



SINO STRIDE

# SINO STRIDE

## Technology (Holdings) Limited

(INCORPORATED IN THE CAYMAN ISLANDS WITH LIMITED LIABILITY)

中程科技集團有限公司

(Stock Code: 8177)

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (THE "GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")**

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

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

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

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

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

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# Corporate Information

## REGISTERED OFFICE

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

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1208  
12th Floor, Harcourt House  
39 Gloucester Road  
Wan Chai  
Hong Kong

## PRINCIPAL PLACE OF BUSINESS IN THE PRC

Building G  
Zhejiang University  
National Science Park  
No. 525 Xi Xi Road  
Hangzhou  
The PRC  
PC: 310013

## COMPANY SECRETARY

Mr. Chow Shu Wing CPA

## QUALIFIED ACCOUNTANT

Mr. Chow Shu Wing CPA

## COMPLIANCE OFFICER

Mr. Chau Chit

## AUDIT COMMITTEE

Mr. Cai Xiao Fu  
Mr. Shi Jian Jun  
Mr. Li Xiaoqiang, Richard

## AUTHORISED REPRESENTATIVES

Mr. Chau Chit  
Mr. Wong Wai Tin

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

**Butterfield Fund Services (Cayman) Limited**  
Butterfield House  
Fort Street  
P. O. Box 705  
George Town  
Grand Cayman  
British West Indies

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

**Abacus Share Registrars Limited**  
26/F Tesbury Centre  
28 Queen's Road East  
Wanchai  
Hong Kong

## PRINCIPAL BANKERS

**The Hongkong and Shanghai Banking Corporation Limited**  
Tai Yau Street Branch  
26-28 Tai Yau Street  
San Po Kong  
Kowloon  
Hong Kong

**Hangzhou City Commerce Bank**  
Baochu Branch  
No. 87  
Baochu Road  
Hangzhou City  
The PRC

**Shanghai Pudong Development Bank**  
Wenhui Sub-branch  
Hangzhou Branch  
No. 98 Moganshan Road  
Hangzhou City  
The PRC

**China Construction Bank**  
Hangzhou Branch  
Hi-tech Banking Office  
No. 250  
Wensan Road  
Hangzhou City  
The PRC

## AUDITORS

**Ernst & Young**  
Certified Public Accountants  
18/F Two International Finance Centre  
8 Finance Street  
Central  
Hong Kong

# Chairman Statement

On behalf of the Board of Directors (the "Board"), I am pleased to present the annual report of Sino Stride Technology (Holdings) Limited (the "Company") together with its subsidiaries (the "Group") for the year ended 31 December 2005.

## FINANCIAL PERFORMANCE

The Group's turnover in year 2005 decreased 9% to RMB266 million in comparison to RMB293 million in year 2004. The Group's profit attributable to equity holders of the parent amounted to RMB9.3 million in year 2005 compared to RMB22.9 million in year 2004, representing a decrease of 59.4%.

## BUSINESS REVIEW

During the year under review, the Group has made a number of achievements in the area of business development. In February 2005, the Group's Sino Stride Property Management System Application Software V1.0 ("Software V1.0") was passed the tests conducted by 浙江省軟件測評中心 and Software V1.0 has been registered in 國家版權局 as the Group's intellectual property. On 1 March 2005, Sino Stride Technology Co Limited ("Sino Stride Technology"), one of the subsidiaries of the Company located in Hangzhou, the PRC, emerged 1st ranking of PRC intelligent building system integration solution providers according to the research carried out 中國建築業協會智能建築專業委員會 (Intelligent Building Expert Network of China Architectural Association). In March 2005, Sino Stride Technology was awarded 電子工程專業承包企業二級資質 from 浙江省建設廳 (Zhejiang Provincial Department of Construction). With such qualification, Sino Stride Technology is able to bid for, including but not limited to any electronic system projects which are under RMB25 million. Sino Stride Technology was also awarded as 2004 浙江省軟件業十強企業 (2004 Zhejiang Province Top Ten Software Enterprise) by Zhejiang Provincial Department of Information Industry, 浙江省守合同重信用AA級 and emerged "2004-2005 年度華東醫療行業十佳系統集成商" and "2004-2005 年度華東智能建築十佳系統集成商" by 電腦商報 in March 2005 and April 2005, respectively. On 10 May 2005, Sino Stride Technology was awarded "2005 年中國軟件產業最大規模前100家企業" by Zhejiang Provincial Department of Information Industry. On August 2005, Sino Stride Technology was designated as one of the "2004 年度國家規劃布局內重點軟件企業" (Outstanding Software enterprise defined by the National Development Bureau of the PRC of year 2004) and is subjected to corporate income tax of the PRC at a rate of 10%, being preferential tax rate applicable to the outstanding software enterprise. Chongqing Sino Stride Technology Company Limited ("Chongqing Sino Stride"), one of the subsidiaries of the Company, was awarded 重慶市衛星設備安裝許可單位, 建築智能化三級施工資質 on March 2005 and December 2005, respectively. Chongqing Sino Stride was also granted tax holiday by relevant tax authorities for which corporate income tax is exempted for the first two profit making years (after deducting losses incurred in previous years) and is entitled to a 50% tax reduction for the succeeding three years in accordance with the relevant tax laws in the PRC.

The Board will continue follow the Group's strategic direction towards specialist, excellence and coverage of whole PRC market. The Group targeted to enhance overall competitiveness through applying intelligent technology to traditional area like traffic controls management and medical services, developing self-proprietary software technology and products with the brand name of "Sino Stride", as well as exploring opportunities to cooperate with reputable enterprises in Singapore, Korea, Europe and America.



# Chairman Statement

## FINANCIAL PERFORMANCE (cont'd)

During the year ended 31 December 2005, the Group successfully bid several large intelligent building system and value added service projects such as 浙江大學房地產管理部 (The Property Management Department of Zhejiang University), 浙江省能源集團有限公司, 浙江省煙草公司平陽縣公司, 福建省民主黨派工商聯合聯辦公大樓, 麗水公安局設備採購, 溫州楊府山小區智能化, 河北省疾病預防控制中心實驗樓弱電系統, 嘉興時代廣場弱電系統, 寧波華泰劍橋三期智能化系統, 浙江大學塘北花苑經濟適用房工程, 福建省民主黨派工商聯合聯辦公樓弱電工程, 福建省電力調度通信中心智能化工程, 山東移動通信樞紐交換中心弱電系統工程, 北京市通信公司綜合業務樓工程弱電系統. 溫州市南甌明園小區智能化系統工程, 廈門嘉庚體育館弱電系統建設工程施工合同, 蘇州市地方稅務局, 新建雲南省委辦公大樓樓宇自控等系統工程設計; 滕州市北辛商務中心主樓建築智能工程, 杭州市商業銀行智能化弱電工程 and 中國石油大廈智能化系統工程.

As for the provision of intelligent traffic system ("ITS"), the Group successfully bid for the project of 瑞安市公安局 (智能交通). Besides, the project of 縉雲交通警察電子警察系統 (Jin Yu Electronic Traffic Police System) was completed during the year under review. On 30 June 2005, the Group's "安銳"牌 ARAY 1000 型公路車輛智能監測記錄系統 (the "System") was passed the test carried out by 公安部交通安全產品質量監督檢測中心.

As at 31 December 2004, the Group, through Sino Stride Technology, held 95% equity interest of 杭州中程萬京光電科技有限公司 (Hangzhou Sino Stride Megain Optic-Electronic Technology Company Limited ("Megain")) (formerly known as Hangzhou Sino Stride Xingda Computer System Co., Ltd.), a PRC company which principally engaged in the provision of system value-added service solution and development. On 12 October 2005, Sino Stride Technology further invested RMB2,000,000 in Megain in order to extend the Group's business scope to the development and sales of Light Emitted Diode and related projects. As at 31 December 2005, Sino Stride Technology held 97.5% equity interest of Megain. The business of the development and sales of Light Emitted Diode and related projects was still in the development stage as at 31 December 2005 and the Directors believe that such further investment in Megain would enhance the Group to diversify the Group's business in the future.

As stated in 2004 annual report, Sino Stride Technology entered into a joint venture agreement (the "JV Agreement") dated 21 December 2004 with Singapore Technologies Kinetics Limited ("ST Kinetics"), a fellow subsidiary of the Company's substantial shareholder, Singapore Technologies Electronics Limited ("ST Electronics"), and Zhejiang University Logistics and Investment Holdings Company, for the establishment of a Sino-foreign equity joint-venture (the "JV"), namely 浙江星時達汽車專業維護有限公司 (STAR (Zhejiang) Automotive Center Co., Ltd). According to the JV Agreement, the Group will contribute RMB3,750,000 in cash, representing 25% of the registered capital of the JV. For the year ended 31 December 2005, the Group contributed RMB1,875,000 in the JV, representing approximately 12.5% of the registered capital of the JV. The JV is principally engaged in the provision of automotives services. For the year ended 31 December 2005, the JV was still at its preliminary set-up stage, with its potential yet to be realised.

# Chairman Statement

## FINANCIAL PERFORMANCE (cont'd)

As far as the prospect of new business/projects of the Group is concerned, the large intelligent building system and value added service solutions projects successfully bid by the Group during the year 31 December 2005 have been performed in accordance with the respective contract terms and expected progresses.

## SHARES TRANSFER AMONG SUBSTANTIAL SHAREHOLDERS

On 23 February 2005, Mega Start Limited ("Mega Start") and Singapore Technologies Electronics Limited ("ST Electronics"), substantial shareholders of the Company, entered into a Share Purchase Agreement in which ST Electronics acquired 88,260,000, approximately 8.12% shares of the issued share capital of the Company from Mega Start at a consideration of HK\$0.315 per shares. Upon the completion of the transaction, ST Electronics's shareholding in the Company increased from approximately 19.88% to 28% of the issued share capital of the Company while Mega Start's shareholding interest in the Company decreased from approximately 49.71% to 41.59% of the issued share capital of the Company.

## SHARE EXCHANGE OFFER BY A WHOLLY-OWNED SUBSIDIARY OF SHOUGANG CONCORD TECHNOLOGY HOLDINGS LIMITED

On 16 December 2005, Shougang Concord Technology Holdings Limited ("SCT"), a company incorporated in Hong Kong whose securities are listed on the Main Board of the Stock Exchange, approached the Board of the Company stating its intention to make a voluntary conditional share exchange offer (the "Share Exchange Offer") to acquire all the issued shares of the Company.

On 23 December 2005, SCT issued an announcement jointly with the Company in respect of, amongst other things, a voluntary conditional share exchange offer by Made Connection Limited (the "Offeror"), a wholly-owned subsidiary of SCT, to acquire all the issued shares of the Company at two new shares of SCT for every three shares of the Company. On the same day, Mega Start and Mr. Wong Wai Tin have tendered 451,740,000 issued shares and 2,500,000 issued shares, respectively, of the Company for acceptance of the Share Exchange Offer.

Subsequent to the year end date on 20 March 2006, the Share Exchange Offer was duly approved by the SCT shareholders in an extraordinary general meeting. On the same day, valid acceptances have been received in respect of 758,819,000 ordinary shares, representing approximately 69.85% of issued share capital, of the Company, under the Share Exchange Offer. The Offeror announced that the Share Exchange Offer is declared unconditional on 20 March 2006. Accordingly, the Offeror will be interested in 758,819,000 issued shares capital of the Company and will become the controlling shareholder of the Company once the legal title of such 758,819,000 shares are properly transferred to the Offeror. As at the date of this report, the legal titles of such 758,819,000 shares accepted under the Share Exchange Offer as at 20 March 2006 have yet to be legally transferred to the Offeror. The Company will become a subsidiary of the Offeror once the legal titles of such 758,819,000 shares are legally transferred to the Offeror. Accordingly, SCT will become the substantial shareholder of the Company.

## Chairman Statement

### SHARE EXCHANGE OFFER BY A WHOLLY-OWNED SUBSIDIARY OF SHOUGANG CONCORD TECHNOLOGY HOLDINGS LIMITED (cont'd)

On the basis, and after accounting for the shareholding interests of ST Electronics of approximately 28% of the issued share capital of the Company which has not indicated its willingness to accept the Share Exchange Offer up to the date of this report, the public float of SST is estimated to be approximately 2.15% as and when the legal titles of such 758,819,000 shares accepted under the Share Exchange Offer as at 20 March 2006 are properly and legally transferred to the Offeror.

As disclosed in the Offer Document issued by the Offeror on 20 February 2006, the Offeror intends to effect the compulsory acquisition of the Company's shares in the event that the Offeror is permitted to do so under the Companies Law and the Takeover Code, and to apply for the withdrawal of listing of the Company shares on GEM. The Company may apply for suspension in the trading of the Company's shares from or about the date on which the Share Exchange Offer has been accepted by the shareholders of not less than 90% of the disinterested Company's shares until the withdrawal of listing. If SCT and the Offeror cannot acquire the requisite percentage of the Company shareholding to effect the compulsory acquisition, SCT and the Offeror will use its best endeavours to maintain the listing of the Company on GEM and will undertake to the Stock Exchange to use its best endeavours following the closing of the Offer to ensure that not less than 25% of the Company's shares will be held by the public by, inter alia, the placement of existing Company shares or the issue of new Company shares as soon as possible in compliance with the GEM Listing Rules.

Pursuant to the Offer Document issued by the Offeror and SCT on 20 February 2006, the Share Exchange Offer will remain open till the final closing date on 3 April 2006.

The Board believes that with the extensive commercial network support from the Offeror and SCT, it will enhance the Group's business expansion and earnings enhancement in future.

### PROSPECT

Looking forward, the Group's development in intelligent building system and value added service market will become prosperous with the PRC's continuous economic growth, the accession of the PRC to the WTO, projects of 2008 Beijing Summer Olympic Games and greater demand for intelligent buildings. The Group will continuously utilize its greatest endeavor in bidding projects to expand market coverage. Leverage on the Group's strong commitment in research and development especially its co-operation with Zhejiang University in relation to research and development to cater for the changing needs of customers, the Group will utilize its greatest endeavor to increase shareholders' value and consistently achieve solid results in the year ahead.



# Chairman Statement

## APPRECIATION

On behalf of the Board, I would like to extend gratitude to our suppliers, shareholders, investors and customers for their continued encouragement and support. I also take this opportunity to express my sincere thanks to our employees for their efforts and contribution to the Group.

**Wong Wai Tin**

*Chairman*

28 March 2006

# Management Discussion and Analysis

## FINANCIAL REVIEW

### *Overview*

For the year ended 31 December 2005, the Group recorded a turnover of approximately RMB266 million, representing a decrease of approximately 9% over the year ended 31 December 2004. The turnover of the Group for the year ended 31 December 2005 was primarily derived from the provision of system integration solution of approximately RMB218 million, computer network system integration solution of approximately RMB47 million and system software of approximately RMB1 million, respectively. The decrease in the turnover of the Group for the year ended 31 December 2005 was mainly due to the decrease in turnover attributed by computer network system integration solution.

During the year ended 31 December 2005, the Group recorded a gross profit of approximately RMB54 million, representing a profit margin of approximately of 20.4% as compared to the gross profit margin of 23% for the year ended 31 December 2004. The decrease in gross profit margin was mainly attributable to fierce competition amongst competitors in the market and thus leading to price cutting of projects.

The selling and distribution expense increased from RMB11 million for the year ended 31 December 2004 to RMB14.5 million for the year ended 31 December 2005 mainly due to the Group developed the intelligent building system and value added service projects markets and strengthened coverage outside Zhejiang Province which included but not limited to Yuennam, Chongqing, Beijing, and Jiangzu during the year.

Administrative costs for the year ended 31 December 2005 remain stable at RMB23 million (2004: RMB23 million).

Other operating costs of RMB5.3 million for the year ended 31 December 2005 mainly represents impairment of intangible assets of RMB5.1 million

The Group's net profit from ordinary activities attributable to ordinary equity holders of the parent for the year ended 31 December 2005 amounted to approximately RMB9.3 million, representing a decrease of approximately 59.4% over the year ended 31 December 2004.

# Management Discussion and Analysis

## *Liquidity, financial resources and debt ratio*

The Group generally finances its operations with internally generated financial resources, short-term bank loans and part of the proceeds from the placing of the Company's shares on 29 July 2002. As at 31 December 2005, the Group had outstanding short-term bank borrowings of RMB88 million (2004: RMB68 million) of which RMB9 million (2004: Nil) are secured by pledged cash deposit by the Group and pledged properties by a related company. The outstanding bank borrowing of RMB69 million (2004: RMB68 million) are unsecured and guaranteed by the Company, Sino Stride Technology or Hangzhou Sino Stride Megain Optic-Electronic Technology Company Limited ("Megain") (formerly known as Hangzhou Sino Stride Xingda Computer System Co., Ltd.), the subsidiaries of the Company. The rest of the outstanding bank borrowing of RMB10 million was cross guaranteed by an independent third party. The Group pledged cash deposit of RMB19 million to financial institutions to secure bank borrowings, the issuance of letters of credits and notes payable as at 31 December 2005.

The directors of the Company advised that normally there is no apparent seasonality of borrowing requirements for the Group and the maturity profile of the Group's borrowings as at 31 December 2005 are wholly repayable within one year.

As at 31 December 2005, the Group's cash and cash equivalents amounted to approximately RMB25 million (2004: RMB58 million).

The Group adopts conservative treasury policies in cash and financial management. To achieve better risk control and minimize cost of funds, the Group's treasury activities are centralized. Cash is generally placed on deposits, mostly denominated in Renminbi and Hong Kong dollars. The Group's liquidity and financing arrangements are reviewed regularly.

## *Gearing ratio*

The Group expresses its gearing ratio as a percentage of bank borrowings over total assets. As at 31 December 2005, the Group's gearing ratio was 21.7% (2004: 17%).

## *Significant investments*

Save as those disclosed in the paragraph "OPERATIONS REVIEW", the Group did not hold any significant investment as at 31 December 2005.

# Management Discussion and Analysis

## *Material acquisitions and disposals of subsidiaries and affiliated companies*

Save as those disclosed in the paragraph "OPERATIONS REVIEW", the Group did not make any material acquisitions or disposals of subsidiaries or affiliated companies during the year ended 31 December 2005.

## *Exchange rate risk*

The Group's exposure to market risk for changes in foreign currency exchange rates relates primarily to the Group's operation in Hong Kong.

The Group has foreign currency risk as certain of its payables to suppliers, trade receivables and bank borrowings are denominated in foreign currencies, principally United States dollars. Fluctuations in exchange rates of Hong Kong Dollars and Renminbi against foreign currencies could affect the Group's results of operation. No financial instruments are used by the Group for hedging purposes. No foreign currency net investments of the Group are hedged by currency borrowings and other hedging instruments.

## *Contingent liabilities*

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Guarantees given to banks in connection with facilities granted to:				
Subsidiaries	–	–	<b>38,850</b>	11,000
Third party company	<b>10,000</b>	–	–	–
	<b>10,000</b>	–	<b>38,850</b>	11,000

As at 31 December 2005, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately RMB22,659,000 (2004: RMB11,000,000), and the banking facility guaranteed by the Group to a third party company was utilised to the extent of approximately RMB10,000,000 (2004: Nil).

# Management Discussion and Analysis

## *Segmental information*

Details of information relating to different geographical segments of the Group have been set out in Note 3 under “Notes to the Audited Financial Statements”.

## *Charge on assets*

Other than the Group's bank deposits of RMB19 million which had been pledged to financial institutions to secure bank borrowings, the issuance of letter of credits and notes payable, as at 31 December 2005, the Group did not have any charge on its assets.

## *Employees and remuneration policies*

As at 31 December 2005, the Group had 378 (2004: 351) employees.

The Board believes that the quality of its employees is the most important factor in sustaining the Group's growth and enhancing its profitability. Employees are remunerated according to their performance and working experience. In addition to basic salaries and retirement scheme, staff benefits include performance bonus. No specific training scheme is adopted by the Group.

As at 31 December 2005, the Group has no options outstanding as all outstanding share options were cancelled by the Group on 11 November 2005 with consent from the share option holders and pursuant to a board resolution.

## *Future plans for material investments or capital assets*

The Group intends to pursue strategic acquisitions of and/or investments in system integration business and relevant system software development business to strengthen or complement the Group's existing business. Up to the date of this report, no such acquisitions and/or investments targets other than those mentioned in the paragraph “OPERATIONS REVIEW” have been located by the Group.



# Management Discussion and Analysis

## OPERATIONS REVIEW

During the year under review, the Group has made a number of achievements in the area of business development. In February 2005, the Group's Sino Stride Property Management System Application Software V1.0 ("Software V1.0") was passed the tests conducted by 浙江省軟件測評中心 and Software V1.0 has been registered in 國家版權局 as the Group's intellectual property. On 1 March 2005, Sino Stride Technology Co Limited ("Sino Stride Technology"), one of the subsidiaries of the Company located in Hangzhou, the PRC, emerged 1st ranking of PRC intelligent building system integration solution providers according to the research carried out 中國建築業協會智能建築專業委員會 (Intelligent Building Expert Network of China Architectural Association). In March 2005, Sino Stride Technology was awarded 電子工程專業承包企業二級資質 from 浙江省建設廳 (Zhejiang Provincial Department of Construction). With such qualification, Sino Stride Technology is able to bid for, including but not limited to any electronic system projects which are under RMB25 million. Sino Stride Technology was also awarded as 2004 浙江省軟件業十強企業 (2004 Zhejiang Province Top Ten Software Enterprise) by Zhejiang Provincial Department of Information Industry, 浙江省守合同重信用AA級 and emerged 「2004-2005 年度華東醫療行業十佳系統集成商」 and 「2004-2005 年度華東智能建築十佳系統集成商」 by 電腦商報 in March 2005 and April 2005, respectively. On 10 May 2005, Sino Stride Technology was awarded 「2005年中國軟件產業最大規模前100家企業」 by Zhejiang Provincial Department of Information Industry. On August 2005, Sino Stride Technology was designated as one of the 「2004年度國家規劃布局內重點軟件企業」 (Outstanding Software enterprise defined by the National Development Bureau of the PRC of year 2004) and is subjected to corporate income tax of the PRC at a rate of 10%, being preferential tax rate applicable to the outstanding software enterprise. Chongqing Sino Stride Technology Company Limited ("Chongqing Sino Stride"), one of the subsidiaries of the Company, was awarded 重慶市衛星設備安裝許可單位·建築智能化三級施工資質 on March 2005 and December 2005, respectively. Chongqing Sino Stride was also granted tax holiday by relevant tax authorities for which corporate income tax is exempted for the first two profit making years (after deducting losses incurred in previous years) and is entitled to a 50% tax reduction for the succeeding three years in accordance with the relevant tax laws in the PRC.

During the year ended 31 December 2005, the Group successfully bided several large intelligent building system and value added service projects such as 浙江大學房地產管理部 (The Property Management Department of Zhejiang University), 浙江省能源集團有限公司, 浙江省烟草公司平陽縣公司, 福建省民主黨派工商聯合聯辦公大樓, 麗水公安局設備採購, 溫州楊府山小區智能化, 河北省疾病預防控制中心實驗樓弱電系統, 嘉興時代廣場弱電系統, 寧波華泰劍橋三期智能化系統, 浙江大學塘北花苑經濟適用房工程, 福建省民主黨派工商聯合聯辦公樓弱電工程, 福建省電力調度通信中心智能化工程, 山東移動通信樞紐交換中心弱電系統工程, 北京市通信公司綜合業務樓工程弱電系統, 溫州市南甌明園小區智能化系統工程, 廈門嘉庚體育館弱電系統建設工程施工合同, 蘇州市地方稅務局, 新建雲南省委辦公大樓樓宇自控等系統工程設計; 滕州市北辛商務中心主樓建築智能工程, 杭州市商業銀行智能化弱電工程 and 中國石油大廈智能化系統工程。

## Management Discussion and Analysis

As for the provision of intelligent traffic system ("ITS"), the Group successfully bid for the project of 瑞安市公安局(智能交通). Besides, the project of 縉云交通警察電子警察系統 (Jin Yu Electronic Traffic Police System) was completed during the year under review. On 30 June 2005, the Group's 「安銳」牌 ARAY 1000 型公路車輛智能監測記錄系統 (the "System") was passed the test carried out by 公安部交通安全產品質量監督檢測中心.

As at 31 December 2004, the Group, through Sino Stride Technology, held 95% equity interest of 杭州中程萬京光電科技有限公司 (Hangzhou Sino Stride Megain Optic-Electronic Technology Company Limited ("Megain")) (formerly known as Hangzhou Sino Stride Xingda Computer System Co., Ltd.), a PRC company which principally engaged in the provision of system value-added service solution and development. On 12 October 2005, Sino Stride Technology further invested RMB2,000,000 in Megain in order to extend the Group's business scope to the development and sales of Light Emitted Diode and related projects. As at 31 December 2005, Sino Stride Technology held 97.5% equity interest of Megain. The business of the development and sales of Light Emitted Diode and related projects was still in the development stage as at 31 December 2005 and the Directors believe that such further investment in Megain would enhance the Group to diversify the Group's business in the future.

As stated in 2004 annual report, Sino Stride Technology entered into a joint venture agreement (the "JV Agreement") dated 21 December 2004 with Singapore Technologies Kinetics Limited ("ST Kinetics"), a fellow subsidiary of the Company's substantial shareholder, Singapore Technologies Electronics Limited ("ST Electronics"), and Zhejiang University Logistics and Investment Holdings Company, for the establishment of a Sino-foreign equity joint-venture (the "JV"), namely 浙江星時達汽車專業維護有限公司 (STAR (Zhejiang) Automotive Center Co., Ltd). According to the JV Agreement, the Group will contribute RMB3,750,000 in cash, representing 25% of the registered capital of the JV. For the year ended 31 December 2005, the Group contributed RMB1,875,000 in the JV, representing approximately 12.5% of the registered capital the JV. The JV is principally engaged in the provision of automotives services. For the year ended 31 December 2005, the JV was still at its preliminary set-up stage, with its potential yet to be realised.

As far as the prospect of new business/projects of the Group is concerned, the large intelligent building system and value added service solutions projects successfully bid by the Group during the year 31 December 2005 have been performed in accordance with the respective contract terms and expected progresses.

# Management Discussion and Analysis

## SHARES TRANSFER AMONG SUBSTANTIAL SHAREHOLDERS

On 23 February 2005, Mega Start Limited ("Mega Start") and Singapore Technologies Electronics Limited ("ST Electronics"), substantial shareholders of the Company, entered into a Share Purchase Agreement in which ST Electronics acquired 88,260,000, approximately 8.12% shares of the issued share capital of the Company from Mega Start at a consideration of HK\$0.315 per shares. Upon the completion of the transaction, ST Electronics's shareholding in the Company increased from approximately 19.88% to 28% of the issued share capital of the Company while Mega Start's shareholding interest in the Company decreased from approximately 49.71% to 41.59% of the issued share capital of the Company.

## SHARE EXCHANGE OFFER BY A WHOLLY-OWNED SUBSIDIARY OF SHOUGANG CONCORD TECHNOLOGY HOLDINGS LIMITED

On 16 December 2005, Shougang Concord Technology Holdings Limited ("SCT"), a company incorporated in Hong Kong whose securities are listed on the Main Board of the Stock Exchange, approached the Board of the Company stating its intention to make a voluntary conditional share exchange offer (the "Share Exchange Offer") to acquire all the issued shares of the Company.

On 23 December 2005, SCT issued an announcement jointly with the Company in respect of, amongst other things, a voluntary conditional share exchange offer by Made Connection Limited (the "Offeror"), a wholly-owned subsidiary of SCT, to acquire all the issued shares of the Company at two new shares of SCT for every three shares of the Company. On the same day, Mega Start and Mr. Wong Wai Tin tendered 451,740,000 issued shares and 2,500,000 issued shares, respectively, of the Company for acceptance of the Share Exchange Offer.

Subsequent to the year end date on 20 March 2006, valid acceptances have been received in respect of 758,819,000 ordinary shares, representing approximately 69.85% of issued share capital, of the Company, under the Share Exchange Offer. The Offeror announced that the Share Exchange Offer is declared unconditional on 20 March 2006. Accordingly, the Offeror will be interested in 758,819,000 issued shares capital of the Company and will become the controlling shareholder of the Company once the legal title of such 758,819,000 shares are properly transferred to the Offeror. As at the date of this report, the legal titles of such 758,819,000 shares accepted under the Share Exchange Offer as at 20 March 2006 have yet to be legally transferred to the Offeror. The Company will become a subsidiary of the Offeror once the legal titles of such 758,819,000 shares are legally transferred to the Offeror. Accordingly, SCT will become the substantial shareholder of the Company.

On the basis, and after accounting for the shareholding interests of ST Electronics of approximately 28% of the issued share capital of the Company which has not indicated its willingness to accept the Share Exchange Offer up to the date of this report, the public float of SST is estimated to be approximately 2.15% as and when the legal titles of such 758,819,000 shares accepted under the Share Exchange Offer as at 20 March 2006 are properly and legally transferred to the Offeror.

## Management Discussion and Analysis

As disclosed in the Offer Document issued by the Offeror on 20 February 2006, the Offeror intends to effect the compulsory acquisition of the Company's shares in the event that the Offeror is permitted to do so under the Companies Law and the Takeover Code, and to apply for the withdrawal of listing of the Company shares on GEM. The Company may apply for suspension in the trading of the Company's shares from or about the date on which the Share Exchange Offer has been accepted by the shareholders of not less than 90% of the disinterested Company's shares until the withdrawal of listing. If SCT and the Offeror cannot acquire the requisite percentage of the Company shareholding to effect the compulsory acquisition, SCT and the Offeror will use its best endeavours to maintain the listing of the Company on GEM and will undertake to the Stock Exchange to use its best endeavours following the closing of the Offer to ensure that not less than 25% of the Company's shares will be held by the public by, inter alia, the placement of existing Company shares or the issue of new Company shares as soon as possible in compliance with the GEM Listing Rules.

Pursuant to the Offer Document issued by the Offeror and SCT on 20 February 2006, the Share Exchange Offer will remain open till the final closing date on 3 April 2006.

### PROSPECTS

In light of the 2008 Beijing Summer Olympic Games, Expo 2010 Shanghai, PRC's entry to the WTO and PRC's continuous economic growth, the Directors believe that the demand for system integration solutions and value added service solutions will continue to grow with the prosperity of PRC property markets, increasing proportion of investments in intelligence buildings and necessity for PRC information network system to be in line with international standards. Moreover, the demand of traffic controls management system will increase with the surge in the number of motor vehicles in PRC and the implementation of the proposed new traffic controls regulations in near future. As the application of intelligence technologies in building, traffic and other relevant sectors in PRC is still at early stage, there is a growth potential for the Group's business.

The Ministry of Construction ("MOC") and the MII of the PRC promulgated market entry requirements and qualification verification process for system integration solutions and value added service solution providers respectively, new competitors without recognition are difficult to accumulate relevant experience and technology to fulfill the market entry requirements to enter this regulated market. Leveraging on the Group's compliance with the market entry requirements, grade A standard in system integration solutions and value added service solution, the prominent market position recognised by awards such as "Top Ten Software Enterprise" of Zhejiang Province, and "Outstanding Software Enterprise of Year 2005" defined by the National Development Bureau of the PRC, the Group will continue to increase its marketing efforts, expand its market coverage to other provinces in PRC.

## Management Discussion and Analysis

In respect of the Share Exchange Offer, the Offeror intends to effect the compulsory acquisition of the Company's shares in the event that the Offeror is permitted to do so under the Companies Law and the Takeover Code, and to apply for the withdrawal of listing of the Company shares on GEM. The Company may apply for suspension in the trading of the Company's shares from or about the date on which the Share Exchange Offer has been accepted by the shareholders of not less than 90% of the disinterested Company's shares until the withdrawal of listing. If SCT and the Offeror cannot acquire the requisite percentage of the Company shareholding to effect the compulsory acquisition, SCT and the Offeror will use its best endeavours to maintain the listing of the Company on GEM and will undertake to the Stock Exchange to use its best endeavours following the closing of the Offer to ensure that not less than 25% of the Company's shares will be held by the public by, inter alia, the placement of existing Company shares or the issue of new Company shares as soon as possible in compliance with the GEM Listing Rules.

With the extensive commercial network support from the Offeror and SCT, it will enhance the Group's business expansion and earnings enhancement in future.

To further enhance its competitiveness in the industry, the Group also intends to pursue strategic acquisitions of investments in system integration business and software development business in the future if such opportunities arise to strengthen and complement the Group's existing business.



# Profiles of Directors and Senior Management

## DIRECTORS

### *Executive Directors*

**周哲先生(Mr. Chau Chit)**, aged 40, is the chief executive officer of the Company. He was appointed as a Director on 15 January 2002. Mr. Chau is responsible for formulating the overall business planning and the corporate strategies of the Group. Mr. Chau graduated from Zhejiang University and joined a foreign trade company in 1988 and had served as the import and export manager of the electrical and mechanical department. Mr. Chau held the posts of the chief executive officer and chairman of the Company as from 2002 and resigned as post of chairman on 12 August 2005 as complied with the Code of Corporate Governance Practices contained in Appendix 15 of the Growth Enterprise Market Listing Rules.

**王惟天先生(Mr. Wong Wai Tin)**, aged 39, is the chairman of the Company and vice-chairman of Sino Stride Technology. He was appointed as a Director on 22 February 2002. Mr. Wong joined the Group in June 1999 and is responsible for public relations and market planning of the Group. Mr. Wong studied at Hangzhou Radio and TV University majoring in finance in 1987 and worked for a commercial bank in China for five years. Prior to joining the Group, Mr. Wong was the general manager of an industrial and trading company and the manager of import/export division of a trading company. Mr. Wong was appointed as the chairman of the Company on 12 August 2005 as complied with the Code of Corporate Governance Practices contained in Appendix 15 of the Growth Enterprise Market Listing Rules.

**沈越先生(Mr. Shen Yue)**, aged 42, is the director and president of Sino Stride Technology. Mr. Shen was appointed as a Director on 23 June 2004. Mr. Shen graduated from Nanjing University in 1994 with a master degree in Economics. In 1985, Mr. Shen worked in Jiangsu Province Electrical Power Bureau and later worked for 江蘇信盛物貿公司 (Jiangsu Xin Sheng Trading Company) and 江蘇聯合電氣實業有限公司 (Jiangsu United electric industrial Co. Ltd) as director and general manager. In July 2002, Mr. Shen joined the Group as president and executive director of Sino Stride Technology. Mr. Shen is well experienced in management and marketing. Mr. Shen was awarded the 杭州高新區2003年經濟發展突出貢獻獎 (2003 Hangzhou Hi-Tech District Economic Development Contribution Award).

### *Non-executive Directors*

**黃種欽先生(Mr. Ng Chong Khim)**, aged 48, joined the Company as a non-executive Director on 15 March 2002. Mr. Ng is the deputy president of Singapore Technologies Electronics Limited ("ST Electronics"), responsible for corporate services and marketing and is also the president of communication and sensor system group. Mr. Ng holds a bachelor degree in electrical engineering and a master of Science degree in industrial engineering from the National University of Singapore. Mr. Ng also holds a diploma in management studies from the Singapore Institute of Management and has completed the Programme for Management Development at Harvard Business school. Mr. Ng has held senior management positions in Ministry of Defense and several information technology and telecommunications companies before joining ST Electronics in July 1997. Mr. Ng is also a member of several technology advisory committees of a number of academic institutions in Singapore.

## Profiles of Directors and Senior Management

**王偉軍先生(Mr. Wong Wai Kwan)**, aged 38, joined the Company as a non-executive Director on 26 April 2002. Mr. Wong graduated from the City University of Hong Kong with a bachelor degree in accountancy in 1992. Mr. Wong had worked in the Hong Kong and PRC offices of an international accounting firm for more than 7 years and is currently the managing director of SBA Stone Forest Corporate Advisory (Shanghai) Co., Ltd.. Mr. Wong is an associate member of Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

**鄭漢杰先生(Mr. Tay Hun Kiat)**, aged 46, joined the Company as a non-executive Director on 10 June 2005. Mr. Tay holds a Bachelor of Arts (Honours with Double First – Mathematics) from the University of Oxford in United Kingdom. He has also obtained an MSc in Operational Research (Distinction) for the Naval Postgraduate School, United States of America; a Master of Arts from the University of Oxford and a Master of Business Administration from the University of Hull in United Kingdom. Mr. Tay joined ST Electronics in December 1999 as the President of Chartered Electro- Optics and is currently the President of Asia Pacific Operations of ST Electronics. Mr. Tay is also the non-executive Director of BVR Systems (1988) Limited which is listed on the Tel Aviv Stock Exchange.

### *Independent non-executive directors*

**蔡小富先生(Mr. Cai Xiao Fu)**, aged 66, joined the Company as an independent non-executive Director on 26 April 2002. Mr. Cai graduated from the Tsinghua University in Beijing in 1963. Mr. Cai joined Cranfield Institute in the United Kingdom in 1980's as visiting scholar and was engaged in the research of aircraft simulation device and computer simulation. After returning to the PRC, Mr. Cai had served as the factory manager of an aviation factory and as deputy director of Zhejiang Provincial Electronic Industry Bureau. At present, Mr. Cai is the chairman of Zhejiang Software Industry Association and is responsible for the development plan and implementation of Zhejiang's information technology industry including the telecommunications and computer software.

**施建軍先生(Mr. Shi Jian Jun)**, aged 51, hold a doctorate degree in economics. Mr. Shi graduated from Xiamen University in 1984 with a degree in statistics. Mr. Shi joined the Company as an independent non executive Director on 23 June 2004. After graduation, Mr. Shi took up the following positions at Nanjing University: Deputy Head of the Department of Management, Head of International Department, Assistant to the Principal, Chief Accountant and Deputy Principal, consecutively. Mr. Shi has been appointed as the Deputy Vice Principal of Nanjing University since January 2002.

## Profiles of Directors and Senior Management

**李曉強先生(Mr. Li Xiaoqiang, Richard)**, CPA, aged 43, joined the Company as an independent non-executive Director on 15 July 2004. Mr. Li is a member of the Institute of Chartered Accountants of New Zealand and an associate member of Hong Kong Institute of Certified Public Accountants. Mr. Li graduate from 中國華中科技大學 (Huazhong University of Science and Technology) in July 1985. Mr. Li received his Graduate Diploma in Accountancy from Waikato Institute of Technology in New Zealand in November 1997 and later received his Masters degree in Business Administration from Columbia Southern University in the U.S. in October 2002. Mr. Li was previously employed as an engineer by 中國江蘇省電力局計劃處 (the Planning Department of Jiangsu Provincial Electric Power Company) and he was previously a senior associate of PricewaterhouseCoopers in New Zealand from January 1998 to January 2001 and a manager of PricewaterhouseCoopers in Hong Kong from January 2001 to August 2002. He is currently the chief accountant of CLP Guangxi Fangchenggang Power Company Limited.

### SENIOR MANAGEMENT

**段會龍先生(Mr. Duan Hui Long)**, aged 42, is the director and chief engineer of Sino Stride Technology. Mr. Duan graduated from Zhejiang University in 1991 with a doctorate degree. Mr. Duan did post-doctorate research at 浙江大學工業控制研究所 (Research Institute of Industrial Automation Control) and teaching at 浙江大學生物醫學工程與儀器科學學院 (the College of Bio-medical Engineering and Instrument Science) of Zhejiang University. Mr. Duan Joined the Group in February 2001. He is responsible for the technological work and the research and development of new products of Sino Stride Technology.

**王寧先生(Mr. Wang Ning)**, aged 38, is the director and vice-president of Sino Stride Technology. Mr. Wang graduated from Zhejiang University in 1991 with a bachelor degree. Mr. Wang taught for 2 years at 浙江大學光電與科學儀器系 of Zhejiang University. Mr. Wang joined the Group in September 1993 and is responsible for the Group's market planning, management of new products development and corporate development.

**郭耐先生(Mr. Guo Wei)**, aged 42, is the director and vice-president of Sino Stride Technology. Mr. Guo graduated from Zhejiang University in 1991 with a master degree. Mr. Guo taught at 浙江大學光學儀器工程系 (Optical and Electric Engineering and Science Device Department) of Zhejiang University after his graduation and later worked for 浙江大學電腦公司 (Zhejiang University Computer Company) as the deputy general manager. Mr. Guo joined the Group in January 1998 as the deputy general manager of Sino Stride Technology and is responsible for strategic planning and cooperation with multinational enterprises.

## Profiles of Directors and Senior Management

**胡光先生(Mr. Hu Guang)**, aged 39, is the vice-president of Sino Stride Technology. Mr. Hu graduated from Zhejiang University in 1993 with a master degree. Mr. Hu taught at 黑龍江省齊齊哈爾輕工學院 (Heilongjiang Province Qiqihaer Light Industry College). From 1996 to 1999, Mr. Hu worked in a petrochemical company as the general manager of marketing development department. In February 2001, Mr. Hu joined the Group as an assistant to president of Sino Stride Technology being responsible for finance and investment of the Group.

**許東暉(Mr. Xu Dong Hui)**, aged 40, became the vice-president of Sino Stride Technology in March 2004. Mr. Hsu graduated from Zhejiang University in 1991 with a master degree. Mr. Xu later taught at 浙江大學光學儀器工程系 (Optical and Electric Engineering and Science Device Department) of Zhejiang University from 1986 to 1988 and then worked for Zhejiang University Software Development Centre from 1996 to 1999 as deputy general manager.

**楊晗峰先生(Mr. Yang Han Fen)**, aged 37, is the general manager of Xingda Computer. Mr. Yang graduated from Zhejiang University in 1994 with a master degree. Mr. Yang worked for several companies in the computer industry as general manager or deputy general manager. Mr. Yang joined the Group in December 2000 and is responsible for marketing and product development.

**孟惠強先生(Mr. Meng Hui Qiang)**, aged 40, had setup a joint venture named Beijing Sinostride Powerlink Technology Co. Ltd. with Sinostride Technology Co. Ltd. in Sept. 2003. Also he has been appointed as the General Manager of both Beijing Sinostride Powerlink Technology Co. Ltd. and Beijing Subsidiary, Sinostride Technology Co. Ltd. Mr. Meng graduated from Zhejiang University in 1987 with bachelor's degree. After 5 year's working experience in the Information Center of the State Planning Committee, he began his new career in foreign companies. From 1992 to 1995, he was the General Manager of Shanghai Branch, CL Computer Technology (China/Hong Kong) Co. Ltd. From 1995 to 2002, in IBM China, his position was the Channel Manager. From 2002 to 2003, he was the Executive Vice General Manager in EDI Computer Technology Co. Ltd.

# Corporate Governance Report

## CORPORATE GOVERNANCE

Sino Stride Technology (Holdings) Limited believes that sound corporate governance will help to protect the interests of the Company's shareholders as well as strengthen investors' confidence in the Company's management and financial reporting. This report describes the Company's corporate governance processes and activities with respect to the Code on Corporate Governance Practices issued by The Stock Exchange of Hong Kong Limited (the "Stock Exchange")

To bring this about, it is necessary, firstly, to examine and review the issues which arise on application of corporate governance practices of the Company and where necessary and appropriate, amend such practices in light of experience and regulatory requirements, secondly, to have an open and transparent discussion whether these corporate governance practices meet with the expectations of our shareholders and lastly their proper application throughout the Group.

The Stock Exchange issued its Code on Corporate Governance Practices ("CG Code") and requires issuers to issue Corporate Governance Report ("CG Report"). The CG Code which has become effective from 1 January 2005 (the internal control section will be effective from 1 July 2005), provides a comprehensive guide for listed issuers to evaluate and improve their corporate governance practices.

The CG Code replaced the GEM Listing Rules 5.35 to 5.45. The Company has complied with all the CG Code on Corporate Governance Practices as set out in GEM Listing Rules for the year under review, except for CG Code provisions A.4.1 and A.4.2 as detailed in this CG Report.

Whilst the inclusion of this report in the Company's annual report is in response to the GEM Listing Rules requirement, the preparation of such report for the year under review, is intended to disclose to our shareholders and to invite their views on the corporate governance practices of the Company for the year under review and its developing practices.



# Corporate Governance Report

## A. DIRECTORS

### A.1 The Board

The Board of Directors (the "Board") of the Company comprises nine members as follows:

**Executive Directors:**

Mr. Chau Chit (Chief Executive Director)

Mr. Wong Wai Tin (Chairman)

Mr. Shen Yue

**Non-executive Directors:**

Mr. Wong Wai Kwan

Mr. Ng Chong Khim

Mr. Tay Hun Kiat (appointed on 10 June 2005)

**Independent Non-executive Directors:**

Mr. Cai Xiao Fu

Mr. Shi Jian Jun

Mr. Li Xiaoqiang, Richard

The relationships (including financial, business, family or other material or relevant relationships) if any, among members of the Board are disclosed in the Annual Report. There is no other relationship between the Chairman and the Chief Executive Officer, except that Mr. Wong Wai Tin and Mr. Chau Chit, the chairman and the Chief Executive Officer of the Company respectively, are the shareholders of Mega Start Limited. Mega Start Limited is the ultimate holding company of the Company which is held by Mr. Wong Wai Tin, Mr. Chau Chit and Ms. Ting Hiu Wan, the spouse of Mr. Chau Chit, in the proportion of 20%, 50% and 30%, respectively. Pursuant to the requirements of the GEM Listing Rules, the Company has received annual written confirmation from each Independent Non-Executive Directors. The Company considers all of its Independent Non-Executive Directors to be independent. Profiles of all Directors, including the Chairman, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors are set out in this Annual Report under the section "Profiles of Directors and Senior Management".

The Board members, collectively, have a diverse spread of expertise covering business and management experience, industry knowledge strategic planning skills, accounting and financial knowledge. The Company is of the view that the Board, as a whole, provides core competencies necessary to meet the Company's requirements, taking into account the nature and scope of the Company's operations.

# Corporate Governance Report

## A. DIRECTORS (cont'd)

### A.1 The Board (cont'd)

The Board establishes strategic objectives for the Group, monitors the financial performance of the Group and is responsible for the corporate governance of the Company. Generally, the responsibilities of the Board include:

- Formulation of operational strategies and review of its financial performance and results and the internal control system;
- Policies relating to key business and financial objectives of the Company;
- Material acquisitions investments, divestments, disposal of assets or any significant capital expenditure; and
- Recommendation to shareholders on final dividend and the declaration of any interim dividends.

The Board meets regularly on a quarterly basis and ad-hoc meetings are convened as and when necessary to address any specific significant matters that may arise. Routine operational matters are discussed either in person or over the telephone and are put to the Board for its decision by way of circulating resolutions in writing, together with supporting detailed information where necessary to enable the Directors to make informed decisions. The attendance rates of individual members at the Board and Audit Committee meetings in 2005 are detailed in the following tables.

Directors	Board		Audit Committee	
	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended
Chau Chit	9	9		
Wong Wai Tin	9	8		
Shen Yue	9	9		
Wong Wai Kwan	5	3	4	3*
Ng Chong Khim	5	3		
Tay Hun Kiat (appointed on 10 June 2005)	2	1		
Cai Xiao Fu	5	3	4	4
Shi Jian Jun	5	0	4	0
Li Xiaoqiang, Richard	5	3	4	4

\* Attendance by invitation

# Corporate Governance Report

## A. DIRECTORS (cont'd)

### A.1 *The Board (cont'd)*

In order to ensure that the Board is able to fulfill its responsibilities, management is required to provide adequate and timely information to the Board on Board affairs and issues that requires the Board's decision and ongoing reports relating to operational and financial performance of the Company to the Board. The Board has separate and independent access to senior management and the Company Secretary at all times. In carrying out their obligations as Directors of the Company, access to independent professional advice, where necessary, is also available to all Directors, either individually or as a group, at the expense of the Company.

### A.2 *Chairman and Chief Executive Officer (the "CEO")*

Mr. Chau Chit relinquished his post as Chairman of the Company to take over the post of CEO of the Board on 12 August 2005. Mr. Wong Wai Tin was appointed as the Chairman of the Board on the same day, in place of Mr. Chau Chit.

The role of the Chairman and CEO are segregate, with a clear division of responsibilities between the two Directors. As the Chairman of the Board, Mr. Wong Wai Tin is responsible for, among others, exercising control over the quality, quantity and timeliness of the flow of information between the management of the Company and the Board, and assisting in ensuring compliance with the Company's guidelines on corporate governance. As CEO, Mr. Chau Chit is responsible for the business directions and operational decisions of the Group.

### A.3 *Board composition*

The names of all Independent Non-Executive Directors are expressly identified in all corporate communications.

### A.4 *Appointments, re-election an removal*

The Board does not establish the Nomination Committee at present to make recommendations to the Board on Board appointments. The Company understand the needs to maintain its cost competitiveness in the current difficult market conditions and will review the need for a Nomination Committee at an appropriate time.

Candidates are appointed to the Board on the basis of the competencies and experience that they would be bringing to the Company. The Company believes that members of the Board, individually and collectively, have satisfactorily discharged their duties to the Company.

# Corporate Governance Report

## A. DIRECTORS (cont'd)

### A.4 *Appointments, re-election an removal (cont'd)*

CG Code provision A.4.1 provides that Non-Executive Directors should be appointed for specific term, subject to re-election. Except for Mr. Ng Chong Khim and Mr. Tay Hun Kiat, who have not entered into any services contract with the Company, each of the Directors of the Company has entered into service agreement with the Company with effect from the date of appointment of the respective directors for a fixed term of three years. Mr. Ng and Mr. Tay are nominated by Singapore Technologies Electronics Limited, one of the substantial shareholders of the Company, as Non-Executive Directors of the Company with effective from 15 March 2002 and 10 June 2005, respectively, and are not appointed for specific term. They are, however, subject to retirement and re-election at least once every three years. The reason for non-compliance is that the Board does not believe in any arbitrary terms of office for Mr. Ng and Mr. Tay.

Under the CG Code provision A.4.2, every Director should be subject to retirement by rotation at least once every three years. The existing Articles of Association of the Company provides that no Director holding office as chairman and/or managing Director shall be subject to retirement by rotation. Accordingly, as at the date of this report, Mr. Wong Wai Tin, being the chairman of the Company, is not subject to retirement by rotation. In order to comply with the CG Code provision A.4.2, amendments will be proposed at the forthcoming Annual General Meeting to specify that every Director shall be subject to retirement by rotation at least once every three years. Subject to the approval by the shareholders in the forthcoming Annual General Meeting, Mr. Wong Wai Tin, Mr. Chau Chit, Mr. Wong Wai Kwan, Mr. Ng Chong Khim, Mr. Tay Hun Kiat and Mr. Cai Xiao Fu shall retire by rotation and being eligible, will offer themselves for re-election at the forthcoming Annual General Meeting.

### A.5 *Responsibilities of Directors*

The Directors are aware of their collective and individual responsibilities to its shareholders for the well-being and success of the Company. A Director has a duty to act in good faith and best interests of the Company and needs to have sufficient caliber and experience appropriate for the businesses of the Group.

The functions of the Non-Executive Directors are included but not limited to the following:

- Participating in board meetings to bring an independent judgement;
- Taking the lead where potential conflicts of interests arise;
- Serving on audit, remuneration and other governance committees; and
- Scrutinizing the issuer's performance and monitoring the reporting of performance.

# Corporate Governance Report

## A. DIRECTORS (CONT'D)

### A.5 Responsibilities of Directors (cont'd)

The Company adopted a code of conduct regarding dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. During the year ended 31 December 2005, the Company had also made specific enquiry with all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors.

### A.6 Supply of and access of information

In order to ensure that the Board is able to fulfill its responsibilities, management is required to provide adequate and timely information to the Board on Board affairs and issues that require the Board's decision and ongoing reports relating to operational and financial performance of the Company to the Board.

## B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Remuneration Committee ("RC") is tasked with the responsibility of overseeing Board remuneration matters.

The RC is chaired by Mr. Cai Xiao Fu (Independent Non-Executive Director) and has two other members, namely Mr. Ng Chong Khim (Non-Executive Director) and Mr. Li Xiaoqiang, Richard (Independent Non-Executive Director).

The role of the RC is to recommend to the Board a framework for remunerating the Board and key executives and to determine specific remuneration packages for each Executive Director of the Company. In carrying out of the above, the RC may obtain independent external legal and other professional advice as deemed necessary. The expenses of such advice shall be borne by the Company.

The remuneration package for Executive Directors comprises a basic salary and a performance-related bonus for their contributions. Non-Executive Directors receive a basic fee for their services, except for Mr. Ng Chong Khim and Mr. Tay Hun Kiat. All revision to the remuneration packages for the Directors are subject to the review and approval of the Board. The directors' fees are subject to shareholders approval at the Annual General Meeting. Details of directors' remuneration for each Director are set out in note 7 to the financial statement.

No RC meeting has been held in 2005 to review the remuneration package of the Board.



# Corporate Governance Report

## C. ACCOUNTABILITY AND AUDIT

### C.1 Financial reporting

The Board is responsible for maintaining proper accounting records to enable the Directors to monitor the Group's overall financial position for each financial period. The Board updates shareholders on the operations and financial position of the Group through quarterly results, half-yearly and annual results announcements as well as timely announcements of other matters as prescribed by the relevant rules and regulations.

The Directors' responsibilities for the preparation of financial statements and the responsibilities of the external auditors to the shareholders are as set out in this Annual Report and the Auditors' Report, respectively.

### C.2 Internal control

The Board maintains a system of internal controls for all companies within the Group. The controls are to provide reasonable assurance (but not absolute guarantee) that assets are adequately safeguard, operational controls are in place, business risks are suitably protected and proper accounting records are maintained.

In order to fully comply with the CG Code provision C.2 "Internal Control" which will be implemented for accounting periods commencing on or after 1 July 2005, the Board is in the process to update the Group's internal control system.

### C.3 Audit Committee ("AC")

The AC comprises three members, all of whom are Independent Non-Executive Directors. They are Mr. Cai Xiao Fu (Chairman), Mr. Shi Jian Jun and Mr. Li Xiaoqiang, Richard.

The AC performs, amongst others, the following functions:

- ensure that co-operation is given by the Company's management to the external auditors where applicable;
- Review of the Group's quarterly, half-yearly and annual results announcements and the financial statements prior to its recommendations to the Board for approval;
- Review of the Group's financial reporting system and internal control procedures; and
- Review of transactions with interested person.

# Corporate Governance Report

## C. ACCOUNTABILITY AND AUDIT (cont'd)

### C.3 Audit Committee ("AC") (cont'd)

The role of AC is to assist the Board in the execution of its corporate governance responsibilities within the established Board references and requirements. The AC also reviewed the financial statements of the Group for the year ended 31 December 2005 as well as the auditors' report thereon and the quarterly, half-yearly and annual results announcements before they are presented to the Board for approval. It also looked into transactions with interested person of the Group, and has the authority to carry out any matter within its terms of reference as deemed appropriate. The financial statements, accounting policies and system of internal controls are the responsibilities of the Board acting through the AC.

The AC noted that there were no non-audit services provided by the external auditors to the Group during the financial year ended 31 December 2005 that could affect the independence of the external auditors.

## D. DELEGATION BY THE BOARD

### D.1 Management functions

The Board is responsible for determining the overall strategy and approving the annual business plan of the Group, and ensuring the business operations are properly planned, authorized, undertaken and monitored. All policy matters of the Group, material transactions or transactions where there is conflict of interests are reserved for the Board's decisions.

The Board has delegated the day-to-day responsibility to executive management under the Board's instructions.

### D.2 Board committees

The Board has appointed a number of Board Committees to oversee certain aspects of the Company's affairs, which include but not limited to, the Remuneration Committee and the Audit Committee. The terms of reference of these Committees are clearly prescribed.

## E. COMMUNICATION WITH SHAREHOLDERS

### E.1 Effective communication

The Company establishes and maintains different communication channels with its shareholders through the publication of annual, half-yearly and quarterly reports. Shareholders' communications are also available on the Company's website.

The annual general meeting provides a useful forum for shareholders to exchange views with the Board. The Chairman as well as senior management of the Company are available to answer shareholders' questions.

# Corporate Governance Report

## **E. COMMUNICATION WITH SHAREHOLDERS (cont'd)**

### *E.1 Effective communication (cont'd)*

Separate resolutions are proposed at general meetings on each substantially separate issue, including the election of individual Directors.

### *E.2 Voting by poll*

Details of the poll voting procedures and the rights of shareholders to demand a poll are included in the Notice of Annual General Meeting and will be included with the notice to shareholders for all future Annual General Meeting.

On behalf of the Board

#### **CHAT CHIT**

*Chief Executive Officer*

Hong Kong, 28 March 2006

# Report of the Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2005.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 15 to the financial statements.

There were no significant changes in the nature of the Group's principal activities during the year.

## SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by geographical segments for the year ended 31 December 2005 is set out in note 3 to the financial statements.

## RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2005 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 44 to 98.

The directors do not recommend the payment of any dividends for the financial year ended 31 December 2005.

# Report of the Directors

## SUMMARY FINANCIAL INFORMATION

A summary of the published audited results and assets, liabilities and minority interests of the Group for the last five financial years prepared on the basis set out in the note below is as follows:

### RESULTS

	Year ended 31 December				
	2005 RMB'000	2004 RMB'000	2003 RMB'000	2002 RMB'000	2001 RMB'000
<b>Turnover</b>	<b>265,846</b>	293,134	227,023	200,423	95,615
Cost of sales	<b>(211,544)</b>	(224,907)	(167,067)	(139,540)	(64,344)
<b>Gross profit</b>	<b>54,302</b>	68,227	59,956	60,883	31,271
Other revenue	<b>3,960</b>	880	1,549	1,575	762
Selling and distribution costs	<b>(14,508)</b>	(11,007)	(8,872)	(9,327)	(6,073)
Administrative costs	<b>(23,251)</b>	(22,716)	(12,415)	(10,365)	(7,295)
Other operating costs	<b>(5,324)</b>	(2,464)	(354)	(647)	(1,477)
<b>Profit from operating activities</b>	<b>15,179</b>	32,920	39,864	42,119	17,188
Finance costs	<b>(4,697)</b>	(3,860)	(2,693)	(1,631)	(720)
Share of (losses)/profits of associates	<b>(191)</b>	84	(83)	–	(3)
<b>Profit before tax</b>	<b>10,291</b>	29,144	37,088	40,488	16,465
Income tax expense	<b>(1,003)</b>	(5,366)	(4,824)	(6,819)	(1,675)
<b>Profit for the year</b>	<b>9,288</b>	23,778	32,264	33,669	14,790
Attributable to:					
Equity holders of the parent	<b>9,314</b>	22,943	31,808	32,683	13,147
Minority interests	<b>(26)</b>	835	456	986	1,643
	<b>9,288</b>	23,778	32,264	33,669	14,790
<b>Dividends</b>	<b>9,212</b>	13,790	13,834	6,633	559
<b>Earnings per share</b>					
– Basic (RMB cents)	<b>0.9</b>	2.1	2.9	3.5	1.6
– Diluted (RMB cents)	<b>0.9</b>	2.1	2.9	3.5	1.6



# Report of the Directors

## SUMMARY FINANCIAL INFORMATION (cont'd)

### ASSETS, LIABILITIES AND MINORITY INTERESTS

	Year ended 31 December				
	2005 RMB'000	2004 RMB'000	2003 RMB'000	2002 RMB'000	2001 RMB'000
<b>Total assets</b>	<b>403,114</b>	394,526	342,591	250,114	81,245
<b>Total liabilities</b>	<b>236,845</b>	227,646	186,699	115,297	52,963
<b>Minority interests</b>	<b>6,205</b>	6,396	5,717	2,856	3,662
<b>Net assets*</b>	<b>166,269</b>	166,880	155,892	134,817	28,282

\* Inclusive of minority interests.

Note: The pro forma combined results of the Group for the year ended 31 December 2001 were extracted from the Prospectus. The consolidated results of the Group for the years ended 31 December 2002 and 2003 were extracted from the 2002 and 2003 annual reports with certain comparative amounts reclassified to conform with the current year's presentation, while those for the years ended 31 December 2004 and 2005 were prepared based on the consolidated income statement as set out on page 44 to the financial statements. This summary does not form part of the audited financial statements.

### PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 12 to the financial statements.

### SHARE CAPITAL AND SHARE OPTIONS

There were no movements in either the Company's authorised or issued share capital during the year. Details of movement in the Company's share options during the year are set out in note 28 to the financial statements.

### PRE-EMPTIVE RIGHTS

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

# Report of the Directors

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

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

## **RESERVES**

Details of movements in the reserves of the Company and the Group during the year are set out in note 29 to the financial statements and the consolidated statement of changes in equity, respectively.

## **DISTRIBUTABLE RESERVES**

As at 31 December 2005, the Company's reserves, including the share premium account, available for distribution, calculated in accordance with the provisions of Companies Law (2001 Second Revision) of the Cayman Islands, amounted to RMB68,822,000.

Under the laws of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

The reserves of the Group available for distribution depend on the dividend distributable by the Company's subsidiaries. For dividend purpose, the amount which the Company's subsidiaries in the Mainland of the People's Republic of China (the "Mainland of the PRC") can legally distribute by way of a dividend is determined by reference to their profits as reflected in the Mainland of the PRC statutory financial statements which are prepared in accordance with accounting principles generally accepted in the Mainland of the PRC. These profits differ from those that are reflected in the Group's financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

## **MAJOR CUSTOMERS AND SUPPLIERS**

In the year under review, sales to the Group's five largest customers accounted for 39% of the total sales for the year and sales to the largest customer included therein accounted for approximately 15% of the total sales for the year.

Purchases from the Group's five largest suppliers accounted for 18% of the total purchases for the year and the purchases from the largest supplier included therein accounted for 6% of the total purchases for the year.

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

# Report of the Directors

## DIRECTORS

The directors of the Company during the year were:

### *Executive Directors:*

Mr. Chau Chit

Mr. Wong Wai Tin

Mr. Shen Yue

### *Non-executive Directors:*

Mr. Wong Wai Kwan

Mr. Ng Chong Khim

Mr. Tay Hun Kiat (appointed on 10 June 2005)

### *Independent Non-executive Directors:*

Mr. Cai Xiao Fu

Mr. Shi Jian Jun

Mr. Li Xiaoqiang, Richard

In accordance with article 87 of the Company's articles of association, Mr. Chau Chit, Mr. Wong Wai Tin, Mr. Ng Chong Khim, Mr. Tay Hun Kiat, Mr. Wong Wai Kwan and Mr. Cai Xiao Fu will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence from Mr. Cai Xiao Fu, Mr. Shi Jian Jun and Mr. Li Xiaoqiang, Richard, and still considers them to be independent.

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 17 to 20 of the annual report.

## DIRECTORS' SERVICE CONTRACTS

Except for Mr. Ng Chong Khim and Mr. Tay Hun Kiat, who have not entered into any service contract with the Company, each of the directors of the Company has entered into a service agreement with the Company with effect from the date of appointment of the respective directors for a fixed term of three years.

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

# Report of the Directors

## DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

## DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year.

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2005, the beneficial interests and short positions of the directors in the share capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) (Chapter 571 of the Laws of Hong Kong), which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have taken under such provisions of the SFO), or which will be required pursuant to Section 352 of the SFO to be entered in the register referred therein or required pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors, to be notified to the Company and the Stock Exchange are as follows:

Long positions in ordinary shares of the Company:

Name	Notes	Number of shares held, capacity and nature of interest		Total	Percentage of the Company's issued share capital as at 31 December 2005
		Directly beneficially owned	Through controlled corporation		
<b>Directors</b>					
Mr. Chau Chit	(a)	–	451,740,000	451,740,000	41.59%
Mr. Wong Wai Tin	(a)	–	451,740,000	451,740,000	41.59%
Mr. Wong Wai Tin	(a) & (b)	2,500,000	–	2,500,000	0.23%

The interests of the directors in the share options of the Company are separately disclosed in note 28 to the financial statements.

# Report of the Directors

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (cont'd)

Notes:

- (a) Mega Start Limited ("Mega Start"), the ultimate holding company of the Company, is held by Mr. Chau Chit, a director, and Ms. Ting Hiu Wan, the spouse of Mr. Chau Chit, and Mr. Wong Wai Tin, a director, in the proportion of 50%, 30% and 20%, respectively.
- (b) On 8 January 2004, Mr. Wong Wai Tin personally purchased 2,500,000 shares representing approximately 0.23% of the issued share capital of the Company.

Short positions in ordinary shares of the Company:

Name	Note	Number of shares held, capacity and nature of interest		Total	Percentage of the Company's issued share capital as at 31 December 2005
		Directly beneficially owned	Through controlled corporation		
<b>Directors</b>					
Mr. Chau Chit	(c)	–	451,740,000	451,740,000	41.59%
Mr. Wong Wai Tin	(c)	–	451,740,000	451,740,000	41.59%
Mr. Wong Wai Tin	(c)	2,500,000	–	2,500,000	0.23%

Note:

- (c) On 23 December 2005, Mega Start and Mr. Wong Wai Tin have tendered 451,740,000 shares and 2,500,000 shares, respectively, for acceptance of a share exchange offer (the "Share Exchange Offer") offered by Made Connection Limited (the "Offeror"), a direct wholly-owned subsidiary of Shougang Concord Technology Holdings Limited ("SCT"), a company incorporated in Hong Kong whose securities are listed on the Main Board of The Stock Exchange of Hong Kong Limited. Details of the Share Exchange Offer are set out in notes 34 and 35 to the financial statements.

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

## DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed in the share option scheme as defined below and as set out in note 28 to the financial statements, at no time during the year ended 31 December 2005 were rights to acquire benefits by means of the acquisition of shares in the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in the Company or any other body corporate.



# Report of the Directors

## SHARE OPTION SCHEME

Pursuant to written resolutions of the shareholders of the Company dated 16 July 2002, a share option scheme (the "Share Option Scheme") was approved and adopted. A summary of the terms of the Share Option Scheme is set out in Appendix V of the Prospectus.

Under the Share Option Scheme, the directors may, at their discretion, grant options to the directors and employees of the Company and its subsidiaries to subscribe for shares in the Company. The subscription price for shares under the Share Option Scheme will be determined by the directors, which shall be calculated with reference to the highest of: (i) the closing price of the shares on the GEM of The Stock Exchange of Hong Kong Limited on the date of grant of the option; (ii) the average closing price of the shares on the GEM of The Stock Exchange of Hong Kong Limited for the five trading days immediately preceding the date of grant of the option; and (iii) the nominal value of a share.

The maximum number of shares in respect of which options may be granted under the Share Option Scheme must not exceed 10% of the share capital of the Company in issue and may not exceed in nominal value 30% of the issued share capital of the Company in issue. The Share Option Scheme will remain in force for a period of 10 years commencing on 16 July 2002. No option may be granted to any person which, if exercised in full, would result in the total number of shares already issued and which may fall to be issued to him under all the options previously granted to him pursuant to the Share Option Scheme in any 12-month period up to the date of grant to such person exceeding 1% of the maximum aggregate number of shares for the time being issued and which may fall to be issued under the Share Option Scheme, unless the proposed grant has been approved by the shareholders of the Company in a general meeting with the proposed grantee and his associate abstaining from voting.

On 27 August 2004, the board of directors resolved to amend Clauses 5.3(A) and (B) and Clause 9.2 of the rules of the Share Option Scheme to comply with the new requirements under Rules 23.04(1) and 23.05(1) and (2) of the GEM Listing Rules. On the same day, the Company granted certain employees under the Share Option Scheme a total of 12,000,000 share options to subscribe for shares of HK\$0.01 each in the capital of the Company which were exercisable at any time from 27 August 2004 to 26 August 2014 at an exercise price of HK\$0.34 per share. The exercise price is HK\$0.34 per share, which is the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant. Share options do not confer rights on the holders to dividends or vote at shareholders' meetings.

At the balance sheet date, there were no share options that were outstanding under the Share Option Scheme as the Company had cancelled all the outstanding share options on 11 November 2005 with consent from the share option holders and pursuant to a board resolution.

Movements of the share options during the year are set out in note 28 to the financial statements.

# Report of the Directors

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2005, the following persons or companies had interests and short positions in shares and underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group, or substantial shareholders as recorded in the register of substantial shareholders required to be kept by the Company under Section 336 of the SFO:

Long positions in ordinary shares:

Substantial shareholders	Notes	Capacity and nature of interest	Number of ordinary shares/ issued capital held	Percentage of the Company's issued share capital as at 31 December 2005
<b>The Company</b>				
Mega Start	(a)	Directly beneficially owned	451,740,000	41.59%
Mr. Chau Chit	(a)	Through a controlled corporation	451,740,000	41.59%
Ms. Ting Hiu Wan	(a)	Through a controlled corporation	451,740,000	41.59%
Mr. Wong Wai Tin	(a)	Through a controlled corporation	451,740,000	41.59%
	(a)	Directly beneficially owned	2,500,000	0.23%
Singapore Technologies Electronics Limited ("ST Electronics")	(b)	Directly beneficially owned	304,260,000	28.00%
Singapore Technologies Engineering Ltd. ("ST Engineering")	(b)	Through a controlled corporation	304,260,000	28.00%
Temasek Holdings (Private) Ltd. ("Temasek Holdings")	(b)	Through a controlled corporation	304,260,000	28.00%

# Report of the Directors

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (cont'd)

Notes:

- (a) Mega Start Limited ("Mega Start"), the ultimate holding company of the Company, is held by Mr. Chau Chit, a director, and Ms. Ting Hiu Wan, the spouse of Mr. Chau Chit, and Mr. Wong Wai Tin, a director, in the proportion of 50%, 30% and 20%, respectively.
- (b) ST Electronics is a wholly-owned subsidiary of ST Engineering whose shares are listed on the Singapore Exchange Securities Trading Limited. Temasek Holdings holds controlling interest in ST Engineering. Pursuant to Part XV of the SFO, ST Engineering and Temasek Holdings are taken to be interested in the shares held by ST Electronics.

Short positions in ordinary shares:

Name	Note	Number of shares held, capacity and nature of interest			Total	Percentage of the Company's issued share capital as at 31 December 2005
		Directly beneficially owned	Through controlled corporation			
Mega Start	(c)	451,740,000	–	451,740,000	41.59%	
Mr. Chau Chit	(c)	–	451,740,000	451,740,000	41.59%	
Ms. Ting Hiu Wan	(c)	–	451,740,000	451,740,000	41.59%	
Mr. Wong Wai Tin	(c)	–	451,740,000	451,740,000	41.59%	
Mr. Wong Wai Tin	(c)	2,500,000	–	2,500,000	0.23%	

Note:

- (c) On 23 December 2005, Mega Start and Mr. Wong Wai Tin have tendered 451,740,000 shares and 2,500,000 shares, respectively, for acceptance of a share exchange offer (the "Share Exchange Offer") offered by Made Connection Limited ("the Offeror"), a direct wholly-owned subsidiary of Shougang Concord Technology Holdings Limited ("SCT"), a company incorporated in Hong Kong whose securities are listed on the Main Board of The Stock Exchange of Hong Kong Limited. Details of the Share Exchange Offer are set out in notes 34 and 35 to the financial statements.

Save as disclosed above, as at 31 December 2005, no person, other than the directors and chief executive of the Company, whose interests are set out in the section "Directors' Interests and Short Positions in Shares and Underlying Shares" above, had registered an interest or long positions in the shares or underlying shares of the Company that would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and required to be recorded pursuant to Section 336 of the SFO.

# Report of the Directors

## CONNECTED TRANSACTIONS

- A. On 19 April 2002, Sino Stride Holdings Limited (“HKSS”), a company beneficially owned by Mr. Chau Chit, a director, Ms. Ting Hiu Wan, the spouse of Mr. Chau Chit, and Mr. Wong Wai Tin, a director, in the proportion of 50%, 30% and 20%, respectively, as landlords, entered into a lease with the Company as tenant in respect of an apartment located at Flat F, 22/F, Tower One, Park Tower, 1 King’s Road, Causeway Bay, Hong Kong, for use as living quarters for the Group’s employees for a term of five years each commencing from 19 April 2002, at monthly rentals of HK\$26,000, as determined based on approximate prevailing market prices. The corresponding rental expenses of the Group for the year ended 31 December 2005 amounted to RMB324,000 (2004: RMB330,000).
- B. On 21 December 2004, Sino Stride Technology Co., Ltd. (“Sino Stride Technology”), a subsidiary of the Company, has entered into a joint venture agreement (the “JV Agreement”) for the establishment of a Sino-foreign equity joint venture, known as STAR (Zhejiang) Automotive Center Co., Ltd. with ST Kinetics, a fellow subsidiary of the Company’s substantial shareholder of ST Electronics, and Zhejiang University Logistics and Investment Holdings Company. According to the JV Agreement, Sino Stride Technology will contribute RMB3,750,000 in cash, representing 25% of the registered capital of the joint venture. The transaction constitutes a connected transaction under Chapter 20 of the GEM Listing Rules for year 2004 and is subject to the reporting and announcement requirements as set out in Rules 20.45 to 20.47 of the GEM Listing Rules. Sino Stride Technology contributed RMB1,875,000 in cash in 2005 in accordance with the JV Agreement, representing 12.5% of the registered capital of the joint venture.
- C. On 2 August 2005, Ever Create Profits Limited (“ECP”), a subsidiary of the Company, was granted banking facilities from a financial institution of which HKSS has pledged two properties as part of the securities for the banking facilities. As at 31 December 2005, the outstanding bank loans of approximately RMB8,672,000 was secured by the properties.

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company’s total issued share capital was held by the public as at the date of this report, being the latest practical date prior to the date of this report.

As disclosed in the Significant Event During The Year and Post Balance Sheet Event as set out in notes 34 and 35 to the financial statements, respectively, the Share Exchange Offer has become unconditional on 20 March 2006. The Offeror will be having interest in 758,819,000 shares, representing approximately 69.85% of the issued share capital of the Company and will become the controlling shareholder of the Company once the legal title of such 758,819,000 shares are properly transferred to the Offeror. As at the date of this report, the legal titles of such 758,819,000 shares, accepted under the Share Exchange Offer as at 20 March 2006, have yet to be legally transferred to the Offeror.

# Report of the Directors

## SUFFICIENCY OF PUBLIC FLOAT (cont'd)

On the basis, and after accounting for the shareholding interests of ST Electronics of approximately 28% of the issued share capital of the Company which has not indicated its willingness to accept the Share Exchange Offer up to the date of this report, the public float of the Company is estimated to be approximately 2.15% of the total issued share capital when the legal titles of such 758,819,000 shares are properly and legally transferred to the Offeror.

## DIRECTORS' INTERESTS IN A COMPETING BUSINESS

ST Electronics (Shanghai) Co., Ltd., a wholly foreign-owned enterprise established by ST Electronics in Shanghai, the Mainland of the PRC, is also engaged in the business of intelligent building management systems and home automation systems in the Mainland of the PRC. Mr. Ng Chong Khim and Mr. Tay Hun Kiat, two of the senior management staff of ST Electronics, were appointed as non-executive directors of the Company on 15 March 2002 and 10 June 2005, respectively. Through the Share Option Scheme of ST Engineering (which owns 100% of ST Electronics), Mr. Ng Chong Khim and Mr. Tay Hun Kiat may own shares or share options in ST Engineering.

Save as disclosed above, none of the directors or the substantial shareholders or the management shareholders of the Company or their respective associates had an interest in a business that competes or is likely to compete, directly or indirectly, with the businesses of the Group as at 31 December 2005.

## SIGNIFICANT EVENT DURING THE YEAR

Details of the significant event during the year of the Group is set out in note 34 to the financial statements.

## POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group is set out in note 35 to the financial statements.

## CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company adopted a code of conduct regarding dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. During the year ended 31 December 2005, the Company had also made specific enquiry with all directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors.

## CORPORATE GOVERNANCE

A report on the principle corporate governance practices adopted by the Company is set out on pages 21 to 29 of this report.



# Report of the Directors

## AUDIT COMMITTEE

The Company established an audit committee on 16 July 2002 with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review the Company's annual report and accounts, half-year reports and quarterly reports and to give advice and comments thereon to the board of directors. The audit committee is also responsible for reviewing the financial reporting process and internal control system of the Group. The Group's financial statements for the year ended 31 December 2005 have been reviewed by the audit committee, who is of the opinion that such statements comply with the applicable accounting standards, the GEM Listing Rules and legal requirements, and that adequate disclosures had been made.

The audit committee has three members comprising the three independent non-executive Directors, Mr. Cai Xiao Fu, Mr. Shi Jian Jun and Mr. Li Xiaoqiang, Richard. The audit committee held four meetings during the year ended 31 December 2005 to perform the functions specified in the GEM Listing Rules.

## AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

**Wong Wai Tin**

*Chairman*

Hong Kong

28 March 2006

# Report of the Auditors



安永會計師事務所

To the members

## **Sino Stride Technology (Holdings) Limited**

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 44 to 98 which have been prepared in accordance with International Financial Reporting Standards.

## **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

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

## **BASIS OF OPINION**

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

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

## **OPINION**

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

### **Ernst & Young**

*Certified Public Accountants*

Hong Kong

28 March 2006

# Consolidated Income Statement

For the year ended 31 December 2005

	Notes	2005 RMB'000	2004 RMB'000
<b>Revenue</b>	4	<b>265,846</b>	293,134
Cost of sales		<b>(211,544)</b>	(224,907)
<b>Gross profit</b>		<b>54,302</b>	68,227
Other income	4	<b>3,960</b>	880
Selling and distribution costs		<b>(14,508)</b>	(11,007)
Administrative expenses		<b>(23,251)</b>	(22,716)
Other operating expenses		<b>(5,324)</b>	(2,464)
<b>Profit from operating activities</b>	5	<b>15,179</b>	32,920
Finance costs	6	<b>(4,697)</b>	(3,860)
Share of (losses)/profits of associates		<b>(191)</b>	84
<b>Profit before tax</b>		<b>10,291</b>	29,144
Income tax expense	9	<b>(1,003)</b>	(5,366)
<b>Profit for the year</b>		<b>9,288</b>	23,778
Attributable to:			
Equity holders of the parent		<b>9,314</b>	22,943
Minority interests		<b>(26)</b>	835
		<b>9,288</b>	23,778
<b>Dividends</b>	10	<b>9,212</b>	13,790
<b>Earnings per share</b>			
– Basic (RMB cents)	11	<b>0.9 cents</b>	2.1 cents
– Diluted (RMB cents)	11	<b>0.9 cents</b>	2.1 cents

The accompanying notes form an integral part of the financial statements.

# Consolidated Balance Sheet

At 31 December 2005

	Notes	2005 RMB'000	2004 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	12	9,977	10,796
Intangible assets	13	4,051	8,435
Goodwill	14	70	163
Investments in associates	16	2,471	2,662
Available-for-sale investments	17	4,375	2,500
Total non-current assets		20,944	24,556
<b>Current assets</b>			
Cash and cash equivalents	18	24,598	58,178
Deposits pledged with financial institutions	19	18,733	11,675
Trade receivables	20	61,799	84,548
Prepayments, deposits and other receivables		50,128	51,069
Unbilled amounts due from customers for contract works	21	170,987	146,041
Amount due from a related party	22	5,012	–
Inventories	23	50,913	18,459
Total current assets		382,170	369,970
<b>Current liabilities</b>			
Bank loans	24	87,672	67,873
Trade and notes payables	25	94,378	101,240
Other payables and accruals		45,333	51,391
Amount due to a related party	22	3,345	–
Tax payable		6,021	7,047
Total current liabilities		236,749	227,551
<b>Net current assets</b>		<b>145,421</b>	<b>142,419</b>
<b>Total assets less current liabilities</b>		<b>166,365</b>	<b>166,975</b>
<b>Non-current liability</b>			
Deferred income	26	96	95
<b>Net assets</b>		<b>166,269</b>	<b>166,880</b>
<b>Equity</b>			
Issued share capital	27	11,514	11,514
Reserves		148,550	148,970
		160,064	160,484
Minority interests		6,205	6,396
<b>Total equity</b>		<b>166,269</b>	<b>166,880</b>

The accompanying notes form an integral part of the financial statements.

# Consolidated Cash Flow Statement

For the year ended 31 December 2005

Note	2005 RMB'000	2004 RMB'000
<b>Cash flows from operating activities</b>		
Profit before taxation	<b>10,291</b>	29,144
Adjustments for:		
Depreciation of property, plant and equipment	5 <b>2,598</b>	2,323
(Gain)/loss on disposal of property, plant and equipment	5 <b>(2,312)</b>	650
Share of losses/(profits) of associates	<b>191</b>	(84)
Interest expense	<b>4,489</b>	3,620
Interest income	5 <b>(267)</b>	(308)
Impairment of intangible assets	5 <b>5,102</b>	–
Provision for impairment loss of goodwill	5 <b>103</b>	94
Inventory write-down	5 <b>483</b>	86
Amortisation of intangible assets	5 <b>2,081</b>	1,073
Provision for bad and doubtful debts	5 <b>171</b>	21
Cash inflow from operations before working capital changes	<b>22,930</b>	36,619
Decrease/(increase) in trade receivables	<b>22,578</b>	(29,013)
Increase in unbilled amounts due from customers for contract works	<b>(24,946)</b>	(37,838)
Increase in inventories	<b>(32,937)</b>	(2,195)
Decrease/(increase) in prepayments, deposits and other receivables	<b>941</b>	(1,768)
Increase in amount due from a related party	<b>(5,012)</b>	–
(Decrease)/increase in trade and notes payables	<b>(6,862)</b>	31,828
(Decrease)/increase in other payables and accruals	<b>(6,058)</b>	25,243
Increase in amount due to a related party	<b>3,345</b>	–
(Increase)/decrease in deposits pledged with financial institutions	<b>(7,058)</b>	6,476
Increase/(decrease) in deferred income	<b>1</b>	(60)
Cash (outflow)/inflow from operating activities	<b>(33,078)</b>	29,292
Tax refund	<b>2,771</b>	–
Tax paid	<b>(4,800)</b>	(6,450)
Net cash (outflow)/inflow from operating activities	<b>(35,107)</b>	22,842

The accompanying notes form an integral part of the financial statements.

## Consolidated Cash Flow Statement (cont'd)

For the year ended 31 December 2005

	Notes	2005 RMB'000	2004 RMB'000
Net cash (outflow)/inflow from operating activities		<b>(35,107)</b>	22,842
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment		<b>(2,559)</b>	(5,303)
Proceeds from disposal of property, plant and equipment		<b>3,087</b>	–
Interest income	5	<b>267</b>	308
Acquisition of available-for-sale investments		<b>(1,875)</b>	–
Additions to intangible assets		<b>(2,799)</b>	(2,489)
<b>Net cash outflow from investing activities</b>		<b>(3,879)</b>	(7,484)
<b>Cash flows from financing activities</b>			
Interest paid	6	<b>(4,489)</b>	(3,620)
Dividends paid		<b>(9,212)</b>	(13,790)
Dividends paid to minority interests		<b>(175)</b>	(157)
Additions of new bank loans		<b>101,678</b>	91,372
Repayment of bank loans		<b>(81,879)</b>	(106,352)
Proceeds from issuance of share capital		–	796
<b>Net cash inflow/(outflow) from financing activities</b>		<b>5,923</b>	(31,751)
Net decrease in cash and cash equivalents		<b>(33,063)</b>	(16,393)
Cash and cash equivalents at beginning of year		<b>58,178</b>	74,792
Effect of foreign exchange rate changes, net		<b>(517)</b>	(221)
<b>Cash and cash equivalents at end of year</b>	18	<b>24,598</b>	58,178

The accompanying notes form an integral part of the financial statements.



# Consolidated Statement of Changes in Equity

For the year ended 31 December 2005

	Notes	Year ended 31 December 2005			Year ended 31 December 2004		
		Equity holders of the parent RMB'000	Minority interests RMB'000	Total equity RMB'000	Equity holders of the parent RMB'000	Minority interests RMB'000	Total equity RMB'000
<b>CAPITAL</b>							
<b>Issued and fully paid capital</b>	27						
<i>Ordinary shares of HK\$0.01 each</i>							
At beginning of year		11,514	-	11,514	11,491	-	11,491
Issuance of shares pursuant to share options exercised	28	-	-	-	23	-	23
At end of year		11,514	-	11,514	11,514	-	11,514
<b>RESERVES</b>							
<b>Share premium</b>							
At beginning of year		70,573	-	70,573	69,800	-	69,800
Issuance of shares pursuant to share options exercised	28	-	-	-	773	-	773
Dividends		(9,212)	-	(9,212)	-	-	-
At end of year		61,361	-	61,361	70,573	-	70,573
<b>Contribution surplus</b>							
At beginning and end of year	29(a)	13,499	-	13,499	13,499	-	13,499
<b>Statutory surplus reserve</b>							
At beginning of year	29(b)	3,230	92	3,322	2,480	69	2,549
Transferred from retained profits		549	15	564	750	23	773
At end of year		3,779	107	3,886	3,230	92	3,322
<b>Enterprise expansion fund</b>							
At beginning of year	29(c)	2,349	61	2,410	1,611	43	1,654
Transferred from retained profits		541	14	555	738	18	756
At end of year		2,890	75	2,965	2,349	61	2,410
<b>Exchange fluctuation reserve</b>							
At beginning of year		14	1	15	240	-	240
Exchange realignment		(522)	-	(522)	(226)	1	(225)
At end of year		(508)	1	(507)	14	1	15
<b>Retained profits</b>							
At beginning of year		59,305	1,417	60,722	51,054	780	51,834
Profit for the year		9,314	(26)	9,288	22,943	835	23,778
Transferred to statutory surplus reserve		(549)	(15)	(564)	(750)	(23)	(773)
Transferred to enterprise expansion fund		(541)	(14)	(555)	(738)	(18)	(756)
Gain on deemed disposal		-	10	10	-	-	-
Derecognition of negative goodwill		-	-	-	586	-	586
Dividends		-	(175)	(175)	(13,790)	(157)	(13,947)
At end of year		67,529	1,197	68,726	59,305	1,417	60,722
Total reserves		148,550	1,380	149,930	148,970	1,571	150,541
<b>Minority interests in the capital of subsidiaries</b>							
At beginning and end of year		-	4,825	4,825	-	4,825	4,825
Total equity		160,064	6,205	166,269	160,484	6,396	166,880

The accompanying notes form an integral part of the financial statements.

# Balance Sheet

At 31 December 2005

	Notes	2005 RMB'000	2004 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	12	63	74
Interests in subsidiaries	15	24,621	24,621
Total non-current assets		24,684	24,695
<b>Current assets</b>			
Cash and cash equivalents	18	312	3,169
Prepayments, deposits and other receivables		320	224
Amounts due from subsidiaries	15	80,932	83,392
Total current assets		81,564	86,785
<b>Current liabilities</b>			
Other payables and accruals		2,684	2,798
Total current liabilities		2,684	2,798
<b>Net current assets</b>		<b>78,880</b>	83,987
<b>Total assets less current liabilities</b>		<b>103,564</b>	108,682
<b>Equity</b>			
Issued share capital	27	11,514	11,514
Reserves	29	92,050	97,168
<b>Total equity</b>		<b>103,564</b>	108,682

The accompanying notes form an integral part of the financial statements.

# Notes to Financial Statements

At 31 December 2005

## 1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 12 December 2001 under the Companies Law (2001 Second Revision) of the Cayman Islands.

The registered office of the Company is located at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, British West Indies, the Cayman Islands. The principal place of business of the Group is Building G, Zhejiang University, National Science Park, No. 525 Xi Xi Road, Hangzhou, the People's Republic of China (the "PRC").

The principal activity of the Company is investment holding. During the year, the Group was principally engaged in the development and provision of system integration solutions in the Mainland of the PRC and the Hong Kong Special Administrative Region (the "Hong Kong SAR").

Mega Start Limited, a company incorporated in the British Virgin Islands, held by Mr. Chau Chit, a director, and Ms. Ting Hiu Wan, the spouse of Mr. Chau Chit, and Mr. Wong Wai Tin, a director, in the proportion of 50%, 30% and 20%, respectively, is the ultimate holding company of the Company.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *Basis of preparation*

These financial statements have been prepared under the historical cost convention in accordance with International Financial Reporting Standards ("IFRSs"), which comprise standards and interpretations approved by the International Accounting Standards Board and International Accounting Standards and Interpretations of the Standing Interpretations Committee approved by the International Accounting Standards Committee that remain in effect and the disclosure requirements of the Hong Kong Companies Ordinance.

### *Impact of new and revised accounting standards*

The following new and revised accounting standards are adopted for the first time for the current year's financial statements:

- IFRS 2 – Share-based Payment
- IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations
- IAS 19 (revised) – Employee Benefits
- IAS 21 (revised) – The Effects of Changes in Foreign Exchange Rates

# Notes to Financial Statements

At 31 December 2005

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### *Impact of new and revised accounting standards (cont'd)*

Except for IFRS 2 which described below, the adoption of these standards has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

#### *IFRS 2 "Share-based Payment"*

In prior years, no recognition and measurement of share-based payment transactions in which employees (including directors) were granted share options over shares in the Company were required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of IFRS 2, when employees (including directors) render services as consideration for equity instruments ("equity-settled transactions"), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted. The main impact of IFRS 2 on the Group is the recognition of the cost of these transactions and a corresponding entry to equity for employee share options.

The Group has adopted the transitional provisions of IFRS 2 under which the new measurement policies have not been applied to (i) options granted to employees on or before 7 November 2002; and (ii) options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

As the Group did not have any employee share options which were granted during the period from 7 November 2002 to 31 December 2004 but had not yet vested as at 1 January 2005, the adoption of IFRS 2 has had no impact on the retained profits as at 31 December 2003 and as at 31 December 2004.

# Notes to Financial Statements

At 31 December 2005

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### *Impact of issued but not yet effective International Financial Reporting Standards (IFRSs)*

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

IAS 1 Amendment	Capital Disclosures
IAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
IAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
IAS 39 Amendment	The Fair Value Option
IAS 39 & IFRS 4 Amendment	Financial Guarantee Contracts
IFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
IFRS 6	Exploration for and Evaluation of Mineral Resources
IFRS 7	Financial Instruments: Disclosures
IFRIC-Int 4	Determining whether an Arrangement contains a Lease
IFRIC-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IFRIC-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

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

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

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

# Notes to Financial Statements

At 31 December 2005

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### *Basis of consolidation and presentation*

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2005. The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

### *Subsidiaries*

A subsidiary is an entity over which the Company has the power to govern its financial and operating policies so as to obtain benefits from its activities. A subsidiary is excluded from consolidation if it operates under severe long term restrictions which may impair its ability to transfer funds to the Company or it is acquired and held exclusively with a view to subsequent disposal in the near future.

In the Company's balance sheet, interests in subsidiaries are stated at cost less any impairment losses. An assessment of interests in subsidiaries is performed when there is an indication that the asset has been impaired.

### *Associates*

The Group's investments in its associates are accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investments in the associates are carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associates. Goodwill relating to the associates is included in the carrying amount of the investments and is not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment losses with respect to the Group's net investment in the associates. The income statement reflects the share of the results of operations of the associates.

The reporting dates of the associates and the Group are identical and the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.



# Notes to Financial Statements

At 31 December 2005

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### *Related parties*

A party is considered to be related to the Group if:

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is an associate;
- (c) the party is a jointly-controlled entity;
- (d) the party is a member of the key management personnel of the Group or its holding company;
- (e) the party is a close member of the family of any individual referred to in (a) or (d); or
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

Particulars of principal companies comprising the Group and associates are disclosed in notes 15 and 16 to the financial statements respectively.

### *Goodwill*

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

# Notes to Financial Statements

At 31 December 2005

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### *Goodwill (cont'd)*

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

### *Available-for-sale financial assets*

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as "financial assets at fair value through profit or loss", "held-to-maturity investments" or "loans and receivables". After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

### *Unbilled amounts due from customers for contract works*

Contract revenue on the rendering of installation, system development, system integration, system design and related services comprises the following contract amounts:

- sale of hardware (including computer hardware, purchased computer software, parts and components and equipment, hereinafter collectively referred to as "System Hardware"); and
- provision of services (installation, system development, system integration, system design and related services, hereinafter collectively referred to as "System Services").

Cost of sales of System Hardware comprises, inter alia, the costs of computer hardware, purchased computer software, parts and components and equipment. Cost of provision of System Services comprises, inter alia, labour and other costs of personnel directly engaged in providing System Services and attributable overheads.

Revenue from the rendering of System Services is recognised based on the percentage of completion of the respective contracts, provided that this and the costs incurred as well as the estimated costs to completion can be measured reliably.

# Notes to Financial Statements

At 31 December 2005

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### *Unbilled amounts due from customers for contract works (cont'd)*

The percentage of completion of a contract is determined based on the survey of the work performed, which approximates to the percentage determined based on costs incurred.

Unbilled amounts due from customers for contract works are recorded in the balance sheet at the amounts of contract costs incurred plus attributable profits less provisions for foreseeable losses and progress billings.

The directors review contract works on a regular basis. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

### *Revenue recognition*

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

#### *Sale of goods and System Hardware*

Revenue is recognised when the significant risks and rewards of ownership of the goods have been transferred to the buyer.

#### *Rendering of System Services*

Revenue is recognised when the relevant System Services have been rendered on the basis as explained in the accounting policy for "Unbilled amounts due from customers for contract works" above.

#### *Interest income*

Revenue is recognised on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable.

#### *Dividend income*

Revenue is recognised when the shareholders' right to receive payment has been established.

# Notes to Financial Statements

At 31 December 2005

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### *Property, plant and equipment*

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

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the year in which it is incurred. Subsequent expenditure relating to an item of property, plant and equipment that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise.

The gain or loss on disposal or retirement of property, plant and equipment recognised in the income statement is the difference between the net sales proceeds and the carrying amount of the relevant asset at the time of disposal.

Land use rights and buildings, which are not practicable to segregate, are amortised in equal instalments over the useful lives of the buildings of 20 years, i.e. the shorter of the land use rights period and useful lives of buildings. Other property, plant and equipment are depreciated on the straight-line basis to write off the cost of the assets to their residual values over their estimated useful lives, summarised as follows:

Leasehold improvements	Over the lease terms
Computer and office equipment	5 years
Motor vehicles	5 years

The carrying amounts of property, plant and equipment are reviewed periodically in order to assess whether they are recorded in excess of their recoverable amounts, and where carrying amounts exceed these recoverable amounts, assets are written down to their recoverable values.

# Notes to Financial Statements

At 31 December 2005

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### *Impairment of assets*

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit and loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

### *Intangible assets*

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable.

# Notes to Financial Statements

At 31 December 2005

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### *Intangible assets (cont'd)*

#### *Research and development costs*

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an individual project is recognised when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development.

Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure capitalised is amortised on the straight-line basis over the commercial lives of the underlying products of not exceeding five years commencing from the date when the products are put into commercial production.

The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use or more frequently when an indication of impairment arises.

#### *Inventories*

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour, subcontracting fee and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any further costs expected to be incurred to completion and disposal.

#### *Trade and other receivables*

Trade receivables, which generally have credit terms ranging from 30 to 180 days, are recognised and carried at original invoice amount less allowances for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Prepayments, deposits and other receivables are recognised and carried at cost less allowances for uncollectible amounts.

Receivables from related parties are recognised and carried at amortised cost.



# Notes to Financial Statements

At 31 December 2005

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### *Trade and other payables*

Liabilities for trade and other amounts payable which are normally settled on terms ranging from 30 to 180 days are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

Payables to related parties are recognised and carried at amortised cost.

### *Loans and borrowings*

All loans and borrowings, which are interest-bearing and held to maturity, are initially recognised at cost, being the fair value of the consideration received, and are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

### *Borrowing costs*

Borrowing costs are recognised as an expense in the period in which they are incurred.

### *Operating leases*

Leases where substantial risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged or credited to the income statement on the straight-line basis over the lease terms.

### *Income tax*

Income tax comprises current and deferred tax. Income tax is recognised in the income statement.

### *Current tax*

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance sheet date.

# Notes to Financial Statements

At 31 December 2005

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### *Income tax (cont'd)*

#### *Deferred tax*

Deferred income tax is provided, using the liability method, on temporary differences at the balance sheet date between the tax base of assets and liabilities and their carrying values for financial reporting purposes. Tax rates that have been enacted are used to determine deferred tax.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

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

#### *Retirement benefits*

Obligatory retirement benefits in the form of contributions under a defined contribution retirement scheme administered by local government agencies are charged to the income statement as incurred.

#### *Accommodation benefits*

Contributions to an accommodation fund administered by the Public Accumulation Funds Administration Centre of the PRC are charged to the income statement as incurred.

#### *Dividends*

Final and interim dividends proposed by the directors are classified as a separate allocation of retained profits or share premium account within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

# Notes to Financial Statements

At 31 December 2005

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### *Share-based payment transactions*

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

### *Equity-settled transactions*

The cost of equity-settled transactions with eligible persons is measured by reference to the fair value at the date at which they are granted. The fair value is determined using Black-Scholes option pricing model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant eligible persons become fully entitled to the award ("the vesting date"). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of the directors of the Group at that date, based on the best available estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

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

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

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

# Notes to Financial Statements

At 31 December 2005

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### *Share-based payment transactions (cont'd)*

#### *Equity-settled transactions (cont'd)*

The Group has adopted the transitional provisions of IFRS 2 in respect of equity-settled awards.

### *Government grants and subsidies*

Grants and subsidies from the government are recognised where there is reasonable assurance that the grant or subsidy will be received and all attaching conditions will be complied with. When the grant or subsidy relates to an expense item, it is recognised as income over the periods necessary to match them on a systematic basis to the costs which it is intended to compensate. Where the grant or subsidy relates to an asset, the fair value is deducted on arriving at the carrying amount of the related asset.

### *Foreign currencies*

The functional currency of the Company and its subsidiaries incorporated outside the Mainland of the PRC is Hong Kong dollars ("HK\$"). The functional currency of the Mainland of the PRC subsidiaries is Renminbi ("RMB"). The Group's presentation currency is RMB.

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into the respective functional currencies at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the income statement.

On consolidation, the assets and liabilities, both monetary and non-monetary, and the income and expense items of the Company and its subsidiaries incorporated outside the Mainland of the PRC are translated into RMB at the closing rates and the average rates, respectively. The resulting translation differences are dealt with in the exchange fluctuation reserve.

### *Cash and cash equivalents*

Cash on hand and at banks and short term deposits which are held to maturity are carried at cost.

Cash and cash equivalents are defined as cash on hand, demand deposits and short term, highly liquid investments readily convertible into known amounts of cash and subject to an insignificant risk of changes in value.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash on hand and unpledged deposits in banks.

# Notes to Financial Statements

At 31 December 2005

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### *Significant accounting judgements and estimations*

The preparation of the financial statements in conformity with IFRS requires management to make estimates and judgements that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

The following judgements have the most significant effect on the amounts recognised in the financial statements.

a. *Provision for bad and doubtful debts*

Provision for bad and doubtful debts is made based on assessment of the recoverability of receivables and unbilled amounts due from customers for contract works. The identification of bad and doubtful debts requires management judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of the receivables, unbilled amounts due from customers for contract works and bad and doubtful debt expenses/ write-backs in the period in which such estimate has been changed.

b. *Useful lives of property, plant and equipment*

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

c. *Estimation of foreseeable losses in respect of contract works*

For contract works, the Group's management estimates the amount of foreseeable losses based on the management budgets prepared for the contract works. Contract revenue is determined in accordance with the terms set out in the relevant contracts. Budgeted contract costs which mainly comprise estimated cost of materials, labour and other costs of personnel directly engaged in the project and attributable overheads costs are prepared by the management on the basis of quotations from time to time provided by the major suppliers/vendors involved and the experience of the management. The directors review contract works on a regular basis. When it is probable that total contract costs will exceed total contract revenue, the foreseeable losses is recognised as an expense immediately.

# Notes to Financial Statements

At 31 December 2005

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### *Significant accounting judgements and estimations (cont'd)*

d. *Percentage of completion*

The percentage of completion of a contract is determined based on the survey of the work performed, which approximates to the percentage determined based on costs incurred. The directors review contract works on a regular basis to assess the status of the projects and the reasonableness of the percentage of completion of the respective contracts.

## 3. SEGMENT INFORMATION

a. *Business segment*

The Group is principally engaged in the development and provision of solutions for software, hardware and value-added service in the intelligent information industry. The products and services of the Group are subject to similar risks and returns and, therefore, the Group has only one business segment.



# Notes to Financial Statements

At 31 December 2005

## 3. SEGMENT INFORMATION (cont'd)

### b. Geographical segments

The following table presents revenue, profit and certain asset and expenditure information for the Group's geographical segments for the years ended 31 December 2005 and 2004.

#### Year ended 31 December 2005

	Hong Kong SAR RMB'000	The Mainland of the PRC RMB'000	Total RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment revenue	13,022	259,277	272,299	(6,453)	265,846
Segment results	15,514	10,769	26,283	(6,765)	19,518
Unallocated corporate expenses			(4,556)	317	(4,239)
Provision for impairment loss of goodwill			(103)	-	(103)
Other income			3	-	3
Profit from operating activities			21,627	(6,448)	15,179
Finance costs			(4,697)	-	(4,697)
Share of losses of associates			(191)	-	(191)
Profit before tax			16,739	(6,448)	10,291
Income tax expense			(1,003)	-	(1,003)
Profit for the year			15,736	(6,448)	9,288
Attributable to:					
Equity holders of the parent					9,314
Minority interests					(26)
					9,288

# Notes to Financial Statements

At 31 December 2005

## 3. SEGMENT INFORMATION (cont'd)

### b. Geographical segments (cont'd)

#### Year ended 31 December 2005 (cont'd)

	Hong Kong SAR RMB'000	The Mainland of the PRC RMB'000	Total RMB'000	Eliminations RMB'000	Consolidated RMB'000
<b>Other segment information</b>					
Segment assets	14,737	367,489	382,226	(14,933)	367,293
Investments in associates			2,471	–	2,471
Unallocated corporate assets			107,733	(74,383)	33,350
Consolidated total assets			492,430	(89,316)	403,114
Segment liabilities	13,949	220,211	234,160	–	234,160
Unallocated corporate liabilities			2,685	–	2,685
Consolidated total liabilities			236,845	–	236,845
Capital expenditures:					
Tangible fixed assets	21	2,538	2,559	–	2,559
Intangible fixed assets	–	2,799	2,799	–	2,799
Other non-cash expenses:					
Depreciation of property, plant and equipment	–	2,598	2,598	–	2,598
Gain on disposal of property, plant and equipment	–	(2,312)	(2,312)	–	(2,312)
Provision for impairment loss of goodwill	–	103	103	–	103
Amortisation of intangible assets	–	2,081	2,081	–	2,081
Inventory write-down	–	483	483	–	483
Provision for bad and doubtful debts	–	171	171	–	171
Impairment of intangible assets	–	5,102	5,102	–	5,102

# Notes to Financial Statements

At 31 December 2005

## 3. SEGMENT INFORMATION (cont'd)

### b. Geographical segments (cont'd)

Year ended 31 December 2004

	Hong Kong SAR RMB'000	The Mainland of the PRC RMB'000	Total RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment revenue	48,340	247,055	295,395	(2,261)	293,134
Segment results	19,663	23,045	42,708	(6,097)	36,611
Unallocated corporate expenses			(4,021)	266	(3,755)
Provision for impairment loss of goodwill			(94)	–	(94)
Other income			158	–	158
Profit from operating activities			38,751	(5,831)	32,920
Finance costs			(3,860)	–	(3,860)
Share of profits of associates			84	–	84
Profit before tax			34,975	(5,831)	29,144
Income tax expense			(5,366)	–	(5,366)
Profit for the year			29,609	(5,831)	23,778
Attributable to:					
Equity holders of the parent					22,943
Minority interests					835
					23,778

# Notes to Financial Statements

At 31 December 2005

## 3. SEGMENT INFORMATION (cont'd)

### b. Geographical segments (cont'd)

Year ended 31 December 2004 (cont'd)

	Hong Kong SAR RMB'000	The Mainland of the PRC RMB'000	Total RMB'000	Eliminations RMB'000	Consolidated RMB'000
<b>Other segment information</b>					
Segment assets	31,612	362,462	394,074	(39,604)	354,470
Investments in associates			2,662	–	2,662
Unallocated corporate assets			111,776	(74,382)	37,394
Consolidated total assets			508,512	(113,986)	394,526
Segment liabilities	2,608	222,238	224,846	–	224,846
Unallocated corporate liabilities			2,800	–	2,800
Consolidated total liabilities			227,646	–	227,646
Capital expenditures:					
Tangible fixed assets	5,290	13	5,303	–	5,303
Intangible fixed assets	–	2,489	2,489	–	2,489
Other non-cash expenses:					
Depreciation of property, plant and equipment	2,076	247	2,323	–	2,323
Loss on disposal of property, plant and equipment	310	340	650	–	650
Provision for impairment loss of goodwill	–	94	94	–	94
Amortisation of intangible assets	–	1,073	1,073	–	1,073
Inventory write-down	–	86	86	–	86
Provision for bad and doubtful debts	–	21	21	–	21

# Notes to Financial Statements

At 31 December 2005

## 4. REVENUE AND OTHER INCOME

Revenue represents the net invoiced value of goods sold and contract revenue on the rendering of installation, system development, system integration, system design and related services, net of value-added tax, after allowances for returns, trade discounts and various types of revenue taxes where applicable. All intercompany transactions are eliminated on consolidation.

	2005 RMB'000	2004 RMB'000
Revenue	265,846	293,134
Other income:		
Interest income	267	308
Government grants and subsidies*	1,250	550
Gain on disposal of property, plant and equipment	2,312	–
Others	131	22
	3,960	880
Total	269,806	294,014

\* There are no unfulfilled conditions or contingencies relating to the government grants and subsidies.

## 5. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	2005 RMB'000	2004 RMB'000
Cost of inventories sold	118,927	121,340
Auditors' remuneration	1,305	1,006
Depreciation of property, plant and equipment	2,598	2,323
(Gain)/loss on disposal of property, plant and equipment	(2,312)	650
Interest income	(267)	(308)
Impairment of intangible assets	5,102	–
Provision for impairment loss of goodwill	103	94
Inventory write-down	483	86
Amortisation of intangible assets	2,081	1,073
Provision for bad and doubtful debts	171	21
Minimum lease payments under operating leases for buildings	3,203	2,488
Realised foreign exchange differences	(53)	–
Research and development costs	–	365

# Notes to Financial Statements

At 31 December 2005

## 5. PROFIT FROM OPERATING ACTIVITIES (cont'd)

	2005 RMB'000	2004 RMB'000
Staff costs:		
Retirement benefits	498	466
Accommodation benefits	487	360
Other staff costs (including directors' and senior executives' emoluments as set out in notes 7 and 8)	14,706	15,484
Total staff costs	15,691	16,310
Less: Amounts classified as deferred development costs	(1,309)	(1,672)
	14,382	14,638

## 6. FINANCE COSTS

	2005 RMB'000	2004 RMB'000
Interest on bank loans	4,489	3,620
Bank charges and commissions	208	240
	4,697	3,860

## 7. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance is as follows:

	2005 RMB'000	2004 RMB'000
Fees	265	248
Basic salaries and other benefits	855	876
Performance related bonuses	42	–
Pension scheme contributions	46	26
	1,208	1,150



# Notes to Financial Statements

At 31 December 2005

## 7. DIRECTORS' REMUNERATION (cont'd)

Directors' remuneration by each individual:	<b>2005</b> <b>RMB'000</b>	2004 RMB'000
Mr. Chau Chit	<b>405</b>	379
Mr. Wong Wai Tin	<b>264</b>	249
Mr. Shen Yue	<b>274</b>	254
Mr. Zhang Xiao Feng	–	20
Mr. Wong Wai Kwan	<b>106</b>	106
Mr. Cai Xiao Fu	<b>21</b>	21
Mr. Shi Jian Jun	<b>32</b>	15
Mr. Li Xiaoqiang, Richard	<b>106</b>	53
Mr. Wu Ming Dong	–	53
Total	<b>1,208</b>	1,150

All of the directors' remuneration fell within the nil to HK\$1,000,000 band for the two years.

## 8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group included three (2004: three) directors during the year, details of whose remuneration are set out in note 7 above.

Details of the remuneration of the remaining two (2004: two) non-director, highest paid employees for the year are as follows:

	<b>2005</b> <b>RMB'000</b>	2004 RMB'000
Basic salaries and other benefits	<b>727</b>	561
Pension scheme contributions	<b>22</b>	13
	<b>749</b>	574

The remuneration of the two non-director, highest paid employees fell within the nil to HK\$1,000,000 band.

# Notes to Financial Statements

At 31 December 2005

## 9. INCOME TAX EXPENSE

	2005 RMB'000	2004 RMB'000
Current tax charge:		
– Hong Kong SAR	98	1,296
– The Mainland of the PRC	3,676	4,014
	3,774	5,310
Overprovision in prior year:		
– Hong Kong SAR	–	56
– The Mainland of the PRC	(2,771)	–
Total	1,003	5,366

Hong Kong taxable profit has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

During the year, Sino Stride Technology Co., Ltd. ("Sino Stride Technology"), one of the subsidiaries of the Company, was designated as one of the Most Outstanding Software Enterprises of Year 2004 as defined by the National Development Bureau of the PRC and was subject to corporate income tax rate of 10.0% for the year ended 31 December 2004, being a preferential tax rate applicable to the Most Outstanding Software Enterprises. This has resulted in a tax refund of RMB2,771,000.

# Notes to Financial Statements

At 31 December 2005

## 9. INCOME TAX EXPENSE (cont'd)

A reconciliation of the tax expense applicable to profit before tax using the statutory rate for the country in which the Company and certain of its subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, are as follows:

	2005 RMB'000	2004 RMB'000
Profit before tax excluding share of profits and losses of associates	<b>10,482</b>	29,060
Tax expense at the applicable tax rate of 17.5%	<b>1,834</b>	5,086
Effect of:		
Different tax rate for specific entities	<b>(458)</b>	(136)
Income not subject to tax	<b>(16)</b>	(842)
Expenses not deductible for tax	<b>642</b>	876
Deferred tax assets not recognised in respect of tax losses	<b>1,772</b>	326
(Over)/under provision of tax in prior year	<b>(2,771)</b>	56
Income tax expenses	<b>1,003</b>	5,366

According to the Income Tax Law of the PRC, Sino Stride Technology and Hangzhou Sino Stride Megain Optic-Electronic Technology Company Limited ("Megain") (formerly known as Hangzhou Sino Stride Xingda Computer System Co. Ltd.) the subsidiaries of the Company located in the Mainland of the PRC, are both qualified as advanced technology enterprises and operate in one of the approved high and new technology industrial development zones of the Mainland of the PRC and thus are subject to a corporate tax rate of 16.5% (2004: 10.0%) and 15.0% (2004: 15.0%), respectively, being the preferential tax rate applicable to companies operating in approved high and new technology industrial development zones of the PRC.

Beijing Sino Stride Powerlink Technology Co., Ltd., a subsidiary of the Company in the Mainland of the PRC, which is also qualified as an advanced technology enterprise and operates in one of the approved high and new technology industrial development zones of the Mainland of the PRC, was exempted from corporate income tax of the PRC for the three years starting from 1 January 2004 to 31 December 2006.

The applicable Hong Kong corporate income tax rate of the Company and a subsidiary of the Company, Ever Create Profits Limited which operates in Hong Kong, is 17.5% (2004: 17.5%) based on existing legislation.

# Notes to Financial Statements

At 31 December 2005

## 9. INCOME TAX EXPENSE (cont'd)

The applicable PRC income tax rate of the other subsidiaries located in the Mainland of the PRC is 33% based on existing legislation. However, Chongqing Sino Stride Technology Company Limited ("Chongqing Sino Stride"), one of the subsidiaries of the Company, is exempted from corporate income tax for its first two profit making years (after deducting losses incurred in previous years) and is entitled to a 50% tax reduction for the succeeding three years in accordance with the relevant tax laws in the PRC.

There are no significant potential deferred tax liabilities for which provision has not been made during the year.

## 10. DIVIDENDS

	2005 RMB'000	2004 RMB'000
Dividend declared and paid	9,212	13,790

On 6 June 2005, the Company declared and the shareholders approved a final dividend of HK\$0.8 cents (2004: HK\$1.2 cents) per ordinary share, amounting to approximately RMB9,212,000 to be paid out of share premium at the 2004 annual general meeting.

The directors do not recommend the payment of any dividends for the financial year ended 31 December 2005.

## 11. EARNINGS PER SHARE

### *Basic*

The calculation of basic earnings per share is based on the net profit for the year attributable to ordinary equity holders of the parent of RMB9,314,000 (2004: RMB22,943,000) and the weighted average number of 1,086,300,000 (2004: 1,084,671,000) ordinary shares in issue during the year.

### *Diluted*

The calculation of diluted earnings per share for 2004 is based on the net profit for the year attributable to ordinary equity holders of the parent of RMB22,943,000 and the weighted average of 1,085,356,000 ordinary shares, after adjusting for the effects of all potential dilutive ordinary shares during the year.

The diluted earnings per share for 2005 is the same as basic earnings per share as a result of the cancellation of all outstanding share options enduring the year.

# Notes to Financial Statements

At 31 December 2005

## 11. EARNINGS PER SHARE (cont'd)

The reconciliation of weighted average number of shares used in the calculations of basic earnings per share and diluted earnings per share is as follows:

	Number of shares	
	2005	2004
Weighted average number of ordinary shares used in the basic earnings per share calculation	<b>1,086,300,000</b>	1,084,671,000
Weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during the year	–	685,000
Weighted average number of ordinary shares used in the diluted earnings per share calculation	<b>1,086,300,000</b>	1,085,356,000

# Notes to Financial Statements

At 31 December 2005

## 12. PROPERTY, PLANT AND EQUIPMENT

Group	Buildings	Leasehold	Computer	Motor	Total
	RMB'000	improvements	and office	vehicles	
	RMB'000	RMB'000	equipment	RMB'000	RMB'000
			RMB'000		
Cost:					
As at 1 January 2005	3,762	613	6,561	7,270	18,206
Additions	–	1,376	917	266	2,559
Disposals	(1,036)	–	(491)	(257)	(1,784)
Exchange realignment	–	(1)	(13)	–	(14)
As at 31 December 2005	2,726	1,988	6,974	7,279	18,967
Accumulated depreciation:					
As at 1 January 2005	377	317	3,350	3,366	7,410
Charge for the year	143	327	1,080	1,048	2,598
Disposals	(359)	–	(439)	(211)	(1,009)
Exchange realignment	–	(1)	(8)	–	(9)
As at 31 December 2005	161	643	3,983	4,203	8,990
Net book value:					
As at 31 December 2005	2,565	1,345	2,991	3,076	9,977
As at 31 December 2004	3,385	296	3,211	3,904	10,796
<b>Company</b>					
Cost:					
As at 1 January 2005	–	68	66	–	134
Additions	–	–	21	–	21
Exchange realignment	–	(1)	(2)	–	(3)
As at 31 December 2005	–	67	85	–	152
Accumulated depreciation:					
As at 1 January 2005	–	34	26	–	60
Charge for the year	–	14	17	–	31
Exchange realignment	–	(1)	(1)	–	(2)
As at 31 December 2005	–	47	42	–	89
Net book value:					
As at 31 December 2005	–	20	43	–	63
As at 31 December 2004	–	34	40	–	74

A building of the Group with net book value of RMB2,475,000 (2004: RMB2,592,000) has been issued the property certificate but the land use rights has yet to be issued by the relevant authorities.



# Notes to Financial Statements

At 31 December 2005

## 13. INTANGIBLE ASSETS

Group	Deferred development costs	
	2005 RMB'000	2004 RMB'000
Cost:		
At beginning of year	9,508	7,019
Additions	2,799	2,489
At end of year	12,307	9,508
Accumulated amortisation:		
At beginning of year	(1,073)	–
Provided during the year	(2,081)	(1,073)
At end of year	(3,154)	(1,073)
Accumulated impairment loss:		
At beginning of year	–	–
Impairment loss provided for the year	(5,102)	–
At end of year	(5,102)	–
Net carrying amount	4,051	8,435

# Notes to Financial Statements

At 31 December 2005

## 14. GOODWILL AND NEGATIVE GOODWILL

	2005 RMB'000	2004 RMB'000
<b>Goodwill</b>		
Cost:		
At beginning of year	298	298
Acquisition of additional share capital in a subsidiary	10	–
At end of year	308	298
Accumulated impairment loss:		
At beginning of year	(135)	(41)
Impairment loss provided for the year	(103)	(94)
At end of year	(238)	(135)
Net carrying amount	70	163
<b>Negative goodwill</b>		
Cost:		
At beginning of year	–	(1,055)
Derecognition during the year	–	1,055
At end of year	–	–
Accumulated amortisation:		
At beginning of year	–	469
Derecognition during the year	–	(469)
At end of year	–	–
Net carrying amount	–	–

## 15. INTERESTS IN SUBSIDIARIES

Company	2005 RMB'000	2004 RMB'000
Unlisted shares, at cost	24,621	24,621
Amounts due from subsidiaries	80,932	83,392

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. These advances are non-trade in nature.

# Notes to Financial Statements

At 31 December 2005

## 15. INTERESTS IN SUBSIDIARIES (cont'd)

Particulars of the subsidiaries are set out as follows:

Company	Place and date of incorporation/ establishment and operations	Nominal value of issued shares/paid-up capital	Percentage of equity interest attributable to the Group				Principal activities
			Direct		Indirect		
			%		%		
			2005	2004	2005	2004	
Sino Stride (BVI) Limited	British Virgin Islands/ Hong Kong 5 October 2001	US\$101	100	100	–	–	Investment holding
Ever Create Profits Limited	British Virgin Islands/ Hong Kong 2 July 2002	US\$1	100	100	–	–	System design and sale of system hardware
Choice Delta Assets Limited	British Virgin Islands/ Hong Kong 2 July 2002	US\$1	100	100	–	–	Investment holding
Sino Stride Technology Co., Ltd.	PRC/Mainland of the PRC 31 December 1992	RMB60 million	–	–	97.5	97.5	System value-added service solution and development
Hangzhou Sino Stride Megain Optic-Electronic Technology Company Limited (formerly known as Hangzhou Sino Stride Xingda Computer System Co., Ltd.)	PRC/Mainland of the PRC 16 May 2000	RMB5 million	–	–	94.6	92.6	System design and sale of system hardware and light emitted diode products

# Notes to Financial Statements

At 31 December 2005

## 15. INTERESTS IN SUBSIDIARIES (cont'd)

Company	Place and date of incorporation/ establishment and operations	Nominal value of issued shares/paid-up capital	Percentage of equity interest attributable to the Group				Principal activities
			Direct %		Indirect %		
			2005	2004	2005	2004	
Beijing Sino Stride Powerlink Technology Co., Ltd.	PRC/Mainland of the PRC 4 September 2003	RMB10 million	-	-	<b>73</b>	73	System design and sale of system hardware
Chongqing Sino Stride Technology Co., Ltd.	PRC/Mainland of the PRC 22 September 2003	RMB5.6 million	-	-	<b>99.6</b>	99.6	System value-added service solution and development
Hangzhou Vico Software Engineering Co. Ltd.	PRC/Mainland of the PRC 8 August 1996	RMB1.5 million	-	-	<b>53.6</b>	53.6	System value-added service solution and development

# Notes to Financial Statements

At 31 December 2005

## 16. INVESTMENTS IN ASSOCIATES

Group	2005 RMB'000	2004 RMB'000
Carrying amount of the investments	<b>2,471</b>	2,662
The following illustrates the summarised financial information of the Group's associates:		
Share of the associates' balance sheets:		
Current assets	<b>2,678</b>	2,511
Non-current assets	<b>111</b>	267
Current liabilities	<b>(318)</b>	(116)
Net assets	<b>2,471</b>	2,662
Share of the associates' revenue and (losses)/profits:		
Revenue	<b>802</b>	1,021
(Losses)/profits	<b>(191)</b>	84

Particulars of the associates which all are incorporated in the PRC are as follows:

Company	Business structure	Paid-up capital RMB'000	Percentage of equity interest attributable to the Group		Principal activities
			2005	2004	
Zhejiang University Sino Stride Fire Prevention Engineering Co., Ltd.	Corporate	800	<b>36.6%</b>	36.6%	Fire prevention system installation
Shenzhen Fasten Sino Stride Technology Limited	Corporate	5,000	<b>39.0%</b>	39.0%	Sale of hardware and equipment related to system integration and system design
Hangzhou Sino Stride Hospital Yida System Technology Co., Ltd.	Corporate	1,000	<b>27.8%</b>	27.8%	Sale of medical equipment

# Notes to Financial Statements

At 31 December 2005

## 17. AVAILABLE-FOR-SALE INVESTMENTS

Group	2005 RMB'000	2004 RMB'000
Unlisted equity investments – at cost	4,375	2,500

Available-for-sale financial assets consist of investment in ordinary shares and therefore, have no fixed maturity date or coupon rate.

## 18. CASH AND CASH EQUIVALENTS

	Group		Company	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Cash and bank balances	24,598	58,178	312	3,169

## 19. DEPOSITS PLEDGED WITH FINANCIAL INSTITUTIONS

	2005 RMB'000	2004 RMB'000
Fixed deposits	18,733	11,675

Fixed deposits as at 31 December 2005 have been pledged to financial institutions for the issuance of letters of credit, notes payable and to secure bank loans of RMB8,672,000 as set out in note 24 to the financial statements. Fixed deposits as at 31 December 2004 have been pledged to financial institutions for the issuance of letters of credit and notes payable.

The pledged cash deposits bear interest at rates ranging from 0.72% to 3.55% (2004: 0.72% to 1.62%) per annum.



# Notes to Financial Statements

At 31 December 2005

## 20. TRADE RECEIVABLES

Group	2005 RMB'000	2004 RMB'000
Trade receivables	<b>61,991</b>	84,569
Less: Provision for bad and doubtful debts	<b>(192)</b>	(21)
	<b>61,799</b>	84,548
An aged analysis of the trade receivables is as follows:		
Within 30 days	<b>22,182</b>	45,878
Between 31 and 90 days	<b>7,548</b>	18,492
Between 91 and 180 days	<b>3,661</b>	17,398
Between 181 and 360 days	<b>7,533</b>	1,292
Over 360 days	<b>21,067</b>	1,509
	<b>61,991</b>	84,569

## 21. UNBILLED AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORKS

Group	2005 RMB'000	2004 RMB'000
Contract costs incurred plus recognised profits		
less recognised losses to date	<b>888,052</b>	656,451
Less: Progress billings	<b>(717,065)</b>	(510,410)
	<b>170,987</b>	146,041

## 22. AMOUNTS DUE FROM/(TO) RELATED PARTIES

The amounts due from/(to) related parties are unsecured, interest-free and have no fixed terms of repayment. These advances are non-trade in nature.

# Notes to Financial Statements

At 31 December 2005

## 23. INVENTORIES

Group	2005 RMB'000	2004 RMB'000
At cost:		
Parts and components	3,585	141
Purchased equipment	45,646	18,318
	49,231	18,459
At net realisable value:		
Purchased equipment	1,682	–
	50,913	18,459

## 24. BANK LOANS

Group	Notes	2005 RMB'000	2004 RMB'000
Short term loans:			
Unsecured	(a)	79,000	67,873
Secured	(b)	8,672	–
		87,672	67,873

- (a) The unsecured bank loans bear interest at rates ranging from 5.1% to 6.7% (2004: 4.2% to 5.8%) per annum and are repayable in less than 12 months.
- (b) The bank loans bear interest at rates ranging from 5.75% to 10.0% per annum and are secured by fixed deposits and properties from a related company as set out in notes 19 and 33 to the financial statements, respectively. The secured bank loans are repayable in less than 12 months.

# Notes to Financial Statements

At 31 December 2005

## 25. TRADE AND NOTES PAYABLES

<b>Group</b>	<b>2005 RMB'000</b>	2004 RMB'000
Trade payables	<b>69,815</b>	87,197
Notes payables	<b>24,563</b>	14,043
	<b>94,378</b>	101,240

An aged analysis of the trade and notes payable is as follows:

<b>Group</b>	<b>2005 RMB'000</b>	2004 RMB'000
Within 90 days	<b>49,350</b>	80,478
Between 91 and 180 days	<b>24,623</b>	7,401
Between 181 and 360 days	<b>2,863</b>	3,889
Over 360 days	<b>17,542</b>	9,472
	<b>94,378</b>	101,240

## 26. DEFERRED INCOME

The balance represents government grants granted by the Hangzhou Ministry of Finance and Hangzhou Science and Technology Bureau. The government grants were given by the Hangzhou Ministry of Finance and Hangzhou Science and Technology Bureau to the Group when the specified research and development projects of the Group were approved and certified by the Hangzhou Science and Technology Bureau on completion.

# Notes to Financial Statements

At 31 December 2005

## 27. ISSUED SHARE CAPITAL

<b>Group and Company</b>	Note	<b>2005 RMB'000</b>	2004 RMB'000
Authorised:			
2,000,000,000 (2004: 2,000,000,000) ordinary shares of HK\$0.01 each		<b>21,200</b>	21,200
Issued and fully paid:			
1,086,300,000 (2004: 1,086,300,000) ordinary shares of HK\$0.01 each			
At beginning of year		<b>11,514</b>	11,491
Issuance of shares pursuant to share options	28	–	23
At end of year		<b>11,514</b>	11,514

Details of the Company's share option scheme and the share options issued under the scheme are set out in note 28 to the financial statements.

## 28. SHARE OPTION SCHEME

On 16 July 2002, the Company approved a share option scheme (the "Share Option Scheme") under which the directors may, at their discretion, grant options to the directors and employees of the Company and its subsidiaries to subscribe for shares in the Company. The subscription price for shares under the Share Option Scheme will be determined by the directors, which shall be calculated with reference to the highest of: (i) the closing price of the shares on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of grant of the option; (ii) the average closing price of the shares on the GEM of The Stock Exchange for the five trading days immediately preceding the date of grant of the option; and (iii) the nominal value of a share.

The maximum number of shares in respect of which options may be granted under the Share Option Scheme must not exceed 10% of the share capital of the Company in issue and may not exceed in nominal value 30% of the issued share capital of the Company in issue for a period of 10 consecutive years. The Share Option Scheme will remain in force for the period of 10 years commencing from the date of grant of share options. No option may be granted to any person which, if exercised in full, would result in the total number of shares already issued and which may fall to be issued to him under all the options previously granted to him pursuant to the Share Option Scheme in any 12-months period up to the date of grant to such person exceeding 1% of the maximum aggregate number of shares for the time being issued and which may fall to be issued under the Share Option Scheme. The options are considered to vest immediately from the date of grant of share options and there are no cash settlement alternatives.

# Notes to Financial Statements

At 31 December 2005

## 28. SHARE OPTION SCHEME (cont'd)

On 27 August 2004, the Company granted certain employees under the Share Option Scheme a total of 12,000,000 share options to subscribe for the Company's shares of HK\$0.01 each, at an exercise price of HK\$0.34 per share, exercisable at any time from 27 August 2004 to 26 August 2014. The exercise price of the share options of HK\$0.34 per share was determined with reference to the average closing price of the Company's shares as quoted on the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant. Share options do not confer rights on the holders to dividends or vote at shareholders' meetings.

On 27 September 2004, 2,210,000 share options were exercised by certain employees, which resulted in the issue of 2,210,000 ordinary shares of the Company and additional share capital of RMB23,000 and share premium of RMB773,000. The weighted average share price at the date of exercise was HK\$0.34.

The following share options were outstanding under the Share Option Scheme during the year:

Name or category of participant	Number of share options					At 31 December 2005	Date of grant of share options*	Exercise price of share options** HK\$	Price of Company's share at grant date of options*** HK\$
	At 1 January 2005	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year				
<b>Directors</b>									
Mr. Chau Chit	3,000,000	-	-	-	(3,000,000)	-	27 August 2004	0.34	0.34
Mr. Wong Wai Tin	2,000,000	-	-	-	(2,000,000)	-	27 August 2004	0.34	0.34
Mr. Shen Yue	1,000,000	-	-	-	(1,000,000)	-	27 August 2004	0.34	0.34
	6,000,000	-	-	-	(6,000,000)	-			
<b>Chief executives</b>									
Mr. Wang Ning	70,000	-	-	-	(70,000)	-	27 August 2004	0.34	0.34
Mr. Xu Dong Hui	70,000	-	-	-	(70,000)	-	27 August 2004	0.34	0.34
Mr. Guo Wei	70,000	-	-	-	(70,000)	-	27 August 2004	0.34	0.34
	210,000	-	-	-	(210,000)	-			
<b>Other employees</b>									
In aggregate	3,240,000	-	-	(1,390,000)	(1,850,000)	-	27 August 2004	0.34	0.34
Total	9,450,000	-	-	(1,390,000)	(8,060,000)	-			

# Notes to Financial Statements

At 31 December 2005

## 28. SHARE OPTION SCHEME (cont'd)

- \* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
- \*\* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.
- \*\*\* The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options.

At the balance sheet date, there were no share options that were outstanding under the Share Options Scheme as the Company had cancelled all the outstanding share options on 11 November 2005 with consent from the share option holders and pursuant to a board resolution.

## 29. RESERVES

Company	Share premium RMB'000	Contribution surplus RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000
		(a)			
At 1 January 2004	69,800	24,620	457	91	94,968
Issuance of shares pursuant to share options	773	–	–	–	773
Net profit for the year	–	–	–	15,654	15,654
Dividends	–	–	–	(13,790)	(13,790)
Exchange realignment	–	–	(437)	–	(437)
<b>At 31 December 2004</b>	<b>70,573</b>	<b>24,620</b>	<b>20</b>	<b>1,955</b>	<b>97,168</b>
At 1 January 2005	70,573	24,620	20	1,955	97,168
Net profit for the year	–	–	–	5,506	5,506
Dividends	(9,212)	–	–	–	(9,212)
Exchange realignment	–	–	(1,412)	–	(1,412)
<b>At 31 December 2005</b>	<b>61,361</b>	<b>24,620</b>	<b>(1,392)</b>	<b>7,461</b>	<b>92,050</b>

### (a) Contribution surplus

The contribution surplus of the Group represents the difference between the aggregate of the nominal value of the paid-up capital of the subsidiaries acquired pursuant to the Group Reorganisation in the preparation for the public listing of the Company's shares on the GEM of the Stock Exchange, over the nominal value of the Company's shares issued in exchange thereof. The contribution surplus of the Company represents the excess of the then combined net assets of the subsidiaries acquired pursuant to the Group Reorganisation, over the nominal value of the Company's shares issued in exchange thereof.



# Notes to Financial Statements

At 31 December 2005

## 29. RESERVES (cont'd)

### (b) *Statutory surplus reserve*

In accordance with the Company Law of the PRC and the articles of association of the PRC subsidiaries, certain subsidiaries located in the Mainland of the PRC are required to allocate 5% to 10% of their profits after tax, as determined in accordance with accounting principles generally accepted in the PRC ("PRC GAAP"), to the statutory surplus reserve (the "SSR") until such reserve reaches 50% of the registered capital of the PRC subsidiaries, and part of the SSR may be converted to increase the paid-up capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

### (c) *Enterprise expansion fund*

In accordance with the Company Law of the PRC, certain subsidiaries located in the Mainland of the PRC are required to transfer 5% to 10% of their profits after tax, as determined in accordance with PRC GAAP, to the enterprise expansion fund (the "EEF") which is a non-distributable reserve other than in the event of liquidation of these subsidiaries. EEF must be used for production and operation expansion purposes.

## 30. FINANCIAL INSTRUMENTS

### *Financial risk management objectives and policies*

Financial assets of the Group mainly include cash and cash equivalents, trade receivables, notes receivables, investments, deposits, amount due from a related party and other receivables. Financial liabilities of the Group include bank and other borrowings, trade payables, notes payables, other payables and amount due to a related party.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

#### (a) *Interest rate risk*

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's interest-bearing bank loans and other borrowings.

The Group does not hedge interest rate fluctuations.

In the opinion of the directors, the Group has no significant interest rate risk due to the short maturity of the Group's interest-bearing loans and other borrowings.

# Notes to Financial Statements

At 31 December 2005

## 30. FINANCIAL INSTRUMENTS (cont'd)

### *Financial risk management objectives and policies (cont'd)*

(b) *Foreign currency risk*

The Group's exposure to market risk for changes in foreign currency exchange rates relates primarily to the Group's operations in Hong Kong.

The Group has foreign currency risk as certain of its payables to suppliers and trade receivables are denominated in foreign currencies, principally United States dollars. Fluctuations in exchange rates of Hong Kong dollars and RMB against foreign currencies could affect the Group's results of operations.

(c) *Credit risk*

Credit risk arising from the inability of a counterparty, to meet the terms of the Group's financial instrument contracts is generally limited to the amounts, if any, by which the counterparty's obligations exceed the obligations of the Group. The Group minimises its exposure to credit risk by only dealing with counterparties with acceptable credit ratings.

The Group's maximum exposure to credit risk (not taking into account the value of any collateral or other security held) in the event that the counterparties fail to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the consolidated balance sheet.

### *Significant concentrations of credit risk*

Concentrations of credit risk exist when changes in economic, industrial or geographic factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Group's total credit exposure. The Group has significant sales transactions with government organisations, hotels and property developers in Zhejiang Province, the PRC and hence, has a significant concentration of credit risk.

As at 31 December 2005 and 2004, the Group's unbilled amounts due from customers for contract works amounted to approximately RMB170,987,000 and RMB146,041,000, respectively. The unbilled amounts due from customers for contract works accounted for approximately 42% and 37% of the Group's total assets as at 31 December 2005 and 2004, respectively. The Group bills its customers for services provided in accordance with payment terms as stipulated in the intelligent information solution contracts signed with its customers. Therefore, the Group has a significant concentration of credit risk for unbilled amounts due from customers for contract works as set out above.

# Notes to Financial Statements

At 31 December 2005

## 30. FINANCIAL INSTRUMENTS (cont'd)

### *Financial risk management objectives and policies (cont'd)*

(d) *Liquidity risk*

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans and other interest-bearing loans. As part of its overall prudent liquidity management, the Group maintains sufficient levels of cash to meet its working capital requirements.

(e) *Net fair values*

The aggregate net fair values of financial assets and financial liabilities are not materially different from their carrying amounts. Fair value estimates are made at a specific point in time and are based on relevant market information and information about the financial instruments. These estimates are subjective in nature, involve uncertainties and matters of significant judgement and therefore cannot be determined with precision changes in assumptions could significantly affect the estimates.

## 31. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Guarantees given to banks in connection with facilities granted to:				
Subsidiaries	–	–	<b>38,850</b>	11,000
Third party company	<b>10,000</b>	–	–	–
	<b>10,000</b>	–	<b>38,850</b>	11,000

As at 31 December 2005, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately RMB22,659,000 (2004: RMB11,000,000), and the banking facility guaranteed by the Group to a third party company was utilised to the extent of approximately RMB10,000,000 (2004: Nil).

# Notes to Financial Statements

At 31 December 2005

## 32. COMMITMENTS

Group	Notes	2005 RMB'000	2004 RMB'000
Future minimum lease rentals payable under non-cancellable operating leases expiring:	(a)		
Within one year		<b>2,422</b>	2,707
In the second to fifth years, inclusive		<b>1,347</b>	2,749
		<b>3,769</b>	5,456
Capital commitments:			
Development cost:			
Approved but not contracted for		<b>650</b>	–
Contracted but not provided for		<b>920</b>	3,200
Total		<b>1,570</b>	3,200
Investment in an associate	(b)	<b>1,875</b>	3,750
<b>Company</b>			
Future minimum lease rentals payable under non-cancellable operating leases expiring:	(a)		
Within one year		<b>506</b>	321
In the second to fifth years, inclusive		<b>95</b>	188
		<b>601</b>	509

(a) Operating leases for the Group and the Company represent rentals payable for the use of buildings. These leases have average lives of between two to three years with renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases.

(b) On 21 December 2004, Sino Stride Technology entered into a joint venture agreement (the "JV Agreement") for the establishment of a Sino-Foreign Equity Joint Venture, known as STAR (Zhejiang) Automotive Center Co., Ltd. with Singapore Technologies Kinetics Limited, a fellow subsidiary of the Company's substantial shareholder, Singapore Technologies Electronics Limited, and Zhejiang University Logistics and Investment Holdings Company. Sino Stride Technology contributed RMB1,875,000 in cash in 2005 in accordance with the JV Agreement, representing 12.5% of the registered capital of the joint venture. The capital commitment of RMB1,875,000 represents additional 12.5% of the registered capital of the joint venture.

The Group and the Company did not have any other significant capital expenditure and commitments as at 31 December 2005.

# Notes to Financial Statements

At 31 December 2005

## 33. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Company and its subsidiaries had the following material transactions with related parties:

Name of related parties	Nature of transactions	2005 RMB'000	2004 RMB'000
<b>Group</b>			
Sino Stride Holdings Limited ("HKSS") (note a)	Operating lease of buildings from the related company (note e)	324	553
Hangzhou Advance Technology Company Limited ("HAT") (note b)	Subcontracting to the related company (note f)	–	1,037
Hu Guang (note c)	Advance from the senior management (note g)	3,345	–
HKSS (note a)	Advance to the related company (note h)	5,012	–
HKSS (note a)	Properties pledged for banking facilities (note i)	8,672	–
<b>Company</b>			
HKSS (note a)	Operating lease of buildings from the related company (note e)	324	553
Ever Create Profits Limited ("ECP") (note d)	Provision of management services to the related company (note j)	317	265
ECP (note d)	Provision of sales arrangement services to the related companies (note k)	1,302	2,417
ECP (note d)	Dividend income	1,872	–
Sino Stride (BVI) Limited ("Sino BVI") (note d)	Dividend income	6,448	13,250
Chau Chit (note l)	Share options granted to a director (note l)	–	1,020
Wong Wai Tin (note l)	Share options granted to a director (note l)	–	680
Shen Yue (note l)	Share options granted to a director (note l)	–	340

# Notes to Financial Statements

At 31 December 2005

## 33. RELATED PARTY TRANSACTIONS (cont'd)

Name of related parties	Nature of transactions	2005 RMB'000	2004 RMB'000
<b>Company (cont'd)</b>			
Sino Stride Technology Co. Ltd. (note d)	Advance from the related company (note m)	<b>1,879</b>	1,618
Sino BVI (note d)	Advance to the related company (note n)	<b>55,184</b>	49,880
ECP (note d)	Advance to the related company (note n)	<b>22,709</b>	30,065
Choice Delta Assets Limited ("CDA") (note d)	Advance to the related company (note n)	<b>4,918</b>	5,065

Notes:

- (a) HKSS is a company beneficially owned by Mr. Chau Chit, a director, Ms. Ting Hiu Wan, the spouse of Mr. Chau Chit, and Mr. Wong Wai Tin, a director, in the proportion of 50%, 30% and 20% respectively.
- (b) HAT is a company in which Mr. Zhang Xiao Feng, a former director of the Company, has a 48% equity interest. The transactions were entered into during the service of his directorship.
- (c) Hu Guang is the vice-president of Sino Stride Technology.
- (d) ECP, Sino Stride Technology, Sino BVI and CDA are subsidiaries of the Company.
- (e) On 19 April 2002, HKSS as landlords, entered into a lease agreement with the Company as tenant in respect of an apartment located at Flat F, 22/F, Tower One, Park Tower, 1 King's Road, Causeway Bay, Hong Kong, for use as living quarters for the Group's employees for a term of five years each commencing from 19 April 2002, at monthly rentals of HK\$26,000, as determined based on approximate prevailing market prices.
- (f) On 24 April 2004, Sino Stride Technology and HAT entered into a subcontracting agreement. Pursuant to the agreement, Sino Stride Technology subcontracted contract works amounting to RMB1,037,000 to HAT. In the opinion of the directors, this transaction was carried out based on normal commercial terms and in accordance with the terms of the underlying agreement.
- (g) The advance from Hu Guang is unsecured, interest-free and has no fixed terms of repayment as set out in note 22 to the financial statements.

Had interest been charged on the outstanding amount due to Hu Guang for the three months period in which the advance was obtained, based on the official lending rate in the PRC quoted by the People's Bank of China of approximately 5.58% per annum, the Company would have borne interest expense, net of tax, of approximately RMB38,000 for the year.



# Notes to Financial Statements

At 31 December 2005

## 33. RELATED PARTY TRANSACTIONS (cont'd)

Notes (cont'd):

- (h) The advance to HKSS is unsecured, interest-free and has no fixed terms of repayment as set out in the note 22 to the financial statements.

Had interest been charged on the outstanding amount due from HKSS for the three months period in which the advance was granted, based on the official interest rate in Hong Kong quoted by the Hong Kong and Shanghai Banking Corporation Limited of approximately 2.50% per annum, the Company would have an interest income, net of tax, of approximately RMB26,000 for the year.

- (i) The bank loan with an outstanding amount of RMB8,672,000 is secured by the properties from HKSS as set out in note 24 to the financial statements.

- (j) These transactions have been entered into in the normal course of business and have been transacted based on the terms and conditions determined by agreement of the parties.

- (k) On 1 February 2003, the Company entered into an agreement with ECP in relation to the provision of sales arrangement services. The sales arrangement service charges, as determined by agreement of both parties, are set at 10% (2004: 5%) of the turnover of ECP.

- (l) On 27 August 2004, share options were granted to Mr. Chau Chit, Mr. Wong Wai Tin and Mr. Shen Yue in respect of their services to the Group under the Company's Share Option Scheme. The theoretical values of the shares of RMB1,020,000, RMB680,000 and RMB340,000, respectively, which is computed based on the exercise price of HK\$0.34 per share. The exercise price was determined with reference to the average closing price of the Company's shares quoted on the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant. At the balance sheet date, there were no share options that were outstanding under the Share Options Scheme as the Company had cancelled all the outstanding share options on 11 November 2005 pursuant to a board resolution and with consent from Mr. Chau Chit, Mr. Wong Wai Tin and Mr. Shen Yue, respectively.

- (m) The advance from Sino Stride Technology is unsecured, interest-free and has no fixed terms of repayment as set out in note 15 to the financial statements.

Had interest been charged on the outstanding amounts due to the subsidiary, based on the official lending rate in the PRC quoted by the People's Bank of China of approximately 5.58% (2004: 5.76%) per annum, the Company would have borne interest expense, net of tax, of approximately RMB86,000 (2004: RMB79,000) for the year.

- (n) The advances to the subsidiaries are unsecured, interest-free and have no fixed terms of repayment as set out in the note 15 to the financial statements.

Had interest been charged on the outstanding amount due from the subsidiaries, based on the official interest rate in Hong Kong quoted by the Hong Kong and Shanghai Banking Corporation Limited of approximately 2.50% (2004: 2.25%) per annum, the Company would have an interest income, net of tax, of approximately RMB1,708,000 (2004: RMB1,578,000) for the year.

The directors of the Company are of the opinion that the above transactions with related parties were carried out in the ordinary course of business.

# Notes to Financial Statements

At 31 December 2005

## 34. SIGNIFICANT EVENT DURING THE YEAR

On 16 December 2005, Shougang Concord Technology Holdings Limited ("SCT"), a company incorporated in Hong Kong whose securities are listed on the Main Board of the Stock Exchange, approached the Board of the Company stating its intention to make a voluntary conditional share exchange offer (the "Share Exchange Offer") to acquire all the issued shares of the Company.

On 23 December 2005, SCT issued an announcement jointly with the Company in respect of, amongst other things, a voluntary conditional share exchange offer by Made Connection Limited, a wholly-owned subsidiary of SCT, to acquire all the issued shares of the Company at two new shares of SCT for every three shares of the Company. The Share Exchange Offer of two new SCT shares for every three shares of the Company has been determined by SCT with reference to the closing price of the SCT shares as quoted on the Stock Exchange as at the last trading day, which was HK\$0.45 per share. This translates into a value of HK\$0.30 per share of the Company.

On the same day, Mega Start and Mr. Wong Wai Tin have tendered 451,740,000 shares and 2,500,000 shares, respectively, for acceptance of the Share Exchange Offer.

As at the balance sheet date, the issued share capital of the Company comprised 1,086,300,000 shares in issue. On the basis of the Share Exchange Offer of two new SCT shares for every three shares of the Company and based on the closing prices of shares of SCT and the Company on the date of proposal of HK\$0.45 per share and HK\$0.30 per share, respectively, the Share Exchange Offer values the entire issued share capital of the Company at approximately HK\$325.9 million.

The Share Exchange Offer has yet to be completed as at 31 December 2005.

## 35. POST BALANCE SHEET EVENT

On 20 March 2006, the Share Exchange Offer, as set up in note 34 to the financial statements, was duly approved by the SCT's shareholders in an extraordinary general meeting of SCT. On the same day, valid acceptances have been received in respect of 758,819,000 ordinary shares, representing approximately 69.85% of issued share capital, of the Company, under the Share Exchange Offer. As all the conditions of the Share Exchange Offer have been fulfilled, the Offeror announced that the Share Exchange Offer is declared unconditional on 20 March 2006. Accordingly, the Offeror will be interested in 758,819,000 issued shares capital of the Company and will become the controlling shareholder of the Company once the legal title of such 758,819,000 shares are properly transferred to the Offeror. As at the date of this report, the legal titles of such 758,819,000 shares accepted under the Share Exchange Offer as at 20 March 2006 have yet to be legally transferred to the Offeror.

The Company will become a subsidiary of the Offeror once the legal titles of such 758,819,000 shares are legally transferred to the Offeror. Accordingly, SCT will become the substantial shareholder of the Company.

# Notes to Financial Statements

At 31 December 2005

## **35. POST BALANCE SHEET EVENT (cont'd)**

On the basis, and after accounting for the shareholding interests of ST Electronics of approximately 28% of the issued share capital of the Company which has not indicated its willingness to accept the Share Exchange Offer up to the date of this report, the public float of SST is estimated to be approximately 2.15% as and when the legal titles of such 758,819,000 shares are properly and legally transferred to the Offeror.

Pursuant to the Offer Document issued by the Offeror and SCT on 20 February 2006, the Share Exchange Offer will remain open till the final closing date on 3 April 2006.

## **36. COMPARATIVE AMOUNTS**

Certain comparative amounts have been reclassified to conform with the current year's presentation.

## **37. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the board of directors on 28 March 2006.