ThinSoft

THINSOFT (HOLDINGS) INC
博 軟 (控 股) 有 限 公 司

Annual Report 2005

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

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

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

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

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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

Contents

Chairman's Statement

ThinSoft (Holdings) Inc concluded a very successful year in 2005 demonstrating clearly that the operating and financial strategies undertaken in earlier years by the Group have indeed provided fundamental strengths that will benefit performance in future periods.

Ngiam Mia Hai Bernard
Chairman

Financial Highlights

The Group's revenue from the sale of software was approximately HK$12.5 million, an increase of approximately 24.8% over the previous year. During the year under review, the Group's US entity recognised future tax benefits amounting to approximately HK$3.4 million. These benefits accrued as a result of prior years' net operating losses incurred in the US which, under US tax regulations, are allowed as offsets to future taxable income. As a result, the Group recorded a deferred tax asset of approximately HK$3.4 million and income of the same amount for the year under review. Further, increased in software sales combined with the fact that the cost of sales from 1 January 2005 were no longer burdened by the amortisation of deferred development expenditures, the Group turned around from approximately HK$7.7 million loss in last year to approximately HK$8.3 million profit for the year under review.

	Quarterly Results For the three months ended		**Yearly Results**	
	31 December 2005 HK$'m	31 December 2004 HK$'m	**2005 HK$'m**	2004 HK$'m
Revenue	**4.8**	6.7	**17.4**	18.0
Profit/(loss) for the year	**5.7**	(2.5)	**8.3**	(7.7)

Entering 2006, ThinSoft is positioned in solid financial condition and has the advantage of a well developed and enriched distribution system throughout major global markets. And while the financial results speak for themselves – a profit of approximately HK$8.3 million, I find most noteworthy and would like to highlight for you, some of the management initiatives in various aspects of the business that made the 2005 results possible.

First and foremost is the further shaping of ThinSoft's revenue streams. Sales of our premier software suites, especially the WinConnect Server XP solution, increased by approximately 24.8% over the prior year to approximately HK$12.5 million and now represent approximately 71.6% of total revenue. The significance of this shift is that the software suites are the Group's most profitable products and as a direct result, have increased gross profit margins in 2005 to a record approximately 79%.

Business Review

As important in 2005 was the nurturing of cyber sales from the Group's website. This very efficient means of product sales grew by approximately 36% over the prior year and now accounts for approximately 43% of total revenue.

The Group succeeded in smoothing the allocation of geographic sales concentrations to more markets outside of Europe. Today, while the European countries continue to be the Group's leading market, accounting for approximately 39.1% of revenue, the United States has grown to approximately 36.1% up from approximately 25.1% in the prior year. Other geographic areas such as Latin America, Asia and Africa now account for approximately 24.8% of total Group revenue and offer very promising opportunities for growth in future years.

Within various markets in 2005, ThinSoft products gained recognition as the "solutions of choice" and are being deployed by constituents in such critical disciplines as medical institutes, law enforcement, and government agencies.

Finally, the quality of ThinSoft's innovative products was officially recognized in 2005 by the US Patent and Trademark Office when it notified the Group that its application for a patent on *A System and Method for Configuring a Multi-User Computer System* had been allowed.

An important footnote to these results is that the Group further reduced its general and administrative expenses by approximately 15.1% in the year under review.

Prospects

In summary, 2005 was a watershed year in terms of financial and operational performance for ThinSoft (Holding) Inc and has validated management's philosophy and approach toward the challenges in the future of the Group, its employees and its shareholders.

Appreciation

ThinSoft acknowledges the dedication of its staff and the continued support of its business partners and shareholders over this period in making improved performance possible. I would like to express my personal appreciation to each of these groups for their contributions.

Ngiam Mia Hai Bernard
Chairman

Hong Kong
6 February 2006

Corporate Information

Executive Directors
Ngiam Mia Hai Bernard *(Chairman)*
Ngiam Mia Hong Alfred

Independent non-executive Directors
Chen Tzyh-Trong
Lee Chung Mong
Yeung Chi Hung

Audit committee
Chen Tzyh-Trong *(Chairman)*
Lee Chung Mong
Yeung Chi Hung

Compliance officer
Ngiam Mai Hai Bernard

Company secretary
Yau Lai Man *CPA (practising)*

Qualified accountant
Fan Kin Nang *FCPA (practising), FCCA, FCMA*

Authorised representatives
Ngiam Mai Hai Bernard
Yau Lai Man *CPA (practising)*

Registered office
Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681GT
George Town
Grand Cayman
Cayman Islands
British West Indies

Auditors
Ernst & Young

Head office and principal place of business
Room 2818
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

Principal share registrar and transfer office
Bank of Bermuda (Cayman) Limited
P.O. Box 513 GT
Strathvale House
North Church Street
George Town
Grand Cayman
Cayman Islands
British West Indies

Hong Kong branch share registrar and transfer office
Hong Kong Registrars Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

Website addresses
www.ThinSoftinc.com
www.Thincomputinginc.com
www.Austin.com.sg

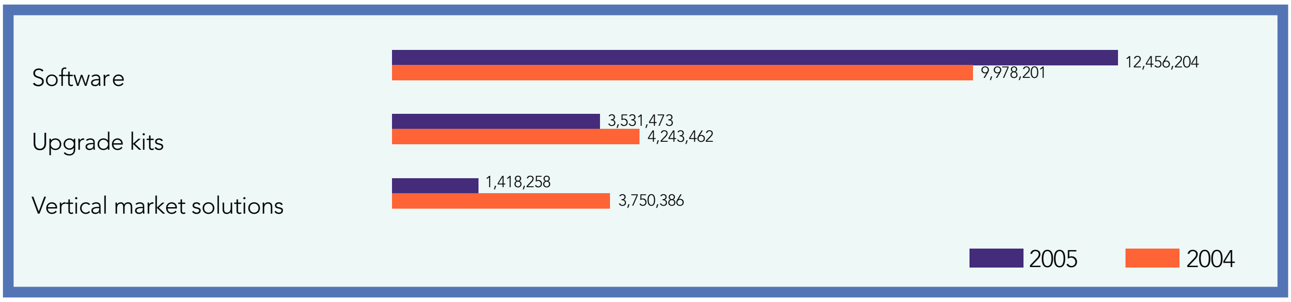
Principal bankers
Citibank N.A.
Union De Banques Arabes Et Francaises
DBS Bank (Hong Kong) Limited

Stock code
8096

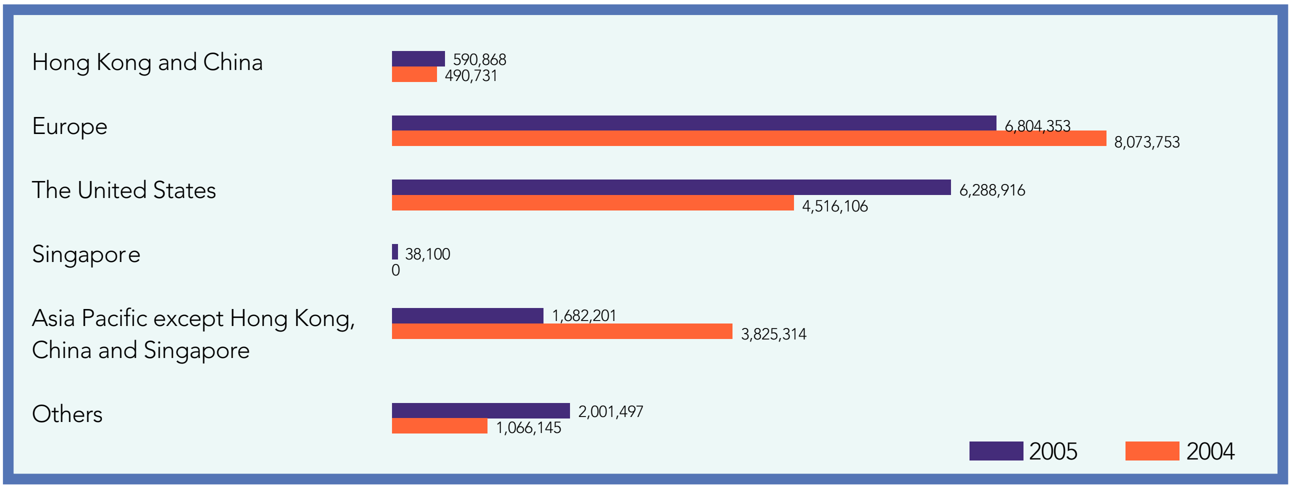
Financial Highlights

	Year ended 31 December 2005 HK$	2004 HK$
Results		
Revenue	**17,405,935**	17,972,049
Profit/(loss) for the year	**8,322,820**	(7,690,944)
Assets and liabilities		
Total assets	**33,068,784**	23,995,598
Total liabilities	**5,037,548**	4,287,182
Shareholders' equity	**28,031,236**	19,708,416

Revenue by Business segments



Revenue by Geographical segments



Management Discussion and Analysis

Operations Review

Operations attained very meaningful improvements in important areas of performance during the year under review.

ThinSoft was able to enrich its profit margins significantly this year by intensifying the promotion of its WinConnect Server XP, WinConnect and BeTwin software solutions even though overall revenue was off slightly from the prior year.

WinConnect being exhibited in Germany – Orbit iEX, 24 to 27 May 2005

The Group perpetuated its proven marketing successes at major exhibitions and tradeshows such as "IT Brazil" and "ICT Expo 2005" in Thailand. At these key venues which address Latin American and Asian information technology customers, ThinSoft was able to demonstrate the exceptional value propositions of its software solutions. The attributes of these propositions were made further available to the industry through very favourable print and internet product reviews such as "PC Home Magazine" in Taiwan and "NEPAD" on the web in South Africa. These articles also demonstrate how extensive the global reach of ThinSoft's products has become.

IT Brazil 2005 – Technologies, 16 to 19 August 2005

Operations performed very efficiently in the year under review. Management purposely continued to reduce expenditures in general and administrative areas and wisely redirected a portion of these savings toward sales and marketing efforts in order to achieve the higher quality and more profitable sales in 2005.

Cyber marketing and sales are becoming ever-increasing modes of commerce in today's growing internet environment. The Group has taken up significant initiatives in 2005 to ensure that the ThinSoft website is state-of-the-art and that it is getting the proper exposure through major internet search engines. In a multi-phased project commissioned in 2005, the Group is constantly enhancing its web presence in order to first attract visitors and then convince and convert them to satisfied ThinSoft customers.

Ongoing product enhancements throughout 2005 have kept the Group's software suites most relevant to existing and potential customers. ThinSoft is dedicated to maintaining its reputation as the leading Thin Computing solutions provider in the industry.

Financial Review

Revenue from the sales of software for the year ended 31 December 2005 increased by approximately 24.8% to approximately HK$12.5 million when compared to last year of approximately HK$10 million.

Overall revenue for the year under review decreased from approximately HK$18 million to approximately HK$17.4 million as the Group continued to concentrate its efforts more heavily on software-only sales. All of the reduction in total revenue was attributable to lower sales of vertical market solutions which include both hardware and software and carry lower profit margins.

Europe remains the largest single geographic market for the Group, where revenue for the year ended 31 December 2005 amounted to approximately HK$6.8 million or 39.1% of total revenue. Revenue in the United States amounted to approximately HK$6.3 million or approximately 36.1% of total revenue.

Gross profit margin for the year ended 31 December 2005 increased to approximately 79% as compared with approximately 14.1% in the corresponding previous year. The richer margins were attributable to increased software sales combined with the fact that the cost of sales from 1 January 2005 were no longer burdened by the amortisation of deferred development expenditures.

General and administrative expenses in the year under review decreased by approximately 15.1% to approximately HK$8.7 million when compared to approximately HK$10.3 million incurred in the previous year. The decrease was the result of cost containment efforts instituted by senior Group management.

During the year under review, the Group's US entity recognised future tax benefits amounting to approximately HK$3.4 million. These benefits accrued as a result of prior years' net operating losses incurred in the US which, under US tax regulations, are allowed as offsets to future taxable income.

The Group consequently registered a profit for the year under review of approximately HK$8.3 million compared to a loss in the prior year of approximately HK$7.7 million.

The Group continues to be in a strong financial position. Cash and bank balances as at 31 December 2005 was approximately HK$27.7 million (2004: approximately HK$22.2 million). There were no bank borrowings as at 31 December 2005 (2004: Nil).

Capital Structure

There has been no change in the capital structure of the Company during the year under review. The capital of the Company comprises only ordinary shares. The Company and the Group has no borrowing and long-term debts.

Significant Investments

As at 31 December 2005, the Group did not have any significant investments.

Material Acquisitions and Disposals of Subsidiaries/Future Plans for Material Investment

There had been no material acquisitions and disposals during the year. At present, the Company and the Group have no plans for material investments or capital assets.

Gearing Ratio

As at 31 December 2005, the Group did not have any long-term debts and its shareholders' funds amounted to approximately HK$28 million. In this regard, the Group had a net cash position and its gearing ratio should be zero (net debt to shareholders' funds) as at 31 December 2005.

Liquidity and Financial Resources

The Group generally financed its operations with internally generated cash flows.

As at 31 December 2005, the Group had cash and cash equivalents of approximately HK$27.7 million as compared to approximately HK$22.2 million as at 31 December 2004.

Foreign Exchange Exposure

It is the Group's policy to deposit in local currencies to minimise currency risk.

Charges on Group Assets

As at 31 December 2005, the Group did not have any charges on its assets.

Contingent Liability

The Group did not have any significant contingent liabilities as at 31 December 2005.

Segmental Information

The segmental information of the Group's products is set out in the financial statements on pages 36 to 38.

Employees

As at 31 December 2005, the Group had 18 full-time employees. The aggregate remuneration of the Group's employees, including that of the directors (the "Directors") of the Company, for the year under review and the previous year amounted to approximately HK$6 million and approximately HK$6.2 million respectively. The Group remunerates its employees based on their performance, experience and the prevailing industry practice.

Each of the executive Directors has entered into a service contract with the Company for the term of three years commencing from 27 February 2005 and expiring on 26 February 2008. Under the service contracts, after each completed year of service, the remuneration payable to each of them may, subject to the discretion of the Directors and they will each be entitled to a discretionary bonus provided that the audited consolidated profit after taxation and minority interests (and after the payment of such bonus) but before extraordinary items (the "Profit") of the Group for the relevant year exceeds HK$10 million and further that the total amount of bonuses payable to all the Directors for such year shall not exceed 5% of the Profit.

Pursuant to a pre-IPO share option scheme adopted by the Company on 2 February 2002, the Company had granted pre-IPO share options to 26 employees (including all executive Directors) of the Group to subscribe for a total of 52,600,000 shares, representing in aggregate approximately 10.52% of the issued share capital of the Company immediately following the completion of the Placing and the capitalization issue, at a subscription price ranging from 20% to 70% of the issue price of HK$0.40 per share.

At the date of this report, no share options have been granted under the post-IPO share option scheme adopted by the Company on 2 February 2002.

Other remuneration and benefits, including retirement benefits scheme, remained at appropriate level. Particulars are detailed in the relevant section of this report.

Profiles of Directors

Ngiam Mia Hai Bernard

Aged 45, is the executive Director and chairman of the Company and is responsible for strategic business planning, overall group management and business development. He is also concurrently responsible for marketing. He is currently an executive Director of IPC Corporation Ltd ("IPC"). Mr. Ngiam received a Bachelor of Business Administration degree from the National University of Singapore in 1985. Mr. Ngiam is the brother of Mr. Ngiam Mia Hong Alfred.

Ngiam Mia Hong Alfred

Aged 42, is an executive Director and chief executive officer of the Company and spearheads the Group's research and development programs, including initiating and overseeing all projects. He is currently an executive Director of IPC. Mr. Ngiam graduated from the University of Waterloo, Canada with a Bachelor of Mathematics degree and was on the Deans Honours List. Mr. Ngiam is the brother of Mr. Ngiam Mia Hai Bernard.

Chen Tzyh-Trong

Aged 48, is an independent non-executive Director. Mr. Chen holds a bachelor degree in Laws, from National Taiwan University in Taiwan and a degree of Doctor of Philosophy, from the Faculty of Laws, University of London in the United Kingdom. He was a researcher of a trade organization in London. He served as a chairman's assistant of a public listed company in Hong Kong for several years. He had been working as a secretary general and a director of the Taiwan Business Association (Hong Kong) from 2000 to 2004. He was also a vice president of a financial advisory service company in Hong Kong. Currently, he is the executive Director of the Taiwan Business Association (Hong Kong) and also working as a city's general-affair advisor for Taiwan's Taipei City government.

Lee Chung Mong

Aged 47, is an independent non-executive Director. Mr. Lee obtained Ph.D. Degree in Computer Science from the University of Minnesota, USA in 1989. In the same year, he was appointed as Associate, Research Staff in the Institute of Systems Science at National University of Singapore. He had also worked as a faculty member of Computer Science at The Hong Kong University of Science & Technology for 8 years. In 1999, he was awarded a Teaching Excellence Appreciation Award by the Dean of the School of Engineering of The Hong Kong University of Science and Technology and was elevated as a Senior Member of the Institute of Electrical and Electronics Engineers. He invented the "Method and Apparatus for Verifying a Container Code" and the "Method for Identifying a Sequence of Alphanumeric Characters", which were patented in the United Kingdom and the United States respectively. He is now the chairman and chief executive officer of Asia Vision Technology Ltd.

Yeung Chi Hung

Aged 44, is an independent non-executive Director. Mr. Yeung is certified public accountant of the Hong Kong Institute of Certified Public Accountants and a member of the Institute of Chartered Accountants in England and Wales. Mr. Yeung has over 12 years of experience of accounting and auditing. Mr. Yeung is a certified public accountant (practising) in Hong Kong and the managing director of Yeung, Chan & Associates CPA Limited.

Report of the Directors

The Directors present their report and the audited financial statements of ThinSoft (Holdings) Inc (the "Company") and of the consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2005.

Principal Activities

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 15 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

Results and Dividends

The Group's profit for the year ended 31 December 2005 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 19 to 55.

The Directors do not recommend the payment of any dividends in respect of the year.

Financial Summary

A summary of the published results and assets and liabilities of the Group for the past five financial years, as extracted from the audited financial statements, is set out on page 56. This summary does not form part of the audited financial statements.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

Share Capital and Share Options

There was no movement in the Company's authorised and issued share capital during the year. Details of the Company's share capital and share option schemes are set out in notes 22 and 23 to the financial statements.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Purchase, Redemption or Sale of Listed Securities of the Company

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

Reserves

Details of movements in the reserves of the Company and of the Group during the year are set out in note 24(b) to the financial statements and in the consolidated statement of changes in equity on page 21, respectively.

Distributable Reserves

The Company had no reserves available for cash distribution and/or distribution in specie to shareholders of the Company as at 31 December 2005, as computed in accordance with the Companies Law of the Cayman Islands. The Company's share premium account, with a balance of HK$21,341,236, may be distributed in the form of fully paid bonus shares.

Major Customers and Suppliers

In the year under review, sales to the Group's five largest customers accounted for approximately 43% of the Group's total revenue for the year and sales to the largest customer included therein accounted for approximately 13% of the Group's total revenue.

Purchases from the Group's five largest suppliers accounted for approximately 95% of the Group's total purchases for the year and purchases from the largest supplier included therein accounted for approximately 40% of the Group's total purchases.

None of the Directors, or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital), had any beneficial interest in the Group's five largest customers or suppliers.

Directors

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

Executive Directors:
Ngiam Mia Hai Bernard *(Chairman)*
Ngiam Mia Hong Alfred *(Chief executive officer)*

Independent non-executive Directors:
Chen Tzyh-Trong
Lee Chung Mong
Yeung Chi Hung

In accordance with the proposed amendments to the Company's articles of association and as recommended by the nomination committee of the Company, Mr. Ngiam Mia Hong Alfred and Mr. Chen Tzyh-Trong will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Directors' Service Contracts

Each of the executive Directors has entered into a service contract with the Company for term of three years commencing from 27 February 2005 and expiring on 26 February 2008 unless terminated by either party giving not less than six month's prior written notice to the other.

Details of the appointments of the independent non-executive Directors are set out in the Corporate Governance Report.

Save as disclosed in notes 8 and 23 to the financial statements, there were no other emoluments, pension and any compensation arrangements for the Directors and past Directors as is specified on Sections 161 and 161A of the Companies Ordinance (Chapter 32 of the laws of Hong Kong).

The Company confirms that it has received from each of its independent non-executive Directors a confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules and the Company considers the independent non-executive Directors to be independent.

Save as disclosed above, none of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation, other than statutory obligations.

Directors' Interests in Contracts

Save for transactions as disclosed in note 27 to the financial statements, no Director had a material beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries and fellow subsidiaries was a party during the year under review.

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

As at 31 December 2005, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Rule 5.46 of the Rules Governing the Listing of Securities on the Growth Enterprise Market (the "GEM") of the Stock Exchange (the "GEM Listing Rules"), were as follows:

Long positions in ordinary shares of the Company:

Name of Director	Capacity and nature of interest	Percentage of the Company's issued share capital
Ngiam Mia Hai Bernard	Other	(note)
Ngiam Mia Hong Alfred	Other	(note)

Note: IPC Corporation Ltd ("IPC"), the ultimate holding company of the Company, is a company incorporated under the laws of Singapore and whose securities are listed on the Singapore Exchange Securities Trading Limited. As at 31 December 2005, approximately 63.7% of the issued share capital of IPC was held by the public. As at 31 December 2005, IPC held approximately 74.81% (or 375,000,000 ordinary shares) of the issued share capital of the Company.

As at 31 December 2005, each of Ngiam Mia Hai Bernard and Ngiam Mia Hong Alfred directly held approximately 1.4% and 1.3%, respectively, in the issued share capital of IPC.

Ngiam Mia Je Patrick and Ngiam Mia Kiat Benjamin are the brothers of Ngiam Mia Hai Bernard and Ngiam Mia Hong Alfred. As at 31 December 2005, Ngiam Mia Je Patrick, Ngiam Mia Kiat Benjamin and Essex Investment (Singapore) Pte Ltd (whose entire issued share capital is held by Ngiam Mia Je Patrick and Ngiam Mia Kiat Benjamin in the proportion of 50:50) together beneficially owned approximately 12.2% of the issued share capital of IPC.

Interest in underlying shares of the Company:

Share options granted under the Pre-Scheme (note):

	Number of share options directly beneficially held by the Directors and outstanding	Approximate percentage of the Company's issued share capital
Directors of the Company		
Ngiam Mia Hai Bernard	7,600,000	1.52
Ngiam Mia Hong Alfred	7,200,000	1.44
Former Director of the Company		
William Michael Driscoll	3,600,000	0.72
Directors of subsidiaries		
Ngiam Mia Je Patrick	3,600,000	0.72
Ngiam Mia Kiat Benjamin	3,600,000	0.72
Lauw Hui Kian	3,600,000	0.72

Note: Please refer to note 23 to the financial statements for details of the Pre-Scheme (as defined in note 23(i) to the financial statements) and share options granted thereunder, including the above share options granted to the above Directors.

Save as disclosed above, as at 31 December 2005, none of the Directors or chief executive of the Company had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

Directors' Rights to Acquire Shares

Save as disclosed under the paragraph headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above and in the share option scheme disclosed in note 23 to the financial statements, at no time during the year under review were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2005, the following person had interests or short positions in the shares and underlying shares of the Company which as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long position

Name	Capacity and nature of interest	Number of ordinary shares held	Approximate percentage of the Company's issued share capital
IPC	Directly beneficially owned	375,000,000	74.81

Save as disclosed above, as at 31 December 2005, there was no person (other than the Directors and chief executive of the Company whose interests are set out under the paragraph headed "Directors' and chief executive's interests and short position in shares, underlying shares and debentures" above), had an interest or short position in the shares or underlying shares of the Company as recorded in the register to be kept under Section 336 of the SFO.

Connected and Related Party Transactions

Details of the related party transactions for the year are set out in note 27 to the financial statements. Save as disclosed therein, there were no other transactions to be disclosed as connected and related party transactions in accordance with the requirements of the GEM Listing Rules and accounting principles generally accepted in Hong Kong.

Competition and Conflict of Interests

None of the Directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any businesses that competes or may compete, either directly or indirectly, with the business of the Group, as defined in the GEM Listing Rules, or has any other conflict of interests with the Group during the year.

Auditors

Ernst & Young retire and a resolution for their re-appointment as auditors of the Company is to be proposed at the forthcoming annual general meeting.

Corporate Governance

A report on the principle corporate governance practices adopted by the Company is set out on pages 14 to 17 of the annual report.

ON BEHALF OF THE BOARD

Ngiam Mia Hai Bernard
Chairman

Hong Kong
6 February 2006

Corporate Governance Report

Introduction

Subject to the deviations as disclosed on this report, the Company has complied with all the code provisions on Corporate Governance Practices as set out in the GEM Listing Rules by establishing a formal and transparent procedures to protect and maximize the interests of shareholders during the period under review.

Directors' Securities Transactions

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, the Directors have complied with such code of conduct and the required standard of dealings and its code of conduct regarding securities transactions by the Directors throughout the year ended 31 December 2005.

Board of Directors and Board Meeting

The board of Directors, which currently comprises five Directors, is responsible for corporate strategy, annual and interim results, succession planning, risk management, major acquisitions, disposals and capital transactions, and other significant operational and financial matters. Major corporate matters that are specifically delegated by the board of Directors to the management include the preparation of annual and interim accounts for board approval before public reporting, execution of business strategies and initiatives adopted by the board of Directors, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

Details of backgrounds and qualifications of the chairman of the Company and the other Directors are set out in the Report of the Directors. All Directors have given sufficient time and attention to the affairs of the Group. Each executive Director has sufficient experience to hold the position so as to carry out his duties effectively and efficiently. Mr. Ngiam Mia Hai Bernard is the chairman of the board of Director and an executive Director and Mr. Ngiam Mia Hong Alfred is the chief executive officer of the Company and an executive Director. Mr. Ngiam Mia Hai Bernard is Mr. Ngiam Mia Hong Alfred's brother. Apart from this, there is no relationship among the members of the board of Directors.

To improve the transparency and independency of the corporate governance, the chairman and chief executive officer of the Company are segregated and are not exercised by the same individual since August 2005.

The Company appointed three independent non-executive Directors who have appropriate and sufficient experience and qualification to carry out their duties so as to protect the interests of shareholders. Mr. Chen Tzyh-Trong, Mr. Lee Chung Mong and Mr. Yeung Chi Hung are the independent non-executive Directors. Mr. Yeung Chi Hung has been appointed as an independent non-executive Director for a term of two years commencing on 30 September 2004 and is subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's articles of association, provided that the appointment may be terminated by the Company or Mr. Yeung Chi Hung with a written notice of not less than one month unless both parties agree otherwise.

The term of appointment for Mr. Chen Tzyh-Trong and Mr. Lee Chung Mong commenced from 2 February 2002 and expired on the date on which the annual general meeting of the Company for the year of 2004 was held. Their appointments were further extended for a term expiring on the date on which the annual general meeting of the Company for the year of 2005 was held and would continue thereafter subject to retirement by rotation and other related provisions as stipulated in the articles of association of the Company, provided that the appointments may be terminated by the Company or Mr. Chen/Mr. Lee with a written notice of not less than one month unless both parties agree otherwise.

The Company arranged appropriate insurance cover in respect of legal actions against Directors.

The board of Directors held a full board meeting for each quarter.

Details of the attendance of the board of Directors are as follows:–

Directors	**Attendance**
Mr. Ngiam Mia Hai Bernard	4/4
Mr. Ngiam Mia Hong Alfred	4/4
Mr. Chen Tzyh-Trong	4/4
Mr. Lee Chung Mong	4/4
Mr. Yeung Chi Hung	4/4

Apart from the above regular board meetings of the year, the board of Directors will meet on other occasions when a board-level decision on a particular matter is required. The Directors will receive details of agenda items for decision and minutes of committee meetings in advance of each board meeting.

Remuneration of Directors

The remuneration committee was established in August 2005. The chairman of the committee is Mr. Chen Tzyh-Trong, an independent non-executive Director, and other members include Mr. Lee Chung Mong, Mr. Yeung Chi Hung and Mr. Ngiam Mia Hai Bernard, the majority being independent non-executive Directors.

The role and function of the remuneration committee included the determination of the specific remuneration packages of all executive Directors, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the board of the remuneration of non-executive Directors. The remuneration committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration.

During the period under review, a meeting of the remuneration committee was held on 10 November 2005. Details of the attendance of the remuneration committee meeting are as follows:

Members	**Attendance**
Mr. Chen Tzyh-Trong	1/1
Mr. Lee Chung Mong	1/1
Mr. Yeung Chi Hung	1/1
Mr. Ngiam Mia Hai Bernard	1/1

The remuneration committee of the Company has considered and reviewed the existing terms of employment contracts of the executive Directors and appointment letters of the independent non-executive Directors. The remuneration committee of the Company considers that the existing terms of employment contracts of the executive Directors and appointment letters of the independent non-executive Directors are fair and reasonable.

Nomination of Directors

The nomination committee was established in August 2005. The chairman of the committee is Mr. Ngiam Mia Hai Bernard, the chairman of the Company, and other members include Mr. Chen Tzyh-Trong, Mr. Lee Chung Mong and Mr. Yeung Chi Hung, all are independent non-executive Directors.

The role and function of the nomination committee included the appointment and removal of Directors.

The nomination committee considers the past performance, qualification, general market conditions and the Company's articles of association in selecting and recommending candidates for directorship during the year under review.

During the period under review, a meeting of the nomination committee was held on 10 November 2005 meeting for nomination of Directors. Details of the attendance of the meeting are as follows:

Members	**Attendance**
Mr. Ngiam Mia Hai Bernard	1/1
Mr. Chen Tzyh-Trong	1/1
Mr. Lee Chung Mong	1/1
Mr. Yeung Chi Hung	1/1

During the meeting, the board of Directors considered and resolved that all the existing Directors shall be recommended to be retained by the Company. Further, in accordance with the Company's articles of association (subject to the proposed amendments at the forthcoming annual general meeting), Mr. Ngiam Mia Hong Alfred and Mr. Chen Tzyh-Trong will retire, and being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

Under code provision A.4.2 of the Corporate Governance Practices, every Director should be subject to retirement by rotation at least once every three years. The existing articles of association of the Company provide that no Director holding office as chairman and/or chief executive officer shall be subject to retirement by rotation. Accordingly, as at the date of this report, Mr. Ngiam Mia Hai Bernard, being the chairman of the Company, and Mr. Ngiam Mia Hong Alfred, being the chief executive officer, are not subject to retirement by rotation. In order to comply with code provision A.4.2 of the Corporate Governance Practices, amendments will be proposed at the forthcoming annual general meeting to specify that every Director shall be subject to retirement by rotation at least once every three years. As Mr. Ngiam Mia Hai Bernard and Mr. Ngiam Mia Hong Alfred are the only two executive Directors, the nomination committee recommended that Mr. Ngiam Mia Hai Bernard and Mr. Ngiam Mia Hong Alfred shall be subject to retirement by rotation at each of the annual general meetings next year and this year respectively.

Auditors' Remuneration

The audit committee of the Company is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year under review, the Group is required to pay an aggregate of approximately HK$405,288 to the external auditors for their services including audit, due diligence and other advisory services.

Audit Committee

The Company established an audit committee with written terms of reference in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of the Group. The audit committee comprises three members, Mr. Chen Tzyh-Trong, Mr. Lee Chung Mong, and Mr. Yeung Chi Hung. All of them are independent non-executive Directors. The chairman of the audit committee is Mr. Chen Tzyh-Trong.

The audit committee held 4 meetings during the year under review. Details of the attendance of the audit committee meetings are as follows:

Members	Attendance
Mr. Chen Tzyh-Trong	4/4
Mr. Lee Chung Mong	4/4
Mr. Yeung Chi Hung	4/4

The Group's unaudited quarterly and interim results and annual audited results during the year ended 31 December 2005 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been made.

Directors' and Auditors Responsibilities for Accounts

The Directors' responsibilities for the accounts and the responsibilities of the external auditors to the shareholders are set out on page 18.

Internal Control

The Company has conducted a review of its system of internal control periodically to ensure the effective and adequate internal control system. The Company convened meeting periodically to discuss financial, operational and risk management control.

Investors Relations

The Company has disclosed all necessary information to the shareholders in compliance with GEM Listing Rules. Meetings are held with media and investors periodically. The Company also replied the enquires from shareholders timely. The Directors host the annual general meeting each year to meet the shareholders and answer their enquiries.

Report of the Auditors

To the members
ThinSoft (Holdings) Inc
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 19 to 55 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

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

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

Opinion

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

Ernst & Young
Certified Public Accountants

Hong Kong
6 February 2006

Consolidated Income Statement

Year ended 31 December 2005

	Notes	2005 HK$	2004 HK$
REVENUE	6	**17,405,935**	17,972,049
Cost of sales (before amortisation of deferred development expenditure)		**(3,648,676)**	(7,155,091)
Amortisation of deferred development expenditure		**–**	(8,280,113)
Gross profit		**13,757,259**	2,536,845
Other income	6	**539,959**	292,062
Distribution and selling expenses		**(415,879)**	(123,245)
General and administrative expenses		**(8,715,654)**	(10,261,072)
Other operating expenses		**(16,741)**	(247,855)
PROFIT/(LOSS) BEFORE TAX	7	**5,148,944**	(7,803,265)
Tax credit	10	**3,173,876**	112,321
PROFIT/(LOSS) FOR THE YEAR		**8,322,820**	(7,690,944)
EARNINGS/(LOSS) PER SHARE	12		
Basic		**HK1.66 cents**	HK(1.53) cents
Diluted		**HK1.60 cents**	N/A

Consolidated Balance Sheet

31 December 2005

	Notes	2005 HK$	2004 HK$
NON-CURRENT ASSETS			
Deferred development expenditure	13	**–**	–
Property, plant and equipment	14	**1,363**	4,959
Available-for-sale investment	16	**757,875**	–
Deferred tax assets	17	**3,377,400**	–
		4,136,638	4,959
CURRENT ASSETS			
Inventories	18	**488,975**	444,211
Accounts receivable	19	**466,446**	1,090,865
Prepayments, deposits and other receivables		**321,445**	265,350
Cash and cash equivalents	20	**27,655,280**	22,190,213
		28,932,146	23,990,639
CURRENT LIABILITIES			
Accounts payable	21	**239,796**	47,005
Accrued liabilities and other payables		**4,606,013**	4,225,844
Tax payable		**191,739**	14,333
		5,037,548	4,287,182
NET CURRENT ASSETS		**23,894,598**	19,703,457
		28,031,236	19,708,416
CAPITAL AND RESERVES			
Issued capital	22	**25,062,750**	25,062,750
Reserves	24(a)	**2,968,486**	(5,354,334)
		28,031,236	19,708,416

Director *Director*

Consolidated Statement of Changes in Equity

Year ended 31 December 2005

		Reserves					
	Issued capital HK$ (Note 22)	Share premium account HK$ (Note 24(a))	Exchange translation reserve HK$	Capital reserve HK$ (Note 24(a))	Accumulated losses HK$	Reserves Total HK$	Total HK$
At 1 January 2004	25,062,500	8,634,448	606,104	6,840,000	(14,363,672)	1,716,880	26,779,380
Arising on consolidation of subsidiaries with functional currencies other than Hong Kong dollar	–	–	619,580	–	–	619,580	619,580
Total income and expense for the year recognised directly in equity	–	–	619,580	–	–	619,580	619,580
Exercise of share options	250	150	–	–	–	150	400
Loss for the year	–	–	–	–	(7,690,944)	(7,690,944)	(7,690,944)
At 31 December 2004 and 1 January 2005	25,062,750	8,634,598	1,225,684	6,840,000	(22,054,616)	(5,354,334)	19,708,416
Profit for the year	–	–	–	–	8,322,820	8,322,820	8,322,820
At 31 December 2005	**25,062,750**	**8,634,598**	**1,225,684**	**6,840,000**	**(13,731,796)**	**2,968,486**	**28,031,236**

Consolidated Cash Flow Statement

Year ended 31 December 2005

	Notes	2005 HK$	2004 HK$
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**5,148,944**	(7,803,265)
Adjustments for:			
Interest income	6	**(539,959)**	(103,996)
Gain on disposal of listed investments in securities	6	**–**	(188,066)
Depreciation	7	**3,596**	173,751
Loss on write-off of items of property, plant and equipment	7	**–**	74,093
Amortisation of deferred development expenditure	7	**–**	8,280,113
Operating profit before working capital changes		**4,612,581**	432,630
Decrease/(increase) in inventories		**(44,764)**	191,900
Decrease in accounts receivable		**624,419**	158,758
Decrease/(increase) in prepayments, deposits and other receivables		**(56,095)**	71,124
Increase/(decrease) in accounts payable		**192,791**	(159,920)
Increase/(decrease) in accrued liabilities and other payables		**380,169**	(454,406)
Cash generated from operations		**5,709,101**	240,086
Singapore income tax paid, net		**(16,469)**	(24,186)
United States of America federal and state income tax refunded/(paid), net		**(9,649)**	121,251
Net cash inflow from operating activities		**5,682,983**	337,151
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of available-for-sale investment		**(757,875)**	–
Investment income from disposal of listed investments in securities, net		**–**	188,066
Interest received		**539,959**	103,996
Net cash inflow/(outflow) from investing activities		**(217,916)**	292,062
CASH FLOWS FROM FINANCING ACTIVITIES			
Exercise of share options		**–**	400
Net cash inflow from financing activities		**–**	400
NET INCREASE IN CASH AND CASH EQUIVALENTS		**5,465,067**	629,613
Cash and cash equivalents at beginning of year		**22,190,213**	20,963,724
Effect of foreign exchange rate changes, net		**–**	596,876
CASH AND CASH EQUIVALENTS AT END OF YEAR		**27,655,280**	22,190,213
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	20	**785,714**	4,367,054
Time deposits with original maturity of less than three months when acquired	20	**26,869,566**	17,823,159
		27,655,280	22,190,213

Balance Sheet

31 December 2005

	Notes	2005 HK$	2004 HK$
NON-CURRENT ASSETS			
Interests in subsidiaries	15	**23,428,616**	18,229,866
CURRENT ASSETS			
Prepayments, deposits and other receivables		**321,445**	265,349
Cash and cash equivalents	20	**1,952,374**	4,322,074
		2,273,819	4,587,423
CURRENT LIABILITIES			
Accrued liabilities and other payables		**3,325,317**	3,281,749
NET CURRENT ASSETS/(LIABILITIES)		**(1,051,498)**	1,305,674
		22,377,118	19,535,540
CAPITAL AND RESERVES			
Issued capital	22	**25,062,750**	25,062,750
Reserves	24(b)	**(2,685,632)**	(5,527,210)
		22,377,118	19,535,540

Director *Director*

1. Corporate Information

The principal place of business of ThinSoft (Holdings) Inc (the "Company") is located at Room 2818, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road, Central, Hong Kong.

During the year, the Group's principal activities were the development and distribution of Thin Computing solutions and related products. There were no significant changes in the nature of the Group's principal activities during the year.

In the opinion of the directors, the ultimate holding company of the Company is IPC Corporation Ltd. ("IPC"), a company incorporated in Singapore and listed on the Singapore Exchange Securities Trading Limited.

2.1 Adoption of New and Revised Hong Kong Financial Reporting Standards and Changes in Accounting Policies

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), which also include all Hong Kong Accounting Standards ("HKASs") and Interpretations ("HK(SIC)-Ints"). These HKFRSs are generally effective for accounting periods beginning on or after 1 January 2005 for the preparation of these financial statements.

The following new and revised HKFRSs are relevant for the Group's financial statements and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HK(SIC)-Int-15	Operating Leases-Incentives

2.1 Adoption of New and Revised Hong Kong Financial Reporting Standards and Changes in Accounting Policies (continued)

The adoption of HKASs 2, 7, 8, 10, 12, 14, 16, 17, 18, 19, 21, 27, 33, 36, 37, 38, HKFRS 3 and HK(SIC)-Int-15 has had no material impact on the Group's accounting policies and the methods of computation, presentation and disclosures in the Group's consolidated financial statements. The major effects on adoption of the other HKFRSs are summarised as follows:

(a) HKAS 1 – Presentation of Financial Statements

HKAS 1 requires the following new disclosures to be made in these financial statements:

- the Group is no longer permitted not to disclose comparative information on movements in property, plant and equipment.

Apart from the above changes, HKAS 1 also requires the disclosure of judgements (apart from those involving estimations) and key assumptions concerning the future and other sources of estimation uncertainty. These disclosures are detailed in note 3 to the financial statements.

(b) HKAS 24 – Related Party Disclosures

HKAS 24 provides additional guidance and clarity to the definition and disclosures of related parties and related party transactions. Upon the adoption of HKAS 24, the related note disclosures are now more extensive than previously required. These related party disclosures are presented in note 27 to the financial statements.

(c) HKAS 32 and HKAS 39 – Financial Instruments

In prior years, investment in equity securities intended to be held for non-trading or long term purpose would have been classified as long term investments were stated at cost less any impairment losses, on an individual investment basis.

Upon the adoption of HKASs 32 and 39, these investments are classified as available-for-sale investments. Available-for-sale investments are those non-derivative investments in equity securities that are designated as available-for-sale or they are not classified in any of the other categories of financial assets as defined in HKAS 39. After initial recognition, available-for-sale investments are measured at fair value in the balance sheet, except for certain available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, when they are measured at cost less any accumulated impairment losses. Gains or losses arising from changes in fair values are recognised as a separate component of equity until the investments are sold, collected or otherwise disposed of or until the investments are determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy for recognition, measurement, derecognition and disclosures of financial instruments. Further details of the change in accounting policy are summarised in note 4 to the consolidated financial statements, respectively.

The available-for-sale investment is recognised at cost less impairment at the balance sheet date. Accordingly, the adoption of HKAS 32 and HKAS 39 has had no material effect on these financial statements.

2.1 Adoption of New and Revised Hong Kong Financial Reporting Standards and Changes in Accounting Policies (continued)

(d) HKFRS 2 – Share-based Payment

Employee share options

In prior years, no recognition and measurement of share-based payment transactions in which employees (including directors) were granted share options over shares in the Company were required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received. Options which were cancelled prior to their exercise date, or which lapsed, were deleted from the register of outstanding options.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments (the "equity-settled transactions"), the cost of the equity-settled transactions with employees is measured by reference to its fair value of the equity-settled instruments at the date at which the instruments are granted. In valuing the equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company, if applicable. The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in cumulative expense recognised as at the beginning and end of that period. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied. The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

There were no share options granted by the Company after 7 November 2002 and but had not been vested by 1 January 2005. Accordingly, the adoption of HKFRS 2 has had no effect on these financial statements. The new accounting policy for employee share options are summarised in note 4 to the financial statements.

2.2 Impact of Issued but not yet Effective Hong Kong Financial Reporting Standards

The Group has not applied the following new and revised HKFRSs applicable to these financial statements, that have been issued but are not yet effective, to these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

2.2 Impact of Issued but not yet Effective Hong Kong Financial Reporting Standards (continued)

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

HKFRS 7 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18.

The Group has already commenced an assessment of these HKFRSs which are effective for accounting periods beginning on or after 1 January 2006 but is not yet in a position to state whether these HKFRSs would have a significant impact on its result of operations and financial position.

3. Significant Accounting Judgements and Estimates

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

Impairment of assets
In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particulary in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

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

Deferred tax assets are recognised for unused tax losses carried forward to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilised, based on all available evidence. Recognition primarily involves judgement regarding the future performance of the particular legal entity or tax group in which the deferred tax asset has been recognised. A variety of other factors are also evaluated in considering whether there is convincing evidence that it is probable that some portion or all or the deferred tax assets will ultimately be realised, such as the existence of taxable temporary differences, tax planning strategies and the periods in which estimated tax losses can be utilised. The carrying amount of deferred tax assets and related financial models and budgets are reviewed at each balance sheet date and to the extent that there is insufficient convincing evidence that sufficient taxable profits will be available within the utilisation periods to allow utilisation of the carry forward tax losses, the asset balance will be reduced and charged to the income statement.

3. Significant Accounting Judgements and Estimates (continued)

Estimation uncertainty

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

Impairment test of assets

The Group determines whether an asset is impaired at least on an annual basis or where an indication of impairment exists. This requires an estimation of the value in use of the asset. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the assets and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Income taxes

The Group reviews the carrying amount of deferred tax assets at each balance sheet date and reduces the amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. This requires an estimation of the future taxable profits. Estimating the future taxable profits requires the Group to make an estimate of the expected future earnings from the Group and also to choose a suitable discount rate in order to calculate the present value of the earnings.

4. Summary of Significant Accounting Policies

Basis of preparation

These financial statements have been prepared in accordance with HKFRSs, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2005. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, until the date such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

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

Deferred development expenditure

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

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

4. Summary of Significant Accounting Policies (continued)

Deferred development expenditure (continued)

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the expected economic useful lives of the underlying products, subject to a maximum period of five years commencing in the year when the products are put into commercial production. The software development expenditure is amortised over the period of three years whereas the website development expenditure is amortised over the period of five years.

Useful lives and amortisation method are reviewed and adjusted if appropriate, at each balance sheet date.

Property, plant and equipment and depreciation

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

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

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment over its estimated useful life of five years.

Useful lives and depreciation method are reviewed and adjusted if appropriate, at each balance sheet date.

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

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified into four categories including financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, reconsiders this designation at each financial year end.

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

4. Summary of Significant Accounting Policies (continued)

Investments and other financial assets (continued)

Available-for-sale investments

Available-for-sale investments are those non-derivative financial assets in equity securities and advances to investees that are designated as available-for-sale investments or are not classified in any of the other three categories under the scope of HKAS 39. After initial recognition, available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis and option pricing models. For investments where there is no active market and whose values cannot be reliably measured because (1) the variability in the range of reasonable fair value estimates is significant for that investment, or (2) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost and the relevant impairment losses shall not be reversed.

The Group assesses at each balance sheet date whether there is any objective evidence that an available-for-sale investment is impaired as a result of one or more events that occurred after the initial recognition of the assets (the "loss events"). Where the loss event has an impact on the estimated future cash flows that can be reliably estimated, the investment is stated at cost less any accumulated impairment losses. If an available-for-sale investment is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement.

If the fair value of an available-for-sale debt investment increases in the subsequent periods, and the increase can be objectively related to an event occurring after the loss was recognised in the income statement, the impairment loss shall be reversed and recognised in the income statement. However, in case of equity investments, impairments cannot be reversed through the income statement.

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired;

- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

4. Summary of Significant Accounting Policies (continued)

Derecognition of financial assets (continued)

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

Impairment of assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at each balance sheet date as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated.

A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the income statement in the period in which it arises.

Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowance for obsolete or slow-moving items. Cost is determined on the first-in, first-out basis and, in the case of finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Accounts and other receivables

Accounts and other receivables, which generally have credit terms of 30 to 90 days, are recognised and carried at original invoice amount less allowance for any uncollectible amount. An estimate for doubtful debts is made when the collection of the full amount is no longer probable. Bad debts are written off to the income statement as incurred.

Accounts and other payables

Liabilities for trade and other amounts payable, which are normally settled on credit terms of 30 to 90 days, are carried at cost which is the fair value of the consideration to be paid in the future for the goods and services received, whether or not billed to the Group.

4. Summary of Significant Accounting Policies (continued)

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Income tax

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

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

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

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

- where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

4. Summary of Significant Accounting Policies (continued)

Income tax (continued)

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

Revenue recognition

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

- from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

- interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Employee benefits

Retirement benefits scheme

The Company operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries or the maximum mandatory contributions as required by the MPF Scheme and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Company in an independently administered fund. The Company's employer contributions vest fully with the employees when contributed into the MPF Scheme except for the Company's employer voluntary contributions, which are refunded to the Company when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The employees of the subsidiary in Singapore, ThinSoft Pte Ltd, are members of the Central Provident Fund operated by the government of Singapore. The subsidiary and the employees are required to contribute a certain percentage of the employees' payroll to the Central Provident Fund. The subsidiary has no further obligations for the actual pension payments or post-retirement benefits beyond its contributions.

Apart from the retirement benefits scheme provided by ThinSoft Pte Ltd and the Company, other subsidiaries of the Group do not have a pension scheme for their employees.

Share-based payments

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

4. Summary of Significant Accounting Policies (continued)

Share-based payments (continued)

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company, if applicable.

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

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

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

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

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

Related parties

A party is related to the Group if:

(a) directly, or indirectly through one or more intermediaries, the party:

    (i) controls, is controlled by, or is under common control with, the Group;

    (ii) has an interest in the Group that gives it significant influence over the Group; or

    (iii) has joint control over the Group;

(b) the party is a jointly-controlled entity;

(c) the party is an associate;

(d) the party is a member of the key management personnel of the Company or its parent;

(e) the party is a close member of the family of any individual referred in (a) or (d);

4. Summary of Significant Accounting Policies (continued)

Related parties (continued)

(f) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) 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.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Foreign currency transactions are initially recorded using the functional currency rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are recognised in the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are not Hong Kong dollars. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company (i.e., Hong Kong dollars) at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in a separate component of equity, the exchange translation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

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

Cash and cash equivalents

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

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

5. Segment Information

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

(a) the software segment is a supplier of the Group's software solutions;

(b) the engineering fee segment engages in the provision of engineering services;

(c) the upgrade kits segment comprises the sales of the Group's thin client solutions related to hardware peripherals and accessories; and

(d) the vertical market solutions segment provides the Group's thin client solutions for several vertical market applications such as call centres, kiosks, point-of-sale and industrial applications.

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

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

5. Segment Information (continued)

(a) Business segments

The following table presents revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

	Software		Engineering fee		Upgrade kits		Vertical market solutions		Eliminations		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$	HK$	**HK$**	HK$	**HK$**	HK$	**HK$**	HK$	**HK$**	HK$	**HK$**	HK$
Segment revenue:												
Sales to external customers	**12,456,204**	9,978,201	**-**	–	**3,531,473**	4,243,462	**1,418,258**	3,750,386	**-**	–	**17,405,935**	17,972,049
Intersegment transfers	**-**	–	**1,989,000**	1,482,000	**420,467**	–	**-**	–	**(2,409,467)**	(1,482,000)	**-**	–
Total	**12,456,204**	9,978,201	**1,989,000**	1,482,000	**3,951,940**	4,243,462	**1,418,258**	3,750,386	**(2,409,467)**	(1,482,000)	**17,405,935**	17,972,049
Segment results	**7,177,292**	(3,774,193)	**-**	–	**1,766,422**	501,188	**(73,473)**	(187,114)	**-**	–	**8,870,241**	(3,460,119)
Interest and unallocated gains											**539,959**	292,062
Unallocated expenses											**(4,261,256)**	(4,635,208)
Profit/(loss) before tax											**5,148,944**	(7,803,265)
Tax credit											**3,173,876**	112,321
Profit/(loss) for the year											**8,322,820**	(7,690,944)
Segment assets	**602,736**	1,095,825	**-**	–	**354,051**	444,211	**-**	–	**-**	–	**956,787**	1,540,036
Unallocated assets											**32,111,997**	22,455,562
Total assets											**33,068,784**	23,995,598
Segment liabilities	**-**	–	**-**	–	**491,352**	45,125	**9,111**	1,880	**-**	–	**500,463**	47,005
Unallocated liabilities											**4,537,085**	4,240,177
Total liabilities											**5,037,548**	4,287,182
Other segment information:												
Depreciation and amortisation	**3,596**	8,376,590	**-**	–	**-**	41,022	**-**	36,252	**-**	–	**3,596**	8,453,864
Provision for doubtful debts	**-**	247,855	**-**	–	**-**	–	**-**	–	**-**	–	**-**	247,855
Bad debts written off	**16,741**	–	**-**	–	**-**	–	**-**	–	**-**	–	**16,741**	–
Loss on write-off of items of property, plant and equipment	**-**	74,093	**-**	–	**-**	–	**-**	–	**-**	–	**-**	74,093

5. Segment Information (continued)

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments.

	Hong Kong and China		Europe		The United States		Singapore		Asia Pacific except Hong Kong, China and Singapore		Others		Eliminations		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$	HK$	**HK$**	HK$	**HK$**	HK$	**HK$**	HK$	**HK$**	HK$	**HK$**	HK$	**HK$**	HK$	**HK$**	HK$
Segment revenue:																
Sales to external customers	**590,868**	490,731	**6,804,353**	8,073,753	**6,288,916**	4,516,106	**38,100**	–	**1,682,201**	3,825,314	**2,001,497**	1,066,145	**-**	–	**17,405,935**	17,972,049
Intersegment transfers	**-**	–	**-**	–	**420,467**	590,740	**1,989,000**	1,482,000	**-**	–	**-**	–	**(2,409,467)**	(2,072,740)	**-**	–
Total	**590,868**	490,731	**6,804,353**	8,073,753	**6,709,383**	5,106,846	**2,027,100**	1,482,000	**1,682,201**	3,825,314	**2,001,497**	1,066,145	**(2,409,467)**	(2,072,740)	**17,405,935**	17,972,049
Other segment information:																
Segment assets	**5,870,872**	8,139,963	**-**	–	**4,602,007**	82,641	**18,460,630**	15,772,994	**-**	–	**-**	–	**-**	–	**28,933,509**	23,995,598
Unallocated assets															**4,135,275**	–
Total assets															**33,068,784**	23,995,598

6. Revenue and Other Income

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold and services rendered, less discounts, returns, and applicable goods and service taxes. All significant transactions among the companies comprising the Group have been eliminated on consolidation.

An analysis of the Group's revenue and other income is as follows:

	Group	
	2005	2004
	HK$	HK$
Revenue:		
Sales of goods	**17,405,935**	17,972,049
Other income:		
Interest income	**539,959**	103,996
Gain on disposal of listed investments in securities	**–**	188,066
	539,959	292,062
Total income	**17,945,894**	18,264,111

7. Profit/(Loss) before Tax

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

	Notes	**2005** HK$	2004 HK$
Costs of inventories sold and services provided*		**3,648,676**	15,435,204
Auditors' remuneration		**405,288**	386,208
Depreciation	14	**3,596**	173,751
Loss on write-off of items of property, plant and equipment	14	**–**	74,093
Research and development costs:			
Deferred expenditure amortised	13	**–**	8,280,113
Staff costs, excluding directors' remuneration (note 8):			
Wages and salaries		**3,298,466**	3,475,604
Pension scheme contributions**		**205,268**	208,328
		3,503,734	3,683,932
Minimum lease payments under operating leases in respect of land and buildings to:			
The ultimate holding company	27	**338,400**	338,400
An independent third party		**37,380**	190,679
		375,780	529,079
Provision for doubtful debts***		**–**	247,855
Bad debts written off***		**16,741**	–
Exchange (gains)/losses, net		**(509,211)**	682,446

* The costs of inventories sold and services provided for the year ended 31 December 2005 includes nil amortisation expenses of deferred development expenditure (2004: HK$8,280,113) and direct staff costs of HK$585,000 (2004: HK$561,600), which were also included in the respective total amounts disclosed separately above of each of these types of expenses for the year.

** At 31 December 2005, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2004: Nil).

*** These items are included in "Other operating expenses" on the face of the consolidated income statement.

8. Directors' Remuneration

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

	2005	2004
	HK$	HK$
Fees:		
Non-executive Director	**–**	–
Independent non-executive Directors	**450,000**	337,500
Other emoluments:		
Salaries, allowances and benefits in kind	**1,992,800**	2,142,558
Pension scheme contributions	**73,320**	80,652
	2,516,120	2,560,710

There was no arrangement under which a director waived or agreed to waive any emoluments during the current and prior years.

There were no share options granted by the Company to its directors after 7 November 2002 and had not been vested by 1 January 2005. Accordingly, the adoption of HKFRS 2 has had no effect on the comparative amounts of directors' emoluments disclosed above.

The remuneration of each director of the Company for the years ended 31 December 2005 and 2004, disclosed pursuant to the GEM Listing Rules, is set out below:

2005

Name	**Fees**	**Salaries, allowances, and benefits in kind**	**Pension scheme contributions**	**Total**
	HK$	**HK$**	**HK$**	**HK$**
Executive Directors:				
Ngiam Mia Hai Bernard	**–**	**996,400**	**36,660**	**1,033,060**
Ngiam Mia Hong Alfred	**–**	**996,400**	**36,660**	**1,033,060**
	–	**1,992,800**	**73,320**	**2,066,120**
Independent non-executive Directors:				
Lee Chung Mong	**150,000**	**–**	**–**	**150,000**
Chen Tzyh-Trong	**150,000**	**–**	**–**	**150,000**
Yeung Chi Hung	**150,000**	**–**	**–**	**150,000**
	450,000	**–**	**–**	**450,000**
Total	**450,000**	**1,992,800**	**73,320**	**2,516,120**

8. Directors' Remuneration (continued)

2004

Name	Fees HK$	Salaries, allowances, and benefits in kind HK$	Pension scheme contributions HK$	Total HK$
Executive Directors:				
Ngiam Mia Hai Bernard	–	951,280	40,326	991,606
Ngiam Mia Hong Alfred	–	951,280	40,326	991,606
William Michael Driscoll (resigned in 2004)	–	239,998	–	239,998
	–	2,142,558	80,652	2,223,210
Independent non-executive Directors:				
Lee Chung Mong	150,000	–	–	150,000
Chen Tzyh-Trong	150,000	–	–	150,000
Yeung Chi Hung	37,500	–	–	37,500
	337,500	–	–	337,500
Total	337,500	2,142,558	80,652	2,560,710

9. Five Highest Paid Employees

The five highest paid employees during the years included two (2004: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2004: two) non-director, highest paid employees of the Group for the year are as follows:

	Group 2005	Group 2004
	HK$	HK$
Salaries, allowances and benefits in kind	**1,205,400**	900,000

The remuneration of each of the non-director, highest paid employees for the years ended 31 December 2005 and 2004 fell within the Nil to HK$1,000,000 band.

There were no share options granted by the Company to the non-director, highest paid employees after 7 November 2002 and had not been vested by 1 January 2005. Accordingly, the adoption of HKFRS 2 has had no effect on the comparative amounts of the highest paid employees' emoluments disclosed above.

10. Tax Credit

	Group	
	2005	2004
	HK$	HK$
Current:		
Hong Kong	**–**	–
Outside Hong Kong	**146,889**	17,510
Deferred (note 17)	**(3,377,400)**	–
	(3,230,511)	17,510
Under/(over) provision in prior years	**56,635**	(129,831)
Tax credit for the year	**(3,173,876)**	(112,321)

No provision for Hong Kong profits tax has been made as the Group had no estimated assessable profits arising in Hong Kong during the year.

ThinSoft Pte Ltd, a company incorporated in Singapore, is subject to Singapore income tax. Singapore income tax has been provided at the rate of 20% (2004: 20%) on the estimated assessable profits arising in Singapore for the year ended 31 December 2005.

ThinSoft (USA) Inc is a company incorporated in the State of Delaware in the United States of America. During the year ended 31 December 2005, it has been operating in the State of New York in the United States of America and is subject to the United States federal income tax at progressive rates ranging from 15% to 39% and New York state corporate tax at a rate of 7.5% on its estimated assessable profits arising on a world wide basis.

During the year ended 31 December 2004, ThinSoft (USA) Inc had been operating in the State of California in the United States of America and was subject to the United States federal income tax at progressive rates ranging from 15% to 39% and California state corporate tax at a rate of 8.84% on its estimated assessable profits arising on a world wide basis.

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

	Group	
	2005	2004
	HK$	HK$
Profit/(loss) before tax	**5,148,944**	(7,803,265)
Tax at the applicable rates to profits/(losses) in the countries concerned	**1,449,895**	(1,934,068)
Adjustments in respect of current tax of previous years	**56,635**	(129,831)
Income not subject to tax	**(144,560)**	(3,408)
Expenses not deductible for tax	**39,834**	1,481,417
Tax loss not recognised	**–**	473,569
Tax loss recognised	**(3,377,400)**	–
Tax loss utilised from previous periods	**(1,198,280)**	–
Tax credit at the Group's effective rate	**(3,173,876)**	(112,321)

11. Profit/(Loss) for the Year Attributable to Equity Holders of the Parent

The profit for the year ended 31 December 2005 attributable to equity holders of the parent dealt with in the financial statements of the Company was HK$2,841,578 (2004: loss for the year of HK$7,251,031) (note 24(b)).

12. Earnings/(Loss) Per Share

The calculation of basic earnings/(loss) per share for the year is based on the profit for the year attributable to equity holders of the parent of HK$8,322,820 (2004: loss of HK$7,690,944), and the 501,255,000 (2004: weighted average of 501,254,221) ordinary shares in issue during the year.

The calculation of diluted earnings per share for the year is based on the profit for the year attributable to equity holders of the parent of HK$8,322,820, and the weighted average number of 520,902,857 ordinary shares in issue during the year, adjusted for the effects of all dilutive potential shares.

The weighted average of number of shares used in the calculation of diluted earnings per share is calculated based on the 501,255,000 ordinary shares in issue during the year plus the weighted average of 19,647,857 ordinary shares deemed to be issued at no consideration as if all of the Company's outstanding share options have been exercised.

The diluted loss per share for the year ended 31 December 2004 had not been presented, as the share options outstanding during the prior year had an anti-dilutive effect on the basic loss per share for the prior year.

13. Deferred Development Expenditure

Group

	Software development expenditure HK$	**Website development expenditure** HK$	**Total** HK$
Cost:			
At 1 January 2004	20,517,109	1,761,427	22,278,536
Exchange adjustment	56,012	–	56,012
At 31 December 2004, 1 January 2005 and 31 December 2005	20,573,121	1,761,427	22,334,548
Accumulated amortisation:			
At 1 January 2004	13,216,488	804,365	14,020,853
Provided during the year	7,323,051	957,062	8,280,113
Exchange adjustment	33,582	–	33,582
At 31 December 2004, 1 January 2005 and 31 December 2005	20,573,121	1,761,427	22,334,548
Net book value:			
At 31 December 2005	**–**	**–**	**–**
At 31 December 2004	–	–	–

14. Property, Plant and Equipment

Group

	Office equipment HK$	**Plant and machinery** HK$	**Furniture and fittings** HK$	**Total** HK$
Cost:				
At 1 January 2004	420,117	212,551	23,400	656,068
Write off	(319,270)	–	–	(319,270)
Exchange adjustment	2,515	9,449	–	11,964
At 31 December 2004, 1 January 2005 and 31 December 2005	103,362	222,000	23,400	348,762
Accumulated depreciation:				
At 1 January 2004	201,164	187,211	16,380	404,755
Provided during the year	140,265	26,466	7,020	173,751
Write off	(245,177)	–	–	(245,177)
Exchange adjustment	2,151	8,323	–	10,474
At 31 December 2004 and 1 January 2005	98,403	222,000	23,400	343,803
Provided during the year	3,596	–	–	3,596
At 31 December 2005	**101,999**	**222,000**	**23,400**	**347,399**
Net book value:				
At 31 December 2005	**1,363**	**–**	**–**	**1,363**
At 31 December 2004	4,959	–	–	4,959

15. Interests in Subsidiaries

	Company	
	2005	2004
	HK$	HK$
Unlisted investments, at cost	**12,856,638**	12,856,638
Due from subsidiaries	**23,571,978**	23,373,228
	36,428,616	36,229,866
Provision for impairment	**(13,000,000)**	(18,000,000)
	23,428,616	18,229,866

The amounts due from subsidiaries are unsecured, interest-free and are repayable after one year.

15. Interests in Subsidiaries (continued)

Particulars of the subsidiaries as at 31 December 2005 are as follows:

	Place of incorporation and operations	Nominal value of paid-up share capital	Percentage of equity attributable to the Group	Principal activities
ThinSoft Investment Inc ("ThinSoft BVI")	British Virgin Islands ("BVI")/ Hong Kong	US$100 ordinary	100 *	Investment holding
ThinSoft Inc	BVI/ Hong Kong	US$1 ordinary	100	Holding of intellectual properties
ThinSoft Pte Ltd	Singapore	S$1,500,000 ordinary	100	Development and distribution of Thin Computing solutions and related products
ThinSoft (USA) Inc #	United States of America	US$0.01 ordinary	100	Development and distribution of Thin Computing solutions and related products

* Shares held directly by the Company.

Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

16. Available-for-sale Investment

	2005	2004
	HK$	HK$
Unlisted equity investments, at cost	**757,875**	–

The unlisted equity investment of the Group is not stated at fair value but at cost less any accumulated impairment losses because it does not have a quoted market price in an active market. The directors of the Company consider that the fair value cannot be measured reliably as the variability of the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed.

17. Deferred Tax Assets

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

Group

	Decelerated tax depreciation	**Losses available for offset against future taxable profit**	**Total**
	HK$	HK$	HK$
At 1 January 2004 and at 31 December 2004	–	–	–
Deferred tax credited to income statement during the year (note 10)	122,126	3,255,274	3,377,400
At 31 December 2005	122,126	3,255,274	3,377,400

The Group has nil tax losses as at 31 December 2005 (2004: HK$15,639,000) that are available for offsetting against future taxable profits of a company in which the losses arose. The Group has nil deductible temporary differences (2004: HK$5,265,000) as at 31 December 2005. Deferred tax assets were not recognised in respect of these tax losses and deductible temporary differences in 2004 as they had arisen in a subsidiary that has been loss-making for some time.

Since the company in which the losses arose started to generate taxable profits in the current year and in the opinion of the directors of the Company, it is probable that sufficient taxable profits will be available to utilise the deferred tax assets in the foreseeable future, deferred tax assets are recognised in respect of the tax losses brought forward.

18. Inventories

	Group	
	2005	2004
	HK$	HK$
Raw materials	**474,076**	441,546
Finished goods	**14,899**	2,665
	488,975	444,211

At 31 December 2005, none of the inventories was stated at fair value less costs to be incurred for sale (2004: Nil).

19. Accounts Receivable

The Group has a policy of allowing an average credit period of 30 to 90 days to its trade customers.

An aged analysis of accounts receivable at the balance sheet date, based on invoice date, is as follows:

	Group	
	2005	2004
	HK$	HK$
Within 30 days	**447,895**	556,499
Between 31 to 60 days	**11,689**	10,288
Between 61 to 90 days	**–**	476,792
Between 91 to 180 days	**6,862**	47,286
	466,446	1,090,865

20. Cash and Cash Equivalents

	Group		Company	
	2005	2004	**2005**	2004
	HK$	HK$	**HK$**	HK$
Cash and bank balances	**785,714**	4,367,054	**238,228**	321,573
Time deposits	**26,869,566**	17,823,159	**1,714,146**	4,000,501
	27,655,280	22,190,213	**1,952,374**	4,322,074

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

21. Accounts Payable

An aged analysis of accounts payable as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2005	2004
	HK$	HK$
Within 30 days	**160,070**	39,301
Between 31 to 60 days	**68,977**	–
Between 61 to 90 days	**89**	–
Between 91 to 180 days	**10,660**	7,704
	239,796	47,005

22. Share Capital

Shares

	Number of ordinary shares of HK$0.05 each	Nominal Value HK$
Authorised:		
At 1 January 2004, 31 December 2004 and 31 December 2005	2,000,000,000	100,000,000
Issued and fully paid:		
At 1 January 2004	501,250,000	25,062,500
Exercise of share options (Note)	5,000	250
At 31 December 2004, 1 January 2005 and 31 December 2005	501,255,000	25,062,750

Note: In prior year, the subscription rights attaching to 5,000 share options were exercised at the subscription price of HK$0.08 per share (note 23(i)), resulting in the issue of 5,000 shares of HK$0.05 each for a total cash consideration, before expenses, of HK$400.

Share options

Details of the Company's share option scheme are included in note 23 to the financial statements.

23. Share Option Schemes

(i) Pre-IPO share option scheme

The Company operates a pre-IPO share option scheme (the "Pre-Scheme"). On 2 February 2002, the Pre-Scheme was approved pursuant to a written resolution of the sole shareholder of the Company. The purpose of the Pre-Scheme is to recognise the contribution of certain directors, employees, consultants and advisers of the Group to the growth of the Group and/or the listing of the Company's shares on the GEM. The Company had granted pre-IPO share options to 26 employees (including four executive Directors of the Company) of the Group to subscribe for a total of 52,600,000 shares, representing in aggregate approximately 10.52% of the then issued share capital of the Company immediately following the completion of the placing and the capitalisation issue, at a subscription price ranging from 20% to 70% of HK$0.40 per share, the issue price. No further share options would be granted under the Pre-Scheme after listing of the Company's shares on the GEM. All these share options were granted on 2 February 2002 and may be exercised in the following manner:

(a) 50% of the share options so granted to him/her (rounded down to the nearest whole number) after the expiry of 12 months from 27 February 2002 on which the shares are first listed on the GEM;

(b) 25% of the share options so granted to him/her (rounded down to the nearest whole number) after the expiry of 24 months from 27 February 2002; and

(c) the remaining 25% of the share options so granted to him/her (rounded down to the nearest whole number) after the expiry of 36 months from 27 February 2002,

and in each case, not later than five years from 2 February 2002 (date of acceptance of the share options).

Each grantee has paid HK$1 to the Company as the consideration for such grant.

The Pre-Scheme remains in force for a period of 10 years with effect from 2 February 2002.

23. Share Option Schemes (continued)

(i) Pre-IPO share option scheme (continued)

The following share options were outstanding under the Pre-Scheme:

Name of participant	Number of share options: At 1 January 2005	Exercised during the year	Lapsed during the year	At 31 December 2005	Exercise period of share options	Exercise price of share options (Note) HK$
Directors						
Ngiam Mia Hai Bernard	3,800,000	–	–	3,800,000	27 February 2003 to 1 February 2008	0.08
	1,900,000	–	–	1,900,000	27 February 2004 to 1 February 2008	0.08
	1,900,000	–	–	1,900,000	27 February 2005 to 1 February 2008	0.08
	7,600,000	–	–	7,600,000		
Ngiam Mia Hong Alfred	3,600,000	–	–	3,600,000	27 February 2003 to 1 February 2008	0.08
	1,800,000	–	–	1,800,000	27 February 2004 to 1 February 2008	0.08
	1,800,000	–	–	1,800,000	27 February 2005 to 1 February 2008	0.08
	7,200,000	–	–	7,200,000		
Former director						
William Michael Driscoll	1,800,000	–	–	1,800,000	27 February 2003 to 1 February 2008	0.08
	900,000	–	–	900,000	27 February 2004 to 1 February 2008	0.08
	900,000	–	–	900,000	27 February 2005 to 1 February 2008	0.08
	3,600,000	–	–	3,600,000		

23. Share Option Schemes (continued)

(i) Pre-IPO share option scheme (continued)

The following share options were outstanding under the Pre-Scheme:

Name of participant	Number of share options: At 1 January 2005	Exercised during the year	Lapsed during the year	At 31 December 2005	Exercise period of share options	Exercise price of share options (Note) HK$
Directors of subsidiaries						
Ngiam Mia Je Patrick	1,800,000	–	–	1,800,000	27 February 2003 to 1 February 2008	0.08
	900,000	–	–	900,000	27 February 2004 to 1 February 2008	0.08
	900,000	–	–	900,000	27 February 2005 to 1 February 2008	0.08
	3,600,000	–	–	3,600,000		
Ngiam Mia Kiat Benjamin	1,800,000	–	–	1,800,000	27 February 2003 to 1 February 2008	0.08
	900,000	–	–	900,000	27 February 2004 to 1 February 2008	0.08
	900,000	–	–	900,000	27 February 2005 to 1 February 2008	0.08
	3,600,000	–	–	3,600,000		
Lauw Hui Kian	1,800,000	–	–	1,800,000	27 February 2003 to 1 February 2008	0.08
	900,000	–	–	900,000	27 February 2004 to 1 February 2008	0.08
	900,000	–	–	900,000	27 February 2005 to 1 February 2008	0.08
	3,600,000	–	–	3,600,000		

23. Share Option Schemes (continued)

(i) Pre-IPO share option scheme (continued)

The following share options were outstanding under the Pre-Scheme:

Name of participant	Number of share options: At 1 January 2005	Exercised during the year	Lapsed during the year	At 31 December 2005	Exercise period of share options	Exercise price of share options (Note) HK$
Other employees						
In aggregate	8,095,000	–	–	8,095,000	27 February 2003 to 1 February 2008	0.08
	4,275,000	–	–	4,275,000	27 February 2004 to 1 February 2008	0.08
	4,275,000	–	–	4,275,000	27 February 2005 to 1 February 2008	0.08
	16,645,000	–	–	16,645,000		
	500,000	–	–	500,000	27 February 2003 to 1 February 2008	0.20
	650,000	–	–	650,000	27 February 2004 to 1 February 2008	0.20
	650,000	–	–	650,000	27 February 2005 to 1 February 2008	0.20
	1,800,000	–	–	1,800,000		
	47,645,000	–	–	47,645,000		

Note: The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

23. Share Option Schemes (continued)

(ii) Post-IPO share option scheme

On 2 February 2002, a further share option scheme (the "Post-Scheme") was approved pursuant to a written resolution of the Company. The purpose of the Post-Scheme is to provide incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Post-Scheme include directors of the Company or any of its subsidiaries, including independent non-executive Directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, and any minority shareholder in the Company's subsidiaries.

The total number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Post-Scheme and other schemes (including the Pre-Scheme) of the Company must not exceed 30% of the shares in issue from time to time. A nominal consideration of HK$1 is payable by the grantee upon acceptance of an option.

The subscription price for shares under the Post-Scheme may be determined by the board of directors at its absolute discretion but in any event will not be less than the higher of: (i) the nominal value of the shares; (ii) the closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a business day; and (iii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the relevant share option.

Any grant of share options to a director, chief executive, management shareholder or substantial shareholder of the Company or any of their respective associates must be approved by the independent non-executive Directors (excluding the independent non-executive Director who is the grantee). Any share options granted to a substantial shareholder or an independent non-executive Director of the Company, or any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting. In addition, any share options granted to any one person in excess of 1% of the shares of the Company in issue at any time within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The share options granted may be exercised at any time during the period commencing immediately after the date on which the option is deemed to be granted and accepted and expiring on a date to be determined and notified by the board of directors which shall not be more than 10 years from the date on which the share option is deemed to be granted and accepted. The Post-Scheme remains in force for a period of 10 years with effect from 2 February 2002. No share options were granted by the Company under the Post-Scheme during the year and up to the date of approval of these financial statements.

24. Reserves

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 21 of the financial statements.

The share premium account of the Group represents the excess of proceeds received over the nominal value of the Company's shares issued, less amounts of the capitalisation issue and share issue expenses.

24. Reserves (continued)

(a) Group (continued)

The capital reserve of the Group represents the difference between the aggregate nominal value of share capital of the subsidiaries acquired by the Company pursuant to the Group reorganisation prior to the listing of the Company's shares over the nominal value of share capital of the Company issued as consideration in exchange therefor.

(b) Company

	Share premium account HK$ (Note)	Accumulated losses HK$	Total HK$
At 1 January 2004	21,341,086	(19,617,415)	1,723,671
Exercise of share options	150	–	150
Loss for the year (note 11)	–	(7,251,031)	(7,251,031)
At 31 December 2004 and 1 January 2005	21,341,236	(26,868,446)	(5,527,210)
Profit for the year (note 11)	–	2,841,578	2,841,578
At 31 December 2005	**21,341,236**	**(24,026,868)**	**(2,685,632)**

Note: The share premium account of the Company includes: (i) the shares of the Company issued at a premium; and (ii) the excess of the then consolidated net assets of the subsidiaries acquired pursuant to the Group reorganisation over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Law of the Cayman Islands, the share premium account is distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

25. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise cash and bank balances and short-term time deposits.

The main risks arising from the Group's financial instruments are interest rate, liquidity risk, foreign currency risk and credit risk. The directors of the Company meet periodically to analyse and formulate measures to manage the Group's exposure to these risks. Generally, the Group introduces conservative strategies on its risk management. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The directors review and agree policies for managing each of these risks and they are summarised as follows:

(i) Fair value and cash flow interest rate risks

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's exposure to fair value and cash flow interest risks is minimal as the Group does not have any long term financial assets and liabilities.

25. Financial Risk Management Objectives and Policies (continued)

(ii) Foreign exchange risk

The Group's monetary assets and transactions are principally denominated in Hong Kong Dollars ("HKD"), United States Dollars ("USD") and Singapore Dollars ("SGD"). The Group is exposed to foreign exchange risk arising from the exposure of HKD against USD and SGD, respectively. Considering that the exchange rate between HKD and USD is pegged, and that there is insignificant fluctuation in the exchange rate between HKD and SGD, the Group believes its exposure to exchange rate risk is normal. At present, the Group does not intend to seek to hedge its exposure to foreign exchange risk profile, and will consider appropriate hedging measures in future as may be necessary.

(iii) Credit risk

Credit risk arises from the possibility that the counterparty to a transaction is unwilling or unable to fulfil its obligation with the results that the Group thereby suffers financial loss. However, these credit risks of the Group are minimal, as most of the customers paid by credit cards and there is no requirements of collateral.

The Company has no significant concentrations of credit risk.

(iv) Liquidity risk

The Group will consistently maintain a prudent financial policy and ensure that it maintains sufficient cash to meet its liquidity requirements.

26. Operating Lease Arrangements

At 31 December 2005, the Company did not enter into any non-cancellable operating lease arrangement.

During the year ended 31 December 2005, the Group leased certain of its office premises under operating lease arrangements. Leases for properties were negotiated for a term of within one year.

At 31 December 2005, the Group's total future minimum lease payments under non-cancellable operating leases falling due were as follows:

	Group	
	2005	2004
	HK$	HK$
Within one year	**7,020**	–

At 31 December 2005, the Company and the Group had no other significant commitment.

27. Related Party Disclosures

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

(a) Transactions with related parties

	Notes	2005 HK$	2004 HK$
IPC:			
Purchases	(i)	**837**	30,190
Operating lease rentals in respect of land and buildings	(ii)	**338,400**	338,400
Management fees	(iii)	**169,200**	169,200

Notes:

(i) The directors of the Company have confirmed that the prices and terms of these sale and purchase transactions approximated to those with independent third parties.

(ii) The rental expenses were determined based on the then fair market value.

(iii) The management fees were paid at S$3,000 (approximately equivalent to HK$14,100) per month. The management fees were charged with reference to the costs incurred in respect of, inter alia, the provision of office space and equipment and other overheads.

In the opinion of the directors of the Company, the above related party transactions were entered into by the Group in the ordinary course of business.

(b) Compensation of key management personnel of the Group

	2005 HK$	2004 HK$
Short term employee benefits	**2,442,800**	2,480,058
Post-employment benefits	**73,320**	80,652
Total compensation paid to key management personnel	**2,516,120**	2,560,710

28. Comparative Amounts

As further explained in note 2 to the financial statements, due to the adoption of new and revised HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements.

29. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 6 February 2006.

Five Year Financial Summary

The following is a summary of the consolidated results and of the assets and liabilities of the Group, prepared on the basis set out in notes 1 and 2 below:

RESULTS

	Year ended 31 December				
	2005	2004	2003	2002	2001
	HK$	HK$	HK$	HK$	HK$
REVENUE	**17,405,935**	17,972,049	19,215,548	15,554,668	28,335,059
Cost of sales	**(3,648,676)**	(15,435,204)	(18,334,948)	(9,955,463)	(15,032,286)
Gross profit	**13,757,259**	2,536,845	880,600	5,599,205	13,302,773
Other income	**539,959**	292,062	286,533	492,307	1,122,806
Distribution and selling expenses	**(415,879)**	(123,245)	(282,116)	(1,275,472)	(297,345)
General and administrative expenses	**(8,715,654)**	(10,261,072)	(12,680,828)	(14,025,955)	(8,171,825)
Other operating expenses	**(16,741)**	(247,855)	–	(32,768)	(380,971)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	**5,148,944**	(7,803,265)	(11,795,811)	(9,242,683)	5,575,438
Finance costs	**–**	–	–	452,494	(472,364)
PROFIT/(LOSS) BEFORE TAX	**5,148,944**	(7,803,265)	(11,795,811)	(8,790,189)	5,103,074
Tax credit/(charge)	**3,173,876**	112,321	231,447	543,587	(1,314,885)
PROFIT/(LOSS) FOR THE YEAR	**8,322,820**	(7,690,944)	(11,564,364)	(8,246,602)	3,788,189

ASSETS AND LIABILITIES

	31 December				
	2005	2004	2003	2002	2001
	HK$	HK$	HK$	HK$	HK$
Non-current assets	**4,136,638**	4,959	8,508,996	15,681,504	11,994,974
Current assets	**28,932,146**	23,990,639	23,185,932	28,758,672	12,943,915
Current liabilities	**(5,037,548)**	(4,287,182)	(4,915,548)	(6,925,298)	(12,548,657)
	28,031,236	19,708,416	26,779,380	37,514,878	12,390,232

Notes:

1. The summary of consolidated results of the Group includes the results of the Company and its subsidiaries as if the current Group structure had been in existence throughout the financial periods, or from the respective dates of their incorporation where this is a shorter period and the consolidated results of the Group for the years ended 31 December 2005 and 2004 are also set out on page 19 of the audited financial statements.

2. The consolidated balance sheets as at 31 December 2003, 2002 and 2001 are extracted from the published audited financial statements for the years ended 31 December 2003, 2002 and 2001, prepared on the basis as if the Group had been in existence for these years. The consolidated balance sheets of the Group as at 31 December 2005 and 2004 are also set out on page 20 of the audited financial statements.