certified Public Accountants

TO THE SHAREHOLDERS OF FINTRONICS HOLDINGS COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of FinTronics Holdings Company Limited (the "Company") set out on pages 34 to 115, which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

Independent Auditor's Report

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

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

Opinion

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

RSM Nelson Wheeler

Certified Public Accountants

Hong Kong, 16 April 2007

Consolidated Income Statement

For the year ended 31 December 2006

	Note	2006 HK\$'000	2005 HK\$'000 (restated)
Continuing operations			
Turnover	6	77,012	102,971
Cost of sales		(70,109)	(90,465)
Gross profit		6,903	12,506
Valuation gains on investment properties		–	2,050
		6,903	14,556
Other income	7	13,994	5,982
Administrative expenses		(61,311)	(28,634)
Other operating expenses		(145,675)	(18,931)
Loss from operations		(186,089)	(27,027)
Finance costs	8	(3,158)	(2,365)
Share of losses of associates		(1,117)	(378)
Loss before tax		(190,364)	(29,770)
Income tax credit/(expense)	9	408	(961)
Loss for the year from continuing operations		(189,956)	(30,731)
Discontinued operations			
Loss for the year from discontinued operations	10(b)	(9,796)	(45,555)
Loss for the year	11	(199,752)	(76,286)
Attributable to:			
Equity holders of the Company		(202,132)	(78,240)
Minority interests		2,380	1,954
		(199,752)	(76,286)

Consolidated Income Statement

For the year ended 31 December 2006

	Note	2006 HK\$'000	2005 HK\$'000 (restated)
Loss per share			
From continuing and discontinued operations:			
Basic	15(a)	(20.34) cents	(13.09) cents
Diluted	15(a)	N/A	N/A
From continuing operations:			
Basic	15(b)	(19.12) cents	(5.14) cents
Diluted	15(b)	N/A	N/A
From discontinued operations:			
Basic	15(c)	(1.22) cents	(7.95) cents
Diluted	15(c)	N/A	N/A

Consolidated Balance Sheet

As at 31 December 2006

	Note	2006 HK\$'000	2005 HK\$'000
Non-current assets			
Fixed assets			
Investment properties	17	8,350	8,350
Property, plant and equipment	18	49,825	7,975
Prepaid land lease payments	19	4,318	4,322
		62,493	20,647
Goodwill	20	45,629	–
Intangible assets	21	42,375	1,469
Interests in associates	22	–	79,789
Pledged deposits	30(b)	17,516	17,516
Prepayments for investments	23	–	141,322
		168,013	260,743
Current assets			
Inventories	24	–	1,153
Trade and other receivables	25	20,768	133,577
Bank and cash balances	27	92,348	12,324
Current tax assets		–	603
		113,116	147,657
Assets classified as held for sale	28(b)	90,806	–
		203,922	147,657
Current liabilities			
Trade and other payables	29	29,672	74,406
Bank loans and overdraft	30	45,736	64,316
Finance lease payables	31	496	–
Current tax liabilities		432	552
		76,336	139,274
Liabilities classified as held for sale	28(b)	69,252	–
		145,588	139,274
Net current assets		58,334	8,383
Total assets less current liabilities		226,347	269,126

Consolidated Balance Sheet

As at 31 December 2006

	Note	2006 HK\$'000	2005 HK\$'000
Non-current liabilities			
Finance lease payables	31	630	–
Deferred tax liabilities	34	11,331	4,044
		11,961	4,044
Net assets			
		214,386	265,082
Capital and reserves			
Share capital	35	136,778	52,864
Reserves		70,385	208,533
Equity attributable to equity holders of the Company			
		207,163	261,397
Minority interests		7,223	3,685
Total equity			
		214,386	265,082

Approved and authorised for issue by the Board of Directors on 16 April 2007

Director

Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

	Attributable to equity holders of the Company										
	Share capital	Share premium	General reserve	Share		Warrants reserve	Buildings		Total	Minority interests	Total equity
				option reserve	Translation reserve		revaluation reserve	Accumulated losses			
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2005	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
Disposals of subsidiaries	-	-	(8,148)	-	(39)	-	-	2,031	(6,156)	(26,054)	(32,210)
Write off of negative goodwill upon disposal of a subsidiary	-	-	-	-	-	-	-	770	770	-	770
Net income and expenses 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 expenses 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 a subsidiary	-	-	-	-	-	-	-	-	-	(4,933)	(4,933)
Dividend paid to minority shareholders	-	-	-	-	-	-	-	-	-	(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 2006

	Attributable to equity holders of the Company										
	Share capital	Share premium	General reserve	Share		Warrants reserve	Buildings		Total	Minority interests	Total equity
				option reserve	Translation reserve		revaluation reserve	Accumulated losses			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2006	52,864	217,055	6,008	-	6,710	1,735	68	(23,043)	261,397	3,685	265,082
Exchange difference on translation of financial statements of subsidiaries outside Hong Kong	-	-	-	-	6,629	-	-	-	6,629	-	6,629
Share options issue expenses	-	(68)	-	-	-	-	-	-	(68)	-	(68)
Expenses on issue of warrants	-	-	-	-	-	(73)	-	-	(73)	-	(73)
Rights issue expenses	-	(1,858)	-	-	-	-	-	-	(1,858)	-	(1,858)
Net income and expenses recognised directly in equity	-	(1,926)	-	-	6,629	(73)	-	-	4,630	-	4,630
Loss for the year	-	-	-	-	-	-	-	(202,132)	(202,132)	2,380	(199,752)
Total recognised income and expenses for the year	-	(1,926)	-	-	6,629	(73)	-	(202,132)	(197,502)	2,380	(195,122)
Rights issue	52,864	-	-	-	-	-	-	-	52,864	-	52,864
Issue of new shares	31,000	53,810	-	-	-	-	-	-	84,810	-	84,810
Share options benefits											
Exercise of share options	50	11	-	-	-	-	-	-	61	-	61
Transfer to share premium	-	20	-	(20)	-	-	-	-	-	-	-
Grant of share options	-	-	-	4,533	-	-	-	-	4,533	-	4,533
Issue of warrants	-	-	-	-	-	1,000	-	-	1,000	-	1,000
Transfer between reserves	-	-	454	-	-	-	-	(454)	-	-	-
Loss on partial disposal of a subsidiary interest to a minority shareholder	-	-	-	-	-	-	-	-	-	1,158	1,158
	83,914	51,915	454	4,513	6,629	927	-	(202,586)	(54,234)	3,538	(50,696)
At 31 December 2006	136,778	268,970	6,462	4,513	13,339	2,662	68	(225,629)	207,163	7,223	214,386

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	Note	2006 HK\$'000	2005 HK\$'000
Operating activities			
Loss for the year		(199,752)	(76,286)
Adjustments for:			
Amortisation of intangible assets		2,915	938
Amortisation of prepaid land lease payments		4	5
Depreciation		7,213	8,779
Gain on disposal of an associate		(2,390)	–
(Gain)/loss on disposals of property, plant and equipment		(86)	635
Loss on disposal of subsidiaries		–	14,154
Loss/(gain) on partial disposals of subsidiaries		1,158	(3,037)
Impairment losses on non-current assets held for sale		14,420	–
Impairment losses on associates		–	3,321
Impairment losses on goodwill		77,000	–
Impairment losses on intangible assets		–	3,423
Impairment losses on inventories and receivables		38,482	35,472
Impairment losses on prepayments for investments		32,500	–
Income tax expense		324	1,727
Interest expenses		4,450	3,433
Interest income		(679)	(3,520)
Valuation gains on investment properties		–	(2,050)
Recognition of share-based payments		4,533	–
Share of losses of associates		1,301	12,895
Waiver of amount due to an associate		(9,347)	–
Written off inventories		–	1,903
Operating (loss)/profit before changes in working capital		(27,954)	1,792
Increase in inventories		(2,141)	(6,506)
Increase in accounts receivable		(4,021)	(14,963)
Decrease in bills receivable		–	19
Decrease in retentions receivable from customers		811	1,369
Decrease in gross amount due from customers for contract work		1,075	2,134
Decrease/(increase) in prepayments, deposits and other receivables		14,628	(21,522)
(Decrease)/increase in accounts payable		(12,339)	21,275
(Decrease)/increase in bills payable		(2,654)	3,712
Decrease in gross amount due to customers for contract work		(1,905)	(701)
(Decrease)/increase in amounts due to directors		(5,684)	5,684
Increase in receipts in advance		2,185	699
Increase/(decrease) in other payables and accrued expenses		11,053	(7,793)
Cash used in operations		(26,946)	(14,801)

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	Note	2006 HK\$'000	2005 HK\$'000
Tax paid			
Hong Kong profits tax recovered/(paid)		603	(964)
PRC income tax paid		(718)	(863)
Net cash used in operating activities		(27,061)	(16,628)
Investing activities			
Increase in interest in a subsidiary		–	(7,628)
Acquisition of subsidiaries, net of cash acquired	37(a)	21,145	–
Proceeds from deposit for disposal of SI Companies		13,000	–
Proceeds from disposal of subsidiaries, net of cash disposed of		–	28,053
Capital injection to an associate		–	(48,075)
Increase in amounts due from associates		(18,127)	(33,980)
Payments for purchases of property, plant and equipment		(640)	(7,431)
Payments for construction in progress		–	(5,849)
Proceeds from disposals of property, plant and equipment		180	86
Payments for purchases of intangible assets		–	(4,673)
Payments of deposits and prepayments for investments		–	(107,836)
Repayment of loans receivable		–	11,869
Capital injection from minority shareholder to a subsidiary		–	1,414
Proceeds from partial disposals of interests in subsidiaries		–	110
Interest received		679	3,520
Net cash generated from/(used in) investing activities		16,237	(170,420)
Financing activities			
Proceeds from issue of warrants		927	1,735
Proceeds from issue of shares		107,735	–
Share issuance expenses		(1,926)	–
Repayments of bank loans		(2,696)	(36,984)
Proceeds from new bank loans		10,000	33,599
Repayment from finance lease obligations		(421)	–
Repayment of other loans		–	(90)
Decrease in deposits with bank		–	126,228
Dividends paid to minority shareholders		–	(1,507)
Interest paid		(4,450)	(3,433)
Net cash generated from financing activities		109,169	119,548
Net increase/(decrease) in cash and cash equivalents		98,345	(67,500)
Effect of foreign exchange rates changes		5,264	5,492
Cash and cash equivalents at 1 January		(7,618)	54,390
Cash and cash equivalents at 31 December	27	95,991	(7,618)

Notes to the Financial Statements

For the year ended 31 December 2006

1. GENERAL INFORMATION

The Company was incorporated in Bermuda on 23 December 1997 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton, HM 11, Bermuda. The address of its principal place of business is Units 2003 & 2005, 20/F., Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 43 to the financial statements.

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

In the current year, the Group has adopted all of the new and revised Hong Kong Financial Reporting Standards (the "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2006. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the current year and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The application of these new HKFRSs will not have material impact on the financial statements of the Group.

Notes to the Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with HKFRSs issued by the HKICPA, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of buildings and investment properties which are carried at their fair values.

The preparation of financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires management to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these financial statements are disclosed in note 5 to the financial statements.

The significant accounting policies applied in the preparation of these financial statements are set out below.

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. Control is the power to govern the financial and operating policies of an entity 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 has control.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

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 relating to the subsidiary which was not previously charged or recognised in the consolidated income statement and also any related accumulated translation reserve.

Notes to the Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Consolidation *(Continued)*

Inter-company transactions, balances and unrealised profits on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests represent the interests of minority shareholders in the operating results and net assets of subsidiaries. Minority interests are presented in the consolidated balance sheet and consolidated statement of changes in equity within equity. Minority interests are presented in the consolidated income statement as an allocation of profit or loss for the year between minority and equity holders of the Company. Losses applicable to the minority in excess of the minority's interests in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, such profits are allocated to the interests of the Group until the minority's share of losses previously absorbed by the Group has been recovered.

(b) Business combination and goodwill

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets, liabilities and contingent liabilities of the subsidiary in an acquisition are measured initially at their fair values at the acquisition date.

The excess of the cost of acquisition over the Group's share of the net fair value of the subsidiary's identifiable assets, liabilities and contingent liabilities is recorded as goodwill. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised in the consolidated income statement.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses of goodwill are recognised in the consolidated income statement and are not subsequently reversed. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

Notes to the Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Business combination and goodwill *(Continued)*

The interests of minority shareholders in the subsidiary is initially measured at the minority's proportion of the net fair value of the subsidiary's identifiable assets, liabilities and contingent liabilities at the acquisition date.

(c) Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policies of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has significant influence.

Investment in an associate is accounted for in the consolidated financial statements by the equity method of accounting and is initially recognised at cost. Identifiable assets, liabilities and contingent liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is recorded as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised in the consolidated income statement.

The Group's share of an associate's post-acquisition profits or losses is recognised in the consolidated income statement, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

Notes to the Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Associates *(Continued)*

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

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(d) Foreign currency translation

(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 translation policy are included in the income statement.

Notes to the Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Foreign currency translation *(Continued)*

(iii) Translation on consolidation

The results and financial position of all the Group entities 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 exchange rates on the transaction dates); and
- All resulting exchange differences are recognised in the translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the translation reserve. When a foreign operation is sold, such exchange differences are recognized in the consolidated income statement as part of the profit or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(e) Property, plant and equipment

Buildings held for own use are carried at fair values, based on periodic valuations by external independent valuers, less subsequent depreciation and impairment losses. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Notes to the Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Property, plant and equipment *(Continued)*

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the consolidated income statement during the period in which they are incurred.

Revaluation increases of buildings are recognised in the consolidated income statement to the extent that the increases reverse previous revaluation decreases of the same asset. All other revaluation increases are credited to the buildings revaluation reserve in shareholders' equity. Revaluation decreases that offset previous revaluation increases of the same asset are charged against buildings revaluation reserve directly in equity. All other decreases are recognised in the consolidated income statement. On the subsequent sale or retirement of a revalued building, the attributable revaluation surplus remaining in the buildings revaluation reserve is transferred directly to retained profits.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost or revalued amounts less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates or useful lives are as follows:

- 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

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

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the consolidated income statement.

Notes to the Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Investment properties

Investment properties are land and buildings held to earn rentals and for capital appreciation. An investment property is measured initially at its cost including all direct costs attributable to the property.

After initial recognition, the investment property is stated at its fair value based on valuation by an external independent valuer. Gains or losses arising from changes in fair value of the investment property are included in the consolidated income statement for the period in which they arise.

The gain or loss on disposal of an investment property is the difference between the net sales proceeds and the carrying amount of the property, and is recognised in the consolidated income statement.

(g) Intangible assets

Customer contracts acquired in a business combination are identified and recognised separately from goodwill when they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such customer contracts is their fair value at the acquisition date. Customer contracts are amortised on a straight line basis over their contractual duration of ten years.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

Computer software is measured initially at purchase cost and is amortised on a straight line basis over its estimated useful lives of four to six years.

Notes to the Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Leases

(i) *Operating leases*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments (net of any incentives received from the lessor) are expensed in the consolidated income statement on a straight-line basis over the lease term.

(ii) *Finance leases*

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. At the commencement of the lease term, a finance lease is capitalised at the lower of the fair value of the leased asset and the present value of the minimum lease payments, each determined at the inception of the lease.

The corresponding liability to the lessor is included in the consolidated balance sheet as finance lease payable. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Assets under finance leases are depreciated the same as owned assets over their estimated useful lives.

Notes to the Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Non-current assets held for sale and discontinued operations

Non-current assets or disposal group are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the assets or disposal group are available for immediate sale in their present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets or disposal group classified as held for sale are measured at the lower of the assets' or disposal group's previous carrying amount and fair value less costs to sell.

A discontinued operation is a component of the Group, the operations 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 in accordance with HKFRS 5, if earlier. It also occurs when the operation is abandoned.

When an operation is classified as discontinued, a single amount is presented on the face of the consolidated income statement, which comprises:

- The post-tax profit or loss of the discontinued operation; and
- The post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group constituting the discontinued operation.

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost comprises raw materials, direct labour and other cost 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.

Notes to the Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) System integration contracts

When the outcome of a system integration contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract 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 system integration contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

System integration contracts in progress at the balance sheet date are recorded in the consolidated balance sheet at the amount of costs incurred plus recognised profits less recognised losses and progress billings, and are presented in the consolidated balance sheet as "Gross amount due from customers for contract work". When progress billings exceed costs incurred plus recognised profits less recognised losses, the surplus is recorded in the balance sheet as "Gross amount due to customers for contract work". Progress billings not yet paid by the customer are included in the consolidated balance sheet under "Trade receivables". Amounts received before the related work is performed are included in the consolidated balance sheet under "Trade payables".

(l) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowances for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in the consolidated income statement.

Impairment losses are reversed in subsequent periods and recognised in the consolidated income statement when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Notes to the Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which 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.

(n) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(o) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(p) Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(q) Equity instruments

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

Notes to the Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Revenues from the provision of ATM services are recognised when the related services are rendered to customers.

Revenues from the sales of manufactured goods are recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

Revenue from individual system integration contract is recognised under the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to the estimated total contract costs for each contract. When the outcome of a system integration contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that is probable to be recoverable. Revenue from a cost plus contract is recognised by reference to the recoverable costs incurred during the period plus an appropriate proportion of the total fee, measured by reference to the proportion that costs incurred to date bear to the estimated total costs of the contract.

Interest income is recognised on a time-proportion basis using the effective interest method.

Rental income is recognised on a straight-line basis over the lease term.

Notes to the Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Employee benefits

(i) *Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) *Pension obligations*

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to the income statement represents contributions payable by the Group to the funds.

(iii) *Termination benefits*

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(t) Share based payments

For share options granted before 7 November 2002 and/or vested before 1 January 2005, no expenses are recognised in respect of these options. The shares are recognised when the options are exercised and the proceeds received are allocated to share capital and share premium.

Notes to the Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Share based payments *(Continued)*

For share options granted after 7 November 2002 and vested after 1 January 2005, the fair value of share options granted is recognised as employee benefit expenses with a corresponding increase in share option reserve. The fair value (excluding the effect of non market-based vesting conditions) is measured at grant date using the Binomial Option Pricing 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 on a straight line basis, taking into account the probability that the options will vest.

During the vesting period, the number of share options that are 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 share option 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 share option 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 share option 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).

(u) Government grants

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised as income in the period in which they become receivable.

Notes to the Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated 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 bases used in the computation of taxable profit, and are 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, unused tax losses or unused tax credits 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 investments in subsidiaries and associates, 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 is realised, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Notes to the Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Taxation *(Continued)*

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.

(w) Related parties

A party is related to the Group if:

- (i) directly or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; has an interest in the Group that gives its significant influence over the Group; or has joint control over the Group;
- (ii) the party is an associate;
- (iii) the party is a joint venture;
- (iv) the party is a member of the key management personnel of the Company or its parent;
- (v) the party is a close member of the family of any individual referred to in (i) or (iv);
- (vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or
- (vii) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

Notes to the Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(x) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products and services (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, the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

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 the segment. Unallocated costs mainly represent corporate expenses. Segment assets consist primarily of property, plant and equipment, goodwill, inventories and receivables. Segment liabilities comprise operating liabilities and exclude items such as tax liabilities and corporate borrowings.

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.

(y) Impairment of assets

Intangible assets that have an indefinite useful life or not yet available for use are reviewed annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable.

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets except goodwill, inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Notes to the Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(y) Impairment of assets *(Continued)*

Recoverable amount is the higher of fair value less costs to sell 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 the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(z) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present 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 is remote. Possible obligations, 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 is remote.

Notes to the Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(aa) Events after the balance sheet date

Events after the balance sheet date that provide additional information about the Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the balance sheet date that are not adjusting events are disclosed in the notes to the financial statements when material.

4. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in Renminbi ("RMB"). The exchange rates between RMB and Hong Kong dollars remain relatively stable. The Group currently does not have a foreign currency hedging policy in respect of foreign currency debt. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

(b) Credit risk

The Group's maximum exposure to credit risk in the event of counterparties failure to perform their obligations as at 31 December 2006 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 regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Notes to the Financial Statements

For the year ended 31 December 2006

4. FINANCIAL RISK MANAGEMENT *(Continued)*

(c) 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 realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the shorter and longer term.

(d) Interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from short term interest-bearing borrowings and obligations under finance leases. At 31 December 2006, 39% of the Group's borrowings were at fixed rates which expose the Group to fair value interest rate risk. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. The directors are of the opinion that the aforesaid risks are not material to the Group.

(e) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated balance sheet approximate to their fair values.

Notes to the Financial Statements

For the year ended 31 December 2006

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES

Key sources of estimation uncertainty

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

(a) *Revenue and profit recognition*

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 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) *Property, plant and equipment and depreciation*

The Group determines the estimated useful lives and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will revise the depreciation charge where useful lives are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(c) *Impairment test of assets*

The Group's determination of whether an asset (including goodwill) is impaired requires an estimation of the value in use of the cash-generating unit. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate present value of those cash flows.

Notes to the Financial Statements

For the year ended 31 December 2006

6. TURNOVER

The Group's turnover is as follows:

	2006	2005
	HK\$'000	HK\$'000
		(restated)
Provision of ATM services	6,282	–
Sale of integrated circuits and computer software	70,730	102,364
Unallocated	–	607
Manufacture and sale of computer related products	–	87,105
Software development and systems integration services	79,193	49,430
	156,205	239,506
Representing:		
Continuing operations	77,012	102,971
Discontinued operations (<i>note 10</i>)	79,193	136,535
	156,205	239,506

Notes to the Financial Statements

For the year ended 31 December 2006

7. OTHER INCOME

	2006 HK\$'000	2005 HK\$'000 (restated)
Gain on disposal of an associate	2,390	–
Gain on disposals of property, plant and equipment	86	–
Gain on disposals of partial interest in subsidiaries	–	3,037
Government grants (<i>note a</i>)	1,690	–
Interest income	679	3,520
Rental income from investment properties	362	314
Value added tax (“VAT”) refund (<i>note b</i>)	318	988
Wavier of amount due to an associate	9,347	–
Others	2,835	572
	17,707	8,431
Representing:		
Continuing operations	13,994	5,982
Discontinued operations (<i>note 10</i>)	3,713	2,449
	17,707	8,431

(a) During the year ended 31 December 2006, the Group has been granted certain financial supports from the PRC government authorities to encourage innovation in software development.

(b) 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 income when the refund is approved by the relevant tax authorities.

Notes to the Financial Statements

For the year ended 31 December 2006

8. FINANCE COSTS

	2006 HK\$'000	2005 HK\$'000 (restated)
Finance lease charges	49	–
Interest on bank loans and overdraft	4,401	3,402
Other borrowing costs	–	31
	4,450	3,433
Representing:		
Continuing operations	3,158	2,365
Discontinued operations (<i>note 10</i>)	1,292	1,068
	4,450	3,433

Notes to the Financial Statements

For the year ended 31 December 2006

9. INCOME TAX CREDIT/(EXPENSE)

	Continuing operations		Discontinued operations		Total	
	2006 HK\$'000	2005 HK\$'000 (restated)	2006 HK\$'000	2005 HK\$'000 (restated)	2006 HK\$'000	2005 HK\$'000 (restated)
Current tax – Hong Kong Profits Tax						
Underprovision in prior years	-	(19)	-	-	-	(19)
Current tax – PRC Income Tax						
Provision for the year	-	-	(584)	(318)	(584)	(318)
Underprovision in prior years	-	-	(148)	-	(148)	-
	-	-	(732)	(318)	(732)	(318)
Deferred tax						
Origination and reversal of temporary differences	408	(942)	-	(448)	408	(1,390)
	408	(961)	(732)	(766)	(324)	(1,727)

No provision for Hong Kong Profits Tax has been made for the year ended 31 December 2006 (2005: Nil) as the Group did not generate any assessable profits arising in Hong Kong during the year.

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 years ended 31 December 2006 and 2005.

Notes to the Financial Statements

For the year ended 31 December 2006

9. INCOME TAX CREDIT/(EXPENSE) (Continued)

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

Reconciliation between tax expense and accounting loss at the Hong Kong Profits Tax rate is as follows:

	2006 HK\$'000	2005 HK\$'000 (restated)
Loss before tax		
Continuing operations	(190,364)	(29,770)
Discontinued operations	(9,064)	(44,789)
	(199,428)	(74,559)
Tax at the income tax rate of 17.5%	(34,899)	(13,048)
Tax effect of non-deductible expenses	30,218	661
Tax effect of non-taxable revenue	(5,664)	(6,800)
Tax effect of unused tax losses not recognised	10,326	21,263
Utilisation of tax losses	(4)	(32)
Underprovision in prior years	148	19
Effect of different tax rates of subsidiaries operating in other jurisdiction	199	(336)
Income tax expense	324	1,727

Notes to the Financial Statements

For the year ended 31 December 2006

10. DISCONTINUED OPERATIONS

(a) Disposal of the Chatex Group

In May 2005, the Group entered into an equity transfer agreement with an independent third party to dispose of Chatex Investment Limited and its subsidiaries (the "Chatex" Group), which carried out all of the Group's manufacturing and selling activities of computer related products. The disposal was completed in July 2005 and was classified as discontinued operations in 2005.

(b) Plan to dispose of the systems integration services (the "SI operations")

Pursuant to an agreement dated 19 January 2007 entered into between a subsidiary of the Company, Stepping Stones Limited (the "Vendor") and an independent third party (the "Purchaser"), the Vendor disposed of 100% interest in three wholly-owned subsidiaries engaged in the provision of the SI operations, Start-tech (Fujian) Software and System Co., Limited, Fuzhou Start Medical System Co., Limited and Start-tech (Guangzhou) Medical Systems Co., Limited, collectively the SI Companies, together with the interests in other companies held by each of the SI Companies, to the Purchaser at a consideration of HK\$14,330,000. The disposal is consistent with the Group's long-term policy to focus its activities on the ATM business. On initial reclassification of the SI operations as held for sale, the Group has recognised an impairment loss of approximately HK\$14,420,000.

The loss for the year from the discontinued operations is analysed as follows:

	2006 HK\$'000	2005 HK\$'000 (restated)
Loss of discontinued operations	(8,638)	(31,401)
Loss on partial disposal of a subsidiary interest to a minority shareholder	(1,158)	–
Loss on disposal of subsidiaries	–	(14,154)
	(9,796)	(45,555)

Notes to the Financial Statements

For the year ended 31 December 2006

10. DISCONTINUED OPERATIONS *(Continued)*

(b) Plan to dispose of the systems integration services (the "SI operations") *(Continued)*

The results of the discontinued operations for the years ended 31 December 2006 and 2005 which have been included in the consolidated income statement are as follows:

	2006 HK\$'000	2005 HK\$'000 (restated)
Turnover	79,193	136,535
Cost of sales	(54,608)	(108,928)
Gross profit	24,585	27,607
Other income	3,713	2,449
Selling and distribution expenses	(5,514)	(7,898)
Administrative expenses	(12,447)	(15,922)
Finance costs	(1,292)	(1,068)
Other operating expenses	(2,347)	(23,286)
Share of losses of an associate	(184)	(12,517)
Impairment losses on non-current assets held for sale	(14,420)	–
Loss on partial disposal of a subsidiary interest to a minority shareholder	(1,158)	–
Loss on disposal of subsidiaries	–	(14,154)
Loss before tax	(9,064)	(44,789)
Income tax expense	(732)	(766)
Loss for the year	(9,796)	(45,555)

During the year, the discontinued operations paid approximately HK\$5,961,000 (2005: HK\$3,890,000) in respect of operating activities, paid approximately HK\$443,000 (2005: HK\$14,170,000) in respect of investing activities and paid approximately HK\$13,158,000 (2005: received HK\$3,346,000) in respect of financing activities.

No tax charge or credit arose on loss on disposals of the discontinued operations.

Notes to the Financial Statements

For the year ended 31 December 2006

11. LOSS FOR THE YEAR

The Group's loss for the year is stated after charging/(crediting) the following:

	2006 HK\$'000	2005 HK\$'000
Amortisation of intangible assets (included in administrative expenses)	2,915	938
Auditors' remuneration	1,562	1,461
Cost of inventories sold (including write down of inventories)*	124,717	191,421
Depreciation	7,213	8,779
Exchange losses/(gains), net	372	(171)
Impairment losses on associates (included in other operating expenses)	–	3,321
Impairment losses on goodwill (included in other operating expenses)	77,000	–
Impairment losses on intangible assets (included in other operating expenses)	–	3,423
Impairment losses on non-current assets held for sale	14,420	–
Impairment losses on receivables and inventories (included in other operating expenses)	38,482	35,472
Impairment losses on prepayments for investments (included in other operating expenses)	32,500	–
Loss on disposal of an associate	–	1
Loss on disposals of property, plant and equipment	–	635
Loss on disposal of subsidiaries	–	14,154
Loss on partial disposal of a subsidiary interest to a minority shareholder	1,158	–
Operating lease charges in respect of land and buildings	4,026	1,857
Rental income from investment properties less direct outgoings of HK\$14,000 (2005: HK\$12,000)	(348)	(302)
Staff costs including directors' emoluments		
Contributions to defined contribution schemes	1,365	1,217
Salaries, wages and other benefits	22,064	24,190
Equity settled share-based payments	3,253	–
	26,682	25,407

* Write down of inventories for the year ended 31 December 2006 was Nil (2005: HK\$1,903,000).

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For the year ended 31 December 2006

12. DIRECTORS' EMOLUMENTS

The emoluments of each director for the year ended 31 December 2006 were as follows:

	Fees HK\$'000	Retirement scheme contributions HK\$'000	Share-based payments HK\$'000	Total HK\$'000
Executive directors				
Sze Wai, Marco	1,200	12	155	1,367
Chu Chi Shing	876	12	310	1,198
Gu Peijian <i>(note (a))</i>	300	12	155	467
Song Jing Sheng	720	12	310	1,042
Gaunt Robert Kenneth <i>(note (b))</i>	27	–	–	27
Broers Robertus Martinus Andreas <i>(note (b))</i>	51	–	–	51
Independent non-executive directors				
Chong Yiu Kan, Sherman	120	–	155	275
Mao Zhenhua	120	–	155	275
Wong Po Yan	120	–	155	275
	3,534	48	1,395	4,977

Notes to the Financial Statements

For the year ended 31 December 2006

12. DIRECTORS' EMOLUMENTS (Continued)

The emoluments of each director for the year ended 31 December 2005 were as follows:

	Fees HK\$'000	Retirement scheme contributions HK\$'000	Share-based payments HK\$'000	Total HK\$'000
Executive directors				
Sze Wai, Marco	1,200	12	–	1,212
Chu Chi Shing	888	12	–	900
Wang Qing (note (c))	–	–	–	–
Gu Peijian	300	12	–	312
Ye Long (note (d))	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

- Note:
- (a) Resigned on 29 January 2007
 - (b) Appointed on 18 December 2006
 - (c) Resigned on 31 May 2005
 - (d) Resigned on 16 February 2005

Notes to the Financial Statements

For the year ended 31 December 2006

13. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three of them (2005: three) were directors of the Company whose emoluments are included in the disclosures in note 12 above. The emoluments of the remaining two (2005: two) individuals were as follows:

	2006 HK\$'000	2005 HK\$'000
Salaries and other emoluments	1,608	1,638
Share-based payments	165	–
Retirement scheme contributions	24	12
	1,797	1,650

The emoluments of the two (2005: two) individuals with the highest emoluments are within the following bands:

	Number of individuals	
	2006	2005
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 any of the directors or 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 2006 and 2005.

14. DIVIDENDS

The directors do not recommend the payment of any dividend for the years ended 31 December 2006 and 2005.

Notes to the Financial Statements

For the year ended 31 December 2006

15. LOSS PER SHARE

(a) From continuing and discontinued operations

Basic loss per share

The calculation of basic loss (2005: loss) per share attributable to equity holders of the Company is based on the loss for the year attributable to equity holders of the Company of approximately HK\$202,132,000 (2005: HK\$78,240,000) and the weighted average number of ordinary shares of 993,623,000 (2005 (restated): 597,598,000) in issue during the year.

The effects of all potential ordinary shares are anti-dilutive for the years ended 31 December 2006 and 2005.

(b) From continuing operations

Basic loss per share

The calculation of basic loss (2005: loss) per share from continuing operations attributable to equity holders of the Company is based on the loss for the year from continuing operations attributable to equity holders of the Company of approximately HK\$189,956,000 (2005 (restated): HK\$30,731,000) and the denominators used are the same as that detailed above for basic loss per share.

The effects of all potential ordinary shares are anti-dilutive for the years ended 31 December 2006 and 2005.

(c) From discontinued operations

Basic loss per share

Basic loss (2005: loss) per share from discontinued operations attributable to equity holders of the Company is based on the loss for the year from discontinued operations attributable to equity holders of the Company of approximately HK\$12,176,000 (2005 (restated): HK\$47,509,000) and the denominators used are the same as those detailed above for basic loss per share.

The effects of all potential ordinary shares are anti-dilutive for the years ended 31 December 2006 and 2005.

Notes to the Financial Statements

For the year ended 31 December 2006

16. SEGMENT INFORMATION

(a) Primary reporting format – business segments

The Group comprises the following main business segments:

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.
Automatic teller machines services:	Provision of “automatic teller machines” services.

Notes to the Financial Statements

For the year ended 31 December 2006

16. SEGMENT INFORMATION (Continued)

(a) Primary reporting format – business segments (Continued)

	Continuing operations						Discontinued operations						Consolidated	
	Sale of integrated circuits and computer software		Automatic teller machines services		Unallocated		Manufacture & sale of computer related products		Software development & systems integration services		Information localisation services			
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	70,730	102,364	6,282	-	-	607	-	87,105	79,193	49,430	-	-	156,205	239,506
Other income from external customers	58	314	-	-	165	-	-	41	3,387	1,396	-	-	3,610	1,751
	70,788	102,678	6,282	-	165	607	-	87,146	82,580	50,826	-	-	159,815	241,257
Segment results (note i)	(29,804)	8,340	(87,688)	-	-	-	-	(7,410)	(5,655)	(7,554)	-	-	(123,147)	(6,624)
Unallocated operating income and expenses	-	-	-	-	-	-	-	-	-	-	-	-	(70,530)	(51,607)
Loss from operations	-	-	-	-	-	-	-	-	-	-	-	-	(193,677)	(58,231)
Finance costs	-	-	-	-	-	-	-	-	-	-	-	-	(4,450)	(3,433)
Share of losses of associates	-	-	(1,117)	(378)	-	-	-	(122)	(184)	-	-	(12,395)	(1,301)	(12,895)
Income tax expense	-	-	-	-	-	-	-	-	-	-	-	-	(324)	(1,727)
Minority interests	-	-	-	-	-	-	-	-	-	-	-	-	(2,380)	(1,954)
Loss attributable to equity holders													(202,132)	(78,240)
Impairment losses recognised in income statement	40,000	-	78,248	2,528	-	-	-	-	16,727	7,092	-	11,361		
Depreciation and amortisation charge for the year	208	2	6,227	-	-	-	-	4,886	1,412	2,372	-	-		
Segment assets	37,567	74,621	187,967	-	-	-	-	-	89,477	58,760	-	-	315,011	133,381
Interests in associates	-	-	-	75,823	-	-	-	-	1,329	3,966	-	-	1,329	79,789
Unallocated assets	-	-	-	-	-	-	-	-	-	-	-	-	55,595	195,230
Total assets													371,935	408,400
Segment liabilities	(43,678)	(70,608)	(8,597)	-	-	-	-	-	(69,252)	(47,808)	-	-	(121,527)	(118,416)
Unallocated liabilities	-	-	-	-	-	-	-	-	-	-	-	-	(36,022)	(24,902)
Total liabilities													(157,549)	(143,318)
Capital expenditure incurred during the year	1,547	2	167,809	-	85	224	-	5,404	375	1,801	-	-	169,816	7,431

Notes to the Financial Statements

For the year ended 31 December 2006

16. SEGMENT INFORMATION (Continued)

(a) Primary reporting format – business segments (Continued)

Note:

- i) Segment results, 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) Secondary reporting format – geographical segments

The Group's principal markets are located in two main geographical areas:

- The PRC – Software development and systems integration services
 – Automatic teller machines services
- Hong Kong – Sale of integrated circuits and computer software

	Continuing operations						Discontinued operations				Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	PRC	PRC	Hong Kong	Hong Kong	Total	Total	PRC	PRC	Total	Total	HK\$'000	HK\$'000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(restated)		(restated)		(restated)		(restated)		(restated)		(restated)
Revenue from												
external customers	6,282	–	70,730	102,095	77,012	102,095	79,193	137,411	79,193	137,411	156,205	239,506
Segmental assets	185,855	224,574	95,274	121,100	281,129	345,674	90,806	62,726	90,806	62,726	371,935	408,400
Capital expenditure												
incurred during												
the year	167,809	59	1,632	60	169,441	119	375	7,312	375	7,312	169,816	7,431

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For the year ended 31 December 2006

17. INVESTMENT PROPERTIES

	2006 HK\$'000	2005 HK\$'000
Valuation:		
At 1 January	8,350	6,300
Fair value gains	–	2,050
At 31 December	8,350	8,350

The Group's investment properties were revalued at 31 December 2006 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 fair values estimated by the valuer on 31 December 2006 do not differ significantly from their carrying amount and no revaluation adjustment has been recognised in the current year.

The Group's investment properties are situated in Hong Kong under medium leases.

At 31 December 2006 the Group's investment properties were pledged as security for banking facilities granted to the Group (note 30(a)).

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.

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

	2006 HK\$'000	2005 HK\$'000
Within one year	320	204

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For the year ended 31 December 2006

18. PROPERTY, PLANT AND EQUIPMENT

	Buildings held for own use	Leasehold improvements	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost:						
At 1 January 2005	19,225	3,086	47,661	10,282	12,226	92,480
Exchange adjustments	–	35	6	132	64	237
Additions	309	636	4,903	1,334	249	7,431
Disposals						
Through disposals of subsidiaries	(18,174)	(407)	(52,551)	(2,188)	(2,912)	(76,232)
Others	–	(636)	–	(583)	–	(1,219)
Elimination of accumulated depreciation	(40)	–	–	–	–	(40)
At 31 December 2005	1,320	2,714	19	8,977	9,627	22,657
Representing:						
Cost	–	2,714	19	8,977	9,627	21,337
Valuation – 2005	1,320	–	–	–	–	1,320
	1,320	2,714	19	8,977	9,627	22,657
At 1 January 2006	1,320	2,714	19	8,977	9,627	22,657
Exchange adjustments	–	89	–	279	135	503
Additions	–	109	–	531	1,547	2,187
Acquisition of subsidiaries	–	–	49,810	164	–	49,974
Assets classified as held for sale	–	(1,174)	–	(5,133)	(2,357)	(8,664)
Disposals	–	(119)	–	(358)	(998)	(1,475)
At 31 December 2006	1,320	1,619	49,829	4,460	7,954	65,182
Representing:						
Cost	–	1,619	49,829	4,460	7,954	63,862
Valuation – 2006	1,320	–	–	–	–	1,320
	1,320	1,619	49,829	4,460	7,954	65,182

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For the year ended 31 December 2006

18. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Buildings held for own use	Leasehold improvements	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Accumulated depreciation:						
At 1 January 2005	866	1,574	12,508	5,297	6,289	26,534
Exchange adjustments	–	18	6	55	23	102
Charge for the year	509	539	4,216	1,662	1,853	8,779
Written back on disposals						
Through disposals of subsidiaries	(1,336)	(42)	(16,730)	(1,126)	(1,102)	(20,336)
Others	–	(60)	–	(298)	–	(358)
Elimination on revaluation	(39)	–	–	–	–	(39)
At 31 December 2005	–	2,029	–	5,590	7,063	14,682
At 1 January 2006	–	2,029	–	5,590	7,063	14,682
Exchange adjustments	–	62	–	155	71	288
Charge for the year	39	647	3,561	1,209	1,757	7,213
Assets classified as held for sale	–	(1,035)	–	(2,915)	(1,495)	(5,445)
Written back on disposals	–	(84)	–	(299)	(998)	(1,381)
At 31 December 2006	39	1,619	3,561	3,740	6,398	15,357
Carrying amount:						
At 31 December 2006	1,281	–	46,268	720	1,556	49,825
At 31 December 2005	1,320	685	19	3,387	2,564	7,975

Notes to the Financial Statements

For the year ended 31 December 2006

18. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The Group's buildings held for own use in Hong Kong were revalued at 31 December 2006 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 fair values estimated by the valuer on 31 December 2006 do not differ significantly from their carrying amount and no revaluation adjustment has been recognised in the current year.

The carrying amount of the Group's buildings held for own use at 31 December 2006 would have been approximately HK\$1,228,000 (2005: HK\$1,267,000) had they been stated at cost less accumulated depreciation and impairment losses.

At 31 December 2006 the carrying amount of motor vehicles held by the Group under finance lease amounted to approximately HK\$1,341,000 (2005: Nil).

At 31 December 2006 the Group's buildings held for own use were pledged as security for banking facilities granted to a subsidiary and a former related company (note 39).

19. PREPAID LAND LEASE PAYMENTS

The Group's prepaid land lease payments are analysed as follows:

	2006	2005
	HK\$'000	HK\$'000
In Hong Kong		
– long leases	4,318	4,322

At 31 December 2006 the Group's prepaid land lease payments were pledged as security for banking facilities granted to a subsidiary and a former related company (note 39).

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For the year ended 31 December 2006

20. GOODWILL

	HK\$'000
Cost:	
Arising on acquisition of subsidiaries (<i>note 37(a)</i>) and at 31 December 2006	122,629
Accumulated impairment losses:	
Impairment losses recognised for the year and at 31 December 2006	(77,000)
Carrying amount:	
At 31 December 2006	45,629

Goodwill arose in the business combination because the consideration paid for the combination effectively included amounts in relation to the benefits of expected revenue growth and future market development. The goodwill arising from the business combination is wholly allocated to the ATM business segment for impairment testing. The recoverable amounts of the goodwill are determined from a value in use calculation. The key assumptions for the value in use calculation are those regarding the discount rates, growth rates and budgeted gross margin and turnover during the forecast period. Management estimates the discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the ATM business. The growth rates are based on long-term average economic growth rate of the geographical area in which the ATM business operates. Budgeted gross margin and turnover are based on past performance and expectations for future market development.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next three years with the residual period using the growth rate of 5%. This rate does not exceed the average long-term growth rate for the ATM business in which it operates. The rate used to discount the cash flow forecasts of the ATM business is 17%.

The directors of the Company are of the opinion that based on the forecasts, the recoverable amounts of the goodwill arising from the acquisition of subsidiaries do not exceed their carrying amount in the consolidated balance sheet, and therefore an impairment loss of HK\$77,000,000 was recognised.

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For the year ended 31 December 2006

21. INTANGIBLE ASSETS

	Computer software HK\$'000	Customer contracts HK\$'000	Total HK\$'000
Cost:			
At 1 January 2005	3,978	–	3,978
Additions	4,673	–	4,673
At 31 December 2005 and 1 January 2006	8,651	–	8,651
Acquired on acquisition of subsidiaries (<i>note 37(a)</i>)	–	45,000	45,000
Exchange adjustments	303	–	303
Assets classified as held for sale	(8,954)	–	(8,954)
At 31 December 2006	–	45,000	45,000
Accumulated amortisation and impairment losses:			
At 1 January 2005	2,821	–	2,821
Amortisation for the year	938	–	938
Impairment losses	3,423	–	3,423
At 31 December 2005 and 1 January 2006	7,182	–	7,182
Amortisation for the year	290	2,625	2,915
Exchange adjustments	238	–	238
Assets classified as held for sale	(7,710)	–	(7,710)
At 31 December 2006	–	2,625	2,625
Carrying amount:			
At 31 December 2006	–	42,375	42,375
At 31 December 2005	1,469	–	1,469

The Group's intangible assets mainly represent the fair value of customer contracts of Loten Technology Co., Ltd. and Beijing Sun Leader Technology Co., Ltd. at the date of acquisition. The average remaining amortisation period of the customer contracts is approximately ten years.

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For the year ended 31 December 2006

22. INTERESTS IN ASSOCIATES

	2006 HK\$'000	2005 HK\$'000
Unlisted investments:		
Share of net assets	793	21,516
Goodwill	–	27,614
	793	49,130
Amount due from an associate	927	33,980
	1,720	83,110
Impairment losses	(1,720)	(3,321)
	–	79,789

Details of the Group's associates at 31 December 2006 are as follows:

Name of associates	Place of incorporation/ registration	Issued and paid up capital	Percentage of ownership interest		Principal activities
			Direct	Indirect	
Fujian Multi Language Translation Service Company Limited	PRC	RMB5,000,000	–	25%	Provision of information localisation services
Fujian Star System Integration Co. Ltd.*	PRC	RMB4,800,000	–	28%	Provision of software development and systems integration services
福建實達軟件系統開發有限公司*	PRC	RMB1,000,000	–	44%	Provision of software development and systems integration services

* These companies were classified under disposal group during the year ended 31 December 2006.

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For the year ended 31 December 2006

22. INTERESTS IN ASSOCIATES (Continued)

Summarised financial information in respect of the Group's associates is set out below:

	Assets	Liabilities	Equity	Share of associates' net assets	Revenues	Loss	Share of associates' loss
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
2006	5,568	2,209	3,359	-	-	(91)	(1,301)
2005	109,449	59,168	50,281	21,516	8,363	(48,316)	(12,895)

The Group has not recognised loss for the year amounting to HK\$9,810,000 (2005: Nil). The accumulated losses not recognised as at 31 December 2006 were HK\$9,810,000 (2005: Nil).

23. PREPAYMENTS FOR INVESTMENTS

- 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, prepayments for investments of HK\$19,712,000 were placed with these PRC domestic companies. In 2006, full impairment was made for that amount.
- 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 was placed with this independent third party as a deposit for the acquisition. In 2006, full impairment was also made for that amount.
- As at 31 December 2005, deposit of HK\$57,690,000 was paid to one of a shareholder of an associate and an amount of HK\$51,920,000 was placed in PRC domestic companies for further investment in an associate. In May 2006, the Group acquired the remaining equity interest of the associates satisfied by the aforesaid deposits, new shares issue and cash settlement (note 37 (a)).

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24. INVENTORIES

	2006 HK\$'000	2005 HK\$'000
Finished goods	–	1,153

25. TRADE AND OTHER RECEIVABLES

	2006 HK\$'000	2005 HK\$'000
Accounts receivable	9,988	70,760
Retentions receivable from customers	–	1,888
Gross amount due from customers for contract work	–	10,464
Prepayments, deposits and other receivables	10,780	50,465
	20,768	133,577

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

	2006 HK\$'000	2005 HK\$'000
Current	7,147	24,385
1 to 3 months overdue	2,841	43,415
More than 3 months overdue but less than 12 months overdue	–	1,647
Overdue beyond 1 year	–	1,313
	9,988	70,760

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.

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For the year ended 31 December 2006

25. TRADE AND OTHER RECEIVABLES *(Continued)*

Included in trade and other receivables are the following amounts denominated in foreign currencies:

	2006	2005
	'000	'000
Renminbi	4,605	81,814
United States dollars	1,281	6,005

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26. SYSTEMS INTEGRATION CONTRACTS

The gross amount due from customers for contract work at 31 December 2006 and 2005 are expected to be recovered within one year. The gross amount due to customers for contract work at 31 December 2006 and 2005 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 2006 is approximately HK\$1,077,000 (2005: HK\$1,888,000). The amount of retentions at 31 December 2006 is expected to be recovered within one year and has been classified as disposal group (note 28).

27. CASH AND CASH EQUIVALENTS

	2006 HK\$'000	2005 HK\$'000
Bank and cash balances	92,348	12,324
Bank overdraft (note 30)	(14,833)	(19,942)
	77,515	(7,618)
Cash and cash equivalents included in the disposal group held for sale (note 28(b))	18,476	–
Cash and cash equivalents in the consolidated cash flow statement	95,991	(7,618)

Included in bank and cash balances is amount of approximately HK\$67,881,000 at 31 December 2006 (2005: HK\$12,250,000) denominated in Renminbi ("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.

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For the year ended 31 December 2006

28. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

(a) Disposal of the Chatex Group

In May 2005, the Group entered into an equity transfer agreement with an independent third party to dispose of Chatex Investment Limited and its subsidiaries (the "Chatex" Group), which carried out all of the Group's manufacturing and selling activities of computer related products. The disposal was completed in July 2005 and was classified as discontinued operations in 2005.

(b) Plan to dispose of the systems integration services (the "SI operations")

Pursuant to an agreement dated 19 January 2007 entered into between a subsidiary of the Company, Stepping Stones Limited (the "Vendor") and an independent third party (the "Purchaser"), the Vendor disposed of 100% interest in three wholly-owned subsidiaries engaged in the provision of the SI operations, Start-tech (Fujian) Software and System Co., Limited, Fuzhou Start Medical System Co., Limited and Start-tech (Guangzhou) Medical Systems Co., Limited, collectively the SI Companies, together with the interests in other companies held by each of the SI Companies, to the Purchaser at a consideration of HK\$14,330,000. The assets and liabilities attributable to the SI Companies, which are expected to be sold within twelve months, have been classified as a disposal group held for sale and are presented separately in the consolidated balance sheet. The SI operations are included in the Group's software development and systems integration services activities for segment reporting purposes.

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28. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE (Continued)

(b) Plan to dispose of the systems integration services (the "SI operations") (Continued)

The major classes of assets and liabilities comprising the disposal group classified as held for sale at 31 December 2006 are as follows:

	HK\$'000
Assets	
Property, plant and equipment	363
Intangible assets	140
Interests in associates	1,329
Inventories	3,646
Accounts receivable	36,793
Retentions receivable from customers (note 26)	1,077
Gross amount due from customers for contract work	9,389
Prepayments, deposits and other receivables	19,593
Bank and cash balances (note 27)	18,476
Assets classified as held for sale	90,806
Liabilities	
Accounts payable	13,648
Gross amount due to customers for contract work	2,163
Other payables and accrued expenses	32,965
Loans and overdraft	20,000
Current tax liabilities	155
Deferred tax liabilities	321
Liabilities classified as held for sale	69,252
Net assets of SI Companies classified as held for sale	21,554

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29. TRADE AND OTHER PAYABLES

	Note	2006 HK\$'000	2005 HK\$'000
Accounts payable	(a)	–	25,988
Bills payable	(a)	4,191	6,845
Gross amount due to customers for contract work		–	4,068
Deposit received for disposal of SI Companies		13,000	–
Receipts in advance		–	1,197
Other payables and accrued expenses		12,481	30,624
Amounts due to directors		–	5,684
		29,672	74,406

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

Note:

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

	2006 HK\$'000	2005 HK\$'000
Due within 3 months or on demand	4,191	31,444
Overdue 3 months to 1 year	–	491
Overdue beyond 1 year	–	898
	4,191	32,833

- (b) Included in trade and other payables are the following amounts denominated in foreign currencies:

	2006 '000	2005 '000
Renminbi	1,825	52,704
United States dollars	537	878

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30. BANK LOANS AND OVERDRAFT

	2006 HK\$'000	2005 HK\$'000
Secured bank overdraft (<i>note 27</i>)	14,833	19,942
Bank loans – secured	30,903	33,599
Bank loans – unsecured	–	9,615
Other loans – unsecured	–	1,160
	45,736	64,316

At 31 December 2006 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% – 8%
Bank loans	:	5% – 8%

Included in bank loans and overdraft are the following amounts denominated in foreign currencies:

	2006 '000	2005 '000
Renminbi	–	10,000
United States dollars	3,962	–

At 31 December 2006 the Group had banking facilities totalling HK\$87,000,000 (2005: HK\$79,615,000) of which HK\$67,000,000 (2005: HK\$70,000,000) was secured by the following:

- (a) Mortgages over the Group's investment properties at 31 December 2006 and 2005.
- (b) A charge over the Group's fixed deposits with banks of HK\$17,516,000 at 31 December 2006 (2005: HK\$17,516,000).
- (c) Corporate guarantee given by the Company.

The banking facilities were utilised to the extent of HK\$75,071,000 at 31 December 2006 (2005: HK\$73,589,000).

Notes to the Financial Statements

For the year ended 31 December 2006

31. FINANCE LEASE PAYABLES

	Minimum lease payments		Present value of minimum lease payments	
	2006 HK\$	2005 HK\$	2006 HK\$	2005 HK\$
Within one year	565	–	496	–
In the second to fifth years, inclusive	659	–	630	–
	1,224	–	1,126	–
Less: Future finance charges	(98)	–	–	–
Present value of lease obligations	1,126	–	1,126	–
Less: Amount due for settlement within 12 months (shown under current liabilities)			(496)	–
Amount due for settlement after 12 months			630	–

The lease term is three years. For the year ended 31 December 2006, the effective borrowing rate was 3.18% (2005: Nil). Interest rates are fixed at the contract dates and thus expose the Group to fair value interest rate risk. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. At the end of each lease term, the Group has the option to purchase the motor vehicle at nominal prices.

All finance lease payables are denominated in Hong Kong dollars.

The Group's finance lease payables are secured by the lessor's title to the leased assets.

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32. 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 consolidated income statement during the year amounted to HK\$139,000 (2005: HK\$230,000).

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% (2005: 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 as at 31 December 2006 amounted to HK\$1,226,000 (2005: HK\$987,000).

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

33. 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 for a period of ten years, 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.

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33. EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

Pursuant to a resolution of an annual general meeting held on 30 June 2006, the total number of shares in respect of which options may be granted under the New Scheme and any other operative share option schemes of the Company is not permitted to exceed 10% of the aggregate nominal amount of the issued shares of the Company as at 30 June 2006. Any further grant of shares options in excess of this limit is subject to shareholders' approval in a general meeting.

The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

The offer for a grant of share options of the New Scheme may be accepted with 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors and in any event not later than 10 years from the date of grant of share options subject to the provisions for early termination thereof.

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 shall not be lower than the highest of (i) the nominal value of the shares; (ii) the closing price of the shares on the Stock Exchange's daily quotations sheet on the date of offer of the options, which must be a trading day; and (iii) 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.

At 31 December 2006, there were 79,241,000 share options granted which remained outstanding under the New and Old Schemes. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 79,241,000 additional ordinary shares of the Company and additional share capital of HK\$7,924,100 and share premium of approximately HK\$14,590,500 (before share issue expenses).

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

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33. EQUITY SETTLED SHARE-BASED TRANSACTIONS (Continued)

The following share options were outstanding under the share option schemes during the year:

	Date granted	Exercisable period	Note	Exercise price of share options (note a) HK\$	Outstanding at 1.1.2006	Number of options		Outstanding at 31.12.2006
						Granted during the year	Exercised/ lapsed during the year	
Old Scheme								
Directors								
Chu Chi Shing	16 Jun 1999	10 years	(b)	1.08	2,100,000	-	-	2,100,000
	28 Dec 1999	10 years	(d)	1.32	200,000	-	-	200,000
	14 May 2001	10 years	(e)	0.58	200,000	-	-	200,000
Sze Wai, Marco	14 May 2001	10 years	(e)	0.58	3,500,000	-	-	3,500,000
Former director								
Chiu Chi Shun, Clarence	14 May 2001	10 years	(e)	0.58	3,500,000	-	-	3,500,000
Employees								
	16 Jun 1999	10 years	(b)	1.08	2,881,000	-	-	2,881,000
	20 Dec 1999	10 years	(c)	1.13	100,000	-	-	100,000
	28 Dec 1999	10 years	(d)	1.32	650,000	-	-	650,000
	03 Jan 2000	10 years	(c)	1.44	560,000	-	-	560,000
	28 Feb 2000	10 years	(c)	2.06	40,000	-	-	40,000
	21 Jul 2000	10 years	(c)	1.14	200,000	-	-	200,000
	14 May 2001	10 years	(e)	0.58	1,750,000	-	-	1,750,000
New Scheme								
Directors								
Sze Wai, Marco	31 Oct 2006	10 years	(h)	0.250	-	1,000,000	-	1,000,000
Chu Chi Shing	31 Oct 2006	10 years	(h)	0.250	-	2,000,000	-	2,000,000
Song Jing Sheng	31 Oct 2006	10 years	(h)	0.250	-	2,000,000	-	2,000,000
Gu Peijian (Resigned on 29 Jan 07)	31 Oct 2006	10 years	(h)	0.250	-	1,000,000	-	1,000,000

Notes to the Financial Statements

For the year ended 31 December 2006

33. EQUITY SETTLED SHARE-BASED TRANSACTIONS (Continued)

	Date granted	Exercisable period	Note	Exercise price of share options (note a) HK\$	Outstanding at 1.1.2006	Number of options		Outstanding at 31.12.2006
						Granted during the year	Exercised/ lapsed during the year	
Independent Non-executive directors								
Mao Zhenhua	31 Oct 2006	10 years	(h)	0.250	-	1,000,000	-	1,000,000
Wong Po Yan	31 Oct 2006	10 years	(h)	0.250	-	1,000,000	-	1,000,000
Chong Yiu Kan	31 Oct 2006	10 years	(h)	0.250	-	1,000,000	-	1,000,000
Employees and Consultants								
Employees	20 Mar 2006	10 years	(f)	0.122	-	37,060,000	(500,000)	36,560,000
	04 Oct 2006	10 years	(g)	0.213	-	3,000,000	-	3,000,000
Consultants	20 Mar 2006	10 years	(f)	0.122	-	7,000,000	-	7,000,000
	04 Oct 2006	10 years	(g)	0.213	-	8,000,000	-	8,000,000
					15,681,000	64,060,000	(500,000)	79,241,000

Note:

- (a) The exercise price of the share options is subject to adjustment in the case of a right or bonus issue, or other similar changes in the Company's share capital.
- (b) All of these options have duration of 10 years from the date of grant, provided that the options may not be exercised prior to the date of 2 October 1999 and that the options may not be exercised in respect of more than 10%, 30%, 60% and 90% of the options prior to the dates of 2 January 2000, 2 January 2001, 2 January 2002 and 2 July 2002 respectively.
- (c) All of these options have duration of 10 years from the date of grant, provided that the options may not be exercised prior to the date of 2 January 2001 and that the options may not be exercised in respect of more than 30% and 60% prior to the dates of 2 January 2002 and 2 January 2003 respectively.
- (d) All of these options have duration of 10 years from the date of grant, provided that the options can only be exercised from the date of 1 February 2001.

Notes to the Financial Statements

For the year ended 31 December 2006

33. EQUITY SETTLED SHARE-BASED TRANSACTIONS (Continued)

Note: (Continued)

- (e) All of these options have duration of 10 years from the date of grant, provided that the options may not be exercised prior to the date of 1 October 2001 and that the options may not be exercised in respect of more than 40% and 70% prior to the dates of 2 January 2002 and 2 January 2003 respectively.
- (f) All of these options have duration of 10 years from the date of grant and the options can be exercised from the date of grant.
- (g) All of these options have duration of 10 years from the date of grant, provided that the options may not be exercised prior to the date of 4 April 2007 and that the options may not be exercised in respect of more than 50% prior to 4 October 2007 respectively.
- (h) All of these options have duration of 10 years from the date of grant, provided that the options may not be exercised prior to the date of 1 May 2007 and that the options may not be exercised in respect of more than 50% prior to 1 November 2007 respectively.
- (i) The average closing prices of the shares in the Stock Exchange for the five trading days immediately preceding the dates of grant on 20 March 2006, 4 October 2006 and 31 October 2006 are HK\$0.124, HK\$0.212 and HK\$0.214 respectively.

The number and weighted average exercise price of the share options are as follows:

	2006		2005	
	Number of share options	Weighted average exercise price HK\$	Number of share options	Weighted average exercise price HK\$
Outstanding at the beginning of the year	15,681,000	0.824	15,681,000	0.824
Granted during the year	64,060,000	0.151	–	–
Exercised during the year	(500,000)	0.122	–	–
Outstanding at the end of the year	79,241,000	0.284	15,681,000	0.824
Exercisable at the end of the year	59,241,000	0.308	15,681,000	0.824

Notes to the Financial Statements

For the year ended 31 December 2006

33. EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

The weighted average share price at the exercise date of the share options during the year was HK\$0.21. The options outstanding at the end of the year have a weighted average remaining contractual life of 8.27 years (2005: 4.67 years) and the exercise prices range from HK\$0.122 to HK\$2.06 (2005: HK\$0.58 to HK\$2.06).

The fair value of options granted during the year determined at the grant dates using the Binomial Option Pricing Model was approximately HK\$4,533,000. The significant inputs into the model were as follows:

	20 March 2006	4 October 2006	31 October 2006
Option value	HK\$0.040	HK\$0.125	HK\$0.155
Total fair value	HK\$1,762,400	HK\$1,375,000	HK\$1,395,000
Share price at date of grant	HK\$0.12	HK\$0.21	HK\$0.25
Exercisable price	HK\$0.122	HK\$0.213	HK\$0.25
Expected volatility	83%	84%	84%
Risk-free interest rate	4.390%	3.973%	3.867%
Suboptimal exercise factor	1.5	2.1	2.1
Dividend yield	0%	0%	0%

The expected volatility was determined by calculating the historical volatility of the Company's share price from the date of listing to grant dates. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The total share-based compensation costs recognised during the year amounted to approximately HK\$4,533,000 (2005: Nil).

Notes to the Financial Statements

For the year ended 31 December 2006

34. DEFERRED TAX

The following is the major deferred tax liabilities recognised by the Group, and the movements thereon, during the current and prior reporting periods.

	Intangible assets HK\$'000	Revaluation of properties held for own use HK\$'000	Other temporary differences HK\$'000	Total HK\$'000
Deferred tax arising from:				
At 1 January 2005	–	286	2,409	2,695
Charged to consolidated income statement (<i>note 9</i>)	–	286	1,104	1,390
Disposal of subsidiaries	–	–	(192)	(192)
Exchange adjustments	–	–	151	151
At 31 December 2005	–	572	3,472	4,044
At 1 January 2006	–	572	3,472	4,044
Intangible assets arising on acquisition of subsidiaries (<i>note 37(a)</i>)	7,875	–	–	7,875
Charged (back)/to consolidated income statement (<i>note 9</i>)	(459)	–	51	(408)
Classified as held for sale	–	–	(321)	(321)
Exchange adjustments	–	–	141	141
At 31 December 2006	7,416	572	3,343	11,331

The Group has not recognised deferred tax assets in respect of tax losses of HK\$99,713,000 (2005: HK\$57,481,000) available for offset against future profits due to the unpredictability of future profits streams. The tax losses do not expire under current tax legislation.

Notes to the Financial Statements

For the year ended 31 December 2006

35. SHARE CAPITAL

	Note	2006		2005	
		No. of shares '000	Amount HK\$'000	No. of shares '000	Amount HK\$'000
Authorised:					
Ordinary shares of HK\$0.1 each		3,000,000	300,000	3,000,000	300,000
Issued and fully paid:					
At 1 January		528,644	52,864	528,644	52,864
Issue of right shares	(a)	528,644	52,864	–	–
Issue of new shares	(b)	100,000	10,000	–	–
	(c)	210,000	21,000	–	–
Exercise of share options		500	50	–	–
At 31 December		1,367,788	136,778	528,644	52,864

Note:

- (a) During the year, a rights issue ("Rights Issue") of one right share for every one existing share held by members on the register of members on 26 March 2006 was made at an issue price of HK\$0.1 per right share, resulting in the issue of 528,644,000 shares of HK\$0.1 each for a total cash consideration, after expenses, of approximately HK\$51 million. The net proceeds of the Rights Issue were used to finance business acquisition of the remaining 70% equity interest of two ATM companies, Loten Technology Co., Ltd. and Beijing Sun Leader Technology Co., Ltd. (note 37(a)).
- (b) In August 2006, 100,000,000 new ordinary shares of HK\$0.1 each was issued at HK\$ 0.3 per share to a vendor credited as fully paid, as partial consideration for the acquisition of the remaining 70% equity interest of two ATM companies, Loten Technology Co., Ltd. and Beijing Sun Leader Technology Co., Ltd. (note 37(a)).
- (c) Pursuant to a subscription agreement entered into on 14 November 2006, the subscriber, Customers Asia Limited, subscribed for 210,000,000 new shares of HK\$0.1 each at a subscription price of HK\$0.261 per share on 18 December 2006.
- (d) The excess of the issued price over the par value of the shares issued during the year in (b) and (c) has been credited to share premium account of the Company.
- (e) All the shares issued by the Company rank pari passu and do not carry pre-emptive right.

Notes to the Financial Statements

For the year ended 31 December 2006

36. RESERVES

(a) The amounts of the Group's reserves and the movements therein are presented in the consolidated statement of changes in equity.

(b) Nature and purposes of reserves

(i) *Share premium*

Under the Companies Act 1981 of Bermuda (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 tax to general reserve, which can be used to make good losses and to convert into paid-up capital.

(iii) *Share option reserve*

Share option reserve represents the fair value of the outstanding share options granted to executive directors, employees, non-executive directors, any suppliers and customers of the Company and any of its subsidiaries and any invested entity recognised in accordance with the accounting policy adopted for share based payments.

(iv) *Translation reserve*

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

Notes to the Financial Statements

For the year ended 31 December 2006

36. RESERVES *(Continued)*

(b) Nature and purposes of reserves *(Continued)*

(v) *Warrants reserve*

Warrants 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 account upon the exercise of the warrants.

In July 2006, the Company issued 100,000,000 non-listed warrants at an issue price of HK\$0.01 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\$0.33 per share during the three-year period from the date of allocation and issue of the warrants.

(vi) *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.

Notes to the Financial Statements

For the year ended 31 December 2006

37. ACQUISITION AND DISPOSALS OF SUBSIDIARIES

(a) Acquisition of subsidiaries

In May 2006, the Group acquired the remaining 70% equity interest of two ATM companies, Loten Technology Co., Ltd. and Beijing Sun Leader Technology Co., Ltd. with net assets fair value at approximately HK\$70,989,000. The consideration, before expenses, of HK\$143,910,000 (equivalent to approximately RMB144,000,000) was satisfied by HK\$113,910,000 cash and HK\$30,000,000 by an issue and allotment of 100,000,000 new shares of HK\$0.1 each of the Company, at HK\$0.3 per share (note 35(b)). The acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was HK\$122,629,000 in aggregate.

	Acquiree's carrying amount on acquisition HK\$'000	Acquiree's fair value on acquisition HK\$'000
Net assets acquired:		
Property, plant and equipment	57,474	49,974
Intangible assets (<i>note 21</i>)	–	45,000
Inventories	352	352
Prepayments, deposits and other receivables	4,091	4,091
Cash and cash equivalents	28,573	28,573
Other payables and accrued expenses	(49,126)	(49,126)
Deferred tax liabilities	–	(7,875)
	41,364	70,989
Reclassified from interests in associates		(46,580)
Goodwill arising on acquisition (<i>note 20</i>)		122,629
		147,038
Satisfied by:		
Cash paid		4,300
Direct cost related to the acquisition		3,128
Share consideration, at fair value		30,000
Deposits paid for intended acquisition in 2005 (<i>note 23(c)</i>)		109,610
		147,038
Net cash inflow of cash on acquisition of subsidiaries:		
Cash paid		(4,300)
Direct cost related to the acquisition		(3,128)
Cash and cash equivalents of the subsidiaries acquired		28,573
		21,145

Notes to the Financial Statements

For the year ended 31 December 2006

37. ACQUISITION AND DISPOSALS OF SUBSIDIARIES *(Continued)*

(a) Acquisition of subsidiaries *(Continued)*

Loten Technology Co., Ltd. and Beijing Sun Leader Technology Co., Ltd. contributed approximately HK\$6,282,000 to the Group's turnover and approximately HK\$79,755,000 to the Group's loss before tax for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 January 2006, total Group turnover for the year would have been HK\$157,396,000 and loss for the year would have been HK\$202,507,000. The proforma information is for illustrative purposes only and is not necessarily an indication of turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2006, nor is it intended to be a projection of future results.

Notes to the Financial Statements

For the year ended 31 December 2006

37. ACQUISITION AND DISPOSALS OF SUBSIDIARIES *(Continued)*

(b) Disposals of subsidiaries

In July 2005 the Group discontinued its manufacturing and sale of plastic casings for computer equipment business at the time of the disposal of its subsidiaries.

	2006 HK\$'000	2005 HK\$'000
Net assets of:		
Property, plant and equipment	–	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 payable	–	(68,027)
Other payables and accrued expenses	–	(665)
Bank loans and overdraft	–	(24,480)
Deferred tax liabilities	–	(192)
	–	72,048
Minority interests	–	(26,054)
Loss on disposal of subsidiaries	–	(14,154)
	–	31,840
Satisfied by:		
Cash received	–	31,840
Analysis of net inflow of cash and cash equivalents in connection with the disposal 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 disposal of subsidiaries	–	28,053

Notes to the Financial Statements

For the year ended 31 December 2006

38. COMMITMENTS

(a) Lease commitments

At 31 December 2006 the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2006 HK\$'000	2005 HK\$'000
Within one year	1,816	2,390
After one year but within five years	307	1,128
	2,123	3,518

Operating lease payments represent rentals payable by the Group for certain of its offices. Leases are negotiated for an average term of two years and rentals are fixed over the lease terms and do not include contingent rentals.

(b) Capital commitments

The Group's capital commitments at the balance sheet date are as follows:

	2006 HK\$'000	2005 HK\$'000
Contracted but not provided for	12,011	93,535

Notes to the Financial Statements

For the year ended 31 December 2006

39. CONTINGENT LIABILITIES

The Group's land and buildings held for own use with an aggregate carrying value of HK\$5,599,000 (2005: HK\$5,642,000) were pledged and corporate guarantee of the Company was given as security for banking facilities amounting to HK\$6,000,000 (2005: HK\$15,000,000) granted to a former related company. As at 31 December 2006, the amount of the facilities utilised was HK\$5,984,000 (2005: HK\$7,985,000).

At 31 December 2006, the Group had contingent liabilities in connection with performance bonds for suppliers amounting to HK\$5,148,000 (2005: HK\$5,148,000).

40. MATERIAL RELATED PARTY TRANSACTIONS

In addition to those related party transactions and balances disclosed elsewhere in the financial statements, the Group has the following material transactions during the year ended 31 December 2006 with associates and certain related parties in which a director or shareholder of the Group is in a position to exercise significant influence:

	Note	2006 HK\$'000	2005 HK\$'000
Trading transactions			
Purchases from an associate	(a)	3,971	2,673
Sales to an associate	(b)	200	–
Non-trading transactions			
Waiver of amount due to an associate	(c)	9,347	–
Assignment of loan	(d)	1,000	–
Impairment loss on amount due from a shareholder	(e)	3,145	–
Impairment loss on amount due from an associate	(f)	927	–
Disposal of partial interests of a subsidiary to a related company	(g)	–	–
Purchases on behalf of an associate	(h)	–	21,745

Notes to the Financial Statements

For the year ended 31 December 2006

40. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

Notes:

- (a) The amount represented purchases of a system integration contract from an associate at an agreed contract price.
- (b) The amount represented sales of a system integration contract to an associate at an agreed contract price.
- (c) These represented gain on waiver of amount due to an associate.
- (d) The amount represented a loan assigned from an associate to the Company at nil consideration.
- (e) The amount represented impairment loss on amount due from a shareholder.
- (f) The amount represented impairment loss on amount due from an associate.
- (g) The Group disposed of partial interests of a subsidiary to a related party at nil consideration.
- (h) The amount represented purchases of automatic teller machines on behalf of an associate.

Except for notes (d) and (g) 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.

41. MAJOR NON-CASH TRANSACTION

- (a) The Group further acquired 70% equity interest of two ATM companies, Loten Technology Co., Ltd. and Beijing Sun Leader Technology Co., Ltd. satisfied by an issue and allotment 100,000,000 new ordinary shares of HK\$0.1 each of the Company at HK\$0.3 per share. Details of acquisition are set out in note 37(a).
- (b) Additions to property, plant and equipment during the year of HK\$1,547,000 (2005: Nil) were financed by finance leases.

Notes to the Financial Statements

For the year ended 31 December 2006

42. POST BALANCE SHEET EVENTS

- (a) On 2 January 2007, share options entitling the holders thereof to subscribe for an aggregate of 2,400,000 shares were granted to an employee of the Company. The fair value of the options has not been determined yet as the management considers there is no financial impact to the current financial year.
- (b) On 14 November 2006, the Company entered into a Loan Agreement with Customers Asia Limited (the "Customers"), pursuant to which Customers has conditionally agreed to make available to the Company a loan in the principal amount of HK\$62,400,000. A supplemental deed to the Loan Agreement was entered into on 10 January 2007 to alter certain terms and conditions of the Loan Agreement. The drawdown of the loan in February 2007 amounted to HK\$62,400,000 which shall entitle Customers to convert the principal amount of the loan into new shares of the Company subject to the terms and conditions as specified in the Loan Agreement and the supplemental deed to the Loan Agreement.
- (c) On 19 January 2007, an agreement was entered into between a subsidiary of the Company, Stepping Stones Limited (the "Vendor") and an independent third party (the "Purchaser") whereby the Vendor disposed of 100% interest in three wholly-owned subsidiaries engaged in the provision of the SI operations, Start-tech (Fujian) Software and System Co., Limited, Fuzhou Start Medical System Co., Limited and Start-tech (Guangzhou) Medical Systems Co., Limited, collectively the SI Companies, together with the interests in other companies held by each of the SI Companies, to the Purchaser at a consideration of HK\$14,330,000. On 26 February 2007, a resolution was passed in a special general meeting to approve the disposal.

Notes to the Financial Statements

For the year ended 31 December 2006

43. PRINCIPAL SUBSIDIARIES

Details of the Company's subsidiaries at 31 December 2006 are as follows:

Name of subsidiaries	Place of incorporation/ establishment and operation	Attributable ownership interest percentage		Issued and paid up/ registered capital	Principal activities
		Direct	Indirect		
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

Notes to the Financial Statements

For the year ended 31 December 2006

43. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiaries	Place of incorporation/ establishment and operation	Attributable ownership interest percentage		Issued and paid up/ registered capital	Principal activities
		Direct	Indirect		
Fortune Years Limited	Hong Kong	–	100	HK\$2	Property holding
Start-tech (Guangzhou) Medical Systems Co., Ltd.* (note a)	PRC	–	100	RMB15,955,000	Provision of software development and systems integration services
Start-tech (Fujian) Software and System Co., Ltd.* (note a)	PRC	–	100	RMB50,713,450	Provision of software development and systems integration services
Fuzhou Start Medical System Co., Ltd.* (note a)	PRC	–	100	RMB2,000,000	Dormant
Fujian Gallop Information Co., Ltd. (note a)	PRC	100	–	RMB10,000,000	Dormant
Start Technology (Beijing) Co., Ltd. (note a)	PRC	–	100	RMB10,000,000	Dormant
Fujian Yi Lian Tong Technology Development Limited (Formerly known as Fujian Hai Tong Technology Development Co., Ltd.)* (note b)	PRC	–	100	RMB5,000,000	Dormant

Notes to the Financial Statements

For the year ended 31 December 2006

43. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiaries	Place of incorporation/ establishment and operation	Attributable ownership interest percentage		Issued and paid up/ registered capital	Principal activities
		Direct	Indirect		
Fujian He Zhong Information Technology Ltd. (Formerly known as Fuzhou Hai Kang Medical Equipment Co., Ltd.)* <i>(note b)</i>	PRC	–	59	RMB5,000,000	Dormant
Anhui Start Technology and System Integration Co., Ltd.* <i>(note b)</i>	PRC	–	51	RMB5,000,000	Provision of software development and systems integration services
Neimenggu Start-Tech Software and System Co., Ltd.* <i>(note b)</i>	PRC	–	100	RMB3,000,000	Provision of software development and systems integration services
Fujian Start Information Facility Co., Ltd. <i>(note a)</i>	PRC	–	100	RMB4,404,940	Dormant
Shanxi Start Technology Co., Ltd.* <i>(note b)</i>	PRC	–	51	RMB3,000,000	Provision of software development and systems integration services
Beijing Sun Leader Technology Co., Ltd. <i>(note a)</i>	PRC	–	100	RMB10,000,000	Provision of ATMs services

Notes to the Financial Statements

For the year ended 31 December 2006

43. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiaries	Place of incorporation/ establishment and operation	Attributable ownership		Issued and paid up/ registered capital	Principal activities
		interest percentage			
		Direct	Indirect		
Loten Technology Co., Ltd. <i>(note a)</i>	PRC	-	100	RMB50,000,000	Provision of ATMs services

* These companies were classified under disposal group during the year ended 31 December 2006.

Notes:

- (a) These are wholly foreign-owned companies established in the PRC.
- (b) These are domestic limited liability companies established in the PRC.

44. COMPARATIVE FIGURES

Certain comparative figures have been re-stated and re-classified to conform with the current year's presentation.

45. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 16 April 2007.

Five Years Financial Summary

For the year ended 31 December 2006

	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000
Results					
Turnover	156,205	239,506	291,041	154,882	637,389
(Loss)/profit from ordinary activities before tax	(199,428)	(74,559)	14,265	(1,620)	13,917
Income tax expense	(324)	(1,727)	(2,780)	(3,112)	(6,258)
(Loss)/profit from ordinary activities after tax	(199,752)	(76,286)	11,485	(4,732)	7,659
Minority interests	(2,380)	(1,954)	(3,378)	(5,436)	(18,585)
(Loss)/profit attributable to equity holders	(202,132)	(78,240)	8,107	(10,168)	(10,926)
Assets and liabilities					
Fixed assets	62,493	20,647	76,573	43,476	44,977
Construction in progress	–	–	11,330	1,969	–
Goodwill	45,629	–	–	–	–
Intangible assets	42,375	1,469	1,157	872	1,320
Interests in associates	–	79,789	15,715	–	–
Interests in jointly controlled entities	–	–	–	23,080	12,296
Investment funds	–	141,322	33,486	19,336	16,956
Pledged deposits	17,516	17,516	17,516	17,516	17,516
Deferred tax assets	–	–	137	121	–
Net current assets	58,334	8,383	217,435	214,416	238,091
Total assets less current liabilities	226,347	269,126	373,349	320,786	331,156
Non-current liabilities	(11,961)	(4,044)	(2,832)	(1,652)	(628)
	214,386	265,082	370,517	319,134	330,528
Share capital	136,778	52,864	52,864	44,064	44,064
Reserves	70,385	208,533	284,842	255,347	268,479
Minority interests	7,223	3,685	32,811	19,723	17,985
	214,386	265,082	370,517	319,134	330,528
(Loss)/earnings per share (cents)					
Basic	(20.34)	(13.09)	1.6	(2.3)	(2.5)
Diluted	N/A	N/A	N/A	N/A	N/A