

THE CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Technology Venture Holdings Limited (the "Company"), you should at once hand this circular together with the enclosed form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities.

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TECHNOLOGY VENTURE HOLDINGS LIMITED

(宏昌科技集團有限公司)*

(incorporated in Bermuda with limited liability)

(Stock Code 61)

**MAJOR AND CONNECTED TRANSACTION
FOR THE DISPOSAL; AND DISCLOSEABLE AND
CONNECTED TRANSACTION FOR THE ACQUISITION;
IN RELATION TO
THE EQUITY INTERESTS IN SUBSIDIARIES**

**Independent financial adviser to the independent board committee and
the independent shareholders of the Company**



Capital 融資

TAI FOOK CAPITAL LIMITED

A letter of advice from Tai Fook Capital Limited to the independent board committee and the independent shareholders of the Company is set out on pages 16 to 29 of this circular. The recommendation of the independent board committee to the independent shareholders of the Company is set out on page 15 of this circular.

A notice convening a special general meeting ("SGM") of the Company to be held at Room 3101, 118 Connaught Road West, Hong Kong on Monday, 28 November 2005 at 11:00 a.m. is set out on pages 92 to 93 of this circular.

Whether or not you are able to attend the SGM, you are requested to complete the accompanying form of proxy, in accordance with the instructions printed thereon and deposit the same at the office of the Company's branch share registrar in Hong Kong, Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

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DEFINITIONS

In this circular, unless the context requires otherwise, the following expressions shall have the following meanings when used herein:

“Acquisition”	the acquisition by the Group of remaining 45% equity interests in ADT (BVI) from Aryalin pursuant to the Acquisition Agreement
“Acquisition Agreement”	the sale and purchase agreement dated 30 September 2005 and entered into between Aryalin as vendor and the Group as purchaser in relation to the Acquisition
“ADT (BJ)”	北京先進數通信息技術有限公司 (Beijing Advanced Digital Information Technology Company Limited), a wholly-foreign owned enterprise established by ADT (Hong Kong) in the PRC
“ADT (BVI)”	Advanced Digital Technology Company Limited, an investment holding company incorporated in the British Virgin Islands and a non-wholly owned subsidiary of the Company beneficially owned as to 55% by the Group and as to 45% by Aryalin before Completion
“ADT Group”	ADT (BVI), ADT (Hong Kong) and ADT (BJ) immediately before Completion, or ADT (BVI) and ADT (Hong Kong) only immediately after Completion
“ADT (Hong Kong)”	Advanced Digital Technology Company Limited, an investment holding company incorporated in Hong Kong and a wholly owned subsidiary of ADT (BVI)
“Aryalin”	Aryalin Associates Limited, a company incorporated in the British Virgin Islands
“associates”	has the meaning ascribed to this term under the Listing Rules
“Company”	Technology Venture Holdings Limited, a company incorporated in Bermuda with limited liability and the issued Shares of which are listed on the main board of the Stock Exchange
“Completion”	completion of the Disposal and the Acquisition in accordance with the terms and conditions of the Sale and Purchase Agreements
“Directors”	directors of the Company

DEFINITIONS

“Disposal”	the disposal by the Group of the Sale Shares pursuant to the Disposal Agreement
“Disposal Agreement”	the sale and purchase agreement dated 30 September 2005 and entered into between ADT (Hong Kong) as vendor and Prosper Success Investments Limited, a wholly-owned subsidiary of Aryalin, as purchaser in relation to the Disposal
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	the independent board committee of the board of Directors comprising Mr. Lo Siew Kiong, John, Mr. Fu Yan Yan and Ms. Wang Xi Ling, representing all the independent non-executive Directors, which has been formed to advise the Independent Shareholders as to the fairness and reasonableness of the Transactions
“Independent Shareholders”	Shareholders other than Aryalin (including its ultimate beneficial owners and their respective associates) and its associates
“Latest Practicable Date”	8 November 2005, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China, which for the purpose of this circular, excluding Hong Kong, Macau Special Administrative Region and Taiwan
“Sale and Purchase Agreements”	together the Disposal Agreement and the Acquisition Agreement
“Sale Shares”	the entire registered capital of ADT (BJ)
“SFO”	Securities and Futures Ordinance, Cap. 571 of the Laws of Hong Kong
“SGM”	the special general meeting of the Company to be convened and held to consider and approve the Transactions

DEFINITIONS

“Shareholders”	holders of the Shares
“Shares”	ordinary shares of HK\$0.10 each in the capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Transactions”	the Disposal and the Acquisition and the transactions contemplated thereunder
“HK\$”	Hong Kong dollars, the lawful currency for the time being of Hong Kong
“RMB”	Renminbi, the lawful currency for the time being of the PRC
“US\$”	United States dollars, the lawful currency for the time being of the United States of America
“%”	per cent.

For the purpose of this circular, unless otherwise specified, conversion of Renminbi into Hong Kong dollars is based on the approximate exchange rate of RMB1.04 to HK\$1.00.

LETTER FROM THE BOARD



TECHNOLOGY VENTURE HOLDINGS LIMITED

(宏昌科技集團有限公司) *

(incorporated in Bermuda with limited liability)

(Stock Code 61)

Executive Directors:

Mr. Chan Tze Ngon (*Chairman*)

Mr. Wu Emmy (*Deputy chairman*)

Mr. Tang Kin Hung

Registered office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Independent non-executive Directors:

Mr. Lo Siew Kiong, John, O.B.E., J.P.

Mr. Fu Yan Yan

Ms. Wang Xi Ling

*Head office and principal place of
business in Hong Kong:*

Room 3101

31st Floor

118 Connaught Road West

Hong Kong

10 November 2005

To the Shareholders

Dear Sir or Madam,

**MAJOR AND CONNECTED TRANSACTION
FOR THE DISPOSAL; AND DISCLOSEABLE AND
CONNECTED TRANSACTION FOR THE ACQUISITION;
IN RELATION TO
THE EQUITY INTERESTS IN SUBSIDIARIES**

INTRODUCTION

The Company announced on 5 October 2005 that the Sale and Purchase Agreements are entered into for the purpose of disposing of the Company's 55% equity interests in ADT (BJ).

The Transactions constitute major and connected transactions on the part of the Company under Rules 14.06 and 14A.13(1)(a) of the Listing Rules and are subject to the approval by the Independent Shareholders at the SGM to be taken by way of a poll. Independent Board Committee comprising Mr. Lo Siew Kiong, John, Mr. Fu Yan Yan and Ms. Wang Xi Ling, representing all the independent non-executive Directors, has been

LETTER FROM THE BOARD

formed to advise the Independent Shareholders as to the fairness and reasonableness of the Transactions. Tai Fook Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee in this regard.

The purpose of this circular is to provide you with further information regarding, among other things, the Sale and Purchase Agreements, the financial information of the Group, to set out the recommendation of the Independent Board Committee to the Independent Shareholders and the advice from Tai Fook Capital Limited to the Independent Board Committee and the Independent Shareholders in relation to the Transactions, and to give you notice of SGM.

SALE AND PURCHASE AGREEMENTS

(A) Disposal Agreement

Date: 30 September 2005

Parties: (1) Vendor: ADT (Hong Kong), a 55% owned subsidiary of the Company before Completion

(2) Purchaser: Prosper Success Investments Limited, an investment holding company incorporated in the British Virgin Islands and a wholly-owned subsidiary of Aryalin

Aryalin is a substantial shareholder of ADT (BVI) which is a subsidiary of the Company. Under the definition of the Listing Rules, it is a connected person of the Company. To the best knowledge, information and belief of the Directors, Aryalin does not hold any Shares. As Prosper Success Investments Limited is an associate of Aryalin, it is also a connected person of the Company.

Asset to be disposed:

The entire registered capital of ADT (BJ) of US\$3 million .

Consideration:

The consideration for the Disposal is RMB27 million (equivalent to approximately HK\$25,961,539), of which:

- (a) RMB4 million (equivalent to approximately HK\$3,846,154) shall be payable in cash as initial deposit within ten days after the date of the Disposal Agreement;
- (b) RMB13 million (equivalent to HK\$12,500,000) shall be payable in cash to an escrow agent as further deposit within 15 days after the date of the Disposal Agreement; and

LETTER FROM THE BOARD

- (c) RMB10 million (equivalent to approximately HK\$9,615,385) shall be payable by way of bank draft for acceptance due within 12 months issued by a licensed bank in the PRC or Hong Kong on the date of Completion.

The purchaser shall have the option at its discretion to satisfy the remaining consideration of RMB10 million by payment of RMB9 million (equivalent to approximately HK\$8,653,846) in cash on the date of Completion. No consent of the Company is required for the purchaser to exercise the option. This payment option is given at the request of the purchaser to provide greater flexibility for it such that it may defer payment for 12 months at the expense of payment of additional RMB1 million. In view of the additional RMB1 million consideration receivable if the purchaser elects to exercise the option to defer payment, the Directors consider that the grant of such an option is in the interests of the Company and the Shareholders as a whole. There is no material risk to the Group for receiving the bank draft for acceptance due within 12 months as the primary payment obligation will then be on the bank rather than the Purchaser. However, if the Purchaser defaults in payment of the remaining consideration of RMB10 million by way of bank draft for acceptance or RMB9 million in cash on the date of Completion, Completion will not be proceeded and the Purchaser shall pay to the Group RMB2,000,000 as liquidated damages.

The consideration for the Disposal was arrived at after arm's length negotiations between the parties to the Disposal Agreement with reference to the unaudited net asset value of ADT Group and ADT (BJ) as at 31 August 2005 of approximately HK\$2.96 million and HK\$21.5 million respectively (in which the Group is interested in 55% only), its current loss making position, and the unfavourable business environment in the PRC in which ADT (BJ) is engaged which casts doubt on the future prospects of ADT (BJ) (details of which please refer to the paragraph headed "Reasons for the Disposal and Acquisition" below). The consideration represents approximately 14 times and 1 time over the attributable net asset value of the ADT Group of approximately HK\$1.63 million and ADT (BJ) of approximately HK\$11.8 million respectively as at 31 August 2005. The Directors consider the terms and conditions of the Disposal to be fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

As at the Latest Practicable Date, RMB17 million has been paid by the Purchaser in accordance with the terms of the Disposal Agreement.

Condition

The Disposal is conditional upon the Independent Shareholders passing at the SGM the resolution approving: (i) the Disposal Agreement and the transactions contemplated thereunder; and (ii) the Acquisition Agreement and the transactions contemplated thereunder, both to be taken by way of a poll.

If the condition is not fulfilled on or before 5:00 p.m. on 29 November 2005 (or such later date as the parties may agree), the deposits paid by the purchaser shall be refunded forthwith without interest by the Group and the Disposal Agreement shall cease and determine.

LETTER FROM THE BOARD

Completion

Completion is expected to take place on 30 November 2005 (or such other date as may be agreed between the parties hereto) after the fulfillment of the condition mentioned above.

(B) Acquisition Agreement

Date: 30 September 2005

Parties: (1) Vendor: Aryalin

(2) Purchaser: Technology Venture Investments Limited, a wholly owned subsidiary of the Company

Asset to be acquired:

450 shares of US\$1.00 each in the share capital of ADT (BVI), representing 45% of the entire issued share capital of ADT (BVI). These 450 shares in ADT (BVI) were acquired by Aryalin through subscription on 21 June 2000 at the cost of US\$450. There is no restriction on subsequent sale of such shares.

Consideration:

A nominal consideration of HK\$1.00 payable in cash on the date of Completion.

The consideration for the Acquisition was arrived at after arm's length negotiations between the parties to the Acquisition Agreement taking into consideration of the terms of the Disposal. Given the Acquisition Agreement is entered into for the purpose of achieving a clean break between the Group and Aryalin resulting from the disposing of the Company's 55% equity interests in ADT (BJ) such that there will not be any business relationship nor any inter-company balances between the Group and Aryalin, the Directors consider the terms and conditions of the Acquisition to be fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Conditions

The Acquisition is conditional upon: (i) the Independent Shareholders passing at the SGM the resolution approving the Acquisition Agreement and the transactions contemplated thereunder to be taken by way of a poll; and (ii) completion of the Disposal Agreement in accordance with its terms.

If the conditions are not fulfilled on or before 5:00 p.m. on 30 November 2005 (or such later date as the parties may agree), the Acquisition Agreement shall cease and determine.

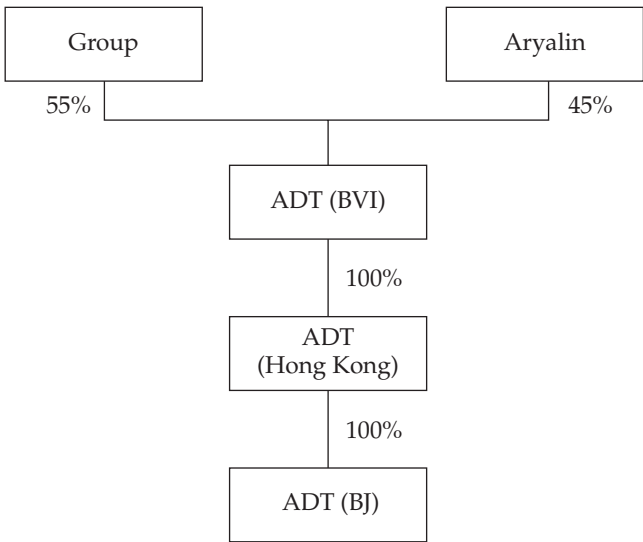
LETTER FROM THE BOARD

Completion

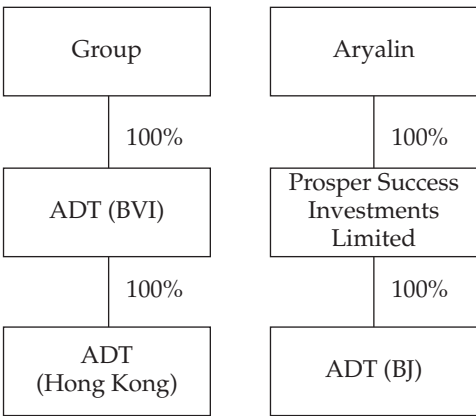
As the Acquisition is inter-related and was discussed in conjunction with the Disposal, the Acquisition is conditional upon completion of the Disposal and completion of the Acquisition will take place simultaneously upon completion of the Disposal.

Upon Completion, ADT (BVI) and ADT (Hong Kong) will become wholly owned subsidiaries of the Company and ADT (BJ) will cease to be a subsidiary of the Company. The following charts show the shareholding structures of the ADT Group immediately before and after Completion:

Shareholding structure immediately before Completion



Shareholding structure immediately before Completion



INFORMATION ON ARYALIN

Aryalin is a company incorporated in the British Virgin Islands and is principally engaged in investment holding. To the best knowledge, information and belief of the

LETTER FROM THE BOARD

Directors, the entire issued share capital of Aryalin is owned as to approximately 9.7% by Caifoo Investments Holding Limited and as to approximately 90.3% by Vectara Limited, both of which are beneficially owned by Mr. Foo Hei. Before Completion, Aryalin is the substantial shareholder holding 45% equity interests in the issued share capital of ADT (BVI). Under the Listing Rules, each of Mr. Foo Hei, Caifoo Investments Holding Limited, Vectara Limited and Aryalin is a connected person of the Company.

INFORMATION ON THE ADT GROUP

ADT (BVI) is a company incorporated in the British Virgin Islands with limited liability, principally engaged in investment holding. ADT (BVI) is the holding company of ADT (Hong Kong) which in turn is the registered and beneficial owner of ADT (BJ). ADT (BJ) is a wholly-foreign owned enterprise established in the PRC principally engaged for the provision of systems integration services and software development to the banking sector in the PRC. Before Completion, the issued share capital of ADT (BVI) is owned as to 55% by the Group and as to 45% by Aryalin. After Completion, the registered capital of ADT (BJ) will be wholly owned by Aryalin, and ADT (BVI) and ADT (Hong Kong) will be wholly owned by the Group.

The following tables show the turnover, net profit (loss) before tax, net profit (loss) after tax and the net asset value of each member of the ADT Group based on its management accounts:

	For the year ended 31 December 2003			As at 31 December 2003
	Turnover	Net profit (loss) before tax	Net profit (loss) after tax	Net asset/ (liability) value
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ADT (BVI)	–	(9)	(9)	(37)
ADT (Hong Kong)	5,355	986	304	6,197
ADT (BJ)	145,976	3,312	3,312	33,554

	For the year ended 31 December 2004			As at 31 December 2004
	Turnover	Net profit (loss) before tax	Net profit (loss) after tax	Net asset/ (liability) value
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ADT (BVI)	–	(9)	(9)	(46)
ADT (Hong Kong)	4,197	(948)	(1,225)	4,972
ADT (BJ)	156,041	(5,748)	(5,748)	27,806

LETTER FROM THE BOARD

REASONS FOR THE DISPOSAL AND THE ACQUISITION

The principal activity of the Company is investment holding with its subsidiaries principally engaged in the distribution of computer hardware and software products and the provision of computer technology services.

Based on the audited consolidated financial statements of the Group for the year ended 31 December 2003 and 31 December 2004, the audited turnover of the Group was approximately HK\$261,692,000 and HK\$237,841,000 respectively, the audited net loss before taxation of the Group was approximately HK\$15,734,000 and HK\$29,755,000 respectively and the audited net loss after taxation of the Group was approximately HK\$13,760,000 and HK\$29,930,000 respectively.

As mentioned in the annual report of the Company for 2004, gross profit of the Group dropped from approximately HK\$36,284,000 to approximately HK\$27,165,000. The decline was primarily attributable to, among other matters, the unfavourable business environment in the PRC leading to fierce competition and contraction of spending by the customers in information technology. As a result, the financial performance of ADT (BJ) has been directly affected and the gross profit of ADT (BJ) decreased from approximately HK\$21,477,000 in 2002 to approximately HK\$10,450,000 in 2004. Gross profit margin of ADT (BJ) dropped from approximately 23% in 2002 to 7% in 2004, resulting in a loss position in 2004 as mentioned in the paragraph headed “Information of the ADT Group” above. Facing the current unfavourable business environment in the PRC, the Directors are not optimistic about the prospects of ADT (BJ) in the foreseeable future and do not intend to devote further time and resources in ADT (BJ). The Directors consider that the Group would benefit from the Disposal in the long run by reallocating the resources in terms of time, money and efforts as previously devoted to ADT (BJ) to other business of the Group which has a better growth potential.

The purpose of the Transactions is to dispose of the Company’s 55% equity interests in ADT (BJ). The purpose of the Acquisition is to facilitate a clean break between the Group and Aryalin after Disposal. Immediately after Completion, the ADT Group will comprise ADT (BVI) and ADT (Hong Kong) only which will become dormant and will be deregistered.

In order to achieve a clean break with Aryalin, upon Completion, a deed of set off and settlement will be entered into between the Group and Aryalin (and its associates) pursuant to which any inter-company balances between the Group and Aryalin (and its associates) will be set off and deemed satisfied upon Completion. Based on the unaudited management accounts of the Group as at 31 August 2005, the Group after Completion will be indebted to Aryalin and its associates in the amount of approximately HK\$14.2 million while the Aryalin and its associates after Completion will be indebted to the Group in the amount of approximately HK\$6.5 million. In consideration of payment of a nominal amount of HK\$1.00 by each party upon Completion, all inter-company balances between the Group and Aryalin (and its associates) will be set off and deemed satisfied. As such, it is expected that the financial position of the Group will be strengthened as the liabilities of the Group will be reduced by approximately HK\$7.7 million after the set off and settlement.

LETTER FROM THE BOARD

The net proceeds of the Disposal of approximately RMB26.5 million (equivalent to approximately HK\$25.48 million) will be used for general working capital of the Group to strengthen the Group's future business development in the remaining core business of distribution of information technology products and provision of computer technology related services. However, the Group will look for other suitable business opportunity in order to diversify its business into other information technology related area with better growth potential. As at the Latest Practicable Date, no such opportunity has been identified by the Group yet.

FINANCIAL EFFECT OF THE TRANSACTIONS

It is estimated that, upon Completion and based on the investments costs in ADT (BJ) of approximately HK\$42.7 million adjusted by including the Group's share of the results of ADT (BJ) since the acquisition of it on 1 September 2000 up to 31 August 2005 of approximately HK\$1.6 million, the Group will record a loss on Disposal (including the effect on Acquisition which is carried out to facilitate the Disposal) of approximately HK\$19.6 million for the year ending 31 December 2005 and an increase in the net assets of the Group by approximately HK\$30.8 million arising from: (i) the reversal of the goodwill on acquisition of the ADT Group in 2000 of approximately HK\$42.7 million; and (ii) the gain on the set off and settlement of the inter-company balances between the Group and Aryalin (and its associates) upon Completion of approximately HK\$7.7 million, less the loss on Disposal of approximately HK\$19.6 million.

The audited turnover of the ADT (BJ) as a percentage of the turnover of the Group for the year ended 31 December 2003 is approximately 55.78%. The audited net profit before tax of ADT (BJ) for the year ended 31 December 2003 was approximately HK\$3.3 million while the Group was loss making of approximately HK\$15.4 million for the same period. The audited turnover and net loss before tax of the ADT (BJ) as a percentage of the turnover and net loss before tax of the Group for the year ended 31 December 2004 were approximately 65.61% and 19.32% respectively. Upon Completion, the Group will cease to have any interest in ADT (BJ) and the results of ADT (BJ) will no longer be consolidated to the Group's accounts. Accordingly, based on the results of ADT (BJ) for the year ended 31 December 2004, the Disposal by itself is expected to result in a fall in the turnover of the Group but will have a positive effect to the Group's consolidated results for the current financial year given the fact that it will no longer need to consolidate any losses from ADT (BJ) after Completion. However, as mentioned above, there will be a loss on Disposal of approximately HK\$19.6 million for the current financial year.

The Company confirms that immediately after the Disposal, the Group will be engaged in the distribution of information technology products and provision of computer technology services, and the provision of information technology management, online and support services as well as Internet portal and data management service to property agencies in the PRC. By reference to the audited results of the Group for the year ended 31 December 2004, turnover of the Group excluding the ADT Group was approximately HK\$77.9 million. As such, the Company believed that the Group has sufficient level of operations to warrant the continued listing of the Shares on the Stock Exchange.

LETTER FROM THE BOARD

LISTING RULES IMPLICATION

Aryalin, being a substantial shareholder of ADT (BVI), is a connected person of the Company. As the Acquisition and the Disposal were negotiated between the same parties for the purpose of disposing of the Company's 55% equity interests in ADT (BJ) and the relevant percentage ratios are more than 25% but less than 75%, the Transactions therefore constitute major and connected transactions on the part of the Company under Rules 14.06 and 14A.13(1)(a) of the Listing Rules.

The Transactions are subject to the approval by the Independent Shareholders at the SGM to be taken by way of a poll. Aryalin, its ultimate beneficial owners and their respective associates (including a director of Aryalin who is interested in 500,000 Shares) will abstain from voting for the relevant resolution at the SGM due to their interests in the Transactions. To the best knowledge, information and belief of the Directors, other than Aryalin and its associates, no other Shareholder has a material interest in the Transactions and is required to abstain from voting at the SGM. To the best knowledge, information and belief of the Directors after having made all reasonable enquiries, there is (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon Aryalin, its ultimate beneficial owners and their respective associates; and (ii) no obligation or entitlement of each of Aryalin, its ultimate beneficial owners and their respective associates as at the Latest Practicable Date, whereby it has or may have temporarily or permanently passed control over the exercise of the voting right in respect of its Shares to a third party, either generally or on a case-by-case basis.

The Independent Board Committee has been formed to advise the Independent Shareholders as to the fairness and reasonableness of the Transactions. Tai Fook Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

SGM

A notice convening the SGM to be held at Room 3101, 118 Connaught Road West, Hong Kong on Monday, 28 November 2005 at 11:00 a.m. is set out on pages 92 to 93 on this circular.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same at the offices of the Company's branch share registrar in Hong Kong, Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

LETTER FROM THE BOARD

PROCEDURES FOR DEMANDING A POLL AT GENERAL MEETING

According to bye-law 73 of the bye-laws of the Company, a resolution put to the vote at any general meeting shall be determined by a show of hands of the Shareholders present in person (or, in the case of a Shareholder being a corporation, by its authorised representative entitled to vote) or by proxy unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded by:

- (i) the chairman of such meeting; or
- (ii) at least three Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or
- (iii) any Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or
- (iv) any Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Unless a poll is duly demanded in accordance with the foregoing provisions, a declaration by the chairman that a resolution has on a show of hands been carried unanimously, or by a particular majority, or lost, and an entry to that effect in the book containing the minutes of the proceedings of the Company, shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.

Notwithstanding the above, the resolution approving the Transactions will be voted on by way of a poll in the SGM.

RECOMMENDATION

The Board considers that the terms of the Transactions are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Independent Shareholders to vote in favour of the ordinary resolution as set out in the notice of the SGM to approve the Transactions.

LETTER FROM THE BOARD

Your attention is drawn to the letter from the Independent Board Committee set out on page 15 of this circular. The Independent Board Committee, having taken into account the advice of Tai Fook Capital Limited, the text of which is set out on pages 16 to 29 of this circular, considers that the terms of the Transactions are fair and reasonable so far as the Company and the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Disposal Agreement, the Acquisition Agreement and the transactions contemplated thereunder.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
On behalf of the Board
Technology Venture Holdings Limited
Chan Tze Ngon
Chairman

* *for identification purpose only*



TECHNOLOGY VENTURE HOLDINGS LIMITED

(宏昌科技集團有限公司) *

(incorporated in Bermuda with limited liability)

(Stock Code 61)

10 November 2005

To the Independent Shareholders

Dear Sir or Madam,

**MAJOR AND CONNECTED TRANSACTION
FOR THE DISPOSAL; AND DISCLOSEABLE AND
CONNECTED TRANSACTION FOR THE ACQUISITION;
IN RELATION TO
THE EQUITY INTERESTS IN SUBSIDIARIES**

We refer to the circular dated 10 November 2005 issued by the Company (the "Circular"), of which this letter forms part. Terms used in this letter shall bear the same meanings as given to them in the Circular unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider the Transactions and to advise the Independent Shareholders as to the fairness and reasonableness of the Transactions and to recommend how the Independent Shareholders should vote at the SGM. Tai Fook Capital Limited has been appointed to advise the Independent Board Committee in relation to the Transactions.

We wish to draw your attention to the letter from the Board, as set out on pages 4 to 14 of the Circular, and the letter from Tai Fook Capital Limited to the Independent Board Committee and the Independent Shareholders which contains its advice to us in respect of the Transactions, as set out on pages 16 to 29 of the Circular.

Having taken into account of the advice of Tai Fook Capital Limited, we consider the terms of the Transactions to be fair and reasonable so far as the Company and the Independent Shareholders are concerned and the Transactions are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Disposal Agreement, the Acquisition Agreement and the transactions contemplated thereunder.

Yours faithfully,
the Independent Board Committee

Lo Siew Kiong, John
*Independent
non-executive Director*

Fu Yan Yan
*Independent
non-executive Director*

Wang Xi Ling
*Independent
non-executive Director*

* for identification purpose only

LETTER FROM TAI FOOK CAPITAL LIMITED

The following is the text of a letter from Tai Fook Capital Limited to the Independent Board Committee and the Independent Shareholders in relation to the Transactions which has been prepared for the purpose of inclusion in this circular:



Tai Fook Capital Limited
25th Floor, New World Tower
16-18 Queen's Road Central
Hong Kong

10 November 2005

*To the Independent Board Committee
and the Independent Shareholders*
Technology Venture Holdings Limited
Unit 1, 31st Floor
118 Connaught Road West
Hong Kong

Dear Sirs,

**MAJOR AND CONNECTED TRANSACTION
FOR THE DISPOSAL; AND DISCLOSEABLE AND
CONNECTED TRANSACTION FOR THE ACQUISITION;
IN RELATION TO
THE EQUITY INTERESTS IN SUBSIDIARIES**

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee in respect of the Transactions, details of which are contained in the circular of the Company dated 10 November 2005 (the "Circular") to the Shareholders of which this letter forms part. Terms used in this letter shall have the same respective meanings as defined in the Circular unless the context otherwise requires.

On 30 September 2005, (i) ADT (Hong Kong), an indirect non wholly-owned subsidiary of the Company, entered into the Disposal Agreement with Prosper Success Investments Limited (the "Purchaser"), a company beneficially wholly-owned by Aryalin, in relation to the disposal of its entire equity interests in ADT (BJ) to the Purchaser for a consideration of RMB27 million (equivalent to approximately HK\$26.0 million); and (ii) Technology Venture Investments Limited ("TVI"), a wholly-owned subsidiary of the Company, entered into the Acquisition Agreement with Aryalin in relation to the acquisition of Aryalin's 45% equity interests in ADT (BVI) for a nominal consideration of HK\$1.00. Upon Completion, a deed of set off and settlement (the "Settlement Deed") will be entered into between certain members of the Group and Aryalin and its associates (the "Aryalin Group"), which will also include ADT (BJ) in view of the Transactions, pursuant to which all inter-company balances between the Group and the Aryalin Group will be set off and settled upon Completion at a nominal consideration of HK\$1.00 (the "Settlement Arrangement") paid by both parties.

LETTER FROM TAI FOOK CAPITAL LIMITED

As at the Latest Practicable Date, the Company has 55% equity interest in ADT Group which comprises ADT (BVI), ADT (Hong Kong) and ADT (BJ). ADT (BJ) is wholly-owned by ADT (Hong Kong), which in turn is wholly-owned by ADT (BVI), a company jointly owned by TVI and Aryalin with equity interest of 55% and 45% respectively. As Aryalin is a substantial shareholder of ADT (BVI), which is a non-wholly owned subsidiary of the Company, it is a connected person (as defined in the Listing Rules) of the Company. Accordingly, the Transactions constitute connected transactions of the Company under Rule 14A.13(1)(a) of the Listing Rules, which are subject to the requirements of reporting, announcement and the approval of the Independent Shareholders. The Transactions also constitute major transactions of the Company under Rule 14.06 of the Listing Rules, which are subject to the requirements of reporting, announcement and the approval of the Independent Shareholders. Aryalin and its associates (as defined in the Listing Rules), if they are interested in any Shares as at the date of the SGM, will abstain from voting in respect of the Transactions at the SGM.

The Independent Board Committee comprising Mr. Lo Siew Kiong, John, Mr. Fu Yan Yan and Ms. Wang Xi Ling, representing all the independent non-executive Directors, has been established to advise the Independent Shareholders on the fairness and reasonableness of the terms of the Transactions from the perspective of the Company and the Independent Shareholders as a whole.

In formulating our recommendation, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and the management of the Group. We have assumed that all the information, representations and opinions contained or referred to in the Circular and all information, representations and opinions which have been provided by the Directors and the management of the Group were true, accurate and complete at the time they were made and as at the date of the Circular and will continue to be true up to the date of the SGM.

We consider that we have been provided with sufficient information which forms a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and the representations and opinions made to us untrue, inaccurate or misleading. The Directors have further confirmed that there are no other material facts or representations the omission of which would make any statement in the Circular, including this letter, misleading. We have not, however, carried out any independent verification of the information provided by the Directors and the management of the Group, nor have we conducted any independent investigation into the businesses and affairs of the Group.

LETTER FROM TAI FOOK CAPITAL LIMITED

BACKGROUND INFORMATION

1. Shareholding history of ADT Group

ADT (BVI) is a company incorporated in the British Virgin Islands on 16 September 1999. As at the Latest Practicable Date, it was owned as to 55% by TVI and as to 45% by Aryalin. TVI acquired its existing 55% equity interest in ADT (BVI) (the “ADT Acquisition”) from the Purchaser in 2000 at a consideration of approximately HK\$42.7 million.

At the time of the ADT Acquisition, ADT (BVI) had just been established with a minimal net asset value of approximately HK\$7,732. Accordingly, a goodwill amounting to approximately HK\$42.7 million, being the amount of the consideration for the ADT Acquisition minus TVI’s 55% interest in the then net asset value of ADT (BVI), was recorded by the Group and such amount has been set against the Group’s consolidated reserves since the ADT Acquisition.

ADT (Hong Kong), the owner of the entire registered share capital of ADT (BJ), is a wholly owned subsidiary of ADT (BVI). ADT (BJ) was established by ADT (Hong Kong) on 31 October 2000 as a wholly foreign owned enterprise in the PRC with a registered capital of approximately RMB24.8 million (equivalent to approximately HK\$23.4 million).

2. Business activities of the ADT Group

ADT (BVI) and ADT (Hong Kong) are both investment holding companies with no other business activity save for the issuing of invoices in respect of the services provided by ADT (BJ) to some of its customers at its request. ADT (BJ), the principal operating subsidiary of the ADT Group, is principally engaged in the provision of system integration services and software development for the banking sector. The primary focus of the ADT Group is in the PRC market.

The major customers of the ADT Group are established banks in the PRC, including China Construction Bank, China Minsheng Banking Corp. Ltd., The People’s Bank of China, Industrial and Commercial Bank of China as well as The Export-Import Bank of China, etc.

LETTER FROM TAI FOOK CAPITAL LIMITED

3. Financial information of the ADT Group

The following tables show the turnover, net loss and the net asset value of each member of the ADT Group as an individual company and the ADT Group as a whole based on its management accounts.

	For the year ended 31 December 2004		As at 31 December 2004 Net asset/ (liability) value HK\$'000
	Turnover HK\$'000	Net loss HK\$'000	
ADT (BVI)	–	9	(46)
ADT (Hong Kong)	4,197	1,225	4,972
ADT (BJ)	156,041	5,748	27,806
ADT Group (consolidated figures)	160,239	6,982	9,393

	For the eight months ended 31 August 2005		As at 31 August 2005 Net asset/ (liability) value HK\$'000
	Turnover HK\$'000	Net loss HK\$'000	
ADT (BVI)	–	9	(55)
ADT (Hong Kong)	2,938	28	4,895
ADT (BJ)	74,162	6,752	21,462
ADT Group (consolidated figures)	77,101	6,789	2,962

4. Inter-company balances between the Group and the Aryalin Group

There existed some inter-company balances between certain Group companies and the Aryalin Group. Based on the outstanding relevant inter-company balances as at 31 August 2005 as adjusted to take into account the fact that ADT (BJ) will be 100% owned by Aryalin upon Completion, the Group was indebted to the Aryalin Group in the amount of approximately HK\$14.2 million (the “Payable”) while the Aryalin Group was indebted to the Group in the amount of approximately HK\$6.5 million (the “Receivable”).

LETTER FROM TAI FOOK CAPITAL LIMITED

PRINCIPAL FACTORS CONSIDERED

In arriving at our opinion on the terms of the Transactions comprising the Disposal and the Acquisition, we have taken into consideration the following principal factors and reasons:

1. Background for the Transactions

As mentioned in the “Letter from the Board” of this circular, the purpose of the Acquisition is to facilitate the disposal of the Company’s existing 55% attributable interest in ADT (BJ). Upon Completion, (i) ADT (Hong Kong) will cease to have any equity interest in ADT (BJ); (ii) 45% equity interest in ADT (BVI) will be transferred to the Group by Aryalin at a nominal consideration of HK\$1.00, thus resulting in ADT (BVI) and ADT (Hong Kong) becoming indirect wholly-owned subsidiaries of the Company, both ADT (BVI) and ADT (Hong Kong) will become dormant after the Disposal and the Directors have indicated that ADT (BVI) and ADT (Hong Kong) will be deregistered after Completion; and (iii) the Group will enter into the Settlement Deed with the Aryalin Group and all the inter-company balances between the Group and the Aryalin Group, which will include ADT (BJ) as a result of the Disposal, will be set off and deemed satisfied at a nominal consideration of HK\$1.00 paid by both parties.

The shareholding structure of the ADT Group before and after Completion are set out on page 8 of the Circular.

Based on the above, we consider that the Acquisition and the Settlement Arrangement are part and parcel of the Disposal (i.e. the Acquisition and Settlement Arrangement are inter-related and should be considered in conjunction with the Disposal). Accordingly, we consider it appropriate to assess the fairness and reasonableness of the terms of the Transactions as if the Group is disposing of its 55% interest in ADT (BVI) to the Purchaser and that the Transactions should be considered together with the Settlement Arrangement.

2. Reasons for the Transactions

(a) *Unsatisfactory financial performance of the ADT Group*

As stated in the “Letter from the Board” in the Circular, the Directors are not optimistic about the prospects of ADT (BJ), the principal operating subsidiary of the ADT Group, given the current unfavourable business environment in the PRC. Set out below is the unaudited turnover, gross profit,

LETTER FROM TAI FOOK CAPITAL LIMITED

gross profit margin and profit/(loss) after tax of the ADT Group for the four years ended 31 December 2004 and the eight months ended 31 August 2005:

	For the year ended 31 December				For the eight months ended 31 August
	2001	2002	2003	2004	2005
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million
Turnover	109.4	95.7	151.3	160.2	77.1
Gross profit	23.9	22.1	19.5	10.8	3.7
Gross profit margin	22%	23%	13%	7%	5%
Profit/(loss) after tax	6.6	4.3	3.6	(7.0)	(6.8)

As illustrated in the above table, since 2001, the first full financial year after the ADT Acquisition in 2000, the net profit of the ADT Group has been declining. For 2004, the ADT Group recorded net loss and the loss-making situation continued in the first eight months of 2005. While the turnover of the ADT Group increased significantly from approximately HK\$95.7 million in 2002 to HK\$151.3 million in 2003, the gross profit margin of the ADT Group dropped significantly from approximately 23% in 2002 to 13% in 2003, a result of the highly competitive business environment for the industry in which players sacrificed profit margin for business volume. The business environment continued to deteriorate in 2004 when the ADT Group experienced only a marginal growth in the turnover from approximately HK\$151.3 million in 2003 to HK\$160.2 million in 2004 while its gross profit margin dropped substantially from 13% in 2003 to 7% in 2004, resulting in a net loss of approximately HK\$7.0 million. For the first eight months of 2005, the turnover of the ADT Group had continued to drop comparing to that of the corresponding period in 2004 due to fierce competition. The drop in the turnover of the ADT Group for the eight months ended 31 August 2005 was accompanied with a further decline in gross profit margin to 5% and resulted in a net loss of approximately HK\$6.8 million for the period.

According to the Directors, the poor results of ADT Group for the past few years were mainly attributable to the following two reasons:

- (i) Keen price competition

As mentioned above, ADT (BJ), the principal operating subsidiary of the ADT Group, is principally engaged in the provision of system integration services and software development for the banking sector in the PRC. As advised by the Directors, in general, the provision of system integration services and software development does not require a substantial capital investment and a sizable scale of operation. Accordingly, industry entry barrier is relatively low. The Directors have

seen increasing number of competitors entering into the market of ADT (BJ). This has exerted tremendous pressure on the price of the services that could be charged by ADT (BJ) and adversely affected the gross profit margin of ADT (BJ) in the past few years.

Given that we were not able to identify any available published statistics in relation to the total number of companies engaging in the principal business of the ADT Group, which is a specific segment of system integration services, we were not able to carry out a meaningful independent research to verify the Director's view. However, we note from the historical results of the ADT Group that the gross profit margin of the ADT Group has dropped significantly in the past few years while the turnover has remained stable or even increased. Such trends support the Director's view that the ADT Group has been operated in a highly price competitive environment in which ADT Group has significantly reduced the price of its services in response to increasing number of competitors.

(ii) High staff turnover

ADT (BJ) experienced high staff turnover in the past few years. In particular, ADT (BJ) experienced a staff turnover rate of approximately 34% and 44% respectively for the two years ended 31 December 2004. The Directors attributed such high staff turnover to the fierce competition for experienced and qualified programmers in the PRC information technology industry. The high staff turnover affected the ability of ADT (BJ) to complete its projects on time. Delayed completion of projects translated into additional costs and this has put further pressure on the gross margin of ADT (BJ).

(b) *Business prospect of ADT Group*

As explained above, the unsatisfactory performance of ADT Group in the past few years was mainly due to fierce competition in the industry and high staff turnover of ADT (BJ). The Directors expect that the unfavorable business conditions will continue to adversely affect the financial performance of the ADT Group in the years ahead. With fierce competition among the industry players, the Directors expect that the gross profit margin of the ADT Group is unlikely to significantly improve in the near future. The Directors also expect that the staff turnover of the programmers will continue to be high in the near future.

According to the Directors, on top of combating against competitive pricing for its services and the adverse impact arising from its high staff turnover, ADT (BJ) also needs to meet the high working capital requirement resulting from the payment term demanded by the customers. As advised by the Directors, in the early years from the ADT Acquisition, the customers of ADT (BJ) in general settled the contract amount in full or by no less than 70% within a short period of time (i.e. in general within 2 months) after execution

LETTER FROM TAI FOOK CAPITAL LIMITED

of the service contracts. However, in the past two years, given the highly competitive environment of the industry, most of the customers of ADT (BJ) requested an extended payment term under which over 70% of the contract amount was to be settled after completion of the project, in some cases, the customers would keep certain percentages of the contract amount (i.e. in general ranging from 5% to 10%) as retention money, which would not be released to ADT (BJ) until expiry of the one year period after completion of the projects. The long payment term translates into high working capital requirement for ADT (BJ).

(c) Proceeds from the Disposal

The net cash proceeds of approximately RMB26.7 million (or approximately HK\$25.7 million) from the Disposal will enhance the working capital position of the Group and provide funding for the Group's future business development in the remaining core business of distribution of information technology products and provision of computer technology services in relation to self-service banking facilities (i.e. provision of repair and maintenance service to and software development for automatic teller machines (ATM)) and constructing and developing web-based software to provide interface for property agents in managing its customers' data. In addition, the cash proceeds from the Disposal can provide further flexibility to finance the Group's future investment in other business areas shall the opportunities arise.

(d) The Acquisition and the Settlement Arrangement

As mentioned above, the Acquisition and the Settlement Arrangement are part and parcel of the Disposal. According to the management of the Group, the sole reason of the Acquisition is to facilitate the Disposal. Upon Completion, ADT (BVI) will become a wholly-owned subsidiary of the Company and the ADT Group will then comprise only ADT (BVI) and ADT (Hong Kong), both of which will become dormant after the Disposal. It is the present intention of the Company to deregister ADT (BVI) and ADT (Hong Kong) after Completion. Based on the outstanding relevant inter-company balances as at 31 August 2005 as adjusted to take into account the fact that ADT (BJ) will be 100% owned by Aryalin upon Completion, the Group was indebted to the Aryalin Group in the amount of approximately HK\$14.2 million while the Aryalin Group was indebted to the Group in the amount of approximately HK\$6.5 million. The Directors confirmed that the amounts of the Receivable and the Payable remain unchanged as at the Latest Practicable Date and such amounts will remain unchanged up to the date of Completion.

According to the management of the Group, the sole purpose of the Settlement Arrangement is to settle all inter-company balances between the Group and the Aryalin Group in view of the Transactions. As mentioned above, the Payable and the Receivable amounted to HK\$14.2 million and HK\$6.5 million respectively, giving a net amount of inter-company balances due by

LETTER FROM TAI FOOK CAPITAL LIMITED

the Group to the Aryalin Group upon Completion of approximately HK\$7.7 million. The entering into of the Settlement Deed allows the Group to settle such outstanding liability by payment of a nominal consideration of HK\$1.00 and accordingly will result in a gain in the Group's profit and loss account of approximately HK\$7.7 million. Given the net benefit of the Settlement Arrangement, we are of the view that entering into of the Deed of Settlement by the Group is in the interest of the Company and the Independent Shareholders as a whole.

We are of the view that the cash proceeds from the Disposal would strengthen the Group's working capital position and allow the Group to invest further in its remaining core business. Furthermore, we agree to the Directors' view that the Settlement Arrangement will strengthen the financial position of the Group with reduced liabilities.

3. Basis of the consideration for the Transactions

As stated in the "Letter from the Board" in the Circular, the consideration for the Disposal (the "Consideration") of RMB27 million (or approximately HK\$26.0 million) is determined after arm's length negotiations between the parties to the Disposal Agreement with reference to the unaudited net asset value of the ADT Group and ADT (BJ) as at 31 August 2005 of approximately HK\$2.96 million and HK\$21.5 million respectively (in which the Group is interested in 55% only), its current loss making position and the unfavourable business environment in the PRC in which ADT (BJ) is engaged which cast doubt on the future prospects of ADT (BJ).

The Consideration will be settled in three payments. Pursuant to the terms of the Disposal Agreement, the Purchaser has the option to satisfy the final payment of RMB10 million (equivalent to approximately HK\$9.6 million), which shall be payable by way of bank draft for acceptance due within 12 months issued by a licensed bank in the PRC or Hong Kong on the date of Completion, by payment of RMB9 million (equivalent to approximately HK\$8.7 million) in cash on the date of Completion. In other words, at the option of the Purchaser, the Consideration may be adjusted downward to RMB26 million (equivalent to approximately HK\$25.0 million) should the Purchaser opt to settle the balance payment in cash on the date of Completion. According to the Directors, the original payment schedule for the Consideration was negotiated on the basis of full cash settlement upon completion of the Disposal. However, at the request of the Purchaser, the Group finally agreed to the deferral of the last payment of RMB9 million on the condition that the amount would be increased by RMB1 million to RMB10 million. We are of the view that the option for the Purchaser to defer the last payment is acceptable given it is on the condition that the amount of the last payment would be increased by RMB1 million and the Group has no immediate plan to apply the net proceeds of the Disposal. For the sake of prudence, our analysis in relation to the Consideration is based on the assumption that the Consideration will be RMB26 million (equivalent to approximately HK\$25.0 million).

LETTER FROM TAI FOOK CAPITAL LIMITED

We have assessed the fairness and reasonableness of the Consideration based on the following factors: –

(a) Premium over the unaudited net asset value of the ADT Group

Based on its unaudited management accounts, the net asset value of the ADT (Group) as at 31 August 2005 amounted to approximately HK\$2.96 million. The Consideration of approximately HK\$25 million therefore represents a premium of approximately 14 times over the Group's share in the unaudited net asset value of ADT Group as at 31 August 2005 of approximately HK\$1.63 million.

(b) The net benefit of the Settlement Arrangement

Based on the relevant net outstanding inter-company balances between the Group and the Aryalin Group as at 31 August 2005 as adjusted to take into account the fact that ADT (BJ) will be 100% owned by Aryalin upon Completion, the Group was indebted to the Aryalin Group in the amount of approximately HK\$7.7 million. The Settlement Arrangement will therefore result in a gain and a saving of cash outflow of approximately HK\$7.7 million. Given that the Settlement Arrangement is part and parcel of the Transactions, we consider it appropriate to assess the fairness and reasonableness of the Consideration by taking into consideration the gain arising from the Settlement Arrangement.

(c) The gloomy business prospect of ADT Group

As set out in the section headed "Reasons for the Transactions" above, the financial performance of ADT Group has been unsatisfactory in the past few years, with a net loss of approximately HK\$7.0 million and HK\$6.8 million for the year ended 31 December 2004 and the eight months ended 31 August 2005 respectively. The Directors further expect that the unfavorable business environment facing ADT Group will continue to adversely affect its future results.

Given that we were not able to identify any available published information that forecasts the future trend of the industry in which the ADT Group is operating, which is a specific segment of the system integration services, and it would not be very meaningful to conduct a research on listed companies which engage in system integration generally, we were not able to conduct a valid and reliable research to verify the Directors' view in respect of the future prospect of the ADT Group. However, we agree to the Directors' view that the ADT Group is unlikely to post a strong rebound in the near term because of the gloomy business prospect of ADT Group based on the historical business performance of ADT Group in particular (i) the significant continuous decrease in the ADT Group's gross profit margin in the past few years; and

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(ii) the significant decrease in the contract sum of each individual service contract entered into by ADT (BJ) for the period from 2000 up to September 2005, which we have reviewed.

Given (i) the fact that the Consideration represents a premium of approximately 14 times over the Group's share in the unaudited net asset value of the ADT Group of approximately HK\$1.63 million as at 31 August 2005; (ii) the benefit of the Settlement Arrangement on the Group; and (iii) the poor historical results of the ADT Group in the past few years and the expected gloomy business prospect of the ADT Group, we consider the Consideration to be fair and reasonable.

Comparing to the Consideration of approximately HK\$25 million, we note that the Group acquired its existing 55% equity interest in ADT (BVI) at a consideration of approximately HK\$42.7 million in 2000. This cost of acquisition has been taken into consideration in arriving at the loss on the Disposal, which we consider is acceptable as further explained in the following section of this letter.

4. Financial effects of the Transactions on the Group

In analyzing the financial effects of the Transactions and the Settlement Arrangement on the Group, we have considered the following aspects:

(a) Loss on the Disposal

As stated in the "Letter from the Board" in the Circular, it is estimated that, upon Completion, the Group will record a loss on the Disposal of approximately HK\$19.6 million. The following table sets out the calculation of the loss on the Disposal (*Note 1*):

	<i>HK\$'million</i>
The Consideration	25.0
Less: Book value of 55% interest in ADT (BVI) (<i>Note 2</i>)	(44.3)
Less: Other professional expenses	(0.3)
	<hr/>
Loss on the Disposal	(19.6)
	<hr style="border-top: 3px double black;"/>

Notes:

1. The calculation of the loss on the Disposal by the Group set out above is presented on the basis as if the Group is disposing of its 55% interest in ADT (BVI). Given the fact that the net financial effects of the Transactions on the Group will in fact be equal to that as if the Group is disposing of its 55% interest in ADT (BVI), we adopt the Company's calculation in analyzing the net financial effects of the Transactions.
2. It represents the book value in 55% interest in ADT (BVI) as at 31 August 2005, being the investment cost of 55% interest in ADT (BVI) at the time of the ADT Acquisition and the Group's share of the increase in the net asset value of ADT (BVI) since the ADT Acquisition up to 31 August 2005.

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Notwithstanding the fact that the loss on the Disposal will adversely affect the financial results in the income statement of the Group for the year ending 31 December 2005, we consider that the Transactions is in the interest of the Company and the Independent Shareholders as a whole given (i) the Consideration is fair and reasonable; (ii) the loss on the Disposal, which will be a non-cash item, will not have a negative impact on the Group's liquidity and financial position; and (iii) the increase in the Group's net asset value as a result of the reversal of the goodwill currently set against the Group's consolidated reserve.

(b) Gain on the Settlement Arrangement

As mentioned above, the entering into of the Settlement Deed allows the Group to settle such outstanding liability by payment of a nominal consideration of HK\$1.00 and will result in a gain in the Group's profit and loss account of approximately HK\$7.7 million, being the net amount of (i) the inter-company balances due by the Group to the Aryalin Group in the amount of approximately HK\$14.2 million; and (ii) the inter-company balances due by the Aryalin Group to the Group in the amount of approximately HK\$6.5 million. We are of the view that the Settlement Arrangement will strengthen the financial position of the Group with reduced net liabilities of approximately HK\$7.7 million.

(c) Effect on future earnings

Upon Completion and on the assumption that the remaining ADT Group will be deregistered after Completion, the Group will cease to have any interest in the ADT Group and the results of the ADT Group will no longer be consolidated to the Group's accounts. According to its unaudited management accounts, the ADT Group recorded a net loss of approximately HK\$6.8 million for the eight months ended 31 August 2005. Unless the ADT Group is able to turnaround and record a profit for the remaining four months of 2005, the Disposal is expected to have a positive effect to the Group's consolidated results for the current financial year given the fact that it will no longer need to consolidate any losses to be recorded by ADT (BJ) after the Transactions. However, considering the fact that the consolidated net loss of the ADT Group for 2004 of approximately HK\$7.0 million only accounted for approximately 14% of the consolidated net loss of the Group for 2004, the impact of the Disposal to the Group's annual earnings is not expected to be very significant.

(d) Net asset value

As stated in the annual report of the Company, the Group's net asset value as at 31 December 2004 was approximately HK\$130.7 million. As stated in the "Letter from the Board" in the Circular, the Transactions will increase the net assets of the Group by approximately HK\$30.8 million, which increase represents the net effect of (i) the loss on the Disposal of approximately HK\$19.6

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million as described in paragraph 4(a) above; (ii) the gain on the Settlement Arrangement of approximately HK\$7.7 million; and (iii) the reversal of the goodwill relating to the ADT Acquisition of approximately HK\$42.7 million as at 31 August 2005 currently set against the Group's consolidated reserves. Given the increase in the Group's net asset value as a result of the Transactions, we are of the view that the Transactions will enhance the Group's overall financial positions.

(e) Working capital

The loss on the Disposal of approximately HK\$19.6 million is a non-cash item and will not have any impact on the Group's working capital position. However, the Settlement Arrangement is in fact a saving of potential cash outflow of the Group of approximately HK\$7.7 million. According to its unaudited management accounts of the Group, the Group had cash and bank balance (including pledged time deposits) of approximately HK\$55 million as at 31 August 2005. According to its unaudited management accounts, the ADT Group had a cash and bank balance of approximately HK\$11.0 million as at 31 August 2005. The Group's cash balance is expected to increase by approximately HK\$14.0 million as a result of the Disposal, being the net amount of the cash proceeds for the Disposal of approximately HK\$25.0 million minus the cash balance of the ADT Group of approximately HK\$11.0 million as at 31 August 2005.

We are of the view that given the Transactions will enhance the Group's working capital position and increase its net asset value, notwithstanding the loss on the Disposal, which being a non-cash item has no negative impact on the Group's liquidity and financial position, the Transactions are in the interests of the Company so far as the financial effects of the Transactions on the Group is concerned.

CONCLUSION

Given the fact that (i) ADT Group has been performing unsatisfactorily since the ADT Acquisition with loss making results since 2004 and continuous decrease in the gross profit margin since 2002; (ii) the cash proceeds from the Disposal will enhance the working capital position of the Group and provide funding for the Group's business development; (iii) the Consideration represents a premium of approximately 14 times over the Group's share in the unaudited net asset value of the ADT Group as at 31 August 2005; (iv) the loss on the Disposal will be a non-cash item; (v) the net gain of the Settlement Arrangement; and (vi) an increase in the Group's net asset value as a result of the reversal of the goodwill relating to the ADT Acquisition currently set against the Group's consolidated reserve, we are of the view that the Transactions are in the interests of the Company and the Independent Shareholders as a whole.

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RECOMMENDATION

Having considered the above principal factors and reasons, we consider the terms of the Transactions are fair and reasonable so far as the Company and the Independent Shareholders as a whole are concerned and are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Disposal Agreement, the Acquisition Agreement and the transactions contemplated thereunder.

Yours faithfully,

For and on behalf of

Tai Fook Capital Limited

Derek C. O. Chan

Managing Director

Heidi Cheng

Director

(A) SUMMARY OF FINANCIAL INFORMATION

The following is a summary of the audited consolidated profit and loss accounts and the assets and liabilities of the Group for the three years ended 31 December 2004.

RESULTS	Year ended 31 December		
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
TURNOVER			
Continuing operations	237,841	261,692	188,784
Discontinued operations	—	—	155,084
	<u>237,841</u>	<u>261,692</u>	<u>343,868</u>
Cost of sales	<u>(210,676)</u>	<u>(225,408)</u>	<u>(261,433)</u>
Gross profit	<u>27,165</u>	<u>36,284</u>	<u>82,435</u>
LOSS FROM OPERATION	<u>(29,232)</u>	<u>(15,009)</u>	<u>(133,886)</u>
Finance costs	<u>(523)</u>	<u>(725)</u>	<u>(1,294)</u>
Loss on disposal of subsidiaries relating to discontinued operations	—	—	(119,309)
LOSS BEFORE TAX			
Continuing operations	(29,755)	(15,734)	(35,317)
Discontinued operations	—	—	(99,863)
	<u>(29,755)</u>	<u>(15,734)</u>	<u>(135,180)</u>
Tax			
Continuing operations	(175)	1,974	(10)
Discontinued operations	—	—	(4,055)
	<u>(175)</u>	<u>1,974</u>	<u>(4,065)</u>
LOSS BEFORE MINORITY INTERESTS	<u>(29,930)</u>	<u>(13,760)</u>	<u>(139,245)</u>
Minority interests	<u>3,077</u>	<u>(1,622)</u>	<u>(8,624)</u>
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<u>(26,853)</u>	<u>(15,382)</u>	<u>(147,869)</u>
LOSS PER SHARE			
Basic	<u>HK\$0.05</u>	<u>HK\$0.03</u>	<u>HK\$0.33</u>
Diluted	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
ASSETS AND LIABILITIES			
Total assets	325,450	371,276	323,036
Total liabilities	<u>(190,306)</u>	<u>(206,572)</u>	<u>(144,585)</u>
	<u>135,144</u>	<u>164,704</u>	<u>178,451</u>
Minority interests	<u>(4,454)</u>	<u>(7,531)</u>	<u>(5,909)</u>
Shareholders' funds	<u>130,690</u>	<u>157,173</u>	<u>172,542</u>

(B) AUDITED FINANCIAL STATEMENTS

The following is an extract of the audited financial statements of the Group from the annual reports of the Company for the year ended 31 December 2004.

Consolidated Profit and Loss Account

	<i>Notes</i>	Year ended 31 December	
		2004	2003
		<i>HK\$'000</i>	<i>HK\$'000</i>
TURNOVER	5	237,841	261,692
Cost of sales		<u>(210,676)</u>	<u>(225,408)</u>
Gross profit		27,165	36,284
Other income	5	1,816	1,789
Selling and distribution expenses		(11,627)	(9,693)
Administrative expenses		(37,118)	(34,827)
Other operating expenses		<u>(9,468)</u>	<u>(8,562)</u>
LOSS FROM OPERATING ACTIVITIES	6	(29,232)	(15,009)
Finance costs	8	<u>(523)</u>	<u>(725)</u>
LOSS BEFORE TAX		<u>(29,755)</u>	<u>(15,734)</u>
Tax	9	<u>(175)</u>	<u>1,974</u>
LOSS BEFORE MINORITY INTERESTS		(29,930)	(13,760)
Minority interests		<u>3,077</u>	<u>(1,622)</u>
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	10	<u><u>(26,853)</u></u>	<u><u>(15,382)</u></u>
LOSS PER SHARE	11		
Basic		<u><u>HK\$0.05</u></u>	<u><u>HK\$0.03</u></u>
Diluted		<u><u>N/A</u></u>	<u><u>N/A</u></u>

Consolidated Balance Sheet

		At 31 December	
		2004	2003
	Notes	HK\$'000	HK\$'000
NON-CURRENT ASSETS			
Fixed assets	12	4,601	5,657
Deferred development costs	13	1,387	2,266
Interest in a jointly-controlled entity	16	104	–
Long term investment	17	66,681	66,681
Deposits	18	14,151	15,653
		<u>86,924</u>	<u>90,257</u>
CURRENT ASSETS			
Inventories	19	28,197	20,724
Accounts and bills receivable	20	52,267	69,364
Prepayments, deposits and other receivables	21	50,019	74,089
Due from investee companies	17	23,045	8,539
Pledged time deposits	22	5,141	16,470
Cash and cash equivalents	22	79,857	91,833
		<u>238,526</u>	<u>281,019</u>
CURRENT LIABILITIES			
Accounts and bills payable	23	52,304	58,415
Tax payable		11,670	11,489
Accrued liabilities and other payables	24	79,953	96,277
Interest-bearing bank and other loans	25	45,617	39,339
Current portion of finance lease payables	26	275	315
		<u>189,819</u>	<u>205,835</u>
NET CURRENT ASSETS		<u>48,707</u>	<u>75,184</u>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP**

	<i>Notes</i>	At 31 December	
		2004	2003
		<i>HK\$'000</i>	<i>HK\$'000</i>
TOTAL ASSETS LESS CURRENT LIABILITIES		135,631	165,441
NON-CURRENT LIABILITIES			
Finance lease payables	26	254	504
Deferred tax	27	233	233
		<u>487</u>	<u>737</u>
MINORITY INTERESTS		<u>4,454</u>	<u>7,531</u>
		<u>130,690</u>	<u>157,173</u>
CAPITAL AND RESERVES			
Issued capital	28	50,273	50,121
Reserves	30(a)	80,417	107,052
		<u>130,690</u>	<u>157,173</u>

Consolidated Statement of Changes in Equity*Year ended 31 December 2004*

	Reserves (note 30(a))							
	Issued capital <i>HK\$'000</i> <i>(note 28)</i>	Share premium account <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Goodwill reserve <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Sub-total <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2003	50,121	341,071	(19)	(43,248)	51	(175,434)	122,421	172,542
Exchange realignment and net gains not recognised in the profit and loss account	-	-	-	-	13	-	13	13
Net loss for the year	-	-	-	-	-	(15,382)	(15,382)	(15,382)
At 31 December 2003 and 1 January 2004	50,121	341,071	(19)	(43,248)	64	(190,816)	107,052	157,173
Exchange realignment and net gains not recognised in the profit and loss account	-	-	-	-	15	-	15	15
Exercise of share options	152	203	-	-	-	-	203	355
Net loss for the year	-	-	-	-	-	(26,853)	(26,853)	(26,853)
At 31 December 2004	50,273	341,274	(19)	(43,248)	79	(217,669)	80,417	130,690

Consolidated Cash Flow Statement*Year ended 31 December 2004*

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(29,755)	(15,734)
Adjustments for:			
Interest income	5	(642)	(1,260)
Depreciation	6, 12	2,700	3,678
Amortisation of deferred development costs	6	879	370
Gain on disposal of fixed assets, net	6	–	(268)
Provision for doubtful debts		8,589	8,192
Finance costs	8	523	725
Operating loss before working capital changes		(17,706)	(4,297)
Decrease/(increase) in inventories		(7,473)	4,221
Decrease/(increase) in accounts and bills receivable		8,508	(8,434)
Decrease/(increase) in prepayments, deposits and other receivables		11,799	(24,691)
Increase/(decrease) in accounts and bills payables		(6,111)	32,143
Increase/(decrease) in accrued liabilities and other payables		(16,324)	16,426
Cash generated from/(used in) operations		(27,307)	15,368
Hong Kong profits tax refunded		153	–
Overseas profits taxes paid		(147)	(527)
Net cash inflow/(outflow) from operating activities		(27,301)	14,841
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets	12	(1,644)	(2,042)
Proceeds from disposal of fixed assets		–	915
Additions to deferred development costs	13	–	(2,636)
Investment in a jointly-controlled entity	16	(104)	–
Additional investments in an investee company	17	–	(15,600)
Repayment from/(advances to) investee companies	17	(14,506)	3,900
Refund/(payment) of deposits for investment, net	18, 21	13,502	(27,653)
Proceeds from disposal of subsidiaries		–	20,000
Decrease in pledged time deposits		11,329	11,179
Decrease/(increase) in non-pledged time deposits with original maturity of more than three months when acquired		280	(34,242)
Interest received		913	989
Effect of foreign exchange rate change, net		15	–

APPENDIX I
FINANCIAL INFORMATION OF THE GROUP

		2004	2003
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash inflow/(outflow) from investing activities		9,785	(45,190)
CASH FLOWS FROM FINANCING ACTIVITIES			
Exercise of share options	29	355	–
New bank loans		45,655	43,585
Repayment of bank loans		(40,283)	(16,647)
Interest paid		(486)	(665)
Capital element of finance lease rental payments		(290)	(687)
Interest element on finance lease rental payments		(37)	(60)
Net cash inflow from financing activities		4,914	25,526
NET DECREASE IN CASH AND CASH EQUIVALENTS		(12,602)	(4,823)
Cash and cash equivalents at beginning of year		57,591	62,414
CASH AND CASH EQUIVALENTS AT END OF YEAR		44,989	57,591
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	45,895	57,591
Less: Bank overdraft	25	(906)	–
		44,989	57,591

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP****Balance Sheet***At 31 December 2004*

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Fixed assets	12	460	862
Interests in subsidiaries	14	104,158	103,122
		<u>104,618</u>	<u>103,984</u>
CURRENT ASSETS			
Prepayments, deposits and other receivables		468	454
Due from an investee company	17	15	8,408
Pledged time deposits	22	3,000	3,000
Cash and cash equivalents	22	29	6,978
		<u>3,512</u>	<u>18,840</u>
CURRENT LIABILITIES			
Accrued liabilities and other payables	24	2,508	1,090
Interest bearing bank loans	25	856	–
Current portion of finance lease payables	26	275	315
		<u>3,639</u>	<u>1,405</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>(127)</u>	<u>17,435</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		104,491	121,419
NON-CURRENT LIABILITIES			
Finance lease payables	26	254	504
		<u>104,237</u>	<u>120,915</u>
CAPITAL AND RESERVES			
Issued capital	28	50,273	50,121
Reserves	30(b)	53,964	70,794
		<u>104,237</u>	<u>120,915</u>

Notes to Financial Statements*31 December 2004***1. CORPORATE INFORMATION**

The head office and principal place of business of the Company during the year was located at 8th Floor, Tianjin Building, 167 Connaught Road West, Hong Kong.

The principal activity of the Company is investment holding. During the year, the Group was involved in the distribution of computer hardware and software products and the provision of computer technology services. Details of the principal activities of the Company's principal subsidiaries are set out in note 14 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year and up to the date of this report.

2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, hereinafter collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Basis of preparation**

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2004. The results of the subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. 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 a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

- (i) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture company;
- (ii) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (iii) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (iv) a long term investment, if the Group holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Jointly-controlled entities

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's Interest in a jointly-controlled entity is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Related parties

Parties are considered to be related if one party has the ability, directly, or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of a maximum period of 10 years.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, goodwill arising on acquisition was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to the adoption of the SSAP 30 is treated according to the SSAP 30 goodwill accounting policy above.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any impairment losses.

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 fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	33 ¹ / ₃ % or over the lease terms, whichever is shorter
Furniture, fixtures and equipment	33 ¹ / ₃ %
Motor vehicles	33 ¹ / ₃ %

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and are depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Long term investments

Long term investments in listed and unlisted equity securities, intended to be held on a continuing strategic or long-term basis, are stated at cost less any impairment losses, on an individual investment basis.

When a decline in the fair value of a security below its carrying amount has occurred, unless there is evidence that the decline is temporary, the carrying amount of the security is reduced to its fair value, as estimated by the directors. The amount of the impairment is charged to the profit and loss account for the period in which it arises. When the circumstances and events which led to the impairment in value cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the profit and loss account to the extent of the amount previously charged.

The gains or losses arising from changes in the fair values of such securities are credited or charged to the profit and loss account in the period in which they arise.

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 calculated as the higher of the asset's value in use and its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account 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 recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less accumulated amortisation and any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding three years, commencing from the date when the products are available for use.

Inventories

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

Accounts receivable

The payment terms granted by the Group vary from project to project and may include cash on delivery, advance payment and credit of 30 to 90 days from different stages of the projects. Trade receivables are recognised and carried at original invoiced amount less provision for doubtful debts which are recorded when collection of the amount is no longer probable. Bad debts are written off as incurred.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with interests in subsidiaries, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets 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 carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences 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 profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Hong Kong Employment Ordinance.

A contingent liability is disclosed in respect of possible future long service payments to employees, as a number of current employees have achieved the required number of years of service to the Group, to the balance sheet date, in order to be eligible for long service payments under the Hong Kong Employment Ordinance if their employment is terminated in the circumstances specified. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

Share option scheme

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. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheets for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Retirement benefit schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the Scheme. Contributions are made based on a percentage of the participating employees' relevant income and are charged to the profit and

loss account as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Scheme.

The Group has joined a mandatory central pension scheme operated by the PRC government for its PRC employees, the assets of which are held separately from those of the Group. Contributions made are based on a percentage of the eligible employees' salaries and are charged to the profit and loss account as they become payable, in accordance with the rules of the scheme. The employer contributions vest fully when they are made.

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:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the rendering of services, including fixed price service contracts, based on the stage of completion of the transaction, provided that this and the costs incurred, as well as the estimated costs to completion can be measured reliably. The stage of completion of a transaction associated with the rendering of such services is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction;
- (c) maintenance income, on a time proportion basis over the period of the contract;
- (d) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (e) rental income, on a time proportion basis over the lease terms.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves 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.

Interim dividends are simultaneously proposed and declared, because the Company's bye-laws grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated to Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- (a) the banking and finance systems integration services segment engages in the provision of system integration, software development, engineering, maintenance and professional outsourcing services customised for banking and finance, telecommunications and public sector clients; and
- (b) the software solutions for banks and public sector segment concentrates on the banking, e-commerce and public sectors with a business focus on e-business operations and online marketplaces.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

	Banking and finance systems integration services		Software solutions for banks and the public sector		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	78,270	111,412	159,571	150,280	-	-	237,841	261,692
Intersegment sales	-	-	820	960	(820)	(960)	-	-
Interest income	194	521	213	35	-	-	407	556
Other income	178	440	657	7	-	-	835	447
Total	<u>78,642</u>	<u>112,373</u>	<u>161,261</u>	<u>151,282</u>	<u>(820)</u>	<u>(960)</u>	<u>239,083</u>	<u>262,695</u>
Segment results	<u>(5,314)</u>	<u>(4,513)</u>	<u>(6,527)</u>	<u>3,427</u>	<u>-</u>	<u>-</u>	<u>(11,841)</u>	<u>(1,086)</u>
Unallocated interest income							235	704
Unallocated gains							339	82
Unallocated expenses							<u>(17,965)</u>	<u>(14,709)</u>
Loss from operating activities							(29,232)	(15,009)
Finance costs							<u>(523)</u>	<u>(725)</u>
Loss before tax							(29,755)	(15,734)
Tax							<u>(175)</u>	<u>1,974</u>
Loss before minority interests							(29,930)	(13,760)
Minority interests							<u>3,077</u>	<u>(1,622)</u>
Net loss from ordinary activities attributable to shareholders							<u>(26,853)</u>	<u>(15,382)</u>

APPENDIX I

FINANCIAL INFORMATION OF THE GROUP

	Banking and finance systems integration services		Software solutions for banks and the public sector		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	278,547	228,964	111,702	134,248	(135,616)	(106,321)	254,633	256,891
Unallocated assets:								
Long term investment							66,681	66,681
Others							4,136	47,704
Total assets							<u>325,450</u>	<u>371,276</u>
Segment liabilities	(172,943)	(146,357)	(78,418)	(99,457)	135,616	106,321	(115,745)	(139,493)
Unallocated liabilities							(74,561)	(67,079)
Total liabilities							<u>(190,306)</u>	<u>(206,572)</u>
Other segment information:								
Cash and bank balances included in segment assets	44,597	43,880	35,231	40,975	–	–	79,828	84,855
Pledged time deposits included in segment assets	2,141	2,929	–	10,541	–	–	2,141	13,470
Depreciation and amortisation	1,685	2,082	1,380	1,097	–	–	3,065	3,179
Unallocated amounts							514	869
							<u>3,579</u>	<u>4,048</u>
Provision for doubtful debts	6,059	6,887	2,530	1,305	–	–	8,589	8,192
Other non-cash income/(expenses)	–	12	–	(38)	–	–	–	(26)
Unallocated amounts							–	294
							<u>–</u>	<u>268</u>
Capital expenditure	1,090	1,884	442	138	–	–	1,532	2,022
Unallocated amounts							112	280
							<u>1,644</u>	<u>2,302</u>

(b) Geographical segments

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments.

	Hong Kong		Elsewhere in the PRC		Eliminations		Consolidated	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Segment revenue:								
Sales to external customers	430	237	237,411	261,455	-	-	237,841	261,692
Intersegment sales	-	-	820	-	(820)	-	-	-
	<u>430</u>	<u>237</u>	<u>238,231</u>	<u>261,455</u>	<u>(820)</u>	<u>-</u>	<u>237,841</u>	<u>261,692</u>
Segment assets	580,657	584,855	254,564	254,064	(576,556)	(534,324)	258,665	304,595
Unallocated amounts:								
Long term investment							66,785	66,681
							<u>325,450</u>	<u>371,276</u>
Other segment information:								
Cash and bank balances included in segment assets	29	6,985	79,828	84,848	-	-	79,857	91,833
Pledged time deposits included in segment assets	3,000	3,000	2,141	13,470	-	-	5,141	16,470
Capital expenditure	<u>119</u>	<u>280</u>	<u>1,525</u>	<u>2,022</u>	<u>-</u>	<u>-</u>	<u>1,644</u>	<u>2,302</u>

5. TURNOVER AND OTHER INCOME

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and the value of services rendered. All significant intra-Group transactions have been eliminated on consolidation.

An analysis of turnover and other income is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Sale of goods	208,194	223,915
Provision of computer technology services	<u>29,647</u>	<u>37,777</u>
Total turnover	<u>237,841</u>	<u>261,692</u>
Interest income	642	1,260
Gross rental income	-	32
Waiver of an amount due to a minority shareholder of a subsidiary	657	-
Sundry income	<u>517</u>	<u>497</u>
Other income	<u>1,816</u>	<u>1,789</u>
	<u>239,657</u>	<u>263,481</u>

6. LOSS FROM OPERATING ACTIVITIES

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

	Notes	2004 HK\$'000	2003 HK\$'000
Costs of inventories sold and services provided		210,676	225,408
Depreciation	12	2,700	3,678
Amortisation of deferred development costs	13	879	370
Minimum lease payments under operating leases in respect of land and buildings		3,140	3,586
Auditors' remuneration		1,400	1,500
Staff costs, excluding directors' remuneration (note 7):			
Salaries		30,399	26,699
Pension scheme contributions		3,917	3,499
Mandatory provident fund contributions		113	129
		<u>34,429</u>	<u>30,327</u>
Exchange loss/(gain), net		27	(12)
Gain on disposal of fixed assets, net		–	(268)
Provision for doubtful debts		<u>8,589</u>	<u>8,192</u>

The cost of inventories sold and services provided for the year ended 31 December 2004 included HK\$17,290,000 (2003: HK\$13,289,000), relating to direct staff costs. These are also included in the respective total amounts disclosed separately above for each of these types of expenses for the year.

The provision for doubtful debts and amortisation of deferred development cost for the year are included in "Other operating expenses" on the face of the consolidated profit and loss account.

7. REMUNERATION OF DIRECTORS AND THE FIVE HIGHEST PAID EMPLOYEES

The remuneration of the Company's directors disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Fees:		
Executive directors	–	–
Non-executive directors	–	50
Independent non-executive directors	440	396
	<u>440</u>	<u>446</u>
Other emoluments of executive directors:		
Basic salaries, other allowances and benefits in kind	6,743	6,428
Mandatory provident fund contributions	45	36
	<u>6,788</u>	<u>6,464</u>
	<u>7,228</u>	<u>6,910</u>

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2004	2003
Nil to HK\$1,000,000	5	6
HK\$1,500,001 to HK\$2,000,000	–	1
HK\$2,500,001 to HK\$3,000,000	2	1
	<u>7</u>	<u>8</u>

The five highest paid employees included three (2003: three) directors during the year, details of whose remuneration are set out above.

Details of the remuneration of the remaining two (2003: two) non-director, highest paid employees are as follows:

	2004	2003
	HK\$'000	HK\$'000
Basic salaries, other allowances and benefits in kind	1,375	952
Mandatory provident fund contributions	24	12
	<u>1,399</u>	<u>964</u>

The remuneration of each of the non-director, highest paid employees for the year ended 31 December 2004 fell within the Nil to HK\$1,000,000 band.

During the year ended 31 December 2003, aggregate of 15,000,000 and 1,500,000 share options with an exercise price of HK\$0.233 per share were granted to three executive directors and the two non-director, highest paid employees, in respect of their services to the Group, further details of which are set out in note 29 to the financial statements. No share options were granted to the directors nor the five highest paid employees during the year ended 31 December 2004.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2003: Nil). During the year, no emoluments were paid by the Group to the directors or the non-director, highest paid employees as an inducement to join, or upon joining the Group, or as compensation for loss of office (2003: Nil).

In the opinion of the directors of the Company, the Group had no significant obligations for long service payments to its employees pursuant to the requirements of the Hong Kong Employment Ordinance at 31 December 2004.

8. FINANCE COSTS

	Group	
	2004	2003
	HK\$'000	HK\$'000
Interest on bank and other loans wholly repayable within five years	486	665
Interest on finance leases	37	60
	<u>523</u>	<u>725</u>

9. TAX

	Group	
	2004	2003
	HK\$'000	HK\$'000
Current:		
Elsewhere	1,415	1,764
Overprovision in prior year	(1,240)	(3,738)
	<u>175</u>	<u>(1,974)</u>
Tax charge/(credit)	<u>175</u>	<u>(1,974)</u>

No Hong Kong profits tax has been provided (2003: Nil) as the Group has no assessable profits arising in Hong Kong during the year. The statutory tax rate for Hong Kong profits tax is 17.5% (2003: 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 countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

北京先進數通信息技術有限公司 (“先進數通”), a subsidiary of the Company established in Mainland China, is exempted from Mainland China corporate income tax for three years starting from the year ended 31 December 2001, and thereafter is eligible for a 50% relief from income tax for the following three years under the Income Tax Law of Mainland China. The standard Mainland China corporate income tax rate applicable to 先進數通 is 15%. As a result of the exemptions, 先進數通 is exempted from the paying of income tax for the years ended 31 December 2001, 2002 and 2003, and will be subject to income tax at the rate of 7.5% for the year ended 31 December 2004 and the years ending 31 December 2005 and 2006. For the years ended 31 December 2003 and 2004, the statutory corporate income tax rates applicable to the other subsidiaries established and operating in the Mainland China range from 15% to 33%.

A reconciliation of the tax charge/(credit) applicable to the Group's loss before tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax charge/(credit) at the effective tax rates, are as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Loss before tax	<u>(29,755)</u>	<u>(15,734)</u>
Tax credit at the applicable rates to losses in the countries concerned	(4,603)	(2,703)
Income not subject to tax	(505)	(615)
Expenses not deductible for tax	6,559	5,829
Adjustment to opening unutilised tax losses resulting from increase in tax rate	–	(61)
Decrease in unutilised tax losses carryforward due to deregistration of subsidiaries	–	(857)
Increase in unutilised tax losses carryforward	22	171
Tax losses from previous periods utilised	<u>(58)</u>	<u>–</u>
Tax charge at the Group's effective rate	1,415	1,764
Adjustments in respect of current tax of previous year	<u>(1,240)</u>	<u>(3,738)</u>
Tax charge/(credit) at the Group's effective rate	<u>175</u>	<u>(1,974)</u>

The Group has tax losses arising in Hong Kong of HK\$3,284,000 (2003: HK\$3,320,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

10. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders of the Company dealt with in the financial statements for the year ended 31 December 2004 was HK\$17,033,000 (2003: HK\$51,141,000) (note 30(b)).

11. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK\$26,853,000 (2003: HK\$15,382,000) and the weighted average of 502,434,781 (2003: 501,209,644) ordinary shares in issue during the year.

Diluted loss per share amounts for the years ended 31 December 2004 and 2003 have not been disclosed as the share options outstanding during these years had an anti-dilutive effect on the basic loss per share for these years.

12. FIXED ASSETS**Group**

	Leasehold improvements	Furniture, fixtures and equipment	Motor vehicles	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost				
At beginning of year	4,000	24,473	2,512	30,985
Additions	95	1,491	58	1,644
Disposals/write-off	(448)	(1,036)	–	(1,484)
At 31 December 2004	3,647	24,928	2,570	31,145
Accumulated depreciation:				
At beginning of year	3,838	20,348	1,142	25,328
Provided during the year	139	1,946	615	2,700
Disposals/write-off	(448)	(1,036)	–	(1,484)
At 31 December 2004	3,529	21,258	1,757	26,544
Net book value:				
At 31 December 2004	118	3,670	813	4,601
At 31 December 2003	162	4,125	1,370	5,657

Company

	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:				
At beginning of year	1,627	1,023	1,295	3,945
Additions	<u>88</u>	<u>24</u>	<u>–</u>	<u>112</u>
At 31 December 2004	<u>1,715</u>	<u>1,047</u>	<u>1,295</u>	<u>4,057</u>
Accumulated depreciation:				
At beginning of year	1,560	987	536	3,083
Provided during the year	<u>54</u>	<u>28</u>	<u>432</u>	<u>514</u>
At 31 December 2004	<u>1,614</u>	<u>1,015</u>	<u>968</u>	<u>3,597</u>
Net book value:				
At 31 December 2004	<u>101</u>	<u>32</u>	<u>327</u>	<u>460</u>
At 31 December 2003	<u>67</u>	<u>36</u>	<u>759</u>	<u>862</u>

The net book value of the fixed assets of the Company and of the Group held under finance leases included in the total amount of motor vehicles at 31 December 2004 amounted to HK\$327,000 (2003: HK\$759,000).

13. DEFERRED DEVELOPMENT COSTS**Group**

	<i>HK\$'000</i>
Cost:	
At 1 January 2004 and 31 December 2004	<u>6,869</u>
Accumulated amortisation:	
At beginning of year	4,603
Provided during the year	<u>879</u>
At 31 December 2004	<u>5,482</u>
Net book value:	
At 31 December 2004	<u>1,387</u>
At 31 December 2003	<u>2,266</u>

14. INTERESTS IN SUBSIDIARIES

	Company	
	2004	2003
	HK\$'000	HK\$'000
Unlisted shares, at cost	39,631	39,631
Due from subsidiaries	331,989	331,013
Due to subsidiaries	(2,080)	(2,140)
	<hr/>	<hr/>
	369,540	368,504
Provision for impairment	(265,382)	(265,382)
	<hr/>	<hr/>
	<u>104,158</u>	<u>103,122</u>

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal subsidiaries are as follows:

Company	Place of incorporation/ registration and operations	Nominal value of paid-up share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			2004	2003	
Held directly:					
Technology Venture Investments Limited	British Virgin Islands/ Hong Kong	Ordinary US\$1,000	100	100	Investment holding
Held indirectly:					
Light International Holdings Limited	British Virgin Islands/ Mainland China	Ordinary US\$10,000	100	100	Provision of procurement services
Sequent China/ Hong Kong Limited	Hong Kong/ Mainland China	Ordinary HK\$10,000	100	91	Distribution of information technology products and provision of computer technology services
Technology Venture (Software) Holdings Limited	British Virgin Islands/ Hong Kong	Ordinary US\$1,000	100	100	Investment holding
Topasia Computer Limited	Hong Kong/ Mainland China	Ordinary HK\$10,000	100	100	Distribution of information technology products and provision of computer technology services
Topsoft Limited	Hong Kong	Ordinary HK\$10,000	100	100	Distribution of information technology products and provision of computer technology services
Windsor Enterprises Limited	British Virgin Islands/ Mainland China	Ordinary US\$10,000	100	100	Provision of marketing services
Advanced Digital Technology Company Limited	British Virgin Islands/ Mainland China	Ordinary US\$1,000	55	55	Investment holding

Company	Place of incorporation/ registration/ and operations	Nominal value of paid-up share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			2004	2003	
Advanced Digital Technology Company Limited	Hong Kong/ Mainland China	Ordinary HK\$2	55	55	Provision of systems integration services and software development
北京先進數通信息技術有限公司 (note 1)	Mainland China	Registered capital US\$3,000,000	55	55	Provision of systems integration services and software development
冠亞科技(上海)有限公司 (note 2)	Mainland China	Registered Capital US\$3,800,000 (2003: US\$2,000,000)	100	100	Distribution of information technology products and provision of computer technology services
冠亞信息科技服務(上海)有限公司 (note 3)	Mainland China	Registered Capital US\$1,000,000	100	100	Provision of system integration and maintenance services

Notes:

1. 北京先進數通信息技術有限公司 is a wholly-foreign owned enterprise established by Advanced Digital Technology Company Limited in Mainland China for a period of 15 years commencing from the date of issuance of its business licence on 31 October 2000.
2. 冠亞科技(上海)有限公司 is a wholly-foreign owned enterprise established by Topasia Computer Limited in Mainland China for a period of 20 years commencing from the date of issuance of its business licence on 29 November 2001.
3. 冠亞信息科技服務(上海)有限公司 is a wholly-foreign owned enterprise established by Topasia Computer Limited in Mainland China for a period of 20 years commencing from the date of issuance of its business licence on 28 January 2002.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

15. GOODWILL

As detailed in note 3 to the financial statements, on the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted goodwill in respect of acquisitions which occurred prior to 1 January 2001 to remain eliminated against consolidated reserves. The amount of goodwill remained in consolidated reserves, arising from the acquisition of subsidiaries prior to 1 January 2001, is as follows:

HK\$'000

Cost:

At beginning of year and 31 December 2004

43,248

16. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	Group 2004 HK\$'000	2003 HK\$'000
Share of net assets, unlisted	<u>104</u>	<u>–</u>

Particulars of the jointly-controlled entity are as follows:

Name	Business structure	Place of registration and operations	Percentage of				Principal activities
			Ownership interest	Voting power	Profit sharing		
北京先進一心軟件 有限公司	Corporate	Mainland China	33.33	33.33	33.33		Provision of system integration services and software development

北京先進一心軟件有限公司 is an equity joint venture established by 北京先進數通信息技術有限公司 and two joint venturers in Mainland China for a period of 50 years commencing from the date of issuance of its business licence of 27 September 2004. It is accounted for as a jointly-controlled entity by virtue of the fact that neither the Group nor each of the joint venturers can exercise unilateral control over its economic activity. Since its registration, 北京先進一心軟件有限公司 has not commenced operation.

The jointly-controlled entity is not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

17. LONG TERM INVESTMENT

	2004 HK\$'000	2003 HK\$'000
Investments in securities, at cost:		
Listed outside Hong Kong	66,681	–
Unlisted	<u>–</u>	<u>66,681</u>
	<u>66,681</u>	<u>66,681</u>
Market value of listed investment at 31 December	<u>78,629</u>	<u>–</u>

The unlisted long term investment as at 31 December 2003 represented the cost of the Group's investment in a 19.9% equity interest in ChinaCast Technology (BVI) Limited ("CCT"), a company incorporated in the British Virgin Islands. CCT is an Internet access and content provider based in Hong Kong and Mainland China and is principally engaged in the provision of Internet and related services in Mainland China.

During the year ended 31 December 2003, CCT underwent a group restructuring to rationalise the structure of the group of companies including CCT (the "CCT Group"). ChinaCast Communication Holdings Limited ("CCH"), a company incorporated in Bermuda with limited liability on 20 November 2003, acted as the listing vehicle of the CCT Group. In May 2004, the shares of CCH were listed on the Singapore Exchange Securities Trading Limited (the "SGX"). At 31 December 2004, the Group's investment cost in the CCT Group amounted to HK\$66,681,000 (2003: HK\$66,681,000) and the Group's holding in the CCT Group was diluted from 19.9% to approximately 14.96% after the listing of shares of CCH on the SGX since May 2004. In the opinion of the directors, the Group has no significant influence on the CCT Group.

The amount due from the CCT Group is further analysed as follows:

	<i>Notes</i>	Group		Company	
		2004	2003	2004	2003
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Loans advanced to the CCT Group, unsecured	(a)	23,030	6,000	–	6,000
Other receivables	(b)	15	2,539	15	2,408
		<u>23,045</u>	<u>8,539</u>	<u>15</u>	<u>8,408</u>

Notes:

- (a) The loans advanced to CCT of HK\$6,000,000 as at 31 December 2003 was unsecured, interest-bearing at the Hong Kong dollar prime rate plus 2% per annum and was repaid in May 2004.

In January 2004, the Group advanced to the CCT Group an aggregate amount of RMB25,500,000 (equivalent approximately HK\$24,057,000) for their working capital purpose before the listing of CCH's shares on the SGX. The balance bore interest at the then prevailing bank borrowing rates in Mainland China and were financed by the Group's bank loans drawn down in January 2004, which were secured by pledged bank deposits of the CCT Group amounting to US\$3,300,000 (equivalent approximately HK\$25,740,000). The CCT Group repaid RMB1,000,000 to the Group during the year ended 31 December 2004 and the balance as at 31 December 2004 amounted to RMB24,500,000 (equivalent approximately HK\$23,030,000). The balance is repayable on or before 30 April 2005.

- (b) The other receivables due from the CCT Group are unsecured, interest-free and repayable on demand.

18. DEPOSITS

On 3 November 2004, the Group entered into a conditional agreement with a business associate pursuant to which the Company conditionally agreed to acquire (the "Acquisition") a 20% equity interest in Beijing Dongshi Shuangwei Education Technology Company Limited, a company registered in Mainland China, and principally engaged in the provision of postal service, for a consideration of RMB15,000,000 (equivalent approximately HK\$14,151,000). The transaction constituted a discloseable transaction under the Listing Rules, further details of which are set out in the circular of the Company dated 17 January 2005. As at 31 December 2004, the Group had already paid an aggregate amount of RMB15,000,000 (equivalent approximately HK\$14,151,000) as deposits. The Acquisition was completed in March 2005. It is accounted for as a long term investment of the Company.

Included in deposits at 31 December 2003 were deposits of HK\$15,653,000 paid by the Group for certain investment in another Mainland China company principally engaged in the provision of portal services in Mainland China. The deposits were secured by a guarantee executed by a third party as determined by the management. All of these deposits were refunded to the Group during the year.

19. INVENTORIES

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Information technology products held for resale	20,353	13,217
Work in progress	<u>7,844</u>	<u>7,507</u>
	<u>28,197</u>	<u>20,724</u>

None of the above inventories was carried at net realisable value at the balance sheet date (2003: Nil).

20. ACCOUNTS AND BILLS RECEIVABLE

An aged analysis of the accounts and bills receivable as at the balance sheet date, based on invoice date and net of provisions, is as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Current to 90 days	37,143	47,754
91 days to 180 days	2,990	3,566
181 days to 365 days	5,007	2,275
Over 365 days	7,127	15,769
	<u>52,267</u>	<u>69,364</u>

Included in the Group's accounts receivable is an amount due from a minority shareholder and a related company of the Group, of which certain directors of a subsidiary of the Company are directors, of HK\$2,515,000 (2003: HK\$2,455,000) and nil (2003: HK\$3,703,000), respectively, which are repayable on credit terms similar to those offered to other customers of the Group.

As at 31 December 2004, an amount of HK\$363,000 (2003: Nil) of the Group's account receivable is pledged to secure a bank loan facility (note 25).

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Included in the Group's prepayments, deposits and other receivables as at 31 December 2003 was an amount of HK\$12,000,000 in respect of deposits paid for an aborted investment in a company established in Mainland China which is principally engaged in the provision of software and technical support services for Internet content providers in Mainland China. The balance was fully refunded to the Group during the year ended 31 December 2004.

As at 31 December 2003, the aggregate amount of prepayments, deposits and other receivables includes an amount of HK\$29,554,000 of advances to a business associate to provide for its working capital purposes. The balances bear interests at the then prevailing bank borrowing rates in Mainland China. Part of the amount of the advances to the business associate of approximately HK\$25,755,000 was financed by the Group's bank loans (note 25), which were secured by a pledged bank deposit and a corporate guarantee of the business associate amounting to RMB27,000,000 and RMB3,000,000 (equivalent to HK\$25,472,000 and HK\$2,830,000), respectively. The balance was fully settled in September 2004.

22. CASH AND CASH EQUIVALENTS

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and bank balance	45,895	57,591	29	6,978
Pledged time deposits	5,141	16,470	3,000	3,000
Other time deposits with original maturity of more than three months when acquired	<u>33,962</u>	<u>34,242</u>	<u>–</u>	<u>–</u>
	84,998	108,303	3,029	9,978
Less: Pledged time deposits	<u>(5,141)</u>	<u>(16,470)</u>	<u>(3,000)</u>	<u>(3,000)</u>
Cash and cash equivalents	<u>79,857</u>	<u>91,833</u>	<u>29</u>	<u>6,978</u>

At the balance sheet date, the cash and cash equivalents of the Group denominated in Renminbi (“RMB”) amounted to HK\$74,719,000 (2003: HK\$80,161,000). RMB is not freely convertible into other currencies, however, under the Mainland China’s Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

23. ACCOUNTS AND BILLS PAYABLE

	<i>Notes</i>	Group	
		2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Trade and bills payable		51,372	54,224
Due to certain minority shareholders	(a)	325	1,452
Due to related companies	(b)	607	2,739
		<u>52,304</u>	<u>58,415</u>

Notes:

- (a) The amounts due to certain minority shareholders of certain subsidiaries represent trade payables, which are unsecured, interest-free and are repayable according to the terms agreed with these minority shareholders.
- (b) The amounts due to related companies, representing trade payables to certain related companies in which a director of the Company is also a director, are unsecured, interest-free and have no fixed terms of repayment.

An aged analysis of the accounts and bills payable as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Current to 90 days	25,981	47,665
91 days to 180 days	187	1,217
181 days to 365 days	10,740	1,532
Over 365 days	15,396	8,001
	<u>52,304</u>	<u>58,415</u>

24. ACCRUED LIABILITIES AND OTHER PAYABLES

	Group		Company	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Accrued and other liabilities	55,245	71,569	2,508	1,090
Due to a minority shareholder of a subsidiary (<i>note</i>)	24,708	24,708	–	–
	<u>79,953</u>	<u>96,277</u>	<u>2,508</u>	<u>1,090</u>

Notes:

Part of the amount due to a minority shareholder of a subsidiary of approximately HK\$13,574,000 (2003: HK\$13,574,000) represents the outstanding purchase consideration payable for the acquisition of a 55% shareholding in a subsidiary in 2000. This balance is unsecured, interest-free and is repayable on demand.

The remaining balance of approximately HK\$11,134,000 (2003: HK\$11,134,000) represents an amount advanced from the minority shareholder to provide for working capital of this subsidiary. The balance is unsecured, interest-free and repayable on demand.

25. INTEREST-BEARING BANK AND OTHER LOANS

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank overdrafts repayable on demand, unsecured	906	–	856	–
Bank loans repayable within one year, secured	41,981	34,811	–	–
Trust receipt loans repayable within one year, secured	1,170	4,528	–	–
Other loans repayable within one year, unsecured	1,560	–	–	–
	<u>45,617</u>	<u>39,339</u>	<u>856</u>	<u>–</u>

As at 31 December 2004, the Group's banking facilities were secured by:

- (i) corporate guarantees executed by the Company to the extent of HK\$20,000,000 (2003: HK\$20,000,000);
- (ii) the pledge of the Group's time deposits amounting to approximately HK\$5,141,000 (2003: HK\$16,470,000) (note 22);
- (iii) the pledge of the Group's accounts receivable of RMB385,000 (equivalent approximately HK\$363,000) (2003: Nil) (note 20);
- (iv) the pledge of bank deposits of the CCT Group of US\$3,300,000 (equivalent approximately HK\$25,740,000) (2003: Nil);
- (v) the pledge of certain motor vehicles and properties owned by a director and certain officers of a non-wholly subsidiary of the Company (2003: Nil); and
- (vi) unlimited personal guarantees executed by the director and certain officers of the non-wholly subsidiary of the Company (2003: Nil).

As at 31 December 2003, the Group's banking facilities were also secured by:

- (i) a corporate guarantee executed by a business associate of the Group to the extent of HK\$2,830,000; and
- (ii) the pledge of bank deposits of the Group's business associate amounting to RMB27,000,000 (equivalent approximately HK\$25,472,000).

26. FINANCE LEASE PAYABLES

The Company and the Group leased a motor vehicle for business use. This lease is classified as a finance lease and has remaining a lease term of more than two years.

At the balance sheet date, the total future minimum lease payments under finance leases were as follows:

	Group		Company	
	2004	2003	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Amounts payable:				
Within one year	311	326	311	326
In the second year	232	311	232	311
In the third to fifth years, inclusive	<u>58</u>	<u>290</u>	<u>58</u>	<u>290</u>
Total minimum finance lease payments	601	927	601	927
Future finance charges	<u>(72)</u>	<u>(108)</u>	<u>(72)</u>	<u>(108)</u>
Total net finance lease payables	529	819	529	819
Portion classified as current liabilities	<u>(275)</u>	<u>(315)</u>	<u>(275)</u>	<u>(315)</u>
Long term portion	<u><u>254</u></u>	<u><u>504</u></u>	<u><u>254</u></u>	<u><u>504</u></u>

The present value of minimum lease payments under finance leases is further analysed as follows:

	Group		Company	
	2004	2003	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Amounts payable:				
Within one year	275	315	275	315
In the second year	220	277	220	277
In the third to fifth years, inclusive	<u>34</u>	<u>227</u>	<u>34</u>	<u>227</u>
Total present value of minimum lease payments	<u><u>529</u></u>	<u><u>819</u></u>	<u><u>529</u></u>	<u><u>819</u></u>

27. DEFERRED TAX

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
At beginning of year and 31 December	<u><u>233</u></u>	<u><u>233</u></u>

The principal components of the Group's deferred tax liabilities represented accelerated depreciation allowances.

28. SHARE CAPITAL

Shares

	2004 HK\$'000	2003 HK\$'000
<i>Authorised:</i>		
1,000,000,000 ordinary shares of HK\$0.10 each	<u>100,000</u>	<u>100,000</u>
<i>Issued and fully paid:</i>		
502,729,644 (2003: 501,209,644) ordinary shares of HK\$0.10 each	<u>50,273</u>	<u>50,121</u>

During the year, the subscription rights attaching to 1,520,000 share options were exercised at the subscription price of HK\$0.233 per share (note 29), resulting in the issue of 1,520,000 shares at HK\$0.10 each for a total cash consideration.

A summary of the above movements of the Company's issued ordinary share capital is as follows:

	Number of shares in issue	Issued capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1 January 2004	501,209,644	50,121	341,071	391,192
Share options exercised	<u>1,520,000</u>	<u>152</u>	<u>203</u>	<u>355</u>
At 31 December 2004	<u>502,729,644</u>	<u>50,273</u>	<u>341,274</u>	<u>391,547</u>

29. SHARE OPTION SCHEME

Pursuant to the share option scheme adopted by the Company on 12 June 1999 (the "Previous Scheme"), the Company granted certain options to directors and employees of the Group, including the executive directors of the Company, to subscribe for ordinary shares in the Company subject to the terms and conditions stipulated therein. In order to comply with the new requirements of Chapter 17 of the Listing Rules on granting options under share option schemes, which took effect from 1 September 2001, the Previous Scheme was terminated and a new share option scheme (the "New Scheme") was adopted pursuant to the ordinary resolutions passed by the shareholders at the annual general meeting of the Company held on 30 May 2003. Accordingly, no further options can be granted under the Previous Scheme as from 30 May 2003. However, for the options remaining outstanding under the Previous Scheme, the existing rights of the grantees are not affected.

Pursuant to the Previous Scheme, the subscription price is equal to the higher of the nominal value of the shares of the Company or 80% of the average of the closing prices per share of the Company quoted on the Stock Exchange for the five trading days immediately preceding the date of grant of the share options. The maximum number of shares in respect of which options were able to be granted under the Previous Scheme could not exceed 10% of the issued share capital of the Company from time to time.

Pursuant to the New Scheme, the Company may grant options to eligible participants to subscribe for shares in the Company subject to the terms and conditions stipulated therein. A summary of the New Scheme is as follows:

- | | | |
|-------------|---|---|
| (a) Purpose | - | To enable the Company to grant options to Eligible Participants (as defined below) as incentives and rewards for their contribution to the Group. |
|-------------|---|---|

- | | | | |
|-----|--|---|---|
| (b) | Eligible Participants | – | Being employees or executives or officers of the Company or any of its subsidiaries (including their respective executive and non-executive directors) and suppliers, consultants and advisers who will or have provided services to the Group. |
| (c) | Total number of shares available for issue under the New Scheme | – | The total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme may not exceed 30% of the shares of the Company in issue. |
| (d) | Maximum entitlement of each Eligible Participant | – | The total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period up to and including the date of grant may not exceed 1% of the number of shares of the Company in issued at the date of grant. |
| (e) | Period under which the shares must be taken up under an option | – | The period during which the options may be exercised is determined by the board of directors of the Company at its absolute discretion, save that no option may be exercised after more than 10 years from the date of adoption of the New Scheme, subject to early termination of the New Scheme. |
| (f) | Minimum period for which an option must be held before it can be exercised | – | There is no minimum period for which an option must be held before it can be exercised. |
| (g) | Basis of determining the exercise price | – | The exercise price must be at least the highest of (i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheet on the date of the grant, which must be a business day; (ii) the average of the closing prices of the shares of the Company as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share. |
| (h) | Remaining life of the New Scheme | – | The New Scheme remains in force until 29 May 2012 unless otherwise terminated in accordance with the terms stipulated therein. |
| (i) | Period within which payments/calls/loans must be made/repaid | – | 28 days from the date of the offer of the options. |
| (j) | Amount payable on acceptance of the option | – | HK\$1.00 |

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The 1,520,000 share options exercised during the year resulted in the issue of 1,520,000 ordinary shares of the Company and new share capital of HK\$152,000 and share premium of HK\$203,000 (before issue expenses), as detailed in note 28 to the financial statements.

APPENDIX I

FINANCIAL INFORMATION OF THE GROUP

At the balance sheet date, the Company had 49,855,000 (2003: 51,780,000) share options outstanding under the share option scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 49,855,000 (2003: 51,780,000) additional ordinary shares of the Company and proceeds, before relevant share issue expenses, of HK\$14,750,000 (2003: HK\$15,198,000).

The following share options were outstanding under the share option scheme during the year:

Grantee	Number of share options			At 31 December 2004	Date of grant *	Share price of the Company at grant date **	Exercise price ***	Exercise period of share options
	At 1 January 2004	Exercised during the year	Cancelled during the year					
Directors								
Mr. Wu Emmy	5,000,000	-	-	5,000,000	27 November 2003	HK\$0.23	HK\$0.233	27 November 2003 to 29 May 2012
Mr. Tang Kin Hung	5,000,000	-	-	5,000,000	27 November 2003	HK\$0.23	HK\$0.233	27 November 2003 to 29 May 2012
Former director								
Mr. Chow Siu Lam, Cliff	5,000,000	-	-	5,000,000	27 November 2003	HK\$0.23	HK\$0.233	27 November 2003 to 29 May 2012
Other employees								
In aggregate	17,560,000	(1,520,000)	(405,000)	15,635,000	27 November 2003	HK\$0.23	HK\$0.233	27 November 2003 to 29 May 2012
Business Associates								
In aggregate	1,320,000	-	-	1,320,000	21 January 2000	HK\$3.175	HK\$2.532	21 January 2001 to 20 January 2010
	500,000	-	-	500,000	27 June 2002	HK\$0.415	HK\$0.431	27 June 2003 to 29 May 2012
	17,400,000	-	-	17,400,000	27 November 2003	HK\$0.23	HK\$0.233	27 November 2003 to 29 May 2012
	<u>19,220,000</u>	<u>-</u>	<u>-</u>	<u>19,220,000</u>				
Total	<u>51,780,000</u>	<u>(1,520,000)</u>	<u>(405,000)</u>	<u>49,855,000</u>				

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** The price of the Company's shares disclosed as at the date of the grant of the share options is the closing price of the Company's shares on the Stock Exchange on the trading day immediately prior to the date of the grant of the options.

*** 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.

30. RESERVES

(a) Group

The amounts of the Group's consolidated reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 31 of the financial statements.

The contributed surplus of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the Group reorganisation in 1999 over the nominal value of the share capital of the Company issued in exchange therefor. Certain goodwill remains eliminated against consolidated reserves, as detailed in note 15 to the financial statements.

(b) Company

<i>Note</i>	Share premium account HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2003	341,071	39,431	(258,567)	121,935
Net loss for the year	<u>–</u>	<u>–</u>	<u>(51,141)</u>	<u>(51,141)</u>
At 31 December 2003 and 1 January 2004	341,071	39,431	(309,708)	70,794
Exercise of share options (Note 29)	203	–	–	203
Net loss for the year	<u>–</u>	<u>–</u>	<u>(17,033)</u>	<u>(17,033)</u>
At 31 December 2004	<u>341,274</u>	<u>39,431</u>	<u>(326,741)</u>	<u>53,964</u>

The contributed surplus of the Company represents the excess of the combined net asset value of the subsidiaries acquired pursuant to the same reorganisation as mentioned in note 30(a) above, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda, the Company's contributed surplus is currently unable to be distributed.

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Major non-cash transactions

- (i) During the year ended 31 December 2004, a minority shareholder of a subsidiary waived an amount of HK\$657,000 (2003: Nil) due from that subsidiary to that minority shareholder (note 5).
- (ii) During the year ended 31 December 2003, the Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the leases of HK\$260,000.
- (iii) Pursuant to an assignment agreement dated 14 April 2003, an amount of HK\$10,000,000 of consideration receivable from several purchasers in connection with the disposal of the DMX Technologies Group Limited ("DMX") and its subsidiaries (collectively the "DMX Group") was set off against the considerations payable to a minority shareholder in connection with the Group's initial acquisition of a 51% equity interest in the DMX Group.

32. COMMITMENTS

The Group leases certain of its office premises under operating lease arrangements. Leases for office premises are negotiated for terms ranging from one to two and half years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At the balance sheet date, the Company and the Group had total future minimum lease payments under non-cancellable operating leases in respect of land and buildings falling due as follows:

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Within one year	1,958	2,466	448	458
In the second to fifth years, inclusive	476	503	322	–
	<u>2,434</u>	<u>2,969</u>	<u>770</u>	<u>458</u>

Save as aforesaid, the Company and the Group did not have any other significant commitments as at 31 December 2004.

33. CONTINGENT LIABILITIES

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

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Guarantees given to banks in connection with banking facilities granted to certain subsidiaries	<u>–</u>	<u>–</u>	<u>20,000</u>	<u>20,000</u>

As at 31 December 2004, the banking facilities granted to the subsidiaries were utilised to the extent of approximately HK\$1,170,000 (2003: HK\$4,528,000).

The Group had a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of HK\$890,000 as at 31 December 2003, as further explained in note 3 to the financial statements. The contingent liability has arisen as a number of current employees have achieved the required number of years of service to the Group, to the balance sheet date, in order to be eligible for long service payments under the Hong Kong Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

34. RELATED PARTY TRANSACTIONS

In addition to those disclosed in elsewhere in the financial statements, the Group had the following transactions with related parties during the year:

	2004 HK\$'000	2003 HK\$'000
Purchases of information technology products from:		
Related companies – a company in which a director of a subsidiary of the Company is also a director	–	416
– a company in which a director of the Company is also a director	–	1,361
Advance to investee companies, in which a director of the Company is also a director (<i>note 17</i>)	23,045	8,539
Management fee income received from investee companies	124	–
Reimbursement of directors' remuneration by an investee company	756	–
Loan interest income received from investee companies	227	–
Management fee income received from a company in which a director of the Company is also a director	162	–
Proceeds on sale of fixed assets received from:		
– a company in which directors of the Company are also directors	–	100
Maintenance and consultancy fees paid to:		
– a company in which a director of the Company is also a director	364	2,123

In the opinion of the directors, the above related party transactions were entered into by the Group in the ordinary course of business and on terms agreed with the related parties. The directors of the Company consider that these transactions were made according to prices and conditions similar to those offered to other third parties.

Details of the terms of the outstanding balances with related parties and minority shareholders of certain subsidiaries at 31 December 2004 are set out in notes 17, 20, 21, 23 and 24 to the financial statements.

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 April 2005.

(C) UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2005

The following is an extract of the unaudited financial statements of the Group from the interim report of the Company for the six months ended 30 June 2005:

Condensed Consolidated Profit and Loss Account

		Six months ended 30 June	
		2005	2004
	<i>Notes</i>	(unaudited)	(unaudited)
		<i>HK\$'000</i>	<i>HK\$'000</i>
TURNOVER	3	127,160	104,362
Cost of sales		<u>(118,714)</u>	<u>(90,535)</u>
Gross profit		8,446	13,827
Other income		913	658
Selling and distribution expenses		(4,022)	(4,440)
Administrative expenses		(17,913)	(19,839)
Other operating income		2,316	–
Other operating expenses		(439)	(241)
Impairment of goodwill		<u>(20,602)</u>	<u>–</u>
LOSS FROM OPERATIONS	5	(31,301)	(10,035)
Finance costs		<u>(526)</u>	<u>(88)</u>
LOSS BEFORE TAX		(31,827)	(10,123)
Tax	6	<u>(773)</u>	<u>153</u>
LOSS FOR THE PERIOD		<u><u>(32,600)</u></u>	<u><u>(9,970)</u></u>
ATTRIBUTABLE TO:			
Equity holders of the parent		(29,968)	(9,157)
Minority Interests		<u>(2,632)</u>	<u>(813)</u>
		<u><u>(32,600)</u></u>	<u><u>(9,970)</u></u>
DIVIDEND PER SHARE	7	<u><u>NIL</u></u>	<u><u>NIL</u></u>
LOSS PER SHARE	8		
Basic (HK cents)		<u><u>(5.96) cents</u></u>	<u><u>(1.82) cents</u></u>
Diluted (HK cents)		<u><u>N/A</u></u>	<u><u>N/A</u></u>

Condensed Consolidated Statement of Changes in Equity

	Attributable to equity holders of the parent							Minority interests	Total equity
	Issued capital	Share premium account	Contributed surplus	Goodwill reserve	Exchange fluctuation reserve	Revaluation reserve	Accumulated losses		
	HK\$'000 (note 15)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2004	50,121	341,071	(19)	(43,248)	64	-	(190,816)	157,173	164,704
Exercise of share options	152	202	-	-	-	-	-	354	354
Net loss for the period	-	-	-	-	-	-	(9,157)	(813)	(9,970)
At 30 June 2004	50,273	341,273	(19)	(43,248)	64	-	(199,973)	148,370	155,088
Exchange realignment	-	-	-	-	15	-	-	15	15
Net gains and losses not recognised in the profit and loss account	-	-	-	-	15	-	-	-	15
Net loss for the period	-	-	-	-	-	-	(17,695)	(2,264)	(19,959)
At 31 December 2004 and 1 January 2005	50,273	341,273	(19)	(43,248)	79	-	(217,668)	130,690	135,144
Available-for-sale investments	-	-	-	-	-	316	-	316	316
Impairment of goodwill	-	-	-	20,602	-	-	-	20,602	20,602
Net loss for the period	-	-	-	-	-	-	(29,968)	(2,632)	(32,600)
At 30 June 2005	<u>50,273</u>	<u>341,273</u>	<u>(19)</u>	<u>(22,646)</u>	<u>79</u>	<u>316</u>	<u>(247,636)</u>	<u>121,640</u>	<u>123,462</u>

Condensed Consolidated Balance Sheet

		At 30 June 2005 (unaudited) HK\$'000	At 31 December 2004 (audited) HK\$'000
	Notes		
NON-CURRENT ASSETS			
Fixed assets		3,991	4,601
Deferred development costs		948	1,387
Interest in a jointly-controlled entity		104	104
Available-for-sale investments	9	81,775	–
Long term investment	10	–	66,681
Deposits		–	14,151
		<u>86,818</u>	<u>86,924</u>
CURRENT ASSETS			
Inventories		21,822	28,197
Accounts receivable	11	43,879	52,267
Prepayments, deposits and other receivables		52,655	50,019
Due from an investee company		1,356	23,045
Pledged time deposits		3,138	5,141
Cash and bank balances		46,463	79,857
		<u>169,313</u>	<u>238,526</u>
CURRENT LIABILITIES			
Accounts and bills payable	12	29,848	52,304
Tax payable		11,525	11,670
Accrued liabilities and other payables		75,927	79,953
Interest-bearing and secured bank loans		14,752	45,617
Current portion of finance lease payables	14	232	275
		<u>132,284</u>	<u>189,819</u>
NET CURRENT ASSETS		<u>37,029</u>	<u>48,707</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		123,847	135,631
NON-CURRENT LIABILITIES			
Finance lease payables	14	152	254
Deferred tax		233	233
		<u>385</u>	<u>487</u>
		<u>123,462</u>	<u>135,144</u>
CAPITAL AND RESERVES			
Equity attributable to equity holders of the parent			
Issued capital	15	50,273	50,273
Reserves	16	71,367	80,417
		<u>121,640</u>	<u>130,690</u>
MINORITY INTERESTS		<u>1,822</u>	<u>4,454</u>
		<u>123,462</u>	<u>135,144</u>

Condensed Consolidated Cash Flow Statement

	Six months ended 30 June	
	2005 (unaudited) HK\$'000	2004 (unaudited) HK\$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(24,018)	(54,223)
NET CASH INFLOW FROM INVESTING ACTIVITIES	22,159	35,342
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	<u>(31,443)</u>	<u>10,682</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(33,302)	(8,199)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	44,989	57,591
Effect of foreign exchange rate changes, net	<u>–</u>	<u>–</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>11,687</u></u>	<u><u>49,392</u></u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	12,500	44,272
Bank overdrafts, secured	(813)	(18)
Time deposits with original maturity of less than three months when acquired, pledged as security for bank overdraft facilities	<u>–</u>	<u>5,138</u>
	<u><u>11,687</u></u>	<u><u>49,392</u></u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim accounts (“Interim Accounts”) have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim financial reporting”, issued by the Hong Kong Institute of Certified Public Accountants, and Appendix 16 of the Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies and methods of computation used in the preparation of the Interim Accounts are consistent with those used in the annual accounts for the year ended 31 December 2004 except that the Group has changed certain of its accounting policies following the adoption of new/revised Hong Kong Financial Reporting Standards (“HKFRS”) and HKASs which are effective for accounting periods commencing on or after 1 January 2005. The changes to the Group’s accounting policies and the effect of adopting these new accounting policies are set out in notes below.

Impact of adopting new/revised HKFRSs and HKASs in 2005

The major and significant effects of the adoption of the new/revised HKFRSs and HKASs on the Group’s accounting policies and amounts disclosed in the Interim Accounts are summarised as follows:

- (i) The adoption of HKAS 1 “Presentation of Financial Statement” has effected the presentation of minority interests.
- (ii) The adoption of HKFRS 2 has resulted in a change in accounting policy for employee share options and other share-based payments. Prior to this, the provision of share options and share-based payments to employees did not result in a charge to profit and loss account. Following the adoption of HKFRS 2, the fair value of share options and share-based payments at grant date are amortised over the relevant vesting periods to the profit and loss account.

However, the adoption of the HKFRS 2 has no material effect on the results for current nor prior accounting periods. Accordingly, no prior period adjustment is required.

- (iii) In prior periods, goodwill arising on acquisitions prior to 1 January 2001 was held in reserves in the year of acquisition and was not recognised in the income statement until disposal or impairment of the acquired business.

Upon the adoption of HKFRS 3 and HKAS 36, goodwill arising on acquisitions is no longer amortised but subject to an annual impairment review (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired). Any impairment loss recognised for goodwill is not reversed in a subsequent period.

The transitional provision of HKFRS 3 have required the Group to eliminate at 1 January 2005 the carrying amounts of accumulated amortisation with a corresponding entry to the cost of goodwill. Goodwill previously eliminated against reserves remains eliminated against reserves and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash generating unit to which the goodwill relates becomes impaired.

- (iv) In prior periods the Group classified its investments in equity securities as long term investments which were held for non-trading purposes and were stated at cost less any impairment losses.

Upon the adoption of HKASs 32 and 39, these securities are classified as available-for-sale investments. Available-for-sale investments are those non-derivative investments in listed and unlisted equity securities that are designated as available-for-sale or are not classified in any of the other categories of financial assets as defined in HKAS 39. After initial recognition, available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of 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.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques.

When the fair value of unlisted equity securities cannot be reliably measured because (1) the variability in the range of reasonable fair value estimates is significant for that investment, or (2) 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.

The Group assesses at each balance sheet date whether there is any objective evidence that an available-for-sale investment is impaired as a result of one or more events that occurred after the initial recognition of the assets ("loss events"), and that the loss event has an impact on the estimated future cash flows that can be reliably estimated.

If there is objective evidence of impairment, the cumulative loss that had been recognised directly in equity shall be removed from equity and recognised in the income statement. The amount of the loss recognised in the income statement shall be the difference between the acquisition cost and current fair value, less any impairment loss on that available-for-sale investment previously recognised in the income statement.

Certain comparative figures have been reclassified to conform with the current period's presentation.

2. SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on loss after tax for the six months ended 30 June 2005 and 2004

		For the six months ended 30 June					
		2005			2004		
Effect of new policies (Increase/(decrease))	Note	Equity holders of the parent HK\$'000	Minority interests HK\$'000	Total HK\$'000	Equity holders of the parent HK\$'000	Minority interests HK\$'000	Total HK\$'000
Effect on loss after tax:							
HKFRS 3	1(iii)						
Impairment of goodwill		(20,602)	-	(20,602)	-	-	-
Effect on loss per share:							
Basic (HK cents)		(4.10)			NIL		
Diluted (HK cents)		N/A			N/A		

(b) Effect on income or expenses recognised directly in equity and capital transactions with equity holders for the six months ended 30 June 2005 and 2004

Effect of new policies (Increase/(decrease))	Note	For the six months ended 30 June					
		2005			2004		
		Equity holders of the parent	Minority interests	Total	Equity holders of the parent	Minority interests	Total
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
HKAS 39	1(iv)						
Available-for-sale investments		316	–	316	–	–	–

3. SEGMENT INFORMATION

(a) Business segments

The following tables present revenue and operating loss for the Group's business segments.

	Banking and finance systems integration services 2005 HK\$'000	Software solution for banks and public sector 2005 HK\$'000	Eliminations 2005 HK\$'000	Consolidated 2005 HK\$'000
Segment revenue:				
Sales to external customers	71,847	55,313	–	127,160
Intersegment sales	–	–	–	–
Interest income	376	31	–	407
Other income	387	–	–	387
Total	72,610	55,344	–	127,954
Segment results	(771)	(4,623)	–	(5,394)
Unallocated interest income				12
Unallocated gains				108
Unallocated expenses				(5,425)
Impairment of goodwill				(20,602)
Loss from operations				(31,301)

	Banking and finance systems integration services 2004 HK\$'000	Software solution for banks and public sector 2004 HK\$'000	Eliminations 2004 HK\$'000	Consolidated 2004 HK\$'000
Segment revenue:				
Sales to external customers	42,726	61,636	–	104,362
Intersegment sales	–	726	(726)	–
Interest income	5	183	–	188
Other income	178	–	–	178
Total	<u>42,909</u>	<u>62,545</u>	<u>(726)</u>	<u>104,728</u>
Segment results	<u>898</u>	<u>(2,099)</u>	<u>–</u>	<u>(1,201)</u>
Unallocated interest income				228
Unallocated gains				64
Unallocated expenses				<u>(9,126)</u>
Loss from operations				<u>(10,035)</u>

(b) Geographical segments

The following tables present revenue and operating loss for the Group's geographical segments.

	Hong Kong 2005 HK\$'000	Elsewhere in the PRC 2005 HK\$'000	Eliminations 2005 HK\$'000	Consolidated 2005 HK\$'000
Segment revenue:				
Sales to external customers	77	127,083	–	127,160
Intersegment sales	–	–	–	–
Total	<u>77</u>	<u>127,083</u>	<u>–</u>	<u>127,160</u>
Segment results*	<u>(7,484)</u>	<u>(23,817)</u>	<u>–</u>	<u>(31,301)</u>

	Hong Kong 2004 HK\$'000	Elsewhere in the PRC 2004 HK\$'000	Eliminations 2004 HK\$'000	Consolidated 2004 HK\$'000
Segment revenue:				
Sales to external customers	418	103,944	–	104,362
Intersegment sales	–	–	–	–
Total	<u>418</u>	<u>103,944</u>	<u>–</u>	<u>104,362</u>
Segment results*	<u>(8,453)</u>	<u>(1,582)</u>	<u>–</u>	<u>(10,035)</u>

* Disclosed pursuant to the requirements of the Listing Rules

4. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

	Six months ended 30 June	
	2005	2004
	HK\$'000	HK\$'000
Sale of information technology products to an investee company	7,728	–
Reimbursement of directors' remuneration by an investee company	304	–
Maintenance and consultancy fee paid to a company in which a director of the company is also director	112	132
Advance to an investee company	<u>1,356</u>	<u>24,030</u>

In the opinion of the directors, the above related party and connected party transactions were entered into by the Group in the ordinary course of business and on terms agreed with the minority shareholders and related companies. The directors consider that these transactions were made according to prices and conditions similar to those offered to other third parties.

5. LOSS FROM OPERATIONS

The Group's loss from operations is arrived at after charging/(crediting):

	Six months ended 30 June	
	2005	2004
	HK\$'000	HK\$'000
Cost of goods sold	118,714	90,535
Depreciation	1,185	1,355
Amortization of deferred development costs	439	439
Impairment of goodwill	20,602	–
(Write-back)/provision for bad debt	<u>(2,316)</u>	<u>241</u>

6. TAX

	Six months ended 30 June	
	2005	2004
	HK\$'000	HK\$'000
Hong Kong		
– overprovision in previous years	–	153
Elsewhere		
– underprovision in previous year	(615)	–
– current period	<u>(158)</u>	<u>–</u>
Tax (charge)/credit for the period	<u>(773)</u>	<u>153</u>

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the period (2004: NIL). Taxes on profits elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

7. INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2005 (2004: NIL).

8. LOSS PER SHARE

The calculation of the basic loss per share is based on the unaudited net loss attributable to equity holders of the parent for the period of HK\$29,968,000 (2004: Loss HK\$9,157,000) and on the weighted average of 502,729,644 (2004: 502,136,677) ordinary shares in issue during the period.

Diluted loss per share amount for periods ended 30 June 2005 and 2004 have not been disclosed as the share options outstanding during these periods had an anti-dilutive effect on the basic loss per share.

9. AVAILABLE-FOR-SALE INVESTMENTS

	At 30 June 2005 (unaudited) <i>HK\$'000</i>
Equity investment, at fair value:	
– listed overseas	66,997
Unlisted equity investment, at cost	<u>14,778</u>
	<u><u>81,775</u></u>

The equity investment as at 30 June 2005 was classified as long term investment as at 31 December 2004. Pursuant to the transitional provisions of HKAS 39, the Group has reclassified it as “available-for-sale investments” with effect from 1 January 2005.

The equity investment listed overseas represented the Group’s investment in a 14.96% interest in ChinaCast Communication Holdings Limited (“CCH”), a Company listed on the Singapore Exchange Securities Trading Limited.

The Group has undertaken not to dispose or transfer any part of the shareholding in CCH for a period of twelve months commencing from the date of 14 May 2004.

The unlisted equity investment represented a 20% equity interest in Beijing Dongshi Shuangwei Education Technology Company Limited, a company registered in Mainland China, and principally engaged in the provision of portal service.

10. LONG TERM INVESTMENT

	At 30 June 2005 (unaudited) <i>HK\$'000</i>	At 31 December 2004 (audited) <i>HK\$'000</i>
Investments in securities, at cost:		
– Listed outside Hong Kong	<u>–</u>	<u>66,681</u>
Market value of listed investment	<u>–</u>	<u>78,629</u>

11. ACCOUNTS RECEIVABLE

The aged analysis of accounts receivable was as follows:

	At 30 June 2005 (unaudited) HK\$'000	At 31 December 2004 (audited) HK\$'000
Current to 90 days	21,105	37,143
91 days to 180 days	8,053	2,990
181 days to 365 days	11,792	5,007
Over 365 days	2,929	7,127
	<u>43,879</u>	<u>52,267</u>

The various group companies have different credit policies, dependent on the requirements of their markets and the business which they operate. In general, the credit period does not exceed 60 days.

12. ACCOUNTS PAYABLE

The aged analysis of accounts payable was as follows:

	At 30 June 2005 (unaudited) HK\$'000	At 31 December 2004 (audited) HK\$'000
Current to 90 days	5,651	25,981
91 days to 180 days	2,354	187
181 days to 365 days	2,598	10,740
Over 365 days	19,245	15,396
	<u>29,848</u>	<u>52,304</u>

13. BANKING FACILITIES

(a) As at 30 June 2005, the Group's banking facilities were secured by:

- (i) corporate guarantees executed by the Company to the extent of HK\$20,000,000 (As at 31 December 2004: HK\$20,000,000).
- (ii) the Group's time deposits amounting to approximately HK\$3,138,000 (As at 31 December 2004: HK\$5,141,000).
- (iii) the pledge of the Group's accounts receivable of HK\$2,977,000 (As at 31 December 2004: HK\$363,000).

(b) As at 30 June 2005, the banking facilities granted to the subsidiaries were utilised to the extent of approximately HK\$4,505,000 (As at 31 December 2004: HK\$1,170,000).

14. FINANCE LEASE PAYABLES

	At 30 June 2005 (unaudited) HK\$'000	At 31 December 2004 (audited) HK\$'000
Amounts payable:		
Within one year	263	311
In the second year	174	232
In the third to fifth years, inclusive	—	58
	<hr/>	<hr/>
Total minimum finance lease payments	437	601
Future finance charges	(53)	(72)
	<hr/>	<hr/>
Total net finance lease payables	384	529
Portion classified as current liabilities	(232)	(275)
	<hr/>	<hr/>
Long term portion	<u>152</u>	<u>254</u>

15. SHARE CAPITAL

Shares

	At 30 June 2005 (unaudited) HK\$'000	At 31 December 2004 (audited) HK\$'000
Authorised:		
1,000,000,000 ordinary shares of HK\$0.10 each	<u>100,000</u>	<u>100,000</u>
Issued and fully paid:		
502,729,644 ordinary shares of HK\$0.10 each	<u>50,273</u>	<u>50,273</u>

Share options

Under the terms of the share option scheme adopted by the Company on 12 June 1999 (“Existing Share Option Scheme”), the board of directors is authorised, on or before 11 June 2009, at its absolute discretion, to invite any employee, including any executive director of the Company or any of its subsidiaries, to take up options to subscribe for shares in the Company. The subscription price will be the higher of 80% of the average of the closing price of the Company’s shares on The Stock Exchange of Hong Kong Limited for the five trading days immediately preceding the date of the offer of grant of the option and the nominal value of the shares. The maximum number of shares in respect of which options may be granted under the share option scheme may not exceed, in nominal amount, 10% of the issued share capital of the Company from time to time which have been duly allotted and issued. The share option scheme became effective upon the listing of the Company’s shares on The Stock Exchange of Hong Kong Limited on 6 July 1999.

On 30 May 2002, the Existing Share Option Scheme is terminated by an ordinary resolution passed. Any options granted prior to the passing of the resolution shall not be affected or prejudiced and all such options shall continue to be valid and exercisable in accordance with the terms of the Existing Share Option Scheme.

New share option scheme (“New Share Option Scheme”) is adopted by the Company on 30 May 2002. Under the terms of the New Share Option Scheme, the board of directors is authorized, on or before 29 May 2012, at its absolute discretion, to invite any employees of the Group including executive directors, non-executive directors of the Company or any of its

subsidiary, any suppliers, agent and any other persons providing research, development or other advisory, consultancy, professional or other services to the Group, whether on a contractual or honorary basis and whether paid or unpaid, who have contributed or will contribute to the Group to take up options to subscribe for shares in the Company. The subscription price will not be less than the higher of the closing price of the Company's shares on The Stock Exchange of Hong Kong Limited on the date of grant and the average closing price for the five business days immediately preceding the date of grant but in any event not less than the nominal value of the shares. The maximum number of shares in respect of which options may be granted may not exceed 10% of the issued share capital of the Company at the adoption date.

On 23 May 2003, the limit on grant of options under the Share Option Schemes are refreshed.

On 30 May 2005, the limit on grant of options under the Share Option Schemes are renewed.

The movements in the number of share options to subscribe for shares in the Company during the period were as follows:

Date of grant of share options	Number of share options outstanding at 1 January 2005	Number of share options exercised during the period	Number of share options lapsed during the period	Number of share options outstanding at 30 June 2005	Exercise price	Exercise period
21 January 2000	1,320,000	–	–	1,320,000	HK\$2.532	21 January 2001 to 20 January 2010
27 June 2002	500,000	–	–	500,000	HK\$0.431	27 June 2003 to 29 May 2012
27 November 2003	48,035,000	–	1,765,000	46,270,000	HK\$0.233	27 November 2003 to 29 May 2012
	<u>49,855,000</u>	<u>–</u>	<u>1,765,000</u>	<u>48,090,000</u>		

As at 30 June 2005, the Company had 48,090,000 share options outstanding. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 48,090,000 new ordinary shares of HK\$0.10 each in the Company.

16. RESERVES

Included in the reserve is the goodwill of HK\$22,646,000 arising from the acquisition by the Group during the year ended 31 December 2000 of a 55% interest in a subsidiary.

17. CAPITAL COMMITMENTS

The Group had no capital commitments as at 30 June 2005 and 31 December 2004.

18. CONTINGENT LIABILITIES

As at 30 June 2005, the Group had a contingent liability in respect of possible future long service payments to employees under the Hong Kong employment Ordinance, with a maximum possible amount of HK\$502,000 (At 31 December 2004: HK\$890,000). The contingent liability has arisen as a number of current employees have achieved the required number of years of service to the Group, to the balance sheet date, in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

19. POST BALANCE SHEET EVENT

On 19 August 2005, the Group entered into a sale and purchase agreement with an independent third party for the acquisition of 100% of the entire issued share capital of Acacia Asia Partners Limited ("Acacia") at the aggregate consideration of HK\$13,000,000.

Acacia is a company incorporated in the British Virgin Islands with limited liability which together with its subsidiary engaged principally in investment holding and the provision of IT management, online and support services as well as Internal portal and data management service to property agencies in the PRC.

(B) INDEBTEDNESS STATEMENT

As at 30 September 2005, the Group had total outstanding borrowings of approximately HK\$11,598,359, comprising trust receipt loans of approximately HK\$3,334,982, secured bank overdraft of approximately HK\$1,451,601, finance lease payables of approximately HK\$311,776 and other loan of approximately HK\$6,500,000.

In addition, the Group had contingent liabilities in respect of bills discounted of approximately HK\$3,198,000.

The Group's banking facilities are secured by:

- (1) corporate guarantees from the Company and certain subsidiaries of the Company; and
- (2) first legal charges on fixed deposits with bank in the approximate amount of HK\$3,000,000.

Save as aforesaid and apart from intra-group liabilities, as at 30 September 2005 the Group had no debt securities issued and outstanding, and authorised or otherwise created but unissued, term loans, distinguishing between guaranteed, unguaranteed, secured and unsecured, and guaranteed, unguaranteed, secured and unsecured bank borrowings including, bank loans and overdrafts or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credit, hire purchase or finance lease commitments, guarantees or other material contingent liabilities.

(C) WORKING CAPITAL STATEMENT

The Directors are of the opinion that, in the absence of unforeseen circumstances and after taking into account the internal financial resources of the Group, the Group will have sufficient working capital to satisfy its present requirements.

(D) FINANCIAL AND TRADING PROSPECTS OF THE GROUP**Financial performance**

The Group reported a turnover of HK\$237,841,000 in 2004 compared with HK\$261,692,000 a year ago. Gross profit dropped to HK\$27,165,000 from HK\$36,284,000 in 2003. The declines were primarily attributable to fierce competition, ADT (BJ)'s scaling down in the business with Industrial and Commercial Bank of China ("ICBC") due to the contraction of their information technology spending (i.e. the turnover of ADT (BJ) attributable to ICBC dropped from 46% in 2003 to 27% in 2004), and also the market's slow response to TopAsia's launch of the new Data Warehouse application in 2004.

Profit margin was down by 3 percentage points to 11% from 14% in 2003. Loss attributable to shareholders was HK\$26,853,000, up from HK\$15,382,000 last year.

The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2004 (2003: nil).

Review of significant investments held by the Group in terms of core businesses*(i) IT solutions and systems integration: TopAsia Computer Limited ("TopAsia")*

TopAsia continued to target at the growing banking and finance sector of China, with the provision of repair and maintenance services to self-service banking facilities as the core operation. 2004 was a year of solid business development for TopAsia.

TopAsia achieved encouraging business growth with Bank of China ("BOC") and China Postal Bureau when it successfully secured aftersales repair and maintenance servicing tenders for almost 400 automatic teller machines ("ATM") for BOC branches in Henan, Shaanxi, Chongqing and Zhejiang.

At the annual tender of China Merchants Bank ("CMB"), TopAsia secured the service provider position for three of six service requests for ATMs, automatic deposit machines and automatic enquiry machines, and also two product dealerships for Diebold ATMs and revolving cash deposit and withdrawal machines, therefore making it the largest service provider and product dealer for CMB.

The development of a standard ATMP software for its ATM system was a key focus for China Postal Bureau in 2004. ATMP software is a product developed by the Group for the purposes of on-line monitoring the transaction and processing at the automatic teller machines in PRC. TopAsia's superb expertise in the technology allowed it to win the tenders in 11 provinces, including Anhui, Hubei, Hunan, Shaanxi and Zhejiang.

TopAsia continued to lead in the marketing and sales of ATMs in China. Orders in the amount of RMB40 million were obtained from Postal Bureaus of Hubei and Zhejiang, BOC Jiangsu Branch, CMB Shenzhen Branch, Bank of Shanghai and Nanjing City Commercial Bank.

TopAsia's cooperation with renowned mainland information technology stalwart UTStarcom Telecom Co. Ltd., the inventor of "Little Smart" (or Xiaolingtong) mobile services, has been very successful. Orders in the amount of RMB26 million were secured for the provision of peripherals to Little Smart facilities and multi-media workstations.

(ii) *Internet portal ad data management services*

Acacia Asia Partners Limited ("Acacia Asia") was acquired on 4 October 2005. It focuses on small to medium size property agencies that are either illiterate to information technology or do not have the resources to maintain an information technology team that helps to develop proprietary software for data management for their business. Acacia Asia is dedicated to provide web-based platforms to those property agencies in accessing key information in respect of the property market and potential investors in the PRC. In its early stage of business, Acacia Asia concentrates on market in Shanghai.

(iii) *Online education through ChinaCast*

In 2004, ChinaCast continued to be the Group's strategic investment to develop the education and training service business in China, with the technological support of other TVH units. The K-12 distance learning and educational content solutions segment continues to be ChinaCast's principal revenue contributor.

The university distance learning solutions segment shows a satisfactory and promising performance. In addition to the existing eight universities which are already generating revenues, two more universities have been signed up with student enrolment in progress.

The enterprise networking products and services segment, which commenced marketing operations at the end of first quarter of 2004, also progressed well. The first major enterprise customer, Taikang Life Insurance Co., Ltd. is in beta testing and full commercial service is expected very soon.

Outlook

Looking ahead at 2005, TopAsia will continue to control cost, develop business, enhance profitability and improve operating performance. The segment will focus its efforts primarily on further broadening the client base for self-service products and services, enlarging the scope of services and also expanding the geographical reach. The segment will also build on its relationship with major banks, including ICBC, Agricultural Bank of China, BOC, CCB and Bank of Communications to attain its 10% growth target in new customers.

TopAsia will also accelerate the development of its data integration business. It will continue to work with Ascential Software Corp. and strengthen cooperation with ETL in product research and sales, including the development of complementary software solutions to enhance market competitiveness. It will continue to team up with EMC Corporation to push sales of large capacity storage and contingency back-up systems to enterprises in the financial, securities and government sectors.

Through further leveraging on the cooperation with UTStarcom, TopAsia aims to better capitalize on business development opportunities for multi-media and telecommunication sectors, and to supply a large range of peripherals and products. A sales target of RMB50 million has been set by TopAsia for this year.

With the PRC's accession to the World Trade Organisation in late 2001 and the influx and increasing use of advanced technologies in the modern ages, the PRC economy heralded another wave of economic progression, there are great potentials in many of the business sectors especially the sector for property agencies in PRC.

Acacia Asia will start to review the opportunity of constructing and developing web-based software to provide an interface for property agents in managing its customer's data.

ChinaCast will step up its efforts in the insurance and banking sector as its project with Taikang serves as a good springboard for further inroads. Additional strategic sales opportunities in these sectors as well as in other key sectors have been identified and it is expected that an additional 2-3 major customers will be secured within the first half of 2005. ChinaCast is currently ramping up its sales, marketing and customer support staff to meet the demands of the market.

Expansion of ChinaCast's satellite network operations center in Beijing is in progress to pave way for the delivery of the latest DirecWay satellite hub upgrade to enable two-way broadband satellite services that are essential for growing the enterprise market in 2005.

Liquidity and financial resources

(i) Net assets

As at 31 December 2004, the Group recorded total assets of approximately HK\$325,450,000 which were financed by liabilities of approximately HK\$190,306,000 and equity of approximately HK\$130,690,000. The Group's net asset value as at 31 December 2004 decreased by 17% to approximately HK\$130,690,000 as compared to approximately HK\$157,173,000 as at 31 December 2003 mainly attributable to the loss of the ADT Group in 2004.

(ii) Liquidity

The Group had total cash and bank balances of approximately HK\$84,998,000 as at 31 December 2004 (2003: approximately HK\$108,303,000). After deducting bank loans and overdrafts of approximately HK\$45,617,000 (2003: approximately HK\$39,339,000), the Group recorded a net cash balance of approximately HK\$39,381,000 as compared to that of approximately HK\$68,964,000 as at 31 December 2003. As at 31 December 2004, the current ratio was 1.26 (2003: 1.37) and the gearing ratio was 0.35 (2003: 0.26) which was defined as the Group's interest-bearing bank loans and finance lease payables over its total equity.

(iii) Charges on assets

At 31 December 2004, fixed deposits of approximately HK\$5,141,000 (2003: HK\$16,470,000) were pledged to banks to secure banking facilities granted.

(iv) Treasury policies

The Group generally finances its operations with internally generated resources and credit facilities provided by banks in Hong Kong. Subsidiaries in PRC use short-term borrowings in PRC to finance working capital, which amounted to HK\$45,617,000 as at 31 December 2004. Borrowing methods used by the Group mainly include trust receipt loans, overdrafts and term loans. The interest rates of most of these are fixed by reference to the Hong Kong Dollar Prime Rate. Both bank deposits and borrowings are mainly in Hong Kong dollars and Renminbi.

(v) Contingent liabilities

At 31 December 2004, the Company had contingent liabilities in relation to guarantees given to banks in connection with facilities granted to certain subsidiaries amounting to approximately HK\$20,000,000.

As at 31 December 2004, the banking facilities granted to the subsidiaries were utilized to the extent of approximately HK\$1,170,000.

The Group has no material contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance as some of current employees have achieved the required number of years of service to the Group in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised as at 31 December 2004 in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

(vi) *Foreign exchange exposure*

The Group mainly earns revenue and incurs costs in US dollars and Renminbi. Foreign exchange exposure of the Group is minimal as long as the policy of the Government of Hong Kong to link the Hong Kong dollars to the US dollars remains in effect.

(vii) *Employee and remuneration policies*

As at 31 December 2004, the Group employed approximately 360 full time staff in the PRC and Hong Kong. The Group remunerates its employees based on their performance, work experience and the prevailing market price. Performance related bonuses are granted on a discretionary basis. Other employee benefits include mandatory provident fund, insurance and medical coverage, training programs and share option scheme.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

(A) Director's interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the following Directors had or were deemed to have interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules:

Name of Director	Note	Nature of interest	No. of Shares held	Position	Approximate percentage of issued share capital
Chan Tze Ngon	–	Beneficial owner	125,542,000	Long	24.97%
Wu Emmy	1	Beneficial owner	5,000,000	Long	0.01%
Tang Kin Hung	1	Beneficial owner	5,000,000	Long	0.01%

Note:

- These Shares are to be allotted and issued to Mr. Wu and Mr. Tang upon their exercise of the share options granted to them in November 2003.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which

were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules. There is no director or proposed director who is also a director or employee of a company which has an interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO.

(B) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial Shareholders

So far as is known to the Directors, as at the Latest Practicable Date, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly 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 member of the Group:

(i) Interests in the Shares

Name of Shareholder	No. of Shares held	Position	Approximate percentage of issued share capital
Li Yiu Wai	54,621,849	Long	9.80%

(ii) Interests in shares of associated corporations of the Company

Name of subsidiary	Name of entity	Class and no. of securities	Percentage shareholdings
ADT (BVI)	Aryalin	450 shares of US\$1 each (L)	45%
TVH Cyber Technology Ltd.	Yi Jun Yong	200 ordinary shares of HK\$1 each (L)	20%
BMC Software (China) Ltd.	BMC Software (HK) Ltd.	1 ordinary share of HK\$1 (L)	10%

L: represents the entity's interests in the securities

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company), including companies of which the Director/proposed directors is an employee, who had, or was deemed to have, interests or short positions in the Shares or underlying Shares (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly 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 member of the Group.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

4. EXPERT

The following is the qualification of the expert who has given opinions or advice which is contained in this circular:

Name	Qualification
Tai Fook Capital Limited	a licensed corporation under the SFO to carry on Type 6 regulated activity for the purposes of the SFO

Tai Fook Capital Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and report and references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, Tai Fook Capital Limited does not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

5. LITIGATION

ADT (BJ) has entered into a contract ("**Contract**") with one of its customers in the securities industry ("**Customer**") for installation of networking system ("**Work**"). Over 80% of the Work has been performed by ADT (BJ) but in breach of the Contract, the Customer refused to pay the fees payable to ADT (BJ) under the Contract ("**Fees**"). Accordingly, ADT (BJ) commenced legal proceedings in 上海市虹口區人民法院 (Shanghai Hongkou District People's Court) ("**Court**") against the Customer for the recovery of the Fees and the liquidated damages. Based on the adjudication report authorised to be made by the Court, the amount involved is estimated to be about RMB0.5 million. As at the Latest Practicable Date, the current status of this litigation was that the Court had appointed a valuer to evaluate the value of the Work and the litigation was still in progress.

Save as disclosed, as at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Group.

6. MATERIAL ADVERSE CHANGE

Save as disclosed herein, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2004, being the date to which the latest published audited financial statements of the Group was made up.

7. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors nor their respective associates had any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

8. MATERIAL CONTRACTS

The following contracts, not being contracts entered into in the ordinary course of business of the Group, have been entered into by member of the Group within two years preceding the date of this circular and are, or may be, material:

- (i) the sale and purchase agreement dated 3 November 2004 and entered into between ChinaCast Company Limited and the Group for the acquisition of 20% of the registered capital of Beijing Dongshi Shuangwei Education Technology Company Limited at a consideration of RMB15 million;
- (ii) the sale and purchase agreement dated 19 August 2005 and entered into between Li Yiu Wai and the Group for the acquisition of the entire issued share capital of and the shareholder's loan due by Acacia Asia Partners Limited at a total consideration of HK\$13 million;
- (iii) the irrevocable letter of undertaking dated 13 September 2005 in relation to the disposal of approximately 14.96% of the issued capital of ChinaCast Communications Holdings Limited; and
- (iv) the Sale and Purchase Agreements.

9. MISCELLANEOUS

- (a) There is no contract or arrangement entered into by any member of the Group subsisting at the date of this circular in which any Director is materially interested and which is significant to the business of the Group.

- (b) As at the Latest Practicable Date, none of the Directors nor Tai Fook Capital Limited had any direct or indirect interest in any assets which had been acquired, disposed of by or leased to, or which were proposed to be acquired, disposed of by or leased to, any member of the Group since 31 December 2004, the date to which the latest published audited consolidated financial statements of the Group were made up.
- (c) The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.
- (d) The head office and principal place of business of the Company in Hong Kong is located at Room 3101, 31st Floor, 118 Connaught Road West, Hong Kong.
- (e) The company secretary and the qualified accountant of the Company is Ms. Tong Pui Wah, Lisa, who is a fellow member of various accountancy bodies in UK and Hong Kong. Ms. Tong has 16 years' experience in finance and administration with large multi-national groups.
- (f) The Company's branch share registrar and transfer office in Hong Kong is Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be made available for inspection during normal business hours at the office of the legal advisers of the Company, Michael Li & Co. at 14th Floor, Printing House, 6 Duddell Street, Central, Hong Kong from the date of this circular up to and including 24 November 2005 and at the SGM:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the annual report of the Company for the two years ended 31 December 2004;
- (c) the letter of advice from Tai Fook Capital Limited, the text of which is set out on pages 16 to 29 of this circular;
- (d) the material contracts referred to in the paragraph headed "Material contracts" in this appendix;
- (e) the written consent of the expert referred to in the paragraph headed "Expert" in this appendix;
- (f) the circular dated 17 January 2005 in relation to the acquisition of 20% of the registered capital of Beijing Dongshi Shuangwei Education Technology Company Limited; and
- (g) the circular dated 17 September 2005 in relation to the acquisition of the entire issued share capital of and the shareholder's loan due by Acacia Asia Partners Limited.



TECHNOLOGY VENTURE HOLDINGS LIMITED

(宏昌科技集團有限公司) *

(incorporated in Bermuda with limited liability)

(Stock Code 61)

NOTICE IS HEREBY GIVEN that a special general meeting (the “**Meeting**”) of Technology Venture Holdings Limited (the “**Company**”) will be held at Room 3101, 118 Connaught Road West, Hong Kong on Monday, 28 November 2005 at 11:00 a.m. for the purpose of considering and, if thought fit, passing the following resolution:

ORDINARY RESOLUTION

“THAT

- (a) the agreement (the “**Disposal Agreement**”) dated 30 September 2005 and entered into between Advanced Digital Technology Company Limited, a subsidiary of the Company, as vendor and Prosper Success Investments Limited as purchaser in relation to the disposal of the entire registered capital of Beijing Advanced Digital Information Technology Company Limited (北京先進數通信息技術有限公司), a copy of the Disposal Agreement has been produced to this meeting and marked “A” and signed by the chairman of the meeting for the purpose of identification, and the transactions contemplated thereunder be and are hereby authorised, confirmed and approved and that the directors (the “**Directors**”) of the Company be and are hereby authorised to do all such further acts and things, take all steps and execute all such further documents which in their opinion may be necessary, desirable or expedient for the purpose of giving effect to and/or implement the transactions contemplated under the Disposal Agreement; and
- (b) the agreement (the “**Acquisition Agreement**”) dated 30 September 2005 and entered into between Technology Venture Investments Limited, a subsidiary of the Company, as purchaser and Aryalin Associates Limited as vendor in relation to the acquisition of 450 shares of US\$1.00 each in the issued share capital of Advanced Digital Technology Company Limited, a copy of the Acquisition Agreement has been produced to this meeting and marked “B” and signed by the chairman of the meeting for the purpose of identification, and the transactions contemplated thereunder be and are hereby authorised, confirmed and approved and that the Directors be and are hereby authorised

NOTICE OF SGM

to do all such further acts and things, take all steps and execute all such further documents which in their opinion may be necessary, desirable or expedient for the purpose of giving effect to and/or implement the transactions contemplated under the Acquisition Agreement.”

By order of the Board
Technology Venture Holdings Limited
Chan Tze Ngon
Chairman

Hong Kong, 10 November 2005

Registered office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

*Head office and principal place of
business in Hong Kong:*
Room 3101
31st Floor
118 Connaught Road West
Hong Kong

Notes:

1. A member of the Company entitled to attend and vote at the Meeting convened by the above notice is entitled to appoint one or more than one proxy to attend and, subject to the provisions of the bye-laws of the Company, to vote on his behalf. A proxy need not be a member of the Company but must be present in person at the Meeting to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
2. A form of proxy for use at the Meeting is enclosed. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, at the offices of the Company's branch share registrar in Hong Kong, Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the Meeting or any adjournment thereof. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the Meeting or any adjournment thereof, should he so wish.
3. In the case of joint holders of shares, any one of such holders may vote at the Meeting, either personally or by proxy, in respect of such shares as if he was solely entitled thereto, but if more than one of such joint holders are present at the Meeting personally or by proxy, that one of the said persons so present whose name stands first in the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.

* *for identification purpose only*



TECHNOLOGY VENTURE HOLDINGS LIMITED

(宏昌科技集團有限公司)*

(incorporated in Bermuda with limited liability)

(Stock Code 61)

FORM OF PROXY

Form of proxy for use by shareholders at the special general meeting of Technology Venture Holdings Limited to be held at Room 3101, 118 Connaught Road West, Hong Kong on Monday, 28 November 2005 at 11:00 a.m. and at any adjournment thereof.

I/We (note a) _____
of _____

being the registered holder(s) of _____ (note b) shares of HK\$0.10 each in the capital of Technology Venture Holdings Limited (the "Company") hereby appoint the chairman of the special general meeting or _____
of _____

to act as my/our proxy (note c) at attend and vote on my/our behalf at the special general meeting of the Company to be held at Room 3101, 118 Connaught Road West, Hong Kong on Monday, 28 November 2005 at 11:00 a.m. and at any adjournment thereof (and to exercise all rights conferred on proxies under law, regulation and the bye-laws of the Company) as hereunder indicated and, if no such indication is given, as my/our proxy thinks fit.

Please make a mark in the appropriate box to indicate how you wish your proxy to vote on a poll (note d).

	FOR	AGAINST
To approve the Disposal Agreement and the Acquisition Agreement and the transactions contemplated thereunder		

Dated the _____ day of _____ 2005

Shareholder's signature _____ (notes e, f, g and h)

Notes:

- Full name(s) and address(es) are to be inserted in **BLOCK CAPITALS**.
- Please insert the number of shares registered in your name(s). If no number is inserted, this form of proxy will be deemed to relate to all the shares in the capital of the Company registered in your name(s).
- A proxy need not be a shareholder of the Company, but must attend the meeting in person to represent you. You are entitled to appoint a proxy of your own choice. If you wish to appoint some person other than the chairman of the special general meeting as your proxy, please delete the words "the chairman of the special general meeting or" and insert the full name and address of the proxy desired in the space provided. Any changes should be initialled.
- If you wish to vote for any of a resolution, please tick ("✓") in the box marked "For". If you wish to vote against a resolution, please tick ("✓") in the box marked "Against". If this form of proxy returned is duly signed but without specific direction, the proxy will vote or abstain at his discretion. A proxy will also be entitled to vote or abstain at his discretion on any resolution properly put to the meeting other than those set out in the notice convening the meeting.
- In the case of a joint holding, this form of proxy may be signed by any joint holder, but if more than one joint holder is present at the meeting, whether in person or by proxy, the joint holder whose name stands first on the register of members of the Company in respect of the relevant joint holding shall alone be entitled to vote in respect thereof.
- This form of proxy must be signed by a shareholder, or his attorney duly authorised in writing, or if the shareholder is a corporation, either under its common seal or under the hand of an officer or attorney so authorised.
- To be valid, this form of proxy together with any power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority must be deposited at the offices of the Company's branch share registrar in Hong Kong, Tengis Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 48 hours before the time of the meeting or any adjourned meeting.
- Any alteration made to this form should be initialled by the person who signs the form.
- Completion and return of this form of proxy will not preclude you from attending and voting at the meeting if you so wish. In the event that you attend the meeting after having lodged this form of proxy, this form of proxy will be deemed to have been revoked.

* for identification purpose only