

FinTronics

銀創控股

FINTRONICS HOLDINGS COMPANY LIMITED

銀創控股有限公司*

(incorporated in Bermuda with limited liability)

(Stock code: 706)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2006

The Directors of FinTronics Holdings Company Limited (the “Company”) announces the unaudited consolidated results of the Company and its subsidiaries for the six months ended 30 June 2006 as follows:

* *For identification purposes only*

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the six months ended 30 June 2006

(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June			2005 Total \$'000
		2006 Continued operations \$'000	2005 Continued operations \$'000	2005 Discontinued operation \$'000	
Turnover	2	60,633	70,628	87,105	157,733
Cost of sales		(49,294)	(55,329)	(76,763)	(132,092)
Gross profit		11,339	15,299	10,342	25,641
Other revenue		1,675	3,112	41	3,153
Other net income		–	–	–	–
Impairment losses on trade and other receivables		–	(20,200)	–	(20,200)
Selling and distribution expenses		(3,266)	(4,679)	(1,111)	(5,790)
Administrative expenses		(28,577)	(19,271)	(2,529)	(21,800)
(Loss)/profit from operations	2	(18,829)	(25,739)	6,743	(18,996)
Impairment losses on non current assets		–	–	(22,235)	(22,235)
Impairment loss on interest in associate		–	(1,500)	–	(1,500)
Finance costs		(2,044)	(1,085)	(618)	(1,703)
Share of profits less losses of associates		(327)	(3,780)	–	(3,780)
Loss before taxation	3	(21,200)	(32,104)	(16,110)	(48,214)
Income tax (expense)/credit	4	(146)	396	2,221	2,617
Loss after taxation		(21,346)	(31,708)	(13,889)	(45,597)
Attributable to:					
Equity holders of the parent		(22,017)	(31,137)	(9,111)	(40,248)
Minority interests		671	(571)	(4,778)	(5,349)
Loss after taxation		(21,346)	(31,708)	(13,889)	(45,597)
Loss per share	6				
Basic (cents)		(2.72)	(5.89)	(1.72)	(7.61)
Diluted (cents)		N/A	N/A	N/A	N/A

CONSOLIDATED BALANCE SHEET (UNAUDITED)

At 30 June 2006

(Expressed in Hong Kong dollars)

		At 30 June 2006 \$'000	At 31 December 2005 \$'000
Non-current assets			
Property, plant and equipment			
– Investment properties		8,350	8,350
– Other property, plant and equipment		62,733	7,975
Interest in leasehold land held for own use under operating leases		4,320	4,322
		<u>75,403</u>	<u>20,647</u>
Goodwill		150,492	–
Intangible assets		1,363	1,469
Interest in associates		11,548	79,789
Investment funds		32,688	141,322
Pledged deposits		17,516	17,516
		<u>213,607</u>	<u>260,743</u>
Current assets			
Inventories		3,682	1,153
Trade and other receivables	7	135,067	133,577
Cash and cash equivalents		55,082	12,324
Tax recoverable		–	603
		<u>193,831</u>	<u>147,657</u>
Current liabilities			
Trade and other payables	8	121,056	74,406
Loans and overdraft		58,031	64,316
Obligations under finance lease		1,321	–
Tax payable		194	552
		<u>180,602</u>	<u>139,274</u>
Net current assets		<u>13,229</u>	<u>8,383</u>
Total assets less current liabilities		<u>302,239</u>	<u>269,126</u>
Non current liabilities			
Deferred tax liabilities		3,713	4,044
NET ASSETS		<u>298,526</u>	<u>265,082</u>

CAPITAL AND RESERVES

Share capital	105,778	52,864
Reserves	188,392	208,533
Total equity attributable to equity holders of the company	294,170	261,397
Minority interests	4,356	3,685
TOTAL EQUITY	298,526	265,082

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2006

(Expressed in Hong Kong dollars)

Attributable to equity holders of the parent

	Share capital	Share premium	General reserve	Translation reserve	Buildings revaluation reserve	Warrant reserve	Share options reserve	Retained earnings	Total	Minority interests	Total equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January 2005 (Restated)	52,864	217,055	13,180	1,167	2,468	-	-	53,372	337,706	32,811	370,517
Transfer between reserves	-	-	110	-	-	-	-	(110)	-	-	-
Placing of warrants	-	-	-	-	-	1,735	-	-	1,735	-	1,735
Capital contributions from minority interests	-	-	-	-	-	-	-	-	-	1,511	1,511
Acquisition of interests in subsidiaries from a minority shareholder	-	-	-	-	-	-	-	-	-	(7,850)	(7,850)
Dividend paid	-	-	-	-	-	-	-	-	-	(1,813)	(1,813)
Loss for the period	-	-	-	-	-	-	-	(40,248)	(40,248)	(5,349)	(45,597)
At 30 June 2005 (Restated)	<u>52,864</u>	<u>217,055</u>	<u>13,290</u>	<u>1,167</u>	<u>2,468</u>	<u>1,735</u>	<u>-</u>	<u>13,014</u>	<u>299,193</u>	<u>19,310</u>	<u>318,503</u>
At 1 January 2006	<u>52,864</u>	<u>217,055</u>	<u>6,008</u>	<u>6,710</u>	<u>68</u>	<u>1,735</u>	<u>-</u>	<u>(23,043)</u>	<u>261,397</u>	<u>3,685</u>	<u>265,082</u>
Exchange differences on translation of the financial statement of subsidiaries outside HK	-	-	105	-	-	-	-	-	105	-	105
Issue of share capital	52,914	11	-	-	-	-	-	-	52,925	-	52,925
Share based payment	-	-	-	-	-	-	1,760	-	1,760	-	1,762
Loss for the period	-	-	-	-	-	-	-	(22,017)	(22,017)	671	(21,346)
At 30 June 2006	<u>105,778</u>	<u>217,066</u>	<u>6,113</u>	<u>6,710</u>	<u>68</u>	<u>1,735</u>	<u>1,760</u>	<u>(45,060)</u>	<u>294,170</u>	<u>4,356</u>	<u>298,526</u>

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

For the six months ended 30 June 2006

(Expressed in Hong Kong dollars)

1. Basis of Preparation and Accounting Policies

These unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” and other relevant HKASs and Interpretation, the Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants and the applicable requirement of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

These condensed interim financial statements should be read in conjunction with the 2005 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2005 except for the adoption of new and revised HKASs and HKFRSs which are effective for accounting periods beginning on or after 1 January 2006 as set out below:

HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRS Interpretation 4	Determining whether an Arrangement contains a Lease

The adoption of the above new and revised accounting standards has no material impact on the Group’s balance sheet and profit and loss account.

Certain new standards, amendments and interpretations to existing standards have been published that are relevant to the Group’s business and are mandatory for the Group’s accounting periods beginning on or after 1 January 2007 or later periods. The Group has not early adopted these new standards, amendments and interpretations for the period ended 30 June 2006.

2. Segmental Information

Business segments

The entity’s primary format for reporting segment information is business segments. Revenue from external customers represents the sales value of goods supplied to customers and income from the provision of software development and systems integration services and provision of automatic teller machines services.

	Continued operations						Discontinued operation		Unallocated		Consolidated	
	Software development and systems integration services		Sale of integrated circuits and computer softwares		Provision of automatic teller machines services		Manufacture and sales of computer related products		2006	2005	2006	2005
For the six months ended	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue from external customers	23,806	19,092	34,200	51,536	2,627	-	87,105	-	-	60,633	157,733	
Other revenue from external customers	1,056	256	422	97	-	-	-	-	30	1,478	383	
Total	24,862	19,348	34,622	51,633	2,627	-	87,105	-	30	62,111	158,116	
Segment result	850	(12,060)	(2,314)	4,158	551	-	6,743	-	-	(913)	(1,159)	
Unallocated operating income and expenses										(17,916)	(17,837)	
Loss from operations										(18,829)	(18,996)	

3. Loss Before Taxation

Loss before taxation is arrived at after charging/(crediting):

	Six months ended 30 June	
	2006	2005
	\$'000	\$'000
Interest on bank borrowings	1,801	1,558
Amortisation of land lease premium	2	38
Amortisation of intangible assets	380	326
Depreciation	6,277	7,162
Interest income	(294)	(2,408)
	<u> </u>	<u> </u>

4. Income Tax (Credit)/Expense

	Six months ended 30 June	
	2006	2005
	\$'000	\$'000
Current tax – PRC		
Tax for the period	146	464
Deferred taxation		
Origination and reversal of temporary differences	–	(3,081)
	<u> </u>	<u> </u>
	<u>146</u>	<u>(2,617)</u>

5. Dividend

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2006 (2005: \$Nil).

6. Loss Per Share

(a) Basic

The calculation of basic loss per share is based on the loss attributable to equity holders of the parent of \$22,017,000 for the six months ended 30 June 2006 (2005: \$40,248,000) and the weighted average number of ordinary shares of 809,295,000 (2005: 528,644,000) in issue during the period.

(b) Diluted

The amount of diluted loss per share is not presented as the effects of all potential ordinary shares are anti-dilutive for the six months ended 30 June 2006 and 2005.

7. Trade and Other Receivables

Included in trade and other receivables are debtors and bills receivable (net of impairment losses) with the following ageing analysis:

	At 30 June 2006 \$'000	At 31 December 2005 \$'000
Current	21,473	24,385
1 to 3 months overdue	29,862	43,415
More than 3 months overdue but less than 12 months overdue	27,431	1,647
Overdue beyond 1 year	514	1,313
	<u> </u>	<u> </u>
Total debtors and bills receivable, net of impairment loss	79,280	70,760
Retentions receivable from customers	215	1,888
Gross amount due from customers for contract work	9,933	10,464
Prepayments, deposits and other receivables	45,639	50,465
	<u> </u>	<u> </u>
	<u>135,067</u>	<u>133,577</u>

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

8. Trade and Other Payables

Included in trade and other payables are creditors and bills payable with the following ageing analysis:

	At 30 June 2006 \$'000	At 31 December 2005 \$'000
Due within 3 months or on demand	23,418	31,444
Overdue 3 months to 1 year	6,332	491
Overdue beyond 1 year	2,394	898
	<hr/>	<hr/>
Total creditors and bills payable	32,144	32,833
Gross amount due to customers for contract work	2,871	4,068
Receipts in advance	1,560	1,197
Other payables and accrued liabilities	84,481	30,624
Amounts due to directors	–	5,684
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	121,056	74,406

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

FinTronics Holdings Company Limited (“FinTronics” or the “Company”) hereby announces the interim results of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”) for the six months ended 30 June 2006. As our financial convenience e-payment (“ATM”) services was still at its preliminary stage, the Group’s turnover for the period under review was derived mainly from software development and system integration services, as well as the sales of integrated circuits and computer software. Turnover recorded for the period was approximately HK\$60,633,000, compared to HK\$157,733,000 for the corresponding period last year. The drop in turnover was largely due to the disposal of the Plastics Companies which contributed more than 50% of the Group’s overall turnover for the corresponding period last year. The Group’s loss attributable to shareholders for the period was HK\$22,017,000, demonstrating significant improvement over the loss of HK\$40,248,000 incurred for the corresponding period last year under the influence of impairment and provisions.

The Group has since last year identified ATM services in China as its core business. As at the end of 2005, the number of ATM cards issued by banks in China has reached 960,000,000 which made China the largest card-issuing country around the world. Rapid development of the ATM market during the period under review speaks volumes for the management’s decision. As for the remainder of the year, in order to concentrate resources on the development of ATM services, the Group will remain committed to the integration of its existing operations without ruling out the possibility of restructuring the businesses of software development, system integration and integrated circuits as and when appropriate, thereby building a strong foundation for becoming a market leader of the ATM services.

ATM Services

Following the acquisition of Loten Technology Co., Ltd. (“Loten”) completed last year, apart from the direct ownership over the several hundred ATMs already installed in Liaoning, Shandong, Fujian and Hunan by Loten, the Group also entered into contracts with 11 institutions of China Unionpay and over 20 commercial banks in China in relation to the installation and operation of ten of thousands of ATMs around China, including a number of first tier cities, in the next five years. During the period under review, the Group successfully signed with Shenzhen Commercial Bank an installation contract under which the Group, capitalizing on its own solid experience in installing ATMs and the strong local customer base of Shenzhen Commercial Bank, will install 2,000 to 3,000 ATMs within five years with a view to commanding a dominant share in the ATM market. Dozens of ATMs have been installed so far and the project is progressing smoothly.

During the period under review, the ATMs installed by FinTronics provided various services for cardholders through ATMs pursuant to the co-operation agreement entered into between the Group and its banking partners. Such services will include enquiry, withdrawal and transfer services, as well as other services supported by the inter-bank clearing network maintained by China Unionpay. FinTronics will charge a fee for each transaction on a profit-sharing basis.

Witnessing the rapid development of retail banking in China, including the establishment of ATM network taking advantage of resources available from third party operators, the Group has taken the initiative in engaging talks with various banks to identify business opportunities for its ATM services.

Turnover of ATM services for the period was HK\$4,032,000.

Software Development, System Integration and Integrated Circuits

Combined turnover of software development and system integration businesses was approximately HK\$23,806,000, representing a 24.7% rise over that of the corresponding period last year. It also made up 39.3% of the Group’s total turnover. However, given the keen competition still in existence, the Company has hardly maintained the gross margin for the period under review comparing with the corresponding period.

The Group dedicated to the promotion of social insurance during the period under review and entered into contracts in relation to social insurance software and social insurance IC card at an aggregate contract value of approximately RMB9,000,000. Four contracts have been signed in respect of the hospital information management system (“HIS”) and the newly developed laboratory information management system (“LIS”) is being implemented in several city-level hospitals.

During the period, the sales of integrated circuits and computer software business reached HK\$34,200,000 representing 56.4% of the Group’s total turnover.

SJTU Sunway

SJTU Sunway Software Industry Limited (“SJTU Sunway”), an associate of the Group, still reported losses for the period. SJTU Sunway is in active pursuit of new opportunities for the purpose of developing the information localization business and diversify the business profiles. The Group is confident that such activities will benefit the long-term development of SJTU Sunway.

Prospect

According to market statistics, the number of ATMs in China is growing fast and is expected to exceed 200,000 by 2010. The Group has expanded its business to those key areas for ATM growth and is well-positioned to cope with the growing demand in the market.

As at the end of June 2006, the Group has already installed around 350 ATMs in Shenyang, Dalian, Changsha, Nantong, Xiamen, Yantai, Shenzhen, Qingdao, Henan respectively, establishing itself as a leading independent ATM operator in China. To meet the growing demand in the market, the Group will install 1,000 ATMs in 2006 and at the same time expand its business into those fast-growing first tier cities, such as Beijing and Shanghai. Cities in the Pearl River Delta, including Shenzhen, Guangzhou and Dongguan, are also the Group's prime targets. To sharpen its competitive edge, the Group is actively working towards the provision of such added-value services as advertising through ATMs and more comprehensive ATM services for cardholders.

The Group is on track to achieving the status of a leading ATM service provider in China and committed to yielding better return for its shareholders.

Liquidity and Financial Resources

As at 30 June 2006, the Group had cash and bank balances HK\$72.6 million (31 December 2005: HK\$29.8 million) of which HK\$17.5 million (31 December 2005: HK\$17.5 million) were pledged to banks for facilities granted to the Group. About 69.5% and 17.3% of these liquid funds were denominated in Renminbi and US dollars respectively and the remainder in HK dollars.

Bank loans and overdrafts of the Group as at 30 June 2006 amounted to HK\$58.0 million (31 December 2005: HK\$64.3 million) and were all repayable within one year. As at 30 June 2006, the total asset value of the Group was HK\$482.8 million (31 December 2005: HK\$408.4 million) whereas the total liabilities was HK\$184.3 million (31 December 2005: HK\$143.3 million). The gearing ratio of the Group, calculated as total liabilities over total assets, was 38.2% (31 December 2005: 35.1%).

Of the total borrowings as at 30 June 2006, about 33.1% denominated in Renminbi and the remainder in HK dollars, and 33.1% was at fixed interest rates.

As at 30 June 2006, the Group had available aggregate banking facilities of HK\$89.2 million (31 December 2005: HK\$79.6 million) of which HK\$10.3 million (31 December 2005: HK\$6.0 million) has not been utilised.

Assets charged as security for banking facilities included bank deposits totalling HK\$17.5 million (31 December 2005: HK\$17.5 million) and investment properties of the Group valued at HK\$8.3 million (31 December 2005: HK\$8.3 million) as at 30 June 2006.

The Group maintained a net cash (being the total cash and bank balances net of total bank borrowings) to equity ratio of 4.9% (31 December 2005: net borrowings to equity ratio of 13.0%) as at 30 June 2006. With net cash of HK\$14.6 million (31 December 2005: net borrowings of HK\$34.5 million) as at 30 June 2006, the Group's liquidity position is although tight but has been improved significantly and the directors of the Company ("Directors") believe that the Group has sufficient financial resources to satisfy its commitments and working capital requirements.

Contingent Liabilities

As at 30 June 2006, certain buildings held for own use of the Group with an aggregate carrying value of HK\$5,642,000 (31 December 2005: HK\$5,642,000) were pledged and corporate guarantee of the Company was given as security for banking facilities amounting to HK\$15,000,000 (31 December 2005: HK\$15,000,000) granted to a subsidiary of a former related company. As at 30 June 2006, the amount of the facilities utilised was HK\$5,219,000.

As at 30 June 2006, the Group had contingent liabilities in connection with performance bonds for suppliers amounting to HK\$3,588,000.

Exchange Risk

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

Employees, Training and Remuneration Policies

As at 30 June 2006, the Group had approximately of 328 (31 December 2005: 497) employees and of which approximately of 197 (31 December 2005: 168) were technicians. Employees' costs (including directors' emoluments) amounted to HK\$14,207,000 (2005: HK\$13,089,000) for the period. The Group ensures that the pay levels of its employees are competitive and employees are rewarded on a performance related basis.

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

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

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

During the six months ended 30 June 2006, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

Corporate Governance

The Company is committed to the establishment of good corporate governance practices and procedures. The corporate governance principles of the Company emphasise a quality board, sound internal control, and transparency and accountability to all shareholders. The Company has applied the principles and complied with all code provisions and, where applicable, the recommended best practices of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules ("Code on CG Practices") throughout the period ended 30 June 2006. Details of the Code adopted by the Company is set out in the section of the Corporate Governance Report.

Audit Committee

The Company has established audit committee with written terms of reference. The primary duties of the audit committee are to review, in draft form, the Company's annual report and accounts, half-year report, and to provide advice and comments thereon to the Board. The audit committee comprises three independent non-executive directors, namely Mr. Wong Po Yan, Mr. Mao Zhenhua and Mr. Chong Yiu Kan, Sherman. Mr. Chong Yiu Kan, Sherman is the chairman of the audit committee. The audit committee has reviewed with the management the accounting principles and practices adopted by the Company and discussed internal controls and financial reporting matters, including a review of the interim report for the period ended 30 June 2006.

By order of the Board
Sze Wai, Marco
Chairman

Hong Kong, 26 September 2006

As at the date hereof, the Board of Directors of the Company comprises Mr. Sze Wai, Marco, Mr. Chu Chi Shing, Mr. Song Jing Sheng, Mr. Gu Peijian as Executive Directors and Mr. Wong Po Yan, Mr. Mao Zhenhua and Mr. Chong Yiu Kan, Sherman as Independent Non-executive Directors.

“Please also refer to the published version of this announcement in China Daily.”