



# Notes to the Financial Statements

For the year ended 31 December 2005

## 1. CORPORATE INFORMATION

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

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

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

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

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

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

- investment property (see note 2(f));
- Buildings (see note 2(g));

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

# Notes to the Financial Statements

For the year ended 31 December 2005

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

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

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

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

### (c) Basis of consolidation

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

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

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

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

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

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

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

### (d) Associates

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

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

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

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

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

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

### (e) **Goodwill**

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

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

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

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

### (f) **Investment property**

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

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

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

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

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

# Notes to the Financial Statements

For the year ended 31 December 2005

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

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

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

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

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

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

- when a deficit arises on revaluation, it will be charged to profit or loss to the extent that it exceeds the amount held in the reserve in respect of that same asset, immediately prior to the revaluation; and
- when a surplus arises on revaluation, it will be credited to profit or loss to the extent that a deficit on revaluation in respect of that same asset had previously been charged to the income statement.

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

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

- Freehold land is not depreciated.
- Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion.
- Leasehold improvements 5 years
- Plant and machinery 10 years
- Furniture, fixtures and office equipment 3-5 years
- Motor vehicles 3-8 years

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

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

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

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

### (i) **Leased assets**

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

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

#### (ii) *Operating lease charges*

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

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

#### (i) *Impairment of other receivables*

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

- For current receivables that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for current receivables are reversed if in a subsequent period the amount of the impairment loss decreases.
- For financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets).
- If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

# Notes to the Financial Statements

For the year ended 31 December 2005

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

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

#### (ii) Impairment of other assets

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

- property, plant and equipment (other than properties carried at revalued amounts);
- pre-paid interests in leasehold land classified as being held under an operating lease;
- investments in subsidiaries and associates;
- intangible assets; and
- goodwill.

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

- Calculation of recoverable amount  
The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).
- Recognition of impairment losses  
An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.
- Reversals of impairment losses  
In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

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

### (k) Inventories

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

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

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

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

### (l) Systems integration contracts

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

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

### (m) Trade and other receivables

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

### (n) Interest-bearing borrowings

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

# Notes to the Financial Statements

For the year ended 31 December 2005

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

### (o) Trade and other payables

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

### (p) Cash and cash equivalents

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

### (q) Employee benefits

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

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

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

#### (ii) *Share based payments*

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

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





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

### (r) **Income tax**

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

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

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

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

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

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

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

# Notes to the Financial Statements

For the year ended 31 December 2005

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

### (s) Provisions and contingent liabilities

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

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

### (t) Revenue recognition

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

#### (i) *Software development and systems integration services*

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

#### (ii) *Sale of goods*

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

#### (iii) *Interest income*

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

#### (iv) *Rental income from operating leases*

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

#### (v) *Government grants*

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (u) Translation of foreign currencies

#### (i) Functional and presentation currency

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

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

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

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

#### (iii) Translation on consolidation

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

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

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

### (v) Borrowing costs

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

# Notes to the Financial Statements

For the year ended 31 December 2005

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

### (w) **Discontinued operation**

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

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

### (x) **Related parties**

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

### (y) **Segment reporting**

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

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

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

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

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

### 3. CHANGES IN ACCOUNTING POLICIES

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

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

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

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

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

	As at 31.12.2005 HK\$'000	As at 31.12.2004 HK\$'000
Decrease in other property, plant and equipment	7,280	7,240
Increase in leasehold land held for own use under operating leases	4,322	4,327
Decrease in deferred tax liabilities	561	595
	<b>Year ended 31.12.2005 HK\$'000</b>	<b>Year ended 31.12.2004 HK\$'000</b>
Decrease in administrative expenses	73	73
Increase in income tax	20	20

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

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

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

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

# Notes to the Financial Statements

For the year ended 31 December 2005

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

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

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

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

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

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

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

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

#### 4. TURNOVER

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

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

#### 5. OTHER INCOME

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

# Notes to the Financial Statements

For the year ended 31 December 2005

## 5. OTHER INCOME (Continued)

Notes:

- (a) Pursuant to the relevant approval document issued by the tax authorities in the People's Republic of China ("PRC"), subsidiaries of the Group operated in the PRC are entitled to a refund of VAT on the sales of self-developed software. The VAT refund represents the amount of VAT paid in excess of 3% of income generated from the sales of self-developed software. The amount of VAT refund is recognised as other revenue when the refund is approved by the relevant tax authorities.
- (b) During the year ended 31 December 2004, the Group was granted certain financial supports from the PRC government authorities to encourage innovation in software development.

## 6. OTHER NET LOSS

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



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

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

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

# Notes to the Financial Statements

For the year ended 31 December 2005

## 8. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

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

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

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

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

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

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

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

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

## 9. DISCONTINUED OPERATION

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

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

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

# Notes to the Financial Statements

For the year ended 31 December 2005

## 9. DISCONTINUED OPERATION *(Continued)*

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

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

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

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

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

## 10. DIRECTORS' REMUNERATION

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

### (a) Year ended 31 December 2005

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

### (b) Year ended 31 December 2004

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

# Notes to the Financial Statements

For the year ended 31 December 2005

## 11. INDIVIDUALS WITH HIGHEST EMOLUMENTS

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

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

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

	2005 Number of individuals	2004 Number of individuals
Nil – HK\$1,000,000	1	1
HK\$1,000,001 – HK\$1,500,000	1	1

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

## 12. DIVIDENDS

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

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

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

#### *From continuing and discontinued operations*

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

#### *From continuing operations*

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

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

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

*From discontinued operation*

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

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

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

### 14. SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting system.

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

The Group comprises the following main business segments:

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

# Notes to the Financial Statements

For the year ended 31 December 2005

## 14. SEGMENT REPORTING (Continued)

### (a) Business segments (Continued)

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



## 14. SEGMENT REPORTING *(Continued)*

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

Note:

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

### (b) Geographical segments

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

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

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

# Notes to the Financial Statements

For the year ended 31 December 2005

## 15. FIXED ASSETS

### (a) The Group

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

**15. FIXED ASSETS** *(Continued)*  
**(a) The Group** *(Continued)*

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

# Notes to the Financial Statements

For the year ended 31 December 2005

## 15. FIXED ASSETS (Continued)

### (b) The Company

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

## 15. FIXED ASSETS *(Continued)*

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

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

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

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

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

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

# Notes to the Financial Statements

For the year ended 31 December 2005

## 15. FIXED ASSETS *(Continued)*

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

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

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

	2005 HK\$'000	2004 HK\$'000
Within one year	204	311
After 1 year but within 5 years	–	111
	204	422

## 16. INTERESTS IN SUBSIDIARIES

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

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

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

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

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

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## 16. INTERESTS IN SUBSIDIARIES (Continued)

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

Notes:

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



## 17. CONSTRUCTION IN PROGRESS

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

## 18. INTANGIBLE ASSETS

### The Group

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

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

# Notes to the Financial Statements

For the year ended 31 December 2005

## 19. INTERESTS IN ASSOCIATES

### The Group

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

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

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

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

## 19. INTEREST IN ASSOCIATES (Continued)

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

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

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

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

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

# Notes to the Financial Statements

For the year ended 31 December 2005

## 20. DEPOSITS AND PREPAYMENTS FOR INVESTMENTS

- (a) Pursuant to an agreement dated 5 September 2003 and a supplementary agreement dated 15 December 2003, a subsidiary of the Group entered into an agreement with two PRC domestic companies for the provision of ongoing financial advisory services in sourcing IT related development projects or other acquisition projects. As at 31 December 2005, prepayment for investment of HK\$19,711,000 (2004: HK\$19,336,000) was placed with the PRC domestic company. Service fee calculated at 20% of any investment returns received is payable to the PRC domestic company at the end of the service term.
- (b) On 25 November 2004, the Group entered into a memorandum of understanding with an independent third party to acquire 51% equity interest in certain PRC domestic companies. As at 31 December 2005, prepayment for investment of HK\$12,000,000 (2004: HK\$12,000,000) was placed with this independent third party as a deposit for the acquisition.
- (c) As at 31 December 2005, deposit of HK\$57,690,000 (2004: HK\$Nil) was paid to one of a shareholder of an associate and an amount of HK\$51,921,000 (2004: HK\$Nil) was placed in PRC domestic companies for further investment in an associate (see note 33(b)).

## 21. INVENTORIES

	<b>The Group</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Raw materials	–	18,568
Work in progress	–	225
Finished goods	<b>1,153</b>	8,921
	<b>1,153</b>	27,714

## 22. TRADE AND OTHER RECEIVABLES

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

Note:

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

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

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

# Notes to the Financial Statements

For the year ended 31 December 2005

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

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

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

## 23. SYSTEMS INTEGRATION CONTRACTS

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

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

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

## 24. CASH AND CASH EQUIVALENTS

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

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

## 25. TRADE AND OTHER PAYABLES

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

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

Note:

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

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

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

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

# Notes to the Financial Statements

For the year ended 31 December 2005

## 26. LOANS AND OVERDRAFT

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

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

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

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

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

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

- (i) Mortgages over the Group's investment properties with an aggregate carrying value of HK\$8,350,000 at 31 December 2005 (2004: HK\$6,300,000).
- (ii) A charge over the Group's fixed deposits with banks of HK\$17,516,000 (2004: HK\$17,516,000) at 31 December 2005.
- (iii) Corporate guarantee given by the Company.

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



## 27. EMPLOYEE RETIREMENT BENEFITS

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

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

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

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

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

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

## 28. EQUITY SETTLED SHARE-BASED TRANSACTIONS

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

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

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

# Notes to the Financial Statements

For the year ended 31 December 2005

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

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

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

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

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

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

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

## 29. INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the balance sheet represents:

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

# Notes to the Financial Statements

For the year ended 31 December 2005

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

(b) Deferred tax assets and liabilities recognised:

The Group

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

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

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

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

### 30. CAPITAL AND RESERVES

#### (a) Share Capital

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

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

#### (b) The Company – Reserves

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

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

# Notes to the Financial Statements

For the year ended 31 December 2005

## 31. FINANCIAL INSTRUMENTS

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

### (a) Credit risk

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

### (b) Liquidity risk

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

### (c) Interest rate risk

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

## 32. DISPOSAL AND ACQUISITION OF SUBSIDIARIES

### (a) Disposals of subsidiaries

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

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

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

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

# Notes to the Financial Statements

For the year ended 31 December 2005

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

### (b) Acquisitions of subsidiaries

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



### 33. COMMITMENTS UNDER OPERATING LEASES

#### (a) Commitments under operating leases

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

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

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

#### (b) Capital commitments

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

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

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

# Notes to the Financial Statements

For the year ended 31 December 2005

## 34. CONTINGENT LIABILITIES

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

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

Note:

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

## 35. MATERIAL RELATED PARTY TRANSACTIONS

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

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



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

Notes:

- (i) The amount represented purchase of a system integration contract from an associate at an agreed contract price.
- (ii) The amount represented purchase of automatic teller machines on behalf of an associate.
- (iii) Loans to associates were unsecured, bearing interest ranged from 1.6% to 2.7% per annum and were settled during the year.
- (iv) These represented rental income received from an associate. Certain directors of the Company are also directors of the associate.

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

### 36. POST BALANCE SHEET EVENTS

- (i) On 20 March 2006, share options entitling the holders thereof to subscribe for an aggregate of 44,060,000 shares were granted to employees of the Company. The fair value of the options was not determined yet as the management considers there is no financial impact in the current financial year.
- (ii) On 27 March 2006, the Company has raised approximately HK\$51 million, net of expenses, by issuing 528,644,000 Rights Shares at the Subscription price of HK\$0.10 per Rights Shares on the basis of one Rights Share for every existing Share in issue on the Record Date. Details of the Rights Issue please refer to the Company prospectus dated 7 March 2006.

### 37. COMPARATIVE FIGURES

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

### 38. PARENT COMPANY

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

# Notes to the Financial Statements

For the year ended 31 December 2005

## 39. ACCOUNTING ESTIMATES AND JUDGEMENTS

### (a) Key sources of estimation uncertainty

#### *Systems integration contracts*

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

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

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

#### *Depreciation of property, plant and equipment*

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

#### *Amortisation of intangible assets*

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

#### *Estimated impairment of intangible assets (excluding goodwill)*

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

#### *Allowance for bad and doubtful debts*

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

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

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

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

# Notes to the Financial Statements

For the year ended 31 December 2005

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

*(Continued)*

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

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