

Report of the Directors

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

Principal Activities

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

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

Financial Statements

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

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

Five Years Financial Summary

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

Major Customers and Suppliers

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

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

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

Fixed Assets

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



Bank Loans and Other Borrowings

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

Share Capital

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

Share Premium and Reserves

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

Distributable Reserves

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

Directors

The Directors during the financial year were:

Executive Directors

Mr. Sze Wai, Marco, *Chairman*

Mr. Chu Chi Shing, *Chief Executive Officer*

Mr. Wang Qing (retired on 31 May 2005)

Mr. Gu Peijian

Mr. Ye Long (resigned on 16 February 2005)

Mr. Song Jing Sheng (appointed on 1 May 2005)

Independent Non-executive Directors

Mr. Wong Po Yan

Mr. Mao Zhenhua

Mr. Chong Yiu Kan, Sherman

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

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

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

Report of the Directors

Directors' Service Contracts

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

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

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

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

Notes:

1. The letter "L" represents the Director's interests in the shares and underlying shares of the Company.
2. These shares were held by Leading Value Industrial Limited which is wholly-owned by Mr. Sze Wai, Marco.
3. These shares were the respective number of shares which would be allotted and issued upon exercise in full of the options granted to each of Mr. Sze Wai, Marco and Mr. Chu Chi Shing under the share option schemes of the Company. The exercise period and the exercise price of these options are set out in the section headed "Share Option Scheme" below.
4. Included in these shares were (i) 18,900,000 issued shares and (ii) 6,000,000 shares which would fall to be allotted and issued pursuant to the exercise of subscription rights attaching to the unlisted warrants issued to him.



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

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

Share Option Scheme

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

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

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

Report of the Directors

Share Option Scheme (Continued)

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

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

Share Option Scheme (Continued)

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

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

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

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

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

Report of the Directors

Share Option Scheme *(Continued)*

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

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

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

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

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

Notes:

1. Mr. Sze Wai, Marco's interest in Leading Value Industrial Limited is also disclosed in the section headed "Directors' and Chief Executive's Interest and Short Positions in Shares, Underlying Shares and Debentures".
2. These shares are registered in the name of Interstar Holdings Limited, which is a wholly owned subsidiary of Fujian Start Computer Group Company Limited.

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

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

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



Competing Business Interests of Directors

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

Pre-emptive Rights

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

Retirement Scheme

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

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

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

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

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

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

Directors’ Interests in Contracts

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

Connected Transactions

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

Report of the Directors

Code on Corporate Governance Practices

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

Audit Committee

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

Independence of Independent Non-executive Directors

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

Auditors

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

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

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

Sze Wai, Marco
Chairman

Hong Kong, 26 April 2006