## 1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is Summertown Limited and its immediate holding company is Gold Sceptre Limited. Both of these companies are incorporated in the British Virgin Islands. The address of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The Company acts as an investment trading and investment holding company and provides corporate management services. The principal activity of its subsidiaries and associates is the distribution of computer products.

The financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

## 2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations ("INT") (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting years are prepared and presented.

**Business Combinations**

In the current year, the Group has applied HKFRS 3 "Business Combinations" which is effective for business combinations for which the agreement date is on or after 1 January 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

*Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")*

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions prior to 1 January 2001 was held in reserves. In accordance with the relevant transitional provisions in HKFRS 3, the Group derecognised all negative goodwill on 1 January 2005, which was previously recorded in reserves, with a corresponding increase to retained profits. As a result of the adoption of HKFRS 3, the retained profits of the Group at 1 January 2005 was increased by HK$117,390,000 and reserve on consolidation of the Group was reduced by the same amount (see Note 2A for the financial impact).

**Financial instruments**

In the current year, the Group has applied HKAS 32 "*Financial instruments: disclosure and presentation*" and HKAS 39 "*Financial instruments: recognition and measurement*". HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact on how financial instruments of the Group are presented for current and prior accounting periods. The principal effects resulting from the implementation of HKAS 39 are summarised below:

## 2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

**Financial instruments (continued)**

*Classification and measurement of financial assets and financial liabilities*

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31 December 2004, the Group classified and measured its debt and equity securities in accordance with the alternative treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "trading securities", "non-trading securities" or "held-to-maturity investments" as appropriate. Both "trading securities" and "non-trading securities" are measured at fair value. Unrealised gains or losses of "trading securities" are reported in the profit or loss for the period in which gains or losses arise. Unrealised gains or losses of "non-trading securities" are reported in equity until the securities are sold or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for that period. From 1 January 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Available-for-sale equity investments that do not have quoted market prices in active market and whose fair value cannot be reliably measured are measured at cost less impairment after initial recognition. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition.

On 1 January 2005, the Group classified and measured its debt and equity securities in accordance with the transitional provisions of HKAS 39. As a result, "Investments in securities" amounted to HK$965,000 has been classified as "available-for-sale investments" on 1 January 2005 (see Note 2A for the financial impact).

By 31 December 2004, the Group classified and measured its investment in club debenture as "club membership" and carried at cost less impairment loss (if any). From 1 January 2005 onwards, the Group has designated and measured its investment in club debenture as "available-for-sale financial assets" in accordance with HKAS 39, which are carried at fair value with changes in fair values recognised in equity directly.

On 1 January 2005, "club membership" with carrying amount of HK$1,300,000 was reclassified to "available-for-sale investments" and re-measured at fair value at 1 January 2005 under the transitional provisions of HKAS 39. As a result, the carry amounts of "available-for-sale investments" and investments reserve as at 1 January 2005 have been increased by HK$500,000. (see Note 2A for the financial impact).

*Financial assets and financial liabilities other than debt and equity securities*

From 1 January 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". The Group's financial liabilities comprise "other financial liabilities" which are carried at amortised cost using the effective interest method. The Group has applied the relevant transitional provisions in HKAS 39. However, there has been no material effect on how the results for the current accounting period are prepared and presented.

## 2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

**Financial instruments (continued)**

*Derivatives and hedging*

From 1 January 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the non-derivative host contracts) are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. The corresponding adjustments on changes in fair values would depend on whether the derivatives are designated as effective hedging instruments, and if so, the nature of the item being hedged. For derivatives that are deemed as held for trading, changes in fair values of such derivatives are recognised in profit or loss for the period in which they arise.

The Group has not recognised the derivative financial instruments on the balance sheet prior to 1 January 2005. The Group has applied the relevant transitional provisions in HKAS 39. On 1 January 2005, the Group recognised the fair value of the foreign currency forward contracts deemed as held-for-trading financial liabilities, amounting to HK$685,000, on the balance sheet and a corresponding adjustment to the Group's retained profits. The profit for the current year has been increased by HK$365,000 (see Note 2A for the financial impact).

**Owner-occupied leasehold interest in land**

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 "*Leases*". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see Note 2A for the financial impact).

**Investment properties**

In the current year, the Group has, for the first time, applied HKAS 40 "*Investment property*". The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the year in which they arise. In previous years, investment properties under the predecessor accounting standard were measured at open market values, with revaluation surplus or deficit credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and revaluation subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provision in HKAS 40 and elected to apply HKAS 40 from 1 January 2005 onwards. The adoption of HKAS 40 had no material effect on the results for the current or prior accounting periods. Accordingly, no prior year adjustment has been required.

**Deferred taxes related to investment properties**

In previous years, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor Interpretation. In the current year, the Company has applied HK(SIC) Interpretation 21 "*Income Taxes – Recovery of Revalued Non-Depreciable Assets*" which removes the presumption that the carrying amount of investment properties are to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Company expects to recover the property at each balance sheet date. The adoption of HK(SIC) Interpretation 21 had no material effects on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

## 2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described above on the results for the current and prior years are as follows:

| | **2005 HK$'000** | 2004 HK$'000 |
|---|---|---|
| Decrease in depreciation | **98** | 98 |
| Decrease in share of results of associates | **(2,532)** | (2,009) |
| Decrease in income tax expenses | **2,532** | 2,009 |
| Gain from changes in fair value of derivative financial instruments | **365** | – |
| Increase in profit for the year | **463** | 98 |

The cumulative effects of the application of the new HKFRSs on 31 December 2004 and 1 January 2005 are summarised below:

| | At 31 December 2004 (originally stated) HK$'000 | Retrospective adjustments HKAS 1 HK$'000 | Retrospective adjustments HKAS 17 HK$'000 | At 31 December 2004 (restated) HK$'000 | Prospective adjustments HKAS 39 HK$'000 | Prospective adjustments HKFRS 3 HK$'000 | At 1 January 2005 (restated) HK$'000 |
|---|---|---|---|---|---|---|---|
| **Balance sheet items** | | | | | | | |
| Property, plant and equipment | 24,117 | – | (14,194) | 9,923 | – | – | 9,923 |
| Prepaid lease payments | – | – | 14,961 | 14,961 | – | – | 14,961 |
| Investments in securities | 965 | – | – | 965 | (965) | – | – |
| Available-for-sale investments | – | – | – | – | 2,765 | – | 2,765 |
| Club membership | 1,300 | – | – | 1,300 | (1,300) | – | – |
| Derivative financial instruments | – | – | – | – | (685) | – | (685) |
| **Total effects on assets and liabilities** | 26,382 | – | 767 | 27,149 | (185) | – | 26,964 |
| Retained profits | 280,280 | – | 767 | 281,047 | (685) | 117,390 | 397,752 |
| Reserve on consolidation | 117,390 | – | – | 117,390 | – | (117,390) | – |
| Investments reserve | – | – | – | – | 500 | – | 500 |
| Minority interests | – | 782 | – | 782 | – | – | 782 |
| **Total effects on equity** | 397,670 | 782 | 767 | 399,219 | (185) | – | 399,034 |
| **Minority interests** | 782 | (782) | – | – | – | – | – |

## 2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (CONTINUED)

The financial effects of the application of the new HKFRSs to the Group's equity on 1 January 2004 are summarised below:

| | As originally stated | Adjustments | | As restated |
|---|---|---|---|---|
| | | HKAS 1 | HKAS 17 | |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Retained profits | 248,298 | – | 669 | 248,967 |
| Minority interests | – | 614 | – | 614 |
| Total effects on equity | 248,298 | 614 | 669 | 249,581 |

The Group has not early adopted the following new standards and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the financial statements of the Company.

| | |
|---|---|
| HKAS 1 (Amendment) | Capital disclosures[1] |
| HKAS 19 (Amendment) | Actuarial gains and losses, group plans and disclosures[2] |
| HKAS 21 (Amendment) | Net investment in a foreign operation[2] |
| HKAS 39 (Amendment) | Cash flow hedge accounting of forecast intragroup transactions[2] |
| HKAS 39 (Amendment) | The fair value option[2] |
| HKAS 39 & HKFRS 4 (Amendments) | Financial guarantee contracts[2] |
| HKFRS 6 | Exploration for and evaluation of mineral resources[2] |
| HKFRS 7 | Financial instruments: Disclosures[1] |
| HK(IFRIC) – INT 4 | Determining whether an arrangement contains a lease[2] |
| HK(IFRIC) – INT 5 | Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2] |
| HK(IFRIC) – INT 6 | Liabilities arising from participating in a specific market–waste electrical and electronic equipment[3] |
| HK(IFRIC) – INT 7 | Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4] |

[1] Effective for annual periods beginning on or after 1 January 2007.
[2] Effective for annual periods beginning on or after 1 January 2006.
[3] Effective for annual periods beginning on or after 1 December 2005.
[4] Effective for annual periods beginning on or after 1 March 2006.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost convention, except for certain properties and financial instruments, which are measured at revalued amounts or fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with the new HKFRSs issued by HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and the Hong Kong Company Ordinance.

**Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

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

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

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

**Interests in associates**

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Revenue recognition**

Sales of goods are recognised when goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Service fee income are recognised when the services are provided.

Rentals receivable under operating leases are recognised and credited to the income statement on a straight-line basis over the relevant lease term.

Income from investments held-for-trading/available-for-sale investments/investments in securities is recognised on a trade date basis.

**Property, plant and equipment**

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

Depreciation are provided to write off the cost of items of property, plant and equipment over their estimated useful lives, using the straight-line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

**Investment properties**

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

**Impairment loss**

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost method.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Taxation**

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

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

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

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

**Operating leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the lessee. All other leases are classified as operating leases. Rentals payable on properties under operating leases are charged to the income statement on a straight-line basis over the terms of the respective leases.

**Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financials statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Foreign currencies (continued)**

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

**Retirement benefit costs**

Payments to defined contribution retirement benefit plans and the Mandatory Provident Fund Scheme are charged as an expense as they fall due.

**Borrowings costs**

All borrowings costs are recognised as and included in finance costs in the income statement in the period in which they are incurred.

**Financial instruments**

Financial assets and financial liabilities are recognised on the balance sheet when a Group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

***Financial assets***

The Group's financial assets are classified into one of the three categories, including "loans and receivables", "financial assets at fair value through profit or loss" and "available-for-sale investments". All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables including trade and other receivables, deposits, staff advances and amount due from an associate are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss has two sub-categories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Financial instruments (continued)**

***Financial assets (continued)***

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories (set out above). At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

***Financial liabilities and equity***

Financial liabilities and equity instruments issued by a Group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instruments is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities comprise other financial liabilities. The accounting policies adopted for financial liabilities and equity instruments are set out below.

*Other financial liabilities*

Other financial liabilities mainly include trade and other payables, bills payable and amounts due to related companies and are subsequently measured at amortised cost, using the effective interest rate method.

*Equity instruments*

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

***Derivative financial instruments***

The Group uses derivative financial instruments (primarily forward currency contracts) to reduce its risks associated with foreign currency fluctuations. Such derivative financial instruments are at fair value regardless of whether they are designated as effective hedging instruments.

Derivatives of the Group do not qualify for hedge accounting and thus they are deemed as financial assets held for trading or financial liabilities held for trading. Changes in fair values of such derivatives are recognised directly to profit or loss for the year.

***Derecognition***

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial assets, the difference between the carrying amount of the financial asset and the sum of the consideration received and cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expired). The difference between the carrying amount of the financial liability derecognised and the consideration received or receivable is recognised in profit or loss.

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the entity's accounting policies which are described in note 3, management has made the following judgements that have significant effect on the amounts recognised in the financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

**Allowances for bad and doubtful debts**

The policy for allowance of bad and doubtful debts of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgement. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

During the year, due to the recovery of certain long outstanding debtor balances, allowance for doubtful debts of HK$13,740,000 was written back.

**Impairment loss on receivable of deferred consideration**

The Group recognised impairment loss on other receivable arising from partial disposal of a subsidiary (which has since become an associate of the Group, see note 9 for details) based on the number and market value of shares of the associate which the Group entitles as a result of the counterparty failure to settle. The impairment loss will be affected by the eventual realisation of the relevant asset.

**Allowances for inventories**

The management of the Group makes allowance for obsolete and slow-moving inventory items that are identified as no longer resalable. The management estimates the net realisable value of its trading merchandise based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items.

## 5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments mainly include investments in equity and debt securities, trade receivables, deposits, bank balances, trade and bills payable and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

**(i) Credit risk**

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligation as at 31 December 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet.

The Group's credit risk is primarily attributable to trade receivables and other receivable in relation to the partial disposal of the Group's equity interest in a subsidiary (which has since become an associate of the Group). The management review the recoverable amount of each individual trade debt and this other receivable at each balance sheet date to ensure that adequate allowances are made for irrecoverable amounts. In addition, the management of the Group is responsible to determine credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. For the other receivable, the management reviews the recoverable amount by reference to the number and market price of the shares of the associate that the Group entitles due to counterparty failure to settle and makes impairment loss where appropriate. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

## 5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

**(i) Credit risk (continued)**

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

The credit risk on bank deposits is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

**(ii) Foreign currency risk**

Certain trade payables of the Group are denominated in foreign currencies. In order to reduce the risks associated with foreign currency fluctuations, the Group has entered into foreign currency forward contracts against its exposures to changes of foreign exchange rate. However, as these foreign currency forward contracts do not qualify for hedge accounting, they are deemed as financial assets or liabilities held for trading. The management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

**(iii) Interest rate risk**

The Group's cash flow interest rate risk mainly relates to variable-rate borrowings. The Group currently does not have an interest rate swap hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

**(iv) Price risk**

Certain of the Group's available-for-sale investments and held-for-trading investments are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity security price risk. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

## 6. REVENUE

Turnover represents the net amount received and receivable for goods sold by the Group to outsiders, property rentals, and service fee income during the year and is analysed as follows:

| | **2005**<br>**HK$'000** | 2004<br>HK$'000 |
|---|---|---|
| Sales of goods | **3,181,479** | 2,815,871 |
| Service income | **8,994** | 8,982 |
| Rental income | **4,426** | 3,947 |
| | **3,194,899** | 2,828,800 |

## 7. SEGMENTAL INFORMATION

**Geographical segments**

The following table provides an analysis of the Group's sales by geographical market:

***For the year ended 31 December 2005***

| | Hong Kong and The People's Republic of China, excluding Hong Kong (the "PRC") | Singapore | Malaysia | Thailand | Others | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| REVENUE | | | | | | | |
| External sales | 2,032,015 | 958,080 | 186,295 | 6,665 | 11,844 | – | 3,194,899 |
| Inter-segment sales | 3,239 | 8,420 | 77 | – | – | (11,736) | – |
| Total revenue | 2,035,254 | 966,500 | 186,372 | 6,665 | 11,844 | (11,736) | 3,194,899 |
| SEGMENT RESULT | 72,371 | 21,195 | (271) | 50 | 317 | – | 93,662 |
| Interest income | | | | | | | 3,963 |
| Impairment loss recognised in respect of deferred consideration on partial disposal of a subsidiary | | | | (15,408) | | | (15,408) |
| Impairment loss recognised in respect of available-for-sale investments | | (2,656) | | | | | (2,656) |
| Fair value decrease in investments held-for-trading | | (2,836) | | | | | (2,836) |
| Gain on disposal of available-for-sale investments | | 7,161 | | | | | 7,161 |
| Gain on disposal of investments held-for-trading | 27 | | | | | | 27 |
| Increase in fair value of investment properties | 16,890 | 233 | | | | | 17,123 |
| Impairment loss recognised in respect of interests in associates | | (795) | | | | | (795) |
| Loss on deemed disposal of an associate | | | | (125) | | | (125) |
| Share of results of associates | | (36) | 954 | 5,200 | | | 6,118 |
| Finance costs | | | | | | | (3,657) |
| Unallocated corporate income | | | | | | | 1,032 |
| Profit before taxation | | | | | | | 103,609 |
| Income tax expense | | | | | | | (16,569) |
| Profit for the year | | | | | | | 87,040 |

Inter-segment sales are charged at prevailing market prices or where no market price is available, at cost plus a percentage profit mark-up.

## 7. SEGMENTAL INFORMATION (CONTINUED)

### Geographical segments (continued)

### Balance Sheet

| | At 31 December 2005 | | | | |
|---|---|---|---|---|---|
| | **Hong Kong and the PRC** | **Singapore** | **Malaysia** | **Thailand** | **Consolidated** |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| ASSETS | | | | | |
| Segment assets | 604,466 | 324,539 | 65,984 | – | 994,989 |
| Interests in associates | – | – | 6,132 | 29,022 | 35,154 |
| Unallocated corporate assets | | | | | 31,210 |
| Consolidated total assets | | | | | 1,061,353 |
| LIABILITIES | | | | | |
| Segment liabilities | 229,752 | 157,772 | 32,171 | – | 419,695 |
| Unallocated corporate liabilities | | | | | 77,301 |
| Consolidated total liabilities | | | | | 496,996 |
| OTHER INFORMATION | | | | | |
| Allowance for doubtful debts (written back) provided | (10,974) | (2,885) | 119 | – | (13,740) |
| Capital additions | 481 | 532 | 640 | – | 1,653 |
| Depreciation and amortisation | 900 | 1,021 | 512 | – | 2,433 |
| (Gain) loss on disposal of property, plant and equipment | – | (24) | 35 | – | 11 |
| (Reversal of write-down) write-down of inventories, net | (2,051) | 7,286 | 3,304 | – | 8,539 |

## 7. SEGMENTAL INFORMATION (CONTINUED)

**Geographical segments (continued)**

***For the year ended 31 December 2004***

| | Hong Kong and the PRC | Singapore | Malaysia | Thailand | Others | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 (restated) |
| REVENUE | | | | | | | |
| External sales | 1,889,419 | 729,334 | 186,422 | 1,153 | 22,472 | – | 2,828,800 |
| Inter-segment sales | 5,558 | 475 | – | – | – | (6,033) | – |
| Total revenue | 1,894,977 | 729,809 | 186,422 | 1,153 | 22,472 | (6,033) | 2,828,800 |
| SEGMENT RESULT | 36,551 | 2,015 | (11,738) | – | (53) | – | 26,775 |
| Interest income | | | | | | | 2,396 |
| Impairment losses recognised in respect of investments in securities | | (1,535) | | | | | (1,535) |
| Loss on disposal of investments in securities | (174) | | | | | | (174) |
| Decrease in fair value of investment properties | (7,122) | (473) | | | | | (7,595) |
| Gain on partial disposal of an associate | | | | 10,304 | | | 10,304 |
| Gain on deemed disposal of an associate | | | | 6,045 | | | 6,045 |
| Share of results of associates | | | 543 | 5,724 | | | 6,267 |
| Finance costs | | | | | | | (3,275) |
| Unallocated corporate income | | | | | | | 3,155 |
| Profit before taxation | | | | | | | 42,363 |
| Income tax expense | | | | | | | (4,771) |
| Profit for the year | | | | | | | 37,592 |

Inter-segment sales are charged at prevailing market prices or where no market price is available, at cost plus a percentage profit mark-up.

## 7. SEGMENTAL INFORMATION (CONTINUED)

**Geographical segments (continued)**

**Balance Sheet**

| | At 31 December 2004 | | | | |
|---|---|---|---|---|---|
| | Hong Kong and the PRC HK$'000 | Singapore HK$'000 | Malaysia HK$'000 | Thailand HK$'000 | Consolidated HK$'000 (restated) |
| ASSETS | | | | | |
| Segment assets | 569,167 | 281,116 | 72,094 | – | 922,377 |
| Interests in associates | – | – | 5,152 | 25,969 | 31,121 |
| Unallocated corporate assets | | | | | 73,693 |
| Consolidated total assets | | | | | 1,027,191 |
| LIABILITIES | | | | | |
| Segment liabilities | 216,718 | 176,607 | 33,805 | – | 427,130 |
| Unallocated corporate liabilities | | | | | 116,888 |
| Consolidated total liabilities | | | | | 544,018 |
| OTHER INFORMATION | | | | | |
| Allowance for doubtful debts provided | 1,106 | 13,745 | 11,767 | – | 26,618 |
| Capital additions | 67,667 | 1,391 | 797 | – | 69,855 |
| Depreciation and amortisation | 852 | 979 | 564 | – | 2,395 |
| (Gain) loss on disposal of property, plant and equipment | (9) | 28 | (3) | – | 16 |
| Write-down (reversal of write–down) of inventories, net | 1,831 | 166 | (1,212) | – | 785 |

**Business segments**

The Company's sole principal activity is the distribution of computer products. Accordingly, no business segment analysis is presented.

## 8. OTHER INCOME

Included in other income is interest earned on bank deposits of HK$3,963,000 (2004: HK$2,396,000).

## 9. IMPAIRMENT LOSS RECOGNISED IN RESPECT OF DEFERRED CONSIDERATION ON PARTIAL DISPOSAL OF A SUBSIDIARY

During the year, the Group has reviewed the recoverability of the deferred consideration arising on partial disposal of the equity interest in a subsidiary (which has since become an associate of the Group) in previous year, which was due in the current year. The directors consider that the recoverability of this receivable as remote and accordingly, an impairment loss of HK$15,408,000 has been recognised in the income statement. The impairment loss is determined by reference to the market price and number of shares of that associate which the Group entitles as a result of counterpaty failure to settle. The balance of this receivable, after allowance, is included in other receivable, deposits and prepayments as at 31 December 2005 and amounted to HK$17,239,000 (2004: HK$32,647,000).

## 10. IMPAIRMENT LOSS RECOGNISED IN RESPECT OF AVAILABLE-FOR-SALE INVESTMENTS/INVESTMENTS IN SECURITIES

During the year, the directors have reviewed the recoverable amount of the Group's available-for-sale investments in two companies with reference to the current market conditions. It is anticipated that these companies will not generate positive cash flows for the foreseeable future and consequently full impairment loss of HK$2,656,000 has been recognised directly in the income statement.

Last year, the Group has recognised an impairment loss of HK$1,535,000 in respect of its investments in securities on similar basis.

## 11. GAIN ON PARTIAL DISPOSAL OF AN ASSOCIATE

In prior year, the Group disposed of 11.5% equity interest in an associate for a consideration of HK$14,246,000, resulting in a gain of HK$10,304,000 which had been credited to the income statement.

## 12. (LOSS) GAIN ON DEEMED DISPOSAL OF AN ASSOCIATE

During the year, the Group's interest in an associate had been diluted from 29.5% to 29.3% because of the issuing of new shares under a warrant scheme of the associate. A loss on deemed disposal of HK$125,000 resulted from the dilution had been charged to the income statement.

In prior year, the Group's interest in an associate had been diluted from 37.5% to 29.5% as a result of the placing of new shares of the associate. A gain on deemed disposal of HK$6,045,000 resulted from the dilution had been credited to the income statement.

## 13. FINANCE COSTS

| | **2005** | 2004 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Interest on: | | |
| Bank borrowings wholly repayable within five years | **3,644** | 2,889 |
| Bank borrowings not wholly repayable within five years | **–** | 348 |
| Amounts due to related companies | **5** | 38 |
| Other loans | **8** | – |
| | **3,657** | 3,275 |

No interest was capitalised by the Group during the year.

## 14. PROFIT BEFORE TAXATION

| | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| Profit before taxation has been arrived at after charging: | | |
| Auditors' remuneration | **1,132** | 960 |
| Allowance for doubtful debts provided | **–** | 26,618 |
| Cost of inventories recognised as an expense | **3,022,328** | 2,693,160 |
| Depreciation of property, plant and equipment | **2,410** | 2,372 |
| Amortisation of prepaid lease payments | **23** | 23 |
| Total depreciation and amortisation | **2,433** | 2,395 |
| Loss on disposal of property, plant and equipment | **11** | 16 |
| Operating lease rentals in respect of rented premises | **6,938** | 6,822 |
| Share of tax of associates (included in share of results of associates) | **2,532** | 2,009 |
| Staff costs including directors' emoluments | **62,285** | 61,099 |
| Write-down of inventories, net | **8,539** | 785 |
| and after crediting: | | |
| Allowance for doubtful debts written back | **13,740** | – |
| Dividend income from available-for-sales investments/ investments in securities | **2** | 2 |
| Exchange gain, net | **4,932** | 5,071 |
| Gross rental income | **4,426** | 3,947 |
| Less: outgoings | **(1,609)** | (1,234) |
| Net rental income | **2,817** | 2,713 |

## 15. DIRECTORS' EMOLUMENTS

| | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| Directors' fees | **1,106** | 956 |
| Other emoluments – executive directors | | |
| Salaries and other benefits | **8,700** | 7,743 |
| Contributions to retirement benefit scheme | **150** | 164 |
| Total emoluments | **9,956** | 8,863 |

The directors' fees disclosed above include an amount of HK$510,000 (2004: HK$360,000) payable to independent non-executive directors. No directors waived any emoluments during the year (2004: nil).

## 15. DIRECTORS' EMOLUMENTS (CONTINUED)

Details of emoluments paid to individual directors (including independent non-executive directors) during the year are as follows:

| | Fees | Salaries and other benefits | Contributions to retirement benefit scheme | 2005 Total | 2004 Total |
|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | **HK$'000** | HK$'000 |
| Executive directors: | | | | | |
| Mr. Lim Siam Kwee | 110 | 1,277 | 4 | **1,391** | 1,100 |
| Mr. Lim Kiah Meng | 110 | 2,181 | 41 | **2,332** | 2,200 |
| Mr. Lim Kia Hong | 133 | 2,043 | 43 | **2,219** | 2,023 |
| Mr. Lim Hwee Hai | 133 | 2,043 | 27 | **2,203** | 2,023 |
| Ms. Lim Hwee Noi | 110 | 1,156 | 35 | **1,301** | 1,157 |
| | 596 | 8,700 | 150 | **9,446** | 8,503 |
| Independent non-executive directors: | | | | | |
| Mr. Lee Hiok Chuan | 170 | – | – | **170** | 160 |
| Mr. Woon Wee Teng | 170 | – | – | **170** | 160 |
| Ms. Ong Wui Leng | 170 | – | – | **170** | 40 |
| | 510 | – | – | **510** | 360 |
| | 1,106 | 8,700 | 150 | **9,956** | 8,863 |

## 16. EMPLOYEES' EMOLUMENTS

The five highest paid individuals of the Group in 2005 include 5 directors (2004: 4 directors), details of whose emoluments are set out in note 15 above. The emoluments of the remaining highest paid individual for the year ended 31 December 2004 were as follows:

| | 2004 |
|---|---|
| | HK$'000 |
| Salaries and other benefits | 1,107 |
| Retirement benefit scheme contribution | 12 |
| | 1,119 |

## 17. INCOME TAX EXPENSE

| | **2005** **HK$'000** | 2004 HK$'000 |
|---|---|---|
| The charge comprises: | | |
| Current tax | | |
| Hong Kong | **10,557** | 6,885 |
| Overseas | **693** | 123 |
| | **11,250** | 7,008 |
| Under(over)provision in prior years | | |
| Hong Kong | **78** | (1,728) |
| Overseas | **66** | (654) |
| | **144** | (2,382) |
| Deferred taxation (Note 36) | **5,175** | 145 |
| Income tax expense for the year | **16,569** | 4,771 |

Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) of the estimated assessable profit for the year.

Overseas taxation is calculated at the rates prevailing in the respective jurisdictions.

The tax charge for the year can be reconciled to the profit before taxation per the income statement as follows:

| | **2005** **HK$'000** | **%** | 2004 HK$'000 | % |
|---|---|---|---|---|
| Profit before taxation | **103,609** | | 42,363 | |
| Tax at the domestic income tax rate of 17.5% (2004: 17.5%) | **18,132** | **17.5** | 7,414 | 17.5 |
| Tax effect of share of results of associates | **(1,071)** | **(1.0)** | (1,097) | (2.6) |
| Tax effect of expenses not deductible for tax purpose | **4,962** | **4.8** | 1,016 | 2.4 |
| Tax effect of income not taxable for tax purpose | **(2,583)** | **(2.5)** | (4,321) | (10.2) |
| Under(over)provision in respect of prior years | **144** | **0.1** | (2,382) | (5.6) |
| Tax effect of tax losses/deductible temporary differences not recognised | **–** | **–** | 3,988 | 9.4 |
| Utilisation of tax losses/deductible temporary differences previously not recognised | **(6,234)** | **(6.0)** | (377) | (0.9) |
| Effect of different tax rates of subsidiaries | **124** | **0.1** | – | – |
| Recognition of deferred tax liabilities not recognised in previous year | **3,095** | **3.0** | – | – |
| Others | **–** | **–** | 530 | 1.3 |
| Tax charge and effective tax rate for the year | **16,569** | **16.0** | 4,771 | 11.3 |

Note: The domestic tax rate in Hong Kong is used as it is where the operation of the Group is substantially based.

## 18. DIVIDENDS

| | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| Final dividend, paid in respect of 2004 of 2 HK cents per share (2003: 2 HK cents per share) | **5,371** | 5,371 |
| Final dividend, proposed in respect of 2005 of 4.5 HK cents per share (2004: 2 HK cents per share) | **12,085** | 5,371 |
| | **17,456** | 10,742 |

The final dividend of 4.5 HK cents (2004: 2 HK cents) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

## 19. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the Group's net profit attributable to equity holders of the Company of HK$86,896,000 (2004: HK$37,451,000) and 268,550,000 (2004: 268,550,000) ordinary shares in issue during the year.

No diluted earnings per share is presented as the Company has no potential ordinary shares outstanding for the two years ended 31 December 2005.

The impact on basic earnings per share as result of changes in accounting policies is insignificant.

## 20. INVESTMENT PROPERTIES

| | HK$'000 |
|---|---|
| FAIR VALUE | |
| At 1 January 2004 | 60,156 |
| Exchange realignment | 319 |
| Additions | 66,252 |
| Decrease in fair value recognised in the income statement | (7,595) |
| At 1 January 2005 | **119,132** |
| Exchange realignment | **(110)** |
| Increase in fair value recognised in the income statement | **17,123** |
| At 31 December 2005 | **136,145** |

An analysis of the investment properties of the Group is as follows:

| | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| In Hong Kong on long-term lease | **125,000** | 108,200 |
| In Singapore on long-term lease | **9,095** | 8,972 |
| In PRC under medium-term lease | **2,050** | 1,960 |
| | **136,145** | 119,132 |

## 20. INVESTMENT PROPERTIES (CONTINUED)

The fair value of the Group's investment properties at 31 December 2005 has been arrived at on the basis of valuation carried out on that date by Messrs. Colliers International (Hong Kong) Limited, Chartered Surveyors for properties located in Hong Kong, by Messrs. BMI Appraisals Limited, Chartered Surveyors for property in the PRC and by Messrs. Knight Frank Pte. Ltd., Chartered Surveyors for properties in Singapore. All of them are independent qualified professional valuers not connected to the Company and are members of the Institute of Valuers, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to International Valuation Standards was arrived by reference to market evidence of transaction prices for similar properties.

Most of the investment properties of the Group are rented out under operating leases.

## 21. PROPERTY, PLANT AND EQUIPMENT

| | **Land** | **Buildings** | **Leasehold improvements** | **Furniture, fixtures and equipment** | **Motor vehicles** | **Total** |
|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| COST | | | | | | |
| At 1 January 2004 as originally stated | 15,068 | 3,820 | 5,838 | 14,491 | 5,712 | 44,929 |
| Adjustment arising from adoption of HKAS 17 (Note b) | (15,068) | – | – | – | – | (15,068) |
| At 1 January 2004 as restated | – | 3,820 | 5,838 | 14,491 | 5,712 | 29,861 |
| Exchange realignment | – | – | 79 | 129 | 43 | 251 |
| Additions | – | – | 29 | 1,891 | 1,683 | 3,603 |
| Disposals | – | – | (51) | (306) | (1,877) | (2,234) |
| At 31 December 2004 | – | 3,820 | 5,895 | 16,205 | 5,561 | 31,481 |
| Exchange realignment | – | – | (24) | (41) | (18) | (83) |
| Additions | – | – | 149 | 1,504 | – | 1,653 |
| Disposals | – | – | – | (206) | (537) | (743) |
| At 31 December 2005 | **–** | **3,820** | **6,020** | **17,462** | **5,006** | **32,308** |
| DEPRECIATION | | | | | | |
| At 1 January 2004 as originally stated | 84 | 897 | 4,440 | 11,908 | 3,974 | 21,303 |
| Adjustment arising from adoption of HKAS 17 (Note b) | (84) | (669) | – | – | – | (753) |
| At 1 January 2004 as restated | – | 228 | 4,440 | 11,908 | 3,974 | 20,550 |
| Exchange realignment | – | – | 66 | 122 | 12 | 200 |
| Provided for the year | – | 76 | 466 | 1,170 | 660 | 2,372 |
| Eliminated on disposals | – | – | (21) | (88) | (1,455) | (1,564) |
| At 31 December 2004 | – | 304 | 4,951 | 13,112 | 3,191 | 21,558 |
| Exchange realignment | – | – | (19) | (35) | (1) | (55) |
| Provided for the year | – | 76 | 406 | 1,326 | 602 | 2,410 |
| Eliminated on disposals | – | – | – | (140) | (143) | (283) |
| At 31 December 2005 | **–** | **380** | **5,338** | **14,263** | **3,649** | **23,630** |
| CARRYING VALUES | | | | | | |
| At 31 December 2005 | **–** | **3,440** | **682** | **3,199** | **1,357** | **8,678** |
| At 31 December 2004 as restated | – | 3,516 | 944 | 3,093 | 2,370 | 9,923 |

## 21. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

| | |
|---|---|
| Buildings | 2% – 2.5% |
| Leasehold improvements | 20% or the term of the lease, whichever is shorter |
| Furniture, fixtures and equipment | 15% – 33.3% |
| Motor vehicles | 20% |

Notes:

a. All buildings are located in Hong Kong and held under long lease.

b. The restatements represent the reclassification of HK$14,984,000 to prepaid lease payments and the adjustment of HK$669,000 for overprovision of depreciation in previous years due to the overstatement of the buildings' costs in previous years.

## 22. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments represent leasehold land in Hong Kong under long lease.

| | **2005 HK$'000** | 2004 HK$'000 |
|---|---|---|
| Carrying amount analysed for reporting purposes as: | | |
| Current asset | **23** | 23 |
| Non-current asset | **14,915** | 14,938 |
| | **14,938** | 14,961 |

## 23. INTERESTS IN ASSOCIATES

| | **2005 HK$'000** | 2004 HK$'000 |
|---|---|---|
| Cost of investment in associates | | |
| Listed overseas | **4,988** | 4,988 |
| Unlisted | **280** | 280 |
| Share of post-acquisition profit, net of dividend received | **29,886** | 25,853 |
| | **35,154** | 31,121 |
| Fair value of listed investments | **26,250** | 36,313 |

## 23. INTERESTS IN ASSOCIATES (CONTINUED)

The details of the associates as at 31 December 2005 are as follows:

| Name of company | Form of business structure | Country of incorporation/ operation | Class of shares held | Proportion of nominal value of issued capital held indirectly by the Company | Principal activities |
|---|---|---|---|---|---|
| SiS Distribution (Thailand) Public Company Limited | Limited company | Thailand | Ordinary | 29.3% | Distribution of computer products |
| ECS Pericomp Sdn. Bhd. | Limited company | Malaysia | Ordinary | 20% | Distribution of computer products |
| Infinitiq Solution Pte. Limited | Limited company | Singapore | Ordinary | 35.7% | Manufacture and design of IP communication solution |
| Havoq Research Pte. Limited | Limited company | Singapore | Ordinary | 50% | Research and experimental development on information technology |

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

| | **2005 HK$'000** | 2004 HK$'000 |
|---|---|---|
| Total assets | **510,903** | 424,379 |
| Total liabilities | **(381,528)** | (310,967) |
| Net assets | **129,375** | 113,412 |
| Group's share of net assets of associates | **35,154** | 31,121 |
| Revenue | **1,804,873** | 1,488,706 |
| Profit for the year | **20,902** | 17,604 |
| Group's share of results of associates for the year | **6,118** | 6,267 |

## 24. INVESTMENTS IN SECURITIES

Investments in securities as at 31 December 2004 are set out below. Upon the application of HKAS 39 on 1 January 2005, investments in securities of HK$965,000 was reclassified to available-for-sale investments.

| | NON-TRADING SECURITIES 2004 HK$'000 |
|---|---|
| Equity securities: | |
| Listed | 285 |
| Unlisted | 680 |
| | 965 |
| Listed, overseas | 285 |
| Unlisted | 680 |
| | 965 |
| Market value of listed securities | 285 |
| Carrying amount analysed for reporting purposes as: | |
| Non-current | 965 |

## 25. AVAILABLE-FOR-SALE INVESTMENTS/CLUB MEMBERSHIP

Upon the application of HKAS 39 on 1 January 2005, club membership and investments in securities of HK$1,300,000 and HK$965,000, respectively, were reclassified to available-for-sale investments.

Available-for-sale investments as at 31 December 2005 comprise the following non-current assets:

| | **2005 HK$'000** |
|---|---|
| Equity securities, listed overseas | **5,171** |
| Debentures, unlisted | **2,300** |
| | **7,471** |

As at the balance sheet date, all available-for-sale investments are stated at fair value determined by reference to bid prices quoted in active markets.

## 26. STAFF ADVANCES

| | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| The staff advances is analysed as follows: | | |
| Current | **322** | 474 |
| Non-current | **169** | 389 |
| | **491** | 863 |

The amounts are unsecured, interest free and repayable by monthly instalments over the period of the advances. In the opinion of the directors, the carrying amount of staff advances approximates to its fair value.

## 27. INVENTORIES

Inventories of the Group comprise trading merchandise.

During the year, certain trading merchandise previously written-down were sold. As a result, a reversal of write-down of inventories amounted to HK$2,051,000 (2004: HK$1,212,000) has been realised during the year.

## 28. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

| | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| Trade receivables | **449,848** | 465,306 |
| Less: allowance for doubtful debt | **(22,856)** | (44,114) |
| | **426,992** | 421,192 |
| Deposits, prepayments and other receivables | **33,767** | 49,242 |
| | **460,759** | 470,434 |

The Group maintains a defined credit policy. For sales of goods, the Group allows an average credit period of 30 – 60 days to its trade customers. Service income receivable from customers are payable on presentation of invoices.

Included in deposits, prepayments and other receivables is a deferred consideration in relation to the partial disposal of the Group's equity interest in a subsidiary of HK$17,239,000 (2004: HK$32,647,000) which is secured, non-interest bearing and is repayable in December 2005.

The following is an aged analysis of trade receivables at the balance sheet date:

| | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| Within 30 days | **350,803** | 357,453 |
| 31 to 90 days | **65,718** | 42,490 |
| 91 to 120 days | **4,465** | 5,072 |
| Over 120 days | **6,006** | 16,177 |
| Trade receivables | **426,992** | 421,192 |

The fair value of the Group's trade and other receivables, deposits and prepayments approximates to their carrying value.

## 29. INVESTMENTS HELD-FOR-TRADING

| | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| FAIR VALUE | | |
| Equity securities listed overseas | **50,175** | – |

The fair value of the above investments held-for-trading are determined based on the quoted market bid prices available on the relevant exchanges.

## 30. AMOUNT DUE FROM AN ASSOCIATE

The balance with an associate is unsecured, interest free and repayable on demand. The fair value of amount due from an associate approximates to its carrying value.

## 31. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at the balance sheet date:

| | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| Within 30 days | **223,179** | 242,573 |
| 31 to 90 days | **16,210** | 14,650 |
| 91 to 120 days | **2,100** | 450 |
| Over 120 days | **17,287** | 15,708 |
| Trade payables | **258,776** | 273,381 |
| Accruals and other payables | **128,023** | 119,954 |
| | **386,799** | 393,335 |

The fair value of the Group's trade and other payables approximates to their carrying value.

## 32. BILLS PAYABLE

The aged analysis of bills payable as at 31 December 2005 and 2004 is within 90 days. The fair value of the Group's bills payable approximates to its carrying amount.

## 33. AMOUNTS DUE TO RELATED COMPANIES

| Name of company | Term | Balance at 31.12.2005 HK$'000 | Balance at 1.1.2005 HK$'000 | Maximum amount outstanding during the year HK$'000 |
|---|---|---|---|---|
| Regent Pacific Limited | Unsecured, interest bearing at 1.88% p.a. and repayable on demand | – | 11,907 | 11,907 |
| Gold Sceptre Limited | Unsecured, interest bearing at 1.88% p.a. and repayable on demand | – | 2,601 | 2,601 |
| Ever Rich Technology Limited | Unsecured, interest bearing at 1.88% p.a. and repayable on demand | – | 901 | 901 |
| P.T. SiSTech Kharisma | Unsecured, interest free and repayable on demand | **1,162** | 16,175 | 18,279 |
| | | **1,162** | 31,584 | |

Mr. Lim Kiah Meng and his spouse own Regent Pacific Limited.

Mr. Lim Kiah Meng and his spouse and Mr. Lim Kia Hong and his spouse together own 40.5% and 39.5%, respectively, indirect interest in Gold Sceptre Limited.

Mr. Lim Kiah Meng and his spouse own 80% of the issued share capital of Ever Rich Technology Limited.

The spouse of Mr. Lim Kiah Meng holds a 90% interest in P.T. SiSTech Kharisma.

The fair value of amounts due to related companies approximates to its carrying amount.

## 34. DERIVATIVE FINANCIAL INSTRUMENTS

During the year, the Group has used forward foreign currency contracts to hedge against certain of its trade payables that denominated in foreign currency. These derivatives are not qualified for hedge accounting.

At 31 December 2005, the Group had entered into forward foreign currency contracts denominated in United States dollars and Singapore dollars with total notional amount of these contracts amounted to HK$102,045,000 (2004: HK$66,434,000), and is analysis as:

| | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| Current asset | **194** | – |
| Current liability | **(514)** | – |
| | **(320)** | – |

## 34. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Details of the outstanding forward foreign currency contracts entered into by the Group at 31 December 2005 are as follows:

(a) A notional amount of selling HK$5,790,000 in exchange for US$750,000 on 4 January 2006, 2 February 2006, 2 March 2006, 4 April 2006 and 4 May 2006 (the "Fixing Dates") if spot rate is at or above HK$7.7195 per one unit of USD or selling HK$11,579,000 in exchange for US$1,500,000 at the Fixing Dates if spot rate is below HK$7.7195 per one unit of USD.

(b) A notional amount of selling HK$5,796,000 in exchange for US$750,000 on the Fixing Dates if spot rate is at or above HK$7.728 per one unit of USD or selling HK$11,592,000 in exchange for US$1,500,000 at the Fixing Dates if spot rate is below HK$7.728 per one unit of USD.

(c) A notional amount of selling S$9,459,000 in exchange for US$5,637,000 at contract rates ranging from S$1.648 per one unit of USD to S$1.6999 per one unit of USD at various maturity dates for the period from 9 January 2006 to 20 June 2006.

All derivatives of the Group are measured at fair value at each balance sheet date. Their fair values are determined based on the market prices for equivalent instruments provided by the bank at the balance sheet date.

## 35. BORROWINGS

| | **2005 HK$'000** | 2004 HK$'000 |
|---|---|---|
| Bank overdrafts | **64** | 1,418 |
| Bank loans | **56,367** | 71,277 |
| Other borrowings | **–** | 432 |
| | **56,431** | 73,127 |
| Secured | **56,431** | 54,929 |
| Unsecured | **–** | 18,198 |
| | **56,431** | 73,127 |
| The borrowings are repayable as follows: | | |
| On demand or within one year | **56,431** | 51,877 |
| In the second year | **–** | 2,500 |
| In the third to fifth years inclusive | **–** | 7,500 |
| Over five years | **–** | 11,250 |
| | **56,431** | 73,127 |
| Less: Amount due for settlement within 1 year (under current liabilities) | **(56,431)** | (51,877) |
| Amount due for settlement after 1 year | **–** | 21,250 |

The above bank loans carry variable rates at inter-bank borrowing rates plus 0.75% to 1.25% per annum, and the effective interest rates ranged from 3.59% to 7.25% (2004: 2.46% to 7%) per annum during the year.

## 35. BORROWINGS (CONTINUED)

The Group's borrowings that are denominated in currencies other than the functional currency of the Company are set out below:

| | RM'000 | S$'000 |
|---|---|---|
| At 31 December 2005 | **13,421** | **6,200** |
| At 31 December 2004 | 15,284 | 1,000 |

The fair value of borrowings approximates to its carrying amount.

## 36. DEFERRED TAXATION

The followings are the major deferred tax assets (liabilities) recognised and movements thereon during the current and prior year:

| | **Accelerated tax depreciation** HK$'000 | **Allowances for doubtful debts** HK$'000 | **Revaluation of properties** HK$'000 | **Others** HK$'000 (Note) | **Tax losses** HK$'000 | **Total** HK$'000 |
|---|---|---|---|---|---|---|
| At 1 January 2004 | 778 | 1,067 | – | – | – | 1,845 |
| Charge to income for the year | (145) | – | – | – | – | (145) |
| At 1 January 2005 | **633** | **1,067** | **–** | **–** | **–** | **1,700** |
| Credit (charge) to income for the year | **(430)** | **3,301** | **(1,220)** | **(8,023)** | **1,202** | **(5,170)** |
| At 31 December 2005 | **203** | **4,368** | **(1,220)** | **(8,023)** | **1,202** | **(3,470)** |

Note: This amount represents the provision of deferred tax liabilities of approximately S$1,719,000 in relation to the gain on partial disposal of equity interest in a subsidiary (which has since become an associate of the Group) by a group company in Singapore in previous year. No such deferred tax liability was recognised in previous year as the relevant sales proceeds has not been remitted to a Singapore entity and was therefore not subject to Singapore tax. However, this group company has assigned the net receivable from such disposal to another group company in Singapore during the year which may give rise to potential tax liabilities in Singapore. As a result, the deferred tax liabilities not recognised in prior year has been recognised during the year.

For the purpose of balance sheet presentation. Certain deferred tax assets and liabilities have been offset. The following is the analysis of deferred tax balances for financial reporting purposes:

| | **2005** **HK$'000** | 2004 HK$'000 |
|---|---|---|
| Deferred tax assets | **1,029** | 1,700 |
| Deferred tax liabilities | **(4,499)** | – |
| | **(3,470)** | 1,700 |

At the balance sheet date, the Group has deductible temporary differences of HK$18,735,000 (2004: HK$30,457,000) and unutilised tax losses of HK$22,786,000 (2004: HK$44,927,000).

A deferred tax asset has been recognised in respect of HK$6,871,000 (2004: Nil) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of HK$15,915,000 (2004: HK$44,927,000) and the deductible temporary differences due to the unpredictability of future profit streams. Tax losses of HK$20,836,000 may be carried forward indefinitely and the remaining of HK$1,950,000 can be carried forward for a maximum of five years.

## 37. SHARE CAPITAL

| | Number of shares | | Share capital | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | **'000** | '000 | **HK$'000** | HK$'000 |
| Ordinary shares of HK$0.10 each | | | | |
| Authorised | **350,000** | 350,000 | **35,000** | 35,000 |
| Issued and fully paid | | | | |
| At beginning and end of the year | **268,550** | 268,550 | **26,855** | 26,855 |

## 38. SHARE PREMIUM AND RESERVES

Details of the movements in the share premium and reserves of the Group are set out in the Consolidated Statement of Changes in Equity on page 21.

The retained profits of the Group include HK$25,490,000 (2004: HK$20,370,000) retained by associates.

The statutory reserves of the Group refer to the PRC statutory reserve fund. Appropriations to such reserve fund are made out of net profit after taxation of the statutory financial statements of the PRC subsidiaries and the amount should not be less than 10% of the profit after taxation unless the aggregate amount exceeded 50% of registered capital of the PRC subsidiaries. The statutory reserve fund can be used to make up previous year losses of the PRC subsidiaries, if any, and can be applied in conversion into capital after approval by PRC authority.

The contributed surplus of the Group represents the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition at the time of the group reorganisation prior to the listing of the Company's shares in 1992.

## 39. OPERATING LEASE COMMITMENTS

**The Group as lessee**

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | **2005** | 2004 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within one year | **7,185** | 5,352 |
| In the second to fifth year inclusive | **6,578** | 250 |
| | **13,763** | 5,602 |

Operating lease payments represent rentals payable by the Group for certain of its rented premises. Leases are negotiated for an average term of two years and rentals are fixed for an average of two years.

## 39. OPERATING LEASE COMMITMENTS (CONTINUED)

**The Group as lessor (continued)**

At the balance sheet date, the Group had contracted with lessees for the following future minimum lease payments:

| | **2005** **HK$'000** | 2004 HK$'000 |
|---|---|---|
| Within one year | **568** | 1,167 |
| In the second to fifth year inclusive | **63** | 190 |
| | **631** | 1,357 |

Property rental income earned during the year was HK$4,426,000 (2004: HK$3,947,000). The Group's properties are expected to generate rental yields of 5% on an ongoing basis.

## 40. CAPITAL COMMITMENTS

| | **2005** **HK$'000** | 2004 HK$'000 |
|---|---|---|
| Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements | **164** | 164 |
| Capital expenditure in respect of unpaid capital contribution to an associate | **700** | – |
| | **864** | 164 |

## 41. SHARE OPTION SCHEME

The Company's existing share option scheme ("the Scheme") was adopted pursuant to a resolution passed on 31 May 2002 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 30 May 2012. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries and associates, to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to outside third parties with a view to maintain business relationship with such persons and as an alternative for settlement of the Company's payment obligations.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up within the period as specified in the offer letter together with a payment of HK$10 as consideration of grant. Options may be exercised at any time from the second anniversary of the date of grant to the tenth anniversary of the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of the closing price of the Company's shares on the date of grant, and the average closing price of the shares for the five business days immediately preceding the date of grant.

No share options have been granted under the Scheme since its adoption and no share options were outstanding for the two years ended 31 December 2005.

## 42. RETIREMENT BENEFIT SCHEMES

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance (the "ORSO Scheme") and a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme were offered a choice of staying within the ORSO Scheme or switching to the MPF Scheme, whereas all new employees joining the Group on or after 1 December 2000 are required to join the MPF Scheme.

For members of the MPF Scheme, the Group contributes the lower of 5% of relevant payroll costs or HK$1,000 to the MPF Scheme monthly, which contribution is matched by the employee.

The ORSO Scheme is funded by monthly contributions from both employees and the Group at 5% of the employee's basic salary. Where there are employees who leave the ORSO Scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

Employees of the Group's subsidiaries established in the PRC are members of pension schemes operated by the PRC local government. The subsidiaries are required to contribute a certain percentage of the relevant part of the payroll of these employees to the pension schemes to fund the benefits. The only obligation for the Group with respect to the pension schemes is the required contributions under the pension schemes.

Arrangements for staff retirement benefits of overseas employees vary from country to country and are made in accordance with local regulations and customs.

During the year, the total retirement benefit contributions charged to income statement, net of forfeited contributions of HK$7,000 (2004: HK$46,000) from the ORSO scheme, is HK$3,197,000 (2004: HK$3,209,000).

At the balance sheet date, the total amount of forfeited contributions which arose upon employees leaving the ORSO scheme and which are available to reduce the contributions payable in the future years was nil (2004: nil).

## 43. PLEDGE OF ASSETS

At 31 December 2005, the Group has pledged certain of its assets with a net book value of HK$57,020,000 (2004: HK$62,315,000) to banks to secure general banking facilities granted to the Group. The carrying value of these assets are analysed as follows:

| | **2005**<br>**HK$'000** | 2004<br>HK$'000 |
|---|---|---|
| Investment properties | **40,000** | 45,800 |
| Pledged bank deposits | **17,020** | 16,515 |
| | **57,020** | 62,315 |

## 44. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with related parties:

| | Related companies | |
|---|---|---|
| | **2005** | 2004 |
| | **HK$'000** | HK$'000 |
| Sales of goods | **4,683** | 2,026 |
| Purchase of goods | **–** | 108 |
| Operating lease rentals paid | **4,020** | 3,816 |
| Legal fee paid | **–** | 103 |
| Interest paid | **5** | 38 |

The directors, directly and indirectly, hold beneficial interests in the related companies. Details of these and outstanding balances arising from the above transactions with related parties are set out in notes 30 and 33 respectively.

*Compensation of key management personnel*

The directors consider that the key management personnel of the Group are the executive directors. The relevant remuneration of these directors is disclosed in note 15.

The remuneration of directors is determined by the Remuneration Committee having regard to the performance of individuals and market trends.

## 45. PRINCIPAL SUBSIDIARIES

Details of the Company's subsidiaries at 31 December 2005 are as follows:

| Name of subsidiary | Country of incorporation or registration/ operation | Class of shares held | Issued and fully paid ordinary share capital/ registered capital | Proportion of nominal value of issued capital/registered capital held by the Company Directly % | Indirectly % | Principal activities |
|---|---|---|---|---|---|---|
| Chuang Long Trading (Shanghai) Co. Ltd. (Note) | PRC | Registered capital | US$200,000 | – | 100 | Inactive |
| Computer Zone Limited | Hong Kong | Ordinary | HK$2 | – | 100 | Inactive |
| Faith Prosper Ltd. | British Virgin Islands | Ordinary | US$1 | – | 100 | Investment holding |
| Maxima Technology Limited | British Virgin Islands | Ordinary | US$1 | – | 100 | Inactive |
| Metier Career Management Pte. Ltd. | Singapore | Ordinary | S$75,000 | – | 60 | Operating employment agencies and human resource centres |
| Qool Labs Pte. Ltd. | Singapore | Ordinary | S$2 | – | 100 | Distribution of computer products |

## 45. PRINCIPAL SUBSIDIARIES (CONTINUED)

| Name of subsidiary | Country of incorporation or registration/ operation | Class of shares held | Issued and fully paid ordinary share capital/ registered capital | Proportion of nominal value of issued capital/registered capital held by the Company Directly % | Indirectly % | Principal activities |
|---|---|---|---|---|---|---|
| SiS Asia Pte. Ltd. | Singapore | Ordinary | S$2 | – | 100 | Provision of hardware and software services and corporate management services |
| SiS China Limited | Hong Kong | Ordinary | HK$2 | – | 100 | Inactive |
| SiS Distribution Limited | British Virgin Islands | Ordinary | US$45,000 | 100 | – | Investment holding |
| SiS Distribution (M) Sdn. Bhd. | Malaysia | Ordinary | M$7,500,000 | – | 100 | Distribution of computer products |
| SiS HK Limited | Hong Kong | Ordinary | HK$400,000 | – | 100 | Properties investment |
| SiS International Limited | Hong Kong | Ordinary | HK$100,000 | – | 100 | Distribution of computer products |
| SiS International Trading (Shanghai) Co., Ltd. (Note) | PRC | Registered capital | US$200,000 | – | 100 | Distribution of computer products and provision of technical consultancy services |
| SiS Investment Holdings Limited | British Virgin Islands | Ordinary | US$1 | 100 | – | Investment holding |
| SiS Netrepreneur Ventures Corp. | British Virgin Islands | Ordinary | US$1 | – | 100 | Investment holding |
| SiS TechVentures Corp. | British Virgin Islands | Ordinary | US$1 | 100 | – | Investment holding |
| SiS Technologies Pte. Ltd. | Singapore | Ordinary | S$1,000,000 | – | 100 | Distribution of computer products |
| SiS Technologies (Thailand) Pte. Ltd. | Singapore | Ordinary | S$2 | – | 100 | Investment holding |
| SiSNetwork Sdn. Bhd. (formally known as Computer Network Centre Sdn. Bhd.) | Malaysia | Ordinary | RM$2 | – | 100 | Inactive |
| Tallgrass Technologies Sdn. Bhd. | Malaysia | Ordinary | RM$2 | – | 100 | Inactive |

Note: Wholly-owned foreign enterprises registered in the PRC