Management Discussion and Analysis

BUSINESS REVIEW

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

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

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

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

Software Development and Systems Integration Services

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

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SJTU Sunway

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

PROSPECTS

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

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

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

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

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

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MATERIAL INVESTMENTS AND DISPOSALS IN SUBSIDIARIES AND ASSOCIATES

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

LIQUIDITY AND FINANCIAL RESOURCES

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

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

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

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

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

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

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CONTINGENT LIABILITIES

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

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

EXCHANGE RISK

As the Group's operations are principally in the PRC and all assets and liabilities are denominated either in Renminbi, HK dollars or US dollars, the Directors believe that the operations of the Group are not subject to significant exchange risk.

EMPLOYEES, TRAINING AND REMUNERATION POLICIES

As at 31 December 2006, the Group had approximately 549 (2005: 497) employees of which approximately 202 (2005: 168) were technicians. Employees' costs (including directors' emoluments) amounted to approximately HK$26.7 million (2005: HK$25.4 million) for the year. The Group ensures that the pay levels of its employees are competitive and employees are rewarded on a performance related basis.

The Directors believe that experienced staff, in particular its technicians, are the most valuable assets of the Group. Training programme is provided to technicians, especially new recruits, to ensure their technical proficiency.

The Company operates a share option scheme (the "Scheme") whereby the Board may at their absolute discretion, grant options to employees and Executive Directors of the Company and any of its subsidiaries to subscribe for shares in the Company. The subscription price, exercisable period and the maximum number of options to be granted are determined in accordance with the prescribed terms of the Scheme. During the year 64,060,000 share options were granted to directors, executives, employees and consultants for their contribution to the Group.