

CSE GLOBAL LIMITED

Co. Reg. No: 198703851D

Directors' Report and Audited Financial Statements

CSE GLOBAL LIMITED AND SUBSIDIARY COMPANIES

31 December 2005

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The Directors are pleased to present their report to the members together with the audited consolidated financial statements of CSE Global Limited (the Company) and its subsidiaries (the Group) for the financial year ended 31 December 2005 and the balance sheet and statement of changes in equity of the Company for the financial year ended 31 December 2005.

DIRECTORS

The Directors of the Company in office at the date of this report are :-

Lim Ming Seong
Goh Boon Seong
Tan Mok Koon
Lee Soo Hoon Phillip
Lim Boh Soon
Sin Boon Ann

ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES AND DEBENTURES

Except as described in the subsequent paragraphs, neither at the end of nor at any time during the financial year, was the Company a party to any arrangement whose object is to enable the Directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

The following Directors of the Company who held office at the end of the financial year had, according to the register of director's shareholdings required to be kept under Section 164 of the Companies Act, Cap. 50, an interest in the shares of the Company, as stated below :-

Name of Director	At 1.1.2005	At 31.12.2005
CSE Global Limited	Ordinary shares of \$0.05 each fully paid	
Tan Mok Koon	34,342,500	34,342,500
Goh Boon Seong	250,000	370,000
Lee Soo Hoon Phillip	120,000	240,000
Lim Boh Soon	180,000	240,000
Sin Boon Ann	30,000	30,000
	Share options granted on 30.10.2000 exercisable at a price of \$0.5046 each in ordinary shares of \$0.05 fully paid exercisable from 30.10.2003 to 30.10.2005	
CSE Global Limited		
Goh Boon Seong	120,000	—
Lee Soo Hoon Phillip	120,000	—

DIRECTORS' INTERESTS IN SHARES AND DEBENTURES (CONT'D)

Name of Director	At 1.1.2005	At 31.12.2005
Share options granted on 30.10.2001 exercisable at a price of \$0.3060 each in ordinary shares of \$0.05 fully paid exercisable from 30.10.2003 to 30.10.2006		
CSE Global Limited		
Goh Boon Seong	60,000	60,000
Share options granted on 30.10.2002 exercisable at a price of \$0.3072 each in ordinary shares of \$0.05 fully paid exercisable from 30.10.2004 to 30.10.2007		
Goh Boon Seong	60,000	60,000
Lim Boh Soon	60,000	-
Share options granted on 30.12.2003 exercisable at a price of \$0.5300 each in ordinary shares of \$0.05 fully paid exercisable from 31.12.2005 to 31.12.2008		
Goh Boon Seong	60,000	60,000
Lee Soo Hoon Phillip	60,000	60,000
Lim Boh Soon	60,000	60,000
Sin Boon Ann	60,000	60,000

The number of shares represents those shares registered in the Director's name.

There was no change in any of the above mentioned interests between the end of the financial year and 21 January 2006.

Except as disclosed in this report, no Director who held office at the end of the financial year had interests in shares, share options, warrants or debentures of the Company, either at the beginning of the financial year, or date of appointment if later, or at the end of the financial year.

DIRECTORS' CONTRACTUAL BENEFITS

Since the end of the previous financial year, no Director of the Company has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the Director, or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest, except for those that are disclosed in the financial statements.

SHARE OPTIONS**The Company**

The Company grants share options to Directors and full time employees of the Company and of the Group pursuant to the following share option schemes :-

- (i) CSE Global Limited Executives' Share Option Scheme ("CSE ESOS") prior to 9 October 2001;
- (ii) CSE Global Limited Executives' Share Option Scheme ("CSE ESOS") subsequent to 9 October 2001; and
- (iii) CSE (US Subsidiaries) Incentive Stock Option Plan ("US Plan")

Details of the share option schemes and the respective share options that are granted as at 31 December 2005 are disclosed in the following :-

(i) CSE Global Limited Executives' Share Option Scheme ("CSE ESOS") prior to 9 October 2001

Under the Company's CSE ESOS prior to 9 October 2001, the share options that are granted as at 31 December 2005 are as follows :-

Date of grant	Balance as at 1.1.2005	Addition	Cancelled	Exercised	Balance as at 31.12.2005	Exercise Price	Exercise Period
30 October 2000	2,900,000	-	(31,500)	(2,868,500)	-	\$0.5046	30 October 2003 to 30 October 2005

There are no participants of CSE ESOS prior to 9 October 2001 who are controlling shareholders of the Company or their associates, or who received 5 percent or more of the total number of share options available under the CSE ESOS prior to 9 October 2001. As the Company does not have any parent company, there are therefore no participants of CSE ESOS prior to 9 October 2001 who are directors or employees of the Company's parent company and its subsidiary companies.

The participants of CSE ESOS prior to 9 October 2001 who are Directors of the Company as at 31 December 2005 are disclosed in the following table:

Share options granted on 30.10.2000 exercisable at the price of \$0.5046 each in Ordinary shares of \$0.05 each fully paid exercisable from 30.10.2003 to 30.10.2005

Name of participant in respect of CSE ESOS prior to 9 October 2001	Options granted during the financial year under review	Aggregate options granted since commencement of scheme to end of financial year under review	Aggregate options exercised since commencement of scheme to end of financial year under review	Aggregate options outstanding as at end of financial year under review
Goh Boon Seong	-	120,000	120,000	-
Lee Soo Hoon Phillip	-	120,000	120,000	-
Lim Boh Soon	-	120,000	120,000	-

SHARE OPTIONS (CONT'D)**(i) CSE Global Limited Executives' Share Option Scheme ("CSE ESOS") prior to 9 October 2001 (cont'd)**

The terms of the share options granted under the CSE ESOS prior to 9 October 2001 to the Directors of the Company are the same as those granted to the employees of the Group and they are disclosed below.

Only Directors and full time employees of the Group who have attained the age of twenty one (21) years are eligible to participate in the CSE ESOS prior to 9 October 2001. Each option entitles the participant to subscribe for a number of new ordinary shares of \$0.05 each in the Company pre-determined at the date of grant. The options are granted in consideration of \$1.00 per option for all the shares in respect of which the option is granted. The shares under option may be exercised in full or in blocks of 1,000 shares or a multiple thereof on the payment of the exercise price. The participants to whom the options have been granted do not have the right to participate by virtue of the options in a share issue of any other company. Options granted are cancelled when the participant ceases to be a full-time employee of the Company or any corporation in the Group subject to certain exceptions at the discretion of the Company. The exercise of the options is also subjected to the satisfactory performance of the participant's duties.

For all the options that are granted under CSE ESOS prior to 9 October 2001, the options may be exercised within a period commencing after the third anniversary of the date of grant and expiring on the fifth anniversary of the date of grant.

For all the options that are granted under CSE ESOS prior to 9 October 2001, the subscription price at which a participant subscribes for new ordinary shares of \$0.05 each of the Company upon the exercise of the option granted shall be at a discount of between zero (0) percent and forty (40) per cent (as determined in accordance with the Formula as set out below) of the average of the last dealt prices for an ordinary share of \$0.05 each of the Company, as determined by reference to the daily Official List published by the Singapore Exchange Securities Trading Limited, for the five (5) consecutive trading days immediately preceding the date of grant of the option, or the nominal value of the ordinary shares of \$0.05 each of the Company, whichever is higher.

The Formula for the determination of the discount is given as follows :-

$$\text{Discount} = \frac{\text{Average Profit} - 0.6 \text{ (Base Figure)}}{1.456 \text{ (Base Figure)} - 0.6 \text{ (Base Figure)}} \times 40\%$$

whereby:

the Base Figure represents the higher of the audited profit before tax and extraordinary items of the CSE Group of the financial year immediately preceding the financial year in which the date of grant falls, or ten (10) percent of the audited sales revenue of the Group for the financial year immediately preceding the financial year in which the date of grant falls; and

the Average Profit represents the average audited profit before tax and extraordinary items of the Group for three (3) consecutive financial years beginning from the financial year in which the date of grant falls; and

In the event that the Average Profit is more than or equal to 1.456 times of the higher of:-

- (a) audited profit before tax and extraordinary items of the CSE Group of the financial year immediately preceding the financial year in which the date of grant falls; and
- (b) ten (10) percent of the audited sales revenue of the Group for the financial year immediately preceding the financial year in which the date of grant falls;

the subscription price shall be calculated to be the result after a discount of forty (40) per cent.

SHARE OPTIONS (CONT'D)**(i) CSE Global Limited Executives' Share Option Scheme ("CSE ESOS") prior to 9 October 2001 (cont'd)**

No discount shall be given if the Average Profit falls below 0.6 times of the Base Figure. In the event that the Average Profit is more than 0.6 times but less than 1.456 times of the Base Figure, the discount shall be determined proportionately.

The subscription prices of the share options issued under CSE ESOS prior to 9 October 2001 are entitled to a maximum discount of 40%. The determination of the quantum of the 40% discount on the subscription prices of share options issued under CSE ESOS prior to 9 October 2001 is based on the performance of the CSE Group for the three consecutive financial years beginning from the financial year in which the date of grant falls. The quantum of the discount on the subscription prices of share options issued under CSE ESOS prior to 9 October 2001 is only determined on the respective vesting dates. The number, proportion and discount entitlements of the various categories of share options granted under CSE ESOS prior to 9 October 2001, where determinable to date, are disclosed in the following table:

Date of grant	Aggregate options outstanding as at end of financial year under review	Proportion against aggregate options outstanding	Financial years considered for performance evaluation	Vesting date of share options	Expiry date of share options	Discount entitlement
30 October 2000	–	100%	FY2000 to FY2002	30 October 2003	30 October 2005	40%

(ii) CSE Global Limited Executives' Share Option Scheme ("CSE ESOS") subsequent to 9 October 2001

Under the Company's CSE ESOS subsequent to 9 October 2001, the share options that are granted as at 31 December 2005 are as follows :-

Date of grant	Balance as at 1.1.2005	Addition	Cancelled	Exercised	Balance as at 31.12.2005	Exercise Price	Exercise Period
30 October 2001	972,000	–	(7,000)	(900,000)	65,000	\$0.3060	30 October 2003 to 30 October 2006
31 October 2002	5,807,000	–	(18,000)	(4,036,000)	1,753,000	\$0.3072	31 October 2004 to 31 October 2007
10 September 2003	500,000	–	–	(500,000)	–	\$0.4359	10 September 2005 to 10 September 2008
31 December 2003	8,169,000	–	(582,000)	–	7,587,000	\$0.5300	31 December 2005 to 31 December 2008
	15,448,000	–	(607,000)	(5,436,000)	9,405,000		

There are no participants of CSE ESOS subsequent to 9 October 2001 who are controlling shareholders of the Company or their associates, or who received 5 percent or more of the total number of share options available under the CSE ESOS subsequent to 9 October 2001. As the Company does not have any parent company, there are therefore no participants of CSE ESOS subsequent to 9 October 2001 who are directors or employees of the Company's parent company and its subsidiary companies.

SHARE OPTIONS (CONT'D)

(ii) *CSE Global Limited Executives' Share Option Scheme ("CSE ESOS") subsequent to 9 October 2001 (cont'd)*

The participants of CSE ESOS subsequent to 9 October 2001 who are Directors of the Company as at 31 December 2005 are disclosed in the following tables:

Share options granted on 30.10.2001 exercisable at the price of \$0.3060 each in Ordinary shares of \$0.05 each fully paid exercisable from 30.10.2003 to 30.10.2006

Name of participant in respect of CSE ESOS prior to 9 October 2001	Options granted during the financial year under review	Aggregate options granted since commencement of scheme to end of financial year under review	Aggregate options exercised since commencement of scheme to end of financial year under review	Aggregate options outstanding as at end of financial year under review
Goh Boon Seong	–	60,000	–	60,000
Lee Soo Hoon Phillip	–	60,000	60,000	–
Lim Boh Soon	–	60,000	60,000	–

Share options granted on 31.10.2002 exercisable at a price of \$0.3072 each in Ordinary shares of \$0.05 each fully paid exercisable from 31.10.2004 to 31.10.2007

Name of participant in respect of CSE ESOS prior to 9 October 2001	Options granted during the financial year under review	Aggregate options granted since commencement of scheme to end of financial year under review	Aggregate options exercised since commencement of scheme to end of financial year under review	Aggregate options outstanding as at end of financial year under review
Goh Boon Seong	–	60,000	–	60,000
Lee Soo Hoon Phillip	–	60,000	60,000	–
Lim Boh Soon	–	60,000	60,000	–
Sin Boon Ann	–	30,000	30,000	–

Share options granted on 31.12.2003 exercisable at a price of \$0.5300 each in Ordinary shares of \$0.05 each fully paid exercisable from 31.12.2005 to 31.12.2008

Name of participant in respect of CSE ESOS prior to 9 October 2001	Options granted during the financial year under review	Aggregate options granted since commencement of scheme to end of financial year under review	Aggregate options exercised since commencement of scheme to end of financial year under review	Aggregate options outstanding as at end of financial year under review
Goh Boon Seong	–	60,000	–	60,000
Lee Soo Hoon Phillip	–	60,000	–	60,000
Lim Boh Soon	–	60,000	–	60,000
Sin Boon Ann	–	60,000	–	60,000

SHARE OPTIONS (CONT'D)**(ii) CSE Global Limited Executives' Share Option Scheme ("CSE ESOS") subsequent to 9 October 2001 (cont'd)**

The terms of the share options granted under the CSE ESOS subsequent to 9 October 2001 to the Directors of the Company are the same as those granted to the employees of the Group and they are disclosed below.

Only Directors and full time employees of the Group who have attained the age of twenty one (21) years are eligible to participate in the CSE ESOS subsequent to 9 October 2001. Each option entitles the participant to subscribe for a number of new ordinary shares of \$0.05 each in the Company pre-determined at the date of grant. The options are granted in consideration of \$1.00 per option for all the shares in respect of which the option is granted. The shares under option may be exercised in full or in blocks of 1,000 shares or a multiple thereof on the payment of the exercise price. The participants to whom the options have been granted do not have the right to participate by virtue of the options in a share issue of any other company. Options granted are cancelled when the participant ceases to be a full-time employee of the Company or any corporation in the Group subject to certain exceptions at the discretion of the Company. The exercise of the options is also subjected to the satisfactory performance of the participant's duties.

For all the options that are granted under CSE ESOS subsequent to 9 October 2001, those options may be exercised within a period commencing after the second anniversary of the date of grant and expiring on the fifth anniversary of the date of grant.

For all the options that are granted under CSE ESOS subsequent to 9 October 2001, the subscription price at which a participant subscribes for new ordinary shares of \$0.05 each of the Company upon the exercise of the option granted shall be at a discount of between zero (0) percent and twenty (20) per cent of the average of the last dealt prices for an ordinary share of \$0.05 each of the Company, as determined by reference to the daily Official List published by the Singapore Exchange Securities Trading Limited, for the five (5) consecutive trading days immediately preceding the date of grant of the option, or the nominal value of the ordinary shares of \$0.05 each of the Company, whichever is higher.

The quantum of the discount shall be equal to the compounded rate of growth (expressed in percentage terms) of the Group's audited profit before tax and extraordinary items for two (2) consecutive financial years beginning from the financial year in which the date of grant falls. The discount shall, in no event, exceed twenty (20) per cent, notwithstanding that the compounded rate of growth may exceed twenty (20) per cent. No discount shall be given if the compounded rate of growth is nil or negative.

SHARE OPTIONS (CONT'D)**(ii) CSE Global Limited Executives' Share Option Scheme ("CSE ESOS") subsequent to 9 October 2001 (cont'd)**

The subscription prices of the share options issued under CSE ESOS subsequent to 9 October 2001 are entitled to a maximum discount of 20%. The determination of the quantum of the 20% discount on the subscription prices of share options issued under CSE ESOS subsequent to 9 October 2001 is based on the performance of the CSE Group for the two consecutive financial years beginning from the financial year in which the date of grant falls. The quantum of the discount on the subscription prices of share options issued under CSE ESOS subsequent to 9 October 2001 is only determined on the respective vesting dates. The number, proportion and discount entitlements of the various categories of share options granted under CSE ESOS subsequent to 9 October 2001, where determinable to date, are disclosed in the following table:

Date of grant	Aggregate options outstanding as at end of financial year under review	Proportion against aggregate options outstanding	Financial years considered for performance evaluation	Vesting date of share options	Expiry date of share options	Discount entitlement
30 October 2001	65,000	6%	FY2001 to FY2002	30 October 2003	30 October 2006	0%
31 October 2002	1,753,000	38%	FY2002 to FY2003	31 October 2004	31 October 2007	20%
10 September 2003	–	3%	FY2003 to FY2004	10 September 2005	10 September 2008	18%
31 December 2003	7,587,000	53%	FY2003 to FY2004	31 December 2005	31 December 2008	18%

(iii) CSE (US Subsidiaries) Incentive Stock Option Plan ("US Plan")

Under the Company's US Plan, the share options that are granted as at 31 December 2005 are as follows :-

Date of grant	Balance as at 1.1.2005	Addition	Cancelled	Exercised	Balance as at 31.12.2005	Exercise Price	Exercise Period
30 October 2001	740,000	–	–	(630,000)	110,000	\$0.3060	30 October 2003 to 30 October 2006
31 October 2002	1,384,000	–	(20,000)	(1,197,000)	167,000	\$0.3840	31 October 2004 to 31 October 2007
31 December 2003	1,585,000	–	(248,000)	–	1,337,000	\$0.6480	31 December 2005 to 31 December 2008
	3,709,000	–	(268,000)	(1,827,000)	1,614,000		

There are no participants of US Plan who are Directors of the Company, controlling shareholders of the Company or their associates, or who received 5 percent or more of the total number of share options available under the US Plan. As the Company does not have any parent company, there are therefore no participants of US Plan who are directors or employees of the Company's parent company and its subsidiary companies.

SHARE OPTIONS (CONT'D)**(iii) CSE (US Subsidiaries) Incentive Stock Option Plan ("US Plan") (cont'd)**

Only full time employees of the subsidiary companies of the Group incorporated in any state of the United States of America who have attained the age of twenty one (21) years are eligible to participate in the US Plan, except for the employees who were already holding options that are granted under the CSE ESOS at the time the US Plan was adopted by the Company. Each option entitles the participant to subscribe for a number of new ordinary shares of \$0.05 each in the Company pre-determined at the date of grant. The shares under option may be exercised in full or in blocks of 1,000 shares or a multiple thereof on the payment of the exercise price. The participants to whom the options have been granted do not have the right to participate by virtue of the options in a share issue of any other company. Options granted are cancelled when the participant ceases to be a full-time employee of the subsidiary companies of the Group incorporated in any state of the United States of America subject to certain exceptions at the discretion of the Company. The exercise of the options is also subjected to the satisfactory performance of the participant's duties.

The options granted under the US Plan may be exercised within a period commencing after the second anniversary of the date of grant and expiring on the fifth anniversary of the date of grant.

The subscription price at which a participant subscribes for new ordinary shares of \$0.05 each of the Company upon the exercise of the option granted under the US Plan shall be the average of the last dealt prices for an ordinary share of \$0.05 each of the Company, as determined by reference to the daily Official List published by the Singapore Exchange Securities Trading Limited, for the five (5) consecutive trading days immediately preceding the date of grant of the option, or the nominal value of the ordinary shares of \$0.05 each of the Company, whichever is higher. The subscription prices of the share options issued under US Plan are not entitled to any form of discounts.

AUDIT COMMITTEE

The Audit Committee was established on 22 January 1999.

The Audit Committee comprises three members, all of whom are non-executive Directors and are independent of the management of the Company.

The members of the Audit Committee at the date of this report comprise the following Directors :-

Non-executive / Independent Directors :

Lee Soo Hoon Phillip (Chairman)

Lim Boh Soon

Sin Boon Ann

The Audit Committee performed the functions specified in the Companies Act. The functions performed are detailed in the Report on Corporate Governance.

AUDITORS

Ernst & Young, Certified Public Accountants, have expressed their willingness to accept reappointment.

On behalf of the Directors,

Lim Ming Seong
Director

Tan Mok Koon
Director

Singapore
15 March 2006

STATEMENT BY DIRECTORS

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Pursuant to Section 201(15)

We, Lim Ming Seong and Tan Mok Koon, being two of the Directors of CSE Global Limited, do hereby state that, in the opinion of the Directors :-

- (i) the accompanying balance sheets, consolidated profit and loss account, statements of changes in equity and consolidated statement of cash flows together with the notes thereto are drawn up so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2005 and of the results, changes in equity and cash flows of the Group and the changes in equity of the Company for the year then ended, and
- (ii) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the Directors,

Lim Ming Seong

Director

Tan Mok Koon

Director

Singapore

15 March 2006

AUDITORS' REPORT

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to Members of CSE Global Limited

We have audited the accompanying financial statements of CSE Global Limited (the Company) and its subsidiary companies (collectively, the Group) set out on pages 15 to 83 for the year ended 31 December 2005. These financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Singapore Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- (a) the consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Singapore Companies Act, Cap. 50 (the Act) and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2005 and the results, changes in equity and cash flows of the Group and the changes in equity of the Company for the financial year ended on that date; and
- (b) the accounting and other records required by the Act to be kept by the Company and by those subsidiary companies incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

ERNST & YOUNG
Certified Public Accountants

Singapore
15 March 2006

BALANCE SHEETS

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as at 31 December 2005

	Note	Group		Company	
		2005 \$'000	2004 \$'000 (restated)	2005 \$'000	2004 \$'000 (restated)
Fixed assets	4	19,254	17,236	7,606	7,892
Subsidiary companies	5	–	–	150,602	146,102
Associated companies	6	15,321	6,655	10,333	–
Other investments	7	–	–	–	–
Intangible assets	8	32,967	33,513	–	–
Deferred tax assets	9	1,608	785	488	–
Current assets					
Projects-in-progress	10	15,154	21,300	531	1,228
Stocks	11	5,746	3,287	–	–
Trade debtors	12	100,492	53,726	4,427	3,334
Other debtors, deposits and prepayments	13	3,939	4,247	670	323
Amounts due from subsidiary companies	5	–	–	8,119	5,378
Amounts due from associated companies	6	43	320	–	29
Short-term deposits	29	1,333	1,481	–	–
Cash and bank balances	29	28,029	20,057	525	1,449
		154,736	104,418	14,272	11,741
Current liabilities					
Projects-in-progress	10	4,773	1,708	–	–
Trade creditors and accruals	14	50,395	29,385	4,647	1,906
Finance leases	31	225	182	–	–
Amounts due to bankers	15	72,004	52,863	72,004	52,863
Amounts due to subsidiary companies	5	–	–	11,809	14,453
Amounts due to an associated company	6	–	852	–	852
Provision for warranties	16	1,594	1,330	–	–
Provision for taxation		3,791	2,209	–	214
		132,782	88,529	88,460	70,288
Net current assets/(liabilities)		21,954	15,889	(74,188)	(58,547)
Deferred tax liabilities	9	(570)	(401)	–	(230)
Finance leases	31	(366)	(314)	–	–
Amounts due to bankers	15	(2,783)	(4,569)	(2,783)	(4,569)
		87,385	68,794	92,058	90,648
Capital and reserves					
Share capital	17	16,491	16,028	16,491	16,028
Share premium	18	68,548	65,450	68,548	65,450
Revenue reserve/ (accumulated loss)		3,439	(12,159)	6,212	8,028
Other reserves	19	817	1,128	817	1,128
Foreign currency translation reserve	20	(1,923)	(1,665)	(10)	14
		87,372	68,782	92,058	90,648
Minority interest		13	12	–	–
		87,385	68,794	92,058	90,648

The accounting policies and explanatory notes on pages 23 through 83 form an integral part of the financial statements.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

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for the year ended 31 December 2005

		Group	
	Note	2005 \$'000	2004 \$'000 (restated)
Revenues	21	267,335	198,468
Cost of sales		(179,957)	(133,605)
Gross profit		87,378	64,863
Other operating income			
Miscellaneous income	22	1,315	1,849
Finance income	23	377	217
Operating expenses			
Administrative costs		(52,464)	(42,325)
Selling and distribution costs		(4,761)	(3,964)
Other operating costs		(900)	(94)
Finance costs	24	(2,859)	(1,550)
Share of profit of associated companies, net of tax		474	960
Profit from continuing operations before taxation	25	28,560	19,956
Taxation	26	(6,437)	(3,622)
Profit from continuing operations after taxation		22,123	16,334
Attributable to :-			
Equity holders of the Company		22,122	16,299
Minority interest		1	35
		22,123	16,334
Earnings per share from continuing operations (in cents)			
Basic EPS	27	6.78	5.14
Diluted EPS	27	6.69	4.99

The accounting policies and explanatory notes on pages 23 through 83 form an integral part of the financial statements.

STATEMENTS OF CHANGES IN EQUITY

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for the year ended 31 December 2005

2004 Group	Share capital \$'000	Share premium \$'000	Accu- mulated loss \$'000	Other reserves \$'000	Trans- lation reserve \$'000	Total \$'000	Minority interest \$'000	Total Equity \$'000
At 31 December 2003								
as previously stated	15,625	62,827	(23,372)	-	(888)	54,192	-	54,192
Cumulative effects of adopting FRS 102 [Note 2(b)(iii)]	-	-	(14)	14	-	-	-	-
At 1 January 2004								
as restated	15,625	62,827	(23,386)	14	(888)	54,192	-	54,192
Effects of exchange differences arising from :-								
- Translation of financial statements of foreign operations	-	-	-	-	(249)	(249)	(23)	(272)
- Hedging of net investment	-	-	-	-	(528)	(528)	-	(528)
Net expense recognised directly in equity	-	-	-	-	(777)	(777)	(23)	(800)
Net profit for the year	-	-	16,299	-	-	16,299	35	16,334
Total recognised net income for the year	-	-	16,299	-	(777)	15,522	12	15,534
Cost of share-based payments	-	-	-	1,114	-	1,114	-	1,114
Dividends (Note 34)	-	-	(5,072)	-	-	(5,072)	-	(5,072)
Issuance of ordinary shares for cash	403	-	-	-	-	403	-	403
Premium on shares issued during the year	-	2,638	-	-	-	2,638	-	2,638
Expenses on issuance of ordinary shares	-	(15)	-	-	-	(15)	-	(15)
At 31 December 2004	16,028	65,450	(12,159)	1,128	(1,665)	68,782	12	68,794

The accounting policies and explanatory notes on pages 23 through 83 form an integral part of the financial statements.

STATEMENTS OF CHANGES IN EQUITY

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for the year ended 31 December 2005

2005 Group	Share capital \$'000	Share premium \$'000	Revenue reserve \$'000	Other reserves \$'000	Trans- lation reserve \$'000	Total \$'000	Minority interest \$'000	Total Equity \$'000
At 31 December 2004 as previously stated	16,028	65,450	(11,031)	–	(1,665)	68,782	12	68,794
Cumulative effects of adopting FRS 102 [Note 2(b)(iii)]	–	–	(1,128)	1,128	–	–	–	–
At 31 December 2004 as restated	16,028	65,450	(12,159)	1,128	(1,665)	68,782	12	68,794
Effects of adopting FRS 39 [Note 2(b)(ii)]	–	–	–	729	–	729	–	729
At 1 January 2005 as restated	16,028	65,450	(12,159)	1,857	(1,665)	69,511	12	69,523
Effects of exchange differences arising from :-								
- Translation of financial statements of foreign operations	–	–	–	–	(1,205)	(1,205)	–	(1,205)
- Hedging of net investment	–	–	–	–	947	947	–	947
Net changes in hedging reserves	–	–	–	(1,914)	–	(1,914)	–	(1,914)
Net expense recognised directly in equity	–	–	–	(1,914)	(258)	(2,172)	–	(2,172)
Net profit for the year	–	–	22,122	–	–	22,122	1	22,123
Total recognised net income for the year	–	–	22,122	(1,914)	(258)	19,950	1	19,951
Cost of share-based payments	–	–	–	874	–	874	–	874
Dividends (Note 34)	–	–	(6,524)	–	–	(6,524)	–	(6,524)
Issuance of ordinary share for cash	463	–	–	–	–	463	–	463
Premium on share issued during the year	–	3,098	–	–	–	3,098	–	3,098
At 31 December 2005	16,491	68,548	3,439	817	(1,923)	87,372	13	87,385

The accounting policies and explanatory notes on pages 23 through 83 form an integral part of the financial statements.

STATEMENTS OF CHANGES IN EQUITY

- 19 -

for the year ended 31 December 2005

2004 Company	Share capital \$'000	Share premium \$'000	Revenue reserve \$'000	Other reserves \$'000	Translation reserve \$'000	Total Equity \$'000
At 31 December 2003						
as previously stated	15,625	62,827	12,556	–	(1,143)	89,865
Cumulative effects of adopting FRS 102 [Note 2(b)(iii)]	–	–	(14)	14	–	–
Cumulative effects of adopting revised FRS 21 [Note 2(b)(iv)]	–	–	(1,143)	–	1,143	–
At 1 January 2004 as restated	15,625	62,827	11,399	14	–	89,865
Net effect of exchange differences	–	–	–	–	14	14
Net expense recognised directly in equity	–	–	–	–	14	14
Net profit for the year	–	–	1,701	–	–	1,701
Total recognised net income for the year	–	–	1,701	–	14	1,715
Cost of share-based payments	–	–	–	1,114	–	1,114
Dividends (Note 34)	–	–	(5,072)	–	–	(5,072)
Issuance of ordinary shares for cash	403	–	–	–	–	403
Premium on shares issued during the year	–	2,638	–	–	–	2,638
Expenses on issuance of ordinary shares	–	(15)	–	–	–	(15)
At 31 December 2004	16,028	65,450	8,028	1,128	14	90,648

The accounting policies and explanatory notes on pages 23 through 83 form an integral part of the financial statements.

STATEMENTS OF CHANGES IN EQUITY

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for the year ended 31 December 2005

2005 Company	Share capital \$'000	Share premium \$'000	Revenue reserve \$'000	Other reserves \$'000	Translation reserve \$'000	Total Equity \$'000
At 31 December 2004 as previously stated	16,028	65,450	10,828	–	(1,658)	90,648
Cumulative effects of adopting FRS 102 [Note 2(b)(iii)]	–	–	(1,128)	1,128	–	–
Cumulative effects of adopting revised FRS 21 [Note 2(b)(iv)]	–	–	(1,672)	–	1,672	–
At 31 December 2004 as restated	16,028	65,450	8,028	1,128	14	90,648
Effects of adopting FRS 39 [Note 2(b)(ii)]	–	–	–	729	–	729
At 1 January 2005 as restated	16,028	65,450	8,028	1,857	14	91,377
Net effect of exchange differences	–	–	–	–	(24)	(24)
Net changes in hedging reserve	–	–	–	(1,914)	–	(1,914)
Net expense recognised directly in equity	–	–	–	(1,914)	(24)	(1,938)
Net profit for the year	–	–	4,708	–	–	4,708
Total recognised net income for the year	–	–	4,708	(1,914)	(24)	2,770
Cost of share-based payments	–	–	–	874	–	874
Dividends (Note 34)	–	–	(6,524)	–	–	(6,524)
Issuance of ordinary shares for cash	463	–	–	–	–	463
Premium on shares issued during the year	–	3,098	–	–	–	3,098
At 31 December 2005	16,491	68,548	6,212	817	(10)	92,058

The accounting policies and explanatory notes on pages 23 through 83 form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

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for the year ended 31 December 2005

	2005 \$'000	2004 \$'000 (restated)
Cash flows from operating activities :		
Profit from continuing operations before taxation	28,560	19,956
Adjustments for :		
Depreciation of fixed assets	2,442	1,720
Amortisation of intangible assets	240	91
Share of results of associated companies, net of tax	(474)	(960)
Gain on fully/partial disposal of associated companies	(95)	(12)
Interest expense	2,675	1,388
Interest income	(377)	(217)
Loss on disposal of fixed assets	106	45
Writeback of impairment loss in value of investment in an associated company	-	(150)
Writeback of allowance made for doubtful debts in an associated company	-	(5)
Changes in fair value of financial instruments	(241)	-
Cost of share-based payments	874	1,114
Currency realignment	(122)	(376)
Operating income before reinvestment in working capital	33,588	22,594
Increase in debtors	(47,612)	(8,848)
Decrease in projects-in-progress, net and stocks	6,751	1,238
Increase in creditors	20,858	2,293
Cash generated from operations	13,585	17,277
Interest paid	(2,675)	(1,388)
Interest income received	377	217
Income tax paid	(4,885)	(3,847)
Net cash generated from operating activities	6,402	12,259
Cash flows from investing activities :		
Purchase of fixed assets	(4,313)	(3,582)
Acquisition of subsidiary companies, net of cash acquired (Note A)	-	(14,290)
Acquisition of associated companies	(10,379)	(2,085)
Acquisition of additional interest in a subsidiary company	-	(935)
Additional costs in respect of the incorporation of a subsidiary company	-	(7)
Purchase of intangible assets	-	(3,290)
Advances made to associated companies	(575)	(260)
Proceeds from disposal of fixed assets	204	160
Proceeds from disposal of equity interest in associated companies	2,400	12
Disposal of subsidiary companies, net of cash disposed (Note B)	-	1,148
Net cash used in investing activities	(12,663)	(23,129)
Cash flows from financing activities :		
Net proceeds from issuance of shares	3,561	3,026
Proceeds from short-term borrowing from banks	17,355	17,337
Dividends paid to shareholders	(6,524)	(5,072)
Repayment of finance leasing obligations	(307)	-
Net cash generated from financing activities	14,085	15,291
Net increase in cash and cash equivalents	7,824	4,421
Cash and cash equivalents at beginning of year (Note 29)	21,538	17,117
Cash and cash equivalents at end of year (Note 29)	29,362	21,538

The accounting policies and explanatory notes on pages 23 through 83 form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

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for the year ended 31 December 2005

Note A:

In the previous financial year, the acquisition of subsidiary companies was shown in the statement as a single item. The effect on the individual assets and liabilities is set out in the following:-

	2004 \$'000
Fixed assets	1,634
Stocks and work-in-progress	3,173
Trade and other debtors	8,137
Cash and cash equivalents	2,353
Trade and other creditors	(7,159)
Provision for warranties	(225)
Net assets acquired	7,913
Add : Goodwill arising on acquisition of subsidiary companies	8,730
Purchase consideration	16,643
Less : Cash and cash equivalents	(2,353)
Cash outflow on acquisition of subsidiary companies, net of cash acquired	14,290

Note B:

In the previous financial year, the disposal of a subsidiary company was shown in the statement as a single item. The effect on the individual assets and liabilities is set out in the following:-

	2004 \$'000
Fixed assets	237
Deferred tax	29
Stocks and work-in-progress	453
Trade and other debtors	25
Inter-company balances	811
Cash and cash equivalents	102
Trade and other creditors	(98)
Provision for warranty	(68)
Provision for taxation	(66)
Net assets disposed	1,425
Less : Goodwill on acquisition of an associated company	(175)
Disposal consideration	1,250
Less : Cash and cash equivalents	(102)
Cash inflow on disposal of a subsidiary company, net of cash disposed	1,148

There was no acquisition or disposal of subsidiary companies during the current financial year ended 31 December 2005.

The accounting policies and explanatory notes on pages 23 through 83 form an integral part of the financial statements.

31 December 2005

1. CORPORATE INFORMATION

The financial statements of CSE Global Limited for the year ended 31 December 2005 were authorised for issue in accordance with a resolution of the Directors on 15 March 2006.

CSE Global Limited is a limited liability company which is incorporated in the Republic of Singapore.

The registered office of CSE Global Limited is located at 10, Collyer Quay, #19-08 Ocean Building, Singapore 049315.

The principal activities of the Company are those relating to systems integration solution and the sales and provision of computer network systems. The principal activities of the subsidiary companies are those of sales, provision of computer network systems and investment holding. There have been no significant changes in the nature of these activities during the financial year.

2. SIGNIFICANT ACCOUNTING POLICIES**(a) Basis of preparation**

The consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company have been prepared in accordance with Singapore Financial Reporting Standards (FRS).

The financial statements have been prepared on a historical cost basis except for derivative financial instruments that have been measured at their fair values.

The carrying values of recognised assets and liabilities that are designated as hedged items in a fair value hedge are adjusted to record the gain or loss on the hedged items attributable to the hedged risks.

The financial statements are presented in Singapore Dollars (SGD or \$) and all values are rounded to the nearest thousand (\$'000) except where otherwise indicated.

(b) Changes in accounting policies

The accounting policies have been consistently applied by the Group and Company and are consistent with those used in the previous financial year, except for changes in accounting policies discussed below :-

(i) Adoption of new FRS

On 1 January 2005, the Group and the Company adopted the following standards mandatory for annual financial periods beginning on or after 1 January 2005.

- FRS 39 – Financial Instruments: Recognition and Measurement
- FRS 102 – Share-based Payment
- FRS 105 – Non-Current Assets Held for Sale and Discontinued Operations

The adoption of FRS 105 has no significant impact on the financial statements as at 31 December 2004 or 31 December 2005.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(b) Changes in accounting policies (cont'd)

(ii) FRS 39 – Financial Instruments: Recognition and Measurement

The Group and the Company had adopted FRS 39 prospectively on 1 January 2005. At that date, financial assets within the scope of FRS 39 were classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. Financial assets that were classified as financial assets at fair value through profit or loss and available-for-sale financial assets were measured at fair value while loans and receivables and held-to-maturity investments were measured at amortised cost using the effective interest rate method. At 1 January 2005, any differences between the carrying values and fair values of financial assets at fair value through profit or loss were recognised in revenue reserve while the differences between carrying values and fair values of available-for-sale financial assets were recognised in the fair value adjustment reserve. For investments carried at amortised cost, any differences between the carrying values and amortised costs as at 1 January 2005 were recognised in revenue reserve. This did not result in any financial impact to the Group and Company as at 1 January 2005.

At 1 January 2005, financial liabilities (other than derivative financial instruments) within the scope of FRS 39 were measured at amortised costs using the effective interest rate method. Any differences between the carrying values and amortised costs as at 1 January 2005 were recognised in revenue reserve. This did not result in any financial impact to the Group and Company as at 1 January 2005.

According to FRS 39, all derivative financial instruments held by the Group and the Company were recognised as assets or liabilities in the balance sheets and classified as financial assets or financial liabilities at fair value through profit or loss. Fair value adjustments, if any, of derivative financial instruments, except for those designated as hedging instruments in cash flow hedges, were recognised in revenue reserve at 1 January 2005.

At 1 January 2005, the Group and Company held forward currency contracts that were designated as hedging instruments in cash flow hedges of the foreign currency risks of firm commitments. The portion of the gain or loss on these hedging instruments that is determined to be an effective hedge was recognised directly in the hedging reserve at that date. There was no ineffective portion of the hedge that was recognised in revenue reserve at 1 January 2005.

Under the transitional provisions of FRS 39, the change in accounting policy on 1 January 2005 resulted in the increase of \$729,000 to the Group's and the Company's hedging reserve.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**(b) Changes in accounting policies (cont'd)****(iii) FRS 102 – Share-based Payment**

The main impact of FRS 102 on the Group and the Company is the recognition of an expense and a corresponding entry to equity for share options granted to directors and employees.

The Group and the Company have applied FRS 102 retrospectively. In accordance with the transitional provisions of FRS 102 with respect to share options, the Group and Company have applied FRS 102 only to share options granted after 22 November 2002 and the comparative figures for 31 December 2004 had been restated.

Under the transitional provisions of FRS 102, the change in accounting policy has resulted in the following:

- At 1 January 2005, increases/(decreases) in the Group's and the Company's:
 - Employee share option reserve by \$1,128,000 [2004: \$14,000];
 - Revenue reserve by (\$1,128,000) [2004: (\$14,000)];
- For the year ended 31 December 2005, decreases in the Group's:
 - Profit for the year by \$874,000 [2004: \$1,114,000] due to an increase in the employee benefits expense;
 - Basic earnings per share by 0.27 cents (2004: 0.35 cents); and
 - Diluted earnings per share by 0.26 cents (2004: 0.35 cents).

(iv) FRS 21 (revised) – The Effects of Changes in Foreign Exchange Rates*Net investment in a foreign subsidiary*

As a result of the adoption of the revised FRS 21, exchange differences arising on monetary items that form part of the Company's net investment in a foreign subsidiary, are recognised in profit or loss in the separate financial statements of the Company.

The Company has applied FRS 21 retrospectively and the change in accounting policy has resulted in the following :-

- At 1 January 2005, increases/(decreases) in the Company's:
 - Translation reserve by \$1,672,000 [2004 : \$1,143,000];
 - Revenue reserve by (\$1,672,000) [2004: (\$1,143,000)];

There is no impact on the Group in accordance with the revised FRS 21.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(b) Changes in accounting policies (cont'd)

(v) Other revised FRSs adopted

In addition, the Group adopted the following revised standards which did not result in any significant change in accounting policies:

- FRS 1 (revised) – Presentation of Financial Statements
- FRS 2 (revised) – Inventories
- FRS 8 (revised) – Accounting Policies, Changes in Accounting Estimates and Errors
- FRS 10 (revised) – Events after the Balance Sheet Date
- FRS 16 (revised) – Property, Plant and Equipment
- FRS 17 (revised) – Leases
- FRS 24 (revised) – Related Party Disclosures
- FRS 27 (revised) – Consolidated and Separate Financial Statements
- FRS 28 (revised) – Investments in Associates
- FRS 31 (revised) – Interests in Joint Ventures
- FRS 32 (revised) – Financial Instruments: Disclosure and Presentation
- FRS 33 (revised) – Earnings Per Share

(vi) FRS and INT FRS not yet effective

The Group has not applied the following FRS and INT FRS that have been issued but are only effective for annual financial periods beginning on or after 1 January 2006:

- (1) ***Amendments to FRS 19 (revised), Employee Benefits relating to actuarial gains and losses, group plans and disclosures***
- (2) ***Amendments to FRS 39 cash flow hedge accounting for forecast intragroup transactions***

The amended sections of the above standards do not apply to the activities of the Group.

- (3) ***FRS 40, Investment Property***
- (4) ***FRS 106, Exploration for and Evaluation of Mineral Resources***
- (5) ***INT FRS 104, Determining Whether an Arrangement Contains a Lease***
- (6) ***INT FRS 105, Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds***
- (7) ***INT FRS 106, Liabilities arising from participating in a specific market – Waste Electrical and Electronic Equipment***
- (8) ***INT FRS 107, Applying the Restatement Approach under FRS 29 Financial Reporting in Hyperinflationary Economies***

The above standards and interpretations do not apply to the activities of the Group.

The Group expects that the adoption of the pronouncements listed above will have no impact on the financial statements in the period of initial application.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) Significant accounting estimates and judgements

Estimates, assumptions concerning the future and judgements are made in the preparation of the financial statements. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances.

Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) **Impairment of goodwill**

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of the Group's goodwill at 31 December 2005 approximated \$29,986,000 (2004: \$30,292,000). More details are given in Note 8.

(ii) **Depreciation of plant and equipment**

Fixed assets are depreciated on a straight-line basis over their estimated useful lives. Management estimates the useful lives of these fixed assets to be within 2 to 57 years. The carrying amount of the Group's fixed assets at 31 December 2005 approximated \$19,254,000 (2004: \$17,236,000). Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

(iii) **Income taxes**

The Group has exposure to income taxes in numerous jurisdictions. Significant judgement is involved in determining the Group-wide provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. The carrying amount of the Group's tax payables at 31 December 2005 approximated \$3,791,000 (2004: \$2,209,000).

(iv) **Provision for warranty**

The Group has exposure to warranties arising from warranty obligations stated in its project contracts. Management estimates the amount of warranty to be provided based on available knowledge and its prior experience, if any. The carrying amount of the Group's provision for warranty at 31 December 2005 approximated \$1,594,000 (2004: \$1,330,000).

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) Significant accounting estimates and judgements (cont'd)

Critical judgements made in applying accounting policies

The following are the judgements made by management in the process of applying the Group's accounting policies that have the most significant effect on the amounts recognised in the financial statements.

(i) **Impairment of investments and financial assets**

The Group follows the guidance of FRS 39 on determining when an investment or financial asset is other-than-temporary impaired. This determination requires significant judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment or financial asset is less than its cost; and the financial health of and near-term business outlook for the investment or financial asset, including factors such as industry performance, changes in technology and operational and financing cash flow.

(ii) **Revenue recognition**

The Group recognises revenue arising from contracts using the percentage of completion method when the stage of contract completion can be reliably determined, cost to date can be clearly identified, and the total contract revenue and costs to complete can be reliably estimated. Significant judgement is involved in the recoverability of gross amount due from customers and the adequacy of foreseeable losses, if any. The carrying amounts due from customers for contract work, net (Note 10) is approximately \$55,911,000 (2004 : \$27,236,000).

(d) **Functional and foreign currency**

Functional currency

The management has determined the currency of the primary economic environment in which the Company operates i.e. functional currency, to be SGD. Sales prices and major costs of providing goods and services including major operating expenses are primarily influenced by fluctuations in SGD.

(i) **Foreign currency transactions**

Transactions in foreign currencies are measured in the respective functional currencies of the Company and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the closing rate of exchange ruling at the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the balance sheet date are recognised in the profit and loss account except for exchange differences arising on monetary items that form part of the Group's net investment in foreign subsidiaries, which are recognised initially in a separate component of equity as foreign currency translation reserve in the consolidated balance sheet and recognised in the consolidated profit and loss account on disposal of the subsidiary. In the Company's separate financial statements, such exchange differences are recognised in the profit and loss account in accordance with the revised FRS 21. Effects from the adoption of FRS 21 are stated in Note 2(b)(iv).

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**(d) Functional and foreign currency (cont'd)****(ii) Foreign currency translation**

Assets and liabilities of foreign subsidiaries are translated into SGD equivalents at exchange rates ruling at balance sheet date. Revenues and expenses are translated at average exchange rates for the year, which approximates the exchange rates of the dates of the transactions. All resulting exchange differences are recognised in a separate component of equity as foreign currency translation reserve.

Goodwill and fair value adjustments arising on the acquisition of foreign operations are treated as assets and liabilities of the foreign operations and are recorded in the functional currency of the foreign operations and translated at the closing rate at the balance sheet date.

On disposal of a foreign operation, the cumulative amount of exchange differences deferred in equity relating to that foreign operation is recognised in the profit and loss account as a component of the gain or loss on disposal.

(e) Subsidiary companies

A subsidiary company is a company in which the Group, directly or indirectly, holds more than 50% of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors.

In the Company's separate financial statements, investments in subsidiary companies are accounted for at cost less impairment losses.

(f) Principles of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the balance sheet date. The financial statements of the subsidiaries are prepared for the same reporting date as the parent company. Consistent accounting policies are applied for like transactions and events in similar circumstances.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-Group transactions that are recognised in assets, are eliminated in full.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Acquisitions of subsidiaries are accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

Any excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities represents goodwill. The goodwill is accounted for in accordance with the accounting policy for goodwill stated in Note 2(i) below.

Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of business combination is recognised in the profit and loss account on the date of acquisition.

Minority interest represents the portion of profit or loss and net assets in the subsidiary not held by the Group. It is presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity, and is separately disclosed in the consolidated profit and loss account.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**(g) Associates**

An associate is an entity, not being a subsidiary or a joint venture, in which the Group has significant influence. This generally coincides with the Group having 20% or more of the voting power, or has representation on the board of directors.

The Group's investments in associates are accounted for using the equity method. Under the equity method, the investment in associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate. The Group's share of the profit or loss of the associate is recognised in the consolidated profit and loss account. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of such changes. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associate. The associate is equity accounted for from the date the Group obtains significant influence until the date the Group ceases to have significant influence over the associate.

Goodwill relating to an associate is included in the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the Group's share of the associate's profit or loss in the period in which the investment is acquired.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The most recent available audited financial statements of the associates are used by the Group in applying the equity method. Where the dates of the audited financial statements used are not co-terminous with those of the group, the share of results is arrived at from the last audited financial statements available and un-audited management financial statements to the end of the accounting period. Consistent accounting policies are applied for like transactions and events in similar circumstances.

In the Company's separate financial statements, investments in associates are accounted for at cost less impairment losses.

(h) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and any accumulated impairment losses. The initial cost of fixed assets comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use, any trade discounts and rebates are deducted in arriving at the purchase price. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the profit and loss account in the period in which the costs are 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 an item of fixed assets beyond its originally assessed standard of performance, the expenditure is capitalised as an additional cost of fixed assets.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(h) Fixed assets (cont'd)

Depreciation is calculated on the straight-line method to write off the cost of fixed assets over their estimated useful lives at the following annual rates :-

Leasehold land	-	57 years
Buildings	-	20 to 39 years
Leasehold improvements	-	2 to 4 years
Plant and machinery	-	4 to 5 years
Tools and equipment	-	5 years
Office furniture and fittings	-	5 years
Computer equipment	-	2 to 5 years
Motor vehicles	-	5 to 7 years

No depreciation is provided on freehold land and construction in progress.

The carrying values of fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The residual values, useful life and depreciation method are reviewed annually to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of economic benefits from items of fixed assets.

An item of fixed assets is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the profit and loss account in the year the asset is derecognised.

(i) Intangible assets

Goodwill

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

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

- Represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- Is not larger than a segment based on either the Group's primary or the Group's secondary reporting format.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**(i) Intangible assets (cont'd)*****Goodwill (cont'd)***

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated are tested for impairment annually and whenever there is an indication that the unit may be impaired, by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

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

Other intangible assets***Acquired both separately and from a business combination***

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair values as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the estimated economic useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. The amortisation expense on intangible assets with finite lives is recognised in the profit and loss account through the 'Other operating costs' line item.

Intangible assets with indefinite useful lives are tested for impairment annually or more frequently if the events or changes in circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the useful life assessment continues to be supportable.

Licenses and intellectual property rights

Costs relating to licenses and intellectual property rights, which are acquired, are capitalised and amortised on a straight-line basis over their 15-year useful lives.

(j) Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset (i.e. goodwill acquired in a business combination) is required, the Group makes an estimate of the asset's recoverable amount.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**(j) Impairment of non-financial assets (cont'd)**

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses of continuing operations are recognised in the profit and loss account as 'impairment losses' or treated as a revaluation decrease for assets carried at revalued amount to the extent that the impairment loss does not exceed the amount held in the asset revaluation reserve for that same asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses recognised for an asset other than goodwill may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Reversal of an impairment loss is recognised in the profit and loss account unless the asset is carried at revalued amount, in which case the reversal in excess of impairment loss previously recognised through the profit and loss account is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

The Group does not reverse in a subsequent period, any impairment loss recognised for goodwill.

(k) Financial assets

Financial assets within the scope of FRS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. Financial assets are recognised on the balance sheet when, and only when, the Group becomes a party to the contractual provisions of the financial instrument.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place concerned.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(k) Financial assets (cont'd)

(i) *Financial assets at fair value through profit or loss*

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivative financial instruments are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in the profit and loss account.

The Group does not designate any financial assets not held for trading as financial assets at fair value through profit and loss.

(ii) *Loans and receivables*

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit and loss account when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(iii) *Available-for-sale financial assets*

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition, available-for sale financial assets are measured at fair value with gains or losses being recognised in the fair value adjustment reserve until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the profit and loss account.

The fair value of investments that are actively traded in organised financial markets is determined by reference to the relevant Exchange's 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. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis and option pricing models.

The Group does not designate any financial assets as available-for-sale for the current year ended 31 December 2005.

(iv) *Held-to-maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the group has the positive intention and ability to hold the assets to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long-term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost using the effective interest method. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount and minus any reduction for impairment or uncollectibility. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the profit and loss account when the investments are derecognised or impaired, as well as through the amortisation process.

The Group does not designate any financial assets as held-to-maturity for the current year ended 31 December 2005.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**(l) Cash and cash equivalents**

Cash and cash equivalents consist of cash and bank balances and short-term deposits.

Cash and bank balances and short-term deposits carried in the balance sheets are accounted for as loans and receivables under FRS 39. The accounting policy for this category of financial assets is stated in Note 2(k).

(m) Trade and other debtors

Trade and other debtors include amounts due from subsidiaries, associated companies and related parties. These are classified and accounted for as loans and receivables under FRS 39. The accounting policy for this category of financial assets is stated in Note 2(k).

An allowance is made for uncollectible amounts when there is objective evidence that the Group will not be able to collect the debt. Bad debts are written off when identified. Further details on the accounting policy for impairment of financial assets are stated in Note 2(n) below.

(n) Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

(i) Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in the profit and loss account.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the profit and loss account, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

(ii) Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**(o) Stocks and projects-in-progress**

Stocks are stated at the lower of cost and net realisable value. Cost comprises the cost of materials calculated on a first-in-first-out basis. Net realisable value represents the estimated selling price less anticipated cost of disposal and after making allowance for damaged, obsolete and slow-moving items.

Projects-in-progress are stated at cost plus attributable profits less progress payments received and receivable and provision for foreseeable losses. Cost of projects-in-progress includes direct materials, labour and an appropriate proportion of overheads.

(p) Trade and other payables

Liabilities for trade and other creditors, which are usually settled on 30-90 day terms, and payables to subsidiary companies, associated companies and related parties are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the profit and loss account when the liabilities are derecognised as well as through the amortisation process.

(q) Interest bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the profit and loss account when the liabilities are derecognised as well as through the amortisation process.

(r) Borrowing costs

Borrowing costs are generally expensed as incurred. Borrowing costs are capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are being incurred. Borrowing costs are capitalised until the assets are ready for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

(s) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) where, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**(t) Employee benefits****(i) Defined contribution plans**

As required by law, the Group's companies in Singapore, Malaysia and India make contributions to their respective countries' state pension schemes, being the Central Provident Fund ("CPF") in Singapore and the Employees Provident Fund ("EPF") in Malaysia and India. These state pension schemes are defined contribution plans that serve as the national retirement benefits plan for the employees of the Group working in those countries.

As required by law, the Group's companies in the United Kingdom operate a defined contribution pension scheme. Assets of the scheme are held separately from those of the companies in the United Kingdom in an independently administered fund.

The contributions that are made towards the above mentioned contribution pension schemes are recognised as compensation expenses in the same period as the employment that gives rise to the contributions.

Details of the defined contribution pension schemes are as disclosed in Note 25 under employees' provident fund.

(ii) Employee leave entitlement

Employee entitlements to annual leave are recognised as a liability when they accrue to employees. The estimated liability for leave is recognised for services rendered by employees up to balance sheet date.

(iii) Employee stock option scheme

The Company has in place the following share option schemes for granting of share options to eligible employees of the Group to subscribe for shares in the Company :

- (i) CSE Global Limited Executives' Share Option Scheme ("CSE ESOS") prior to 9 October 2001;
- (ii) CSE Global Limited Executives' Share Option Scheme ("CSE ESOS") subsequent to 9 October 2001; and
- (iii) CSE (US Subsidiaries) Incentive Stock Option Plan ("US Plan")

Employees (including senior executives and directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for share options ('equity-settled transactions').

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**(t) Employee benefits****(iii) Employee stock option scheme (cont'd)***Equity-settled transactions*

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which the share options are granted. In valuing the share options, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the company ('market conditions'), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in the employee share option reserve, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

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

When an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately.

The Group and Company have taken advantage of the transitional provisions of FRS 102 in respect of equity-settled award and has applied FRS 102 only to equity-settled awards granted after 22 November 2002 that had not vested on or before 1 January 2005.

(u) Leases**(i) Finance lease**

Finance leases, which effectively transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the present value of the minimum lease payments at the inception of the lease term and disclosed as leased fixed assets. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit and loss account.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

(ii) Operating lease

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased item, are classified as operating leases. Operating lease payments are recognised as an expense in the profit and loss account on a straight-line basis over the lease term.

The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**(v) Revenue recognition**

Project revenue from contracts is recognised on an individual contract basis using the percentage of completion method when the stage of contract completion can be reliably determined, cost to date can be clearly identified, and the total contract revenue and costs to complete can be reliably estimated. The stage of completion is measured by either:

- the percentage of costs incurred to estimated total costs to complete the contracts; or
- the proportion of labour costs incurred for work to date to the total estimated labour costs to be incurred; or
- upon completion of designated phases of a contract.

An expected loss on the contract is recognised as an expense immediately when it is probable that total contract costs will exceed total contract revenue.

Revenue from sale of goods and services rendered is recognised upon delivery of goods/ services and acceptance by customers.

Maintenance revenue is recognised on a straight line basis over the specified contract period. Maintenance revenue received in advance is deferred as unearned income and recognised as income over the life of the maintenance contracts.

Dividend income is recognised when the Group's right to receive payment is established.

Rental income is recognised on a time apportionment basis.

(w) Income taxes

Deferred income 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 assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax liabilities are recognised for all taxable temporary differences associated with investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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

At each balance sheet date, the Group re-assesses unrecognised deferred tax assets and the carrying amount of deferred tax assets. The Group recognises a previously unrecognised deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The Group conversely reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of the deferred tax asset to be utilised.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**(w) Income taxes (cont'd)**

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

Current tax and deferred tax are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to equity.

Sales tax

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of sales tax included. The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

(x) Derivative financial instruments and hedging activities

The Group may use derivative financial instruments such as foreign currency contracts to hedge its risks associated with foreign exchange rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivative financial instruments are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivative financial instruments that do not qualify for hedge accounting are taken to the profit and loss account for the year.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

For the purpose of hedge accounting, hedges are classified as :

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment, that is attributable to a particular risk and could affect profit or loss;
- Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect profit or loss; or
- Hedges of a net investment in a foreign operation.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(x) Derivative financial instruments and hedging activities (cont'd)

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

(i) Fair value hedges

For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged, the derivative is remeasured at fair value and gains and losses from both are taken to the profit and loss account.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the profit and loss account over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to the profit and loss account.

Amortisation begins as soon as an adjustment exists but no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the profit and loss account. The changes in the fair value of the hedging instrument are also recognised in the profit and loss account.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to the profit and loss account. Amortisation begins as soon as an adjustment exists but no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

(ii) Cash flow hedges

For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly in the hedging reserve, while the ineffective portion is recognised in the profit and loss account.

Amounts taken to hedging reserve are transferred to the profit and loss account when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognised or when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to hedging reserve are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognised in hedging reserve are transferred to the profit and loss account. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in hedging reserve remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to the profit and loss account.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**(x) Derivative financial instruments and hedging activities (cont'd)****(iii) Hedges of a net investment**

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in the foreign currency translation reserve while any gains or losses relating to the ineffective portion are recognised in the profit and loss account. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in the foreign currency translation reserve is transferred to the profit and loss account.

(y) Derecognition of financial assets and liabilities**(i) Financial assets**

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- The contractual rights to receive cash flows from the asset have expired;
- The Group retains the contractual rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- The Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of (a) the consideration received (including any new asset obtained less any new liability assumed) and (b) any cumulative gain or loss that has been recognised directly in equity is recognised in the profit and loss account.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(y) Derecognition of financial assets and liabilities (cont'd)

(ii) *Financial liabilities*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit and loss account.

3. GROUP COMPANIES

Details of subsidiary companies of the Company at 31 December are :-

Name of Company (Country of incorporation)	Principal activities (Place of business)	Cost		Percentage of equity held by the Group	
		2005 \$'000	2004 \$'000	2005 %	2004 %
ii CSE Systems & Engineering (Thailand) Limited ⁽¹⁾ (Thailand)	Sales and provision of computer network systems (Thailand)	958	958	100	100
iii CSE Systems & Engineering (India) Private Limited ⁽⁷⁾ (India)	Sales and provision of computer network systems (India)	360	360	100	100
iii Transtel Engineering (Tianjin) Co. Ltd ⁽⁸⁾ (China)	Sales and provision of computer network systems (China)	212	212	100	100
iv CSE Systems & Engineering (America), Inc. (America)	Sales and provision of computer network systems (America)	759	759	100	100
i CSE-Myers Pte Ltd (Singapore)	Systems integration solution and sales and provision of computer network systems (Singapore)	25,060	25,060	100	100
ii CSE-EIS (Malaysia) Sdn Bhd ⁽²⁾ (Malaysia)	Sales and provision of computer network systems (Malaysia)	1,431	1,431	100	100
i CSE-Infotech Limited (Singapore)	e-business integration, research and development and investment holding (Singapore)	12,668	12,668	100	100
v W-Industries, Inc. (America)	Sale and provision of system integration services (America)	36,200	36,200	100	100

3. GROUP COMPANIES (CONT'D)

Details of subsidiary companies of the Company at 31 December are :-

Name of Company (Country of incorporation)	Principal activities (Place of business)	Cost		Percentage of equity held by the Group	
		2005 \$'000	2004 \$'000	2005 %	2004 %
ii CSE-Servelec Group Limited ⁽³⁾ (United Kingdom)	Design, manufacture, installation and commissioning of control of management information systems and development, manufacture and sale of electronic and micro processor monitoring equipment (United Kingdom)	45,646	45,646	100	100
iii CSE Technology (Beijing) Co., Ltd ⁽⁹⁾ (China)	Sale and provision of computer network systems (China)	275	275	100	100
ii eBworx Hong Kong Limited ⁽⁴⁾ (Hong Kong)	Provision of information technology solutions (Hong Kong)	- *	- *	100	100
i TransTel Engineering Pte Ltd (Singapore)	Provision of turnkey telecommunications solutions for the oil and gas and petrolchemical industries (Singapore)	8,158	5,158	100	100
i CSE-IAP Pte Ltd (Singapore)	Provision of computer systems integration services (Singapore)	5,000	5,000	100	100
i CSE-EIS Pte Ltd (Singapore)	Provision of computer systems integration services (Singapore)	1,500	- ^	100	-
i RTUnet (Asia) Pte Ltd (Singapore)	Distribution and marketing of remote terminal units (Singapore)	- #	- #	100	-
ii CSE-Global (Australia) Pty Ltd ⁽⁵⁾ (Australia)	Distribution of electrical engineering equipment and distribution and marketing of remote terminal units (Australia)	16,796	16,796	100	-
		155,023	150,523		

^ Previously held by CSE-Myers Pte Ltd

* 2 ordinary share of HK\$1 each

2 ordinary share of \$1 each

3. GROUP COMPANIES (CONT'D)

Details of subsidiary companies held by the Group at 31 December are :-

Name of Company (Country of incorporation)	Principal activities (Place of business)	Percentage of equity held by the Group	
		2005 %	2004 %
<i>Held by CSE-Infotech Limited</i>			
i CSE-ITS Pte Ltd (Singapore)	Provision of computer software applications (Singapore)	100	100
<i>Held by CSE-Servelec Group Limited</i>			
ii CSE-Servelec Limited ⁽³⁾ (United Kingdom)	Design, manufacture, installation and commissioning of control and management information systems (United Kingdom)	100	100
ii CSE-Seprol Limited ⁽³⁾ (United Kingdom)	Development, manufacture and sale of electronic and microprocessor monitoring equipment (United Kingdom)	100	100
iii CSE-Servelec s.r.o. ⁽¹⁰⁾ (Slovakia)	Provision of oil and gas pipeline management systems (Slovakia)	100	100
<i>Held by CSE-Myers Pte Ltd</i>			
i CSE-EIS Pte Ltd (Singapore)	Provision of computer systems integration services (Singapore)	–	100
<i>Held by W-Industries, Inc.</i>			
v W-Industries of Louisiana, Inc. (America)	Sale and provision of system integration services (America)	100	100
<i>Held by TransTel Engineering Pte Ltd</i>			
iv P.T. TransTel Engineering (Indonesia)	Provision of turnkey telecommunications solutions for the oil & gas & petrolchemical industries (Indonesia)	100	100
iv TransTel Engineering (Nigeria) Ltd (Nigeria)	Provision of turnkey telecommunications solutions for the oil & gas & petrolchemical industries (Nigeria)	80	80
iv Transtel Engineering (Tianjin) Co. Ltd (China)	Provision of turnkey telecommunications solutions for the oil & gas & petrolchemical industries (China)	100	–
viii CSE-Transtel Engineering Europe Ltd (United Kingdom)	Provision of turnkey telecommunications solutions for the oil & gas & petrolchemical industries (United Kingdom)	100	–

3. GROUP COMPANIES (CONT'D)

Details of subsidiary companies held by the Group at 31 December are (cont'd) :-

Name of Company (Country of incorporation)	Principal activities (Place of business)	Percentage of equity held by the Group	
		2005 %	2004 %
<i>Held by CSE-Global (Australia) Pty Ltd</i>			
ii CSE-Uniserve Corporation Pty Ltd ⁽⁵⁾ (Australia)	Distribution of electrical engineering equipment (Australia)	100	100
ii RTUnet Australia Pty Ltd ⁽⁵⁾ (Australia)	Distribution and marketing of remote terminal units (Australia)	100	100
<i>Held by CSE-Uniserve Corporation Pty Ltd</i> <i>(formerly known as Uniserve Corporation Pty Ltd)</i>			
ii CSE-Uniserve Pty Ltd ⁽⁵⁾ (Australia)	Distribution of electrical engineering equipment (Australia)	100	100
ii CSE-Uniserve Engineering Pty Ltd ⁽⁵⁾	Distribution of electrical engineering equipment (Australia)	100	100
ii CSE-Uniserve NZ Limited ⁽⁵⁾ (New Zealand)	Distribution of electrical engineering equipment (New Zealand)	100	100

3. GROUP COMPANIES (CONT'D)

Details of associated companies include :-

Name of Company (Country of incorporation)	Principal activities (Place of business)	Cost		Percentage of equity held by the Group	
		2005 \$'000	2004 \$'000	2005 %	2004 %
<i>Held by CSE-Global Limited</i>					
iv Energy Storage and Power Corporation (America)	Sales and marketing of air injection technology and energy storage projects (America)	10,333	–	49	–
<i>Held by CSE-Infotech Limited</i>					
iv Infiniteinfo, Inc (America)	Design and implementation of internet solutions with total integration to client's other applications (America)	1,117	1,117	43	43
ii eBworx Berhad ⁽²⁾ (Malaysia)	Provision of computer software applications and dealing in computer software and hardware for the financial services industry (Malaysia)	168	168	29	29
ii Solutions Exchange, Inc. ⁽⁶⁾ (The Philippines)	Purchase, sale, distribution, maintenance of all kinds of goods, commodities, wares, intellectual properties and other related information technology (The Philippines)	105	105	35	35
ii I-Magination Software Sdn Bhd (Malaysia)	Provision of IT consultancy, research and development, provision of software and software licensing, training and maintenance services (Malaysia)	–	1,704	–	36
<i>Held by TransTel Engineering Pte Ltd</i>					
iv TransTel Engineering Qatar (Qatar)	Provision of turnkey telecommunications solutions for the oil & gas & petrolchemical industries (Qatar)	92	46	49	49

3. GROUP COMPANIES (CONT'D)

Details of associated companies include :-

Name of Company (Country of incorporation)	Principal activities (Place of business)	Cost		Percentage of equity held by the Group	
		2005 \$'000	2004 \$'000	2005 %	2004 %
Held by TransTel Engineering Pte Ltd (cont'd)					
vii TransTel Engineering (M) Sdn Bhd (Malaysia)	Provision of turnkey telecommunications solutions for the oil & gas & petrolchemical industries (Malaysia)	17	17	40	40
iv TransTel Engineering & Co LLC (Oman)	Provision of turnkey telecommunications solutions for the oil & gas & petrolchemical industries (Oman)	318	318	49	49
iv TransTel Engineering Kish Co Ltd (Iran)	Provision of turnkey telecommunications solutions for the oil & gas & petrolchemical industries (Iran)	- ^	- ^	49	49
		12,150	3,475		

^ represents capital contribution equivalent to Iranian Rial 490,000 (\$\$106)

Name of Company (Country of incorporation)	Principal activities (Place of business)	Percentage of equity held by the Group	
		2005 %	2004 %
Held by eBworx Berhad			
ii Digital Nervous System Sdn Bhd ⁽²⁾ (Malaysia)	Provision of computer software applications and dealing in computer software and hardware for the financial services industry (Malaysia)	29	29
i eBworx International Pte Ltd (Singapore)	Provision of computer software applications and dealing in computer software and hardware for the financial services industry (Malaysia)	29	29
iii eBworx Technology (Beijing) Co Ltd ⁽⁹⁾ (China)	Provision of computer software applications and dealing in computer software and hardware for the financial services industry (China)	29	29

3. GROUP COMPANIES (CONT'D)

- (i) Audited by Ernst & Young, Singapore
- (ii) Audited by associated firms of Ernst & Young, Singapore
 - (1) Audited by Ernst & Young, Bangkok
 - (2) Audited by Ernst & Young, Kuala Lumpur
 - (3) Audited by Ernst & Young, Leeds
 - (4) Audited by Ernst & Young, Hong Kong
 - (5) Audited by Ernst & Young, Sydney
 - (6) Audited by SyCip Gorres Velayo & Co
- (iii) Audited by other auditors as they are not significant
 - (7) Audited by M.V Guruprasad Chartered Accountants
 - (8) Audited by Tianjin Jin Xiang Certified Public Accountants
 - (9) Audited by Beijing Zhong Shi Certified Public Accountants
 - (10) Audited by Tax Audit Consult s.r.o. and overviewed by Ernst & Young, Bratislava
- (iv) Not required to be audited under the laws of the country of incorporation
- (v) Not required to be audited under the laws of the country of incorporation, but reviewed by Ernst & Young, Singapore for the purposes of consolidation of the Group
- (vi) This subsidiary company did not present any audited financial statements as it was only incorporated on 3 August 2005
- (vii) This associated company did not present any audited financial statements as it is dormant and not significant
- (viii) This subsidiary company did not present any audited financial statements as it was only incorporated on 27 June 2005

During the year, the Group incorporated the following subsidiary companies :-

Name of company (Country of incorporation)	Group's effective interest after incorporation %	Cost of Investment \$'000
Transtel Engineering (Tianjin) Co. Ltd (China)	100	255
CSE-Transtel Engineering Europe Ltd (United Kingdom)	100	3

4. FIXED ASSETS

2004 Group	Construction in progress \$'000	Freehold land \$'000	Freehold building \$'000	Leasehold land \$'000	Leasehold building \$'000
Cost					
At 1 January 2004	–	864	3,467	2,125	6,468
Currency realignment	–	(31)	(126)	–	2
Additions	1,165	–	513	–	–
Due to subsidiaries acquired	–	–	–	–	39
Due to subsidiary disposed	–	–	–	–	–
Disposals	–	–	–	–	–
Write-off	–	–	–	–	–
At 31 December 2004	1,165	833	3,854	2,125	6,509
Accumulated depreciation					
At 1 January 2004	–	–	423	74	646
Currency realignment	–	–	(19)	–	2
Charge for the year	–	–	150	37	323
Due to subsidiaries acquired	–	–	–	–	34
Due to subsidiary disposed	–	–	–	–	–
Disposals	–	–	–	–	–
Write-off	–	–	–	–	–
At 31 December 2004	–	–	554	111	1,005
Net book value					
At 31 December 2004	1,165	833	3,300	2,014	5,504
2005 Group					
2005 Group	Construction in progress \$'000	Freehold land \$'000	Freehold building \$'000	Leasehold land \$'000	Leasehold building \$'000
Cost					
At 1 January 2005	1,165	832	3,853	2,134	6,510
Currency realignment	17	12	58	–	(1)
Additions	–	52	1,177	–	10
Disposals	–	–	–	–	(3)
At 31 December 2005	1,182	896	5,088	2,134	6,516
Accumulated depreciation					
At 1 January 2005	–	–	554	121	1,006
Currency realignment	–	–	9	–	(1)
Charge for the year	–	–	298	37	329
Disposals	–	–	–	–	(2)
At 31 December 2005	–	–	861	158	1,332
Net book value					
At 31 December 2005	1,182	896	4,227	1,976	5,184

NOTES TO THE FINANCIAL STATEMENTS

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Leasehold improvements \$'000	Plant and machinery \$'000	Tools and equipment \$'000	Office furniture and fittings \$'000	Computer equipment \$'000	Motor vehicles \$'000	Total \$'000
718	2,477	818	2,542	2,337	1,131	22,947
(4)	143	(26)	103	126	50	237
315	61	44	770	421	336	3,625
-	20	76	1,751	134	1,007	3,027
(102)	-	-	(1)	(243)	-	(346)
-	(48)	-	(724)	(514)	(154)	(1,440)
(429)	-	-	(6)	(148)	-	(583)
498	2,653	912	4,435	2,113	2,370	27,467
570	2,344	710	1,612	1,597	716	8,692
(4)	154	(24)	69	157	18	353
112	45	21	409	414	209	1,720
-	15	47	857	68	372	1,393
-	-	-	-	(109)	-	(109)
-	(32)	-	(654)	(495)	(54)	(1,235)
(429)	-	-	(6)	(148)	-	(583)
249	2,526	754	2,287	1,484	1,261	10,231
249	127	158	2,148	629	1,109	17,236
Leasehold improvements \$'000	Plant and machinery \$'000	Tools and equipment \$'000	Office furniture and fittings \$'000	Computer equipment \$'000	Motor vehicles \$'000	Total \$'000
488	2,653	912	4,434	2,100	2,372	27,453
(1)	(232)	9	(81)	(93)	(33)	(345)
705	15	294	1,116	530	836	4,735
(412)	(3)	(13)	(153)	(148)	(465)	(1,197)
780	2,433	1,202	5,316	2,389	2,710	30,646
240	2,527	753	2,287	1,468	1,262	10,218
(2)	(222)	8	(78)	(76)	(19)	(381)
272	50	96	501	394	465	2,442
(326)	(3)	(13)	(76)	(99)	(368)	(887)
184	2,352	844	2,634	1,687	1,340	11,392
596	81	358	2,682	702	1,370	19,254

During the year, the Group acquired fixed assets with an aggregate fair value of \$422,000 (2004 : \$43,000) by means of finance leases during the financial year. The carrying amount of fixed assets held under finance leases at the end of the financial year was \$605,000 (2004 : \$392,000).

4. FIXED ASSETS (CONT'D)

2004 Company	Lease- hold land \$'000	Lease- hold building \$'000	Lease- hold improve- ments \$'000	Office furniture and fittings \$'000	Com- puter Equip- ment \$'000	Motor vehicles \$'000	Total \$'000
Cost							
At 1 January 2004	2,125	6,468	429	151	371	234	9,778
Additions	–	–	201	88	68	–	357
Disposals	–	–	–	(110)	–	–	(110)
Write-off	–	–	(429)	(2)	(66)	–	(497)
Transfers to subsidiary	–	–	–	(13)	(49)	–	(62)
At 31 December 2004	2,125	6,468	201	114	324	234	9,466
Accumulated depreciation							
At 1 January 2004	74	646	429	137	323	125	1,734
Charge for the year	37	323	28	19	41	33	481
Disposals	–	–	–	(105)	–	–	(105)
Write-off	–	–	(429)	(2)	(66)	–	(497)
Transfers to subsidiary	–	–	–	(10)	(29)	–	(39)
At 31 December 2004	111	969	28	39	269	158	1,574
Net book value							
At 31 December 2004	2,014	5,499	173	75	55	76	7,892
2005 Company	Lease- hold land \$'000	Lease- hold building \$'000	Lease- hold improve- ments \$'000	Office furniture and fittings \$'000	Com- puter Equip- ment \$'000	Motor vehicles \$'000	Total \$'000
Cost							
At 1 January 2005	2,125	6,468	201	114	324	234	9,466
Additions	–	–	–	–	4	300	304
Disposals	–	–	–	–	(2)	(233)	(235)
At 31 December 2005	2,125	6,468	201	114	326	301	9,535
Accumulated depreciation							
At 1 January 2005	111	969	28	39	269	158	1,574
Charge for the year	37	323	67	22	40	49	538
Disposals	–	–	–	–	(2)	(181)	(183)
At 31 December 2005	148	1,292	95	61	307	26	1,929
Net book value							
At 31 December 2005	1,977	5,176	106	53	19	275	7,606

5. SUBSIDIARY COMPANIES

	Company	
	2005	2004
	\$'000	\$'000
Unquoted ordinary shares, at cost	155,023	150,523
Less : Impairment losses	(4,421)	(4,421)
Carring amount of investments	150,602	146,102
Analysis of impairment in value of investment :-		
Balance at 1 January and 31 December	4,421	4,421
Amounts due from subsidiary companies, current :-		
Non-trade	2,144	4,339
Short term loan	5,975	1,039
Amounts due from subsidiary companies, current	8,119	5,378
Amounts due to subsidiary companies, current :-		
Non-trade	8,472	4,828
Short term loan	3,337	9,625
Amounts due to subsidiary companies, current	11,809	14,453

The amounts due from/to subsidiary companies are unsecured, interest-free and are repayable on demand.

6. ASSOCIATED COMPANIES

	Group		Company	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
Quoted shares, at cost	168	168	-	-
Unquoted shares, at cost	11,982	5,656	10,333	-
	12,150	5,824	10,333	-
Less: Goodwill written off	-	(2,394)	-	-
	12,150	3,475	10,333	-
Less: Impairment losses	(566)	(566)	-	-
	11,584	2,909	10,333	-
Share of net post-acquisition reserves	3,737	3,746	-	-
Carring amount of investments	15,321	6,655	10,333	-
Group				
	2005	2004		
	\$'000	\$'000		
Market value of quoted shares at 31 December	8,717	10,871		

6. ASSOCIATED COMPANIES (CONT'D)

The summarised financial information of the associated companies is as follows:

	Group	
	2005 \$'000	2004 \$'000
Results		
Turnover	15,524	19,045
Net profit for the year	1,027	3,072
Assets and liabilities		
Non-current assets	27,174	18,546
Current assets	13,881	7,184
Total assets	41,055	25,730
Non-current liabilities	7,608	2,208
Current liabilities	3,339	-
Total liabilities	10,947	2,208
Total assets and liabilities	30,108	23,522

	Group		Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Amounts due from associated companies :-				
Non-trade	43	320	-	29
Amounts due to an associated company :-				
Non-trade	-	852	-	852

The amounts due from/to associated companies are unsecured, interest-free and are repayable on demand.

7. OTHER INVESTMENTS

	Group	
	2005 \$'000	2004 \$'000
Unquoted shares, at cost	-	1,000
Less: Impairment losses	-	(1,000)
	-	-

8. INTANGIBLE ASSETS

Group	Goodwill \$'000	Licences \$'000	Intellectual property rights \$'000	Total \$'000
Cost				
At 1 January 2004 and as previously reported	22,539	51	–	22,590
Adoption of FRS 103	(2,232)	–	–	(2,232)
At 1 January 2004 as restated	20,307	51	–	20,358
Currency realignment	(265)	3	–	(262)
Additions	9,343	–	3,290	12,633
Adjustment to goodwill (Note 36)	907	–	–	907
At 31 December 2004 as restated	30,292	54	3,290	33,636
Currency realignment	(306)	(5)	–	(311)
At 31 December 2005	29,986	49	3,290	33,325
Accumulated amortisation				
At 1 January 2004 and as previously reported	2,232	30	–	2,262
Adoption of FRS 103	(2,232)	–	–	(2,232)
At 1 January 2004 as restated	–	30	–	30
Currency realignment	–	2	–	2
Provided during the year	–	1	90	91
At 31 December 2004 as restated	–	33	90	123
Currency realignment	–	(5)	–	(5)
Provided during the year	–	21	219	240
At 31 December 2005	–	49	309	358
Net carrying value				
At 31 December 2005	29,986	–	2,981	32,967
At 31 December 2004	30,292	21	3,200	33,513

The adjustment to goodwill mainly arises from the write-down of stocks to their net realisable value subsequent to the acquisition of certain subsidiary companies.

8. INTANGIBLE ASSETS (CONT'D)**Impairment testing of goodwill**

Goodwill acquired through business combinations has been allocated to the Group's cash-generating units (CGU) identified according to each individual business unit, for impairment testing, as follows :-

	Group	
	2005 \$'000	2004 \$'000 (restated)
W-Industries, Inc.	14,678	14,469
CSE-Servelec Group Limited	1,564	1,711
CSE-Global (Australia) Pty Ltd	9,571	9,822
CSE-Infotech Limited	1,280	1,397
TransTel Engineering Pte Ltd	2,406	2,406
CSE-EIS (Malaysia) Sdn Bhd	487	487
	29,986	30,292

The recoverable amounts of the CGUs are determined based on value-in-use calculations. The value-in-use calculations use 5-years cash flow projections based on financial budgets approved by management. Management have considered and determined the factors applied in these financial budgets which include budgeted gross margins and average growth rates. The budgeted gross margins are based on past performance and its expectation of market development. Average growth rates of 10% - 20% (2004: 10%) used are consistent with forecasts based on existing contracts and book orders. The discount rate applied is assumed at 10.4% (2004: 10.4%) for value-in-use calculations, which approximates the industry weighted average cost of capital.

9. DEFERRED TAX ASSETS/ LIABILITIES

	Group		Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Deferred tax assets	1,608	785	488	-
Deferred tax liabilities	(570)	(401)	-	(230)
	1,038	384	488	(230)

This can be analysed as follows :-

Differences in depreciation	(1,265)	(443)	(246)	(268)
Provisions	484	311	40	48
Unutilised tax losses and capital allowances	2,032	609	694	-
Unremitted foreign sourced interest income	(231)	(73)	-	-
Other deferred tax assets/(liabilities)	18	(20)	-	(4)
	1,038	384	488	(230)

9. DEFERRED TAX ASSETS/ LIABILITIES (CONT'D)

At 31 December 2005, no deferred income tax liability has been recognised (2004: \$Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries and associates, to the extent over which the Group has control over its remittance.

There are no income tax consequences attaching to the payment of dividends by CSE Global Limited to the shareholders of the Company.

10. PROJECTS-IN-PROGRESS, NET

	Group		Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Cost incurred and attributable profits				
less recognised losses	129,863	75,276	531	1,228
Less: Progress billings	(73,952)	(48,040)	–	–
Amounts due from customers for contract work, net	55,911	27,236	531	1,228
Gross amount due from customers for contract work disclosed in :-				
Project-in-progress	15,154	21,300	531	1,228
Unbilled receivables (Note 12)	45,530	7,644	–	–
	60,684	28,944	531	1,228
Gross amount due to customers for contract work	(4,773)	(1,708)	–	–
Gross amount due from customers for contract work, net	55,911	27,236	531	1,228

11. STOCKS

	Group and Company	
	2005 \$'000	2004 \$'000 (restated)
Raw materials, at net realisable value	595	747
Stocks work-in-progress, at cost	370	395
Finished goods, at cost	4,781	2,145
Total stocks at lower of cost and net realisable value	5,746	3,287
Stocks are stated after deducting allowance for stock obsolescence	1,001	406

12. TRADE DEBTORS

	Group		Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Trade debtors	54,962	46,082	4,427	3,334
Unbilled receivables (Note 10)	45,530	7,644	–	–
	100,492	53,726	4,427	3,334
Trade debtors are stated net of allowance for doubtful debts of :-	395	422	68	50

13. OTHER DEBTORS, DEPOSITS AND PREPAYMENTS

	Group		Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Prepayments	1,796	1,857	17	14
Other debtors	469	890	318	204
Deposits	637	414	80	105
Staff loans and advances	326	296	1	–
Tax recoverable	711	790	254	–
	3,939	4,247	670	323

14. TRADE CREDITORS AND ACCRUALS

	Group		Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Fair value of derivative financial instruments (Note 25)	241	–	241	–
Fair value of firm commitments (Note 19)	1,185	729	1,185	729
Trade creditors and other accruals	48,969	28,656	3,221	1,177
	50,395	29,385	4,647	1,906

15. AMOUNTS DUE TO BANKERS

	Group and Company	
	2005 \$'000	2004 \$'000
Short term loans, unsecured		
- Singapore dollars	32,600	23,500
- British Sterling Pounds	8,727	11,164
- United States Dollars	27,894	14,776
- Australia Dollars	–	2,509
Current portion of long term loans, unsecured		
- United States Dollars	2,783	914
	72,004	52,863
Long term loans, unsecured		
- United States Dollars	2,783	4,569
	74,787	57,432

The unsecured short term loans of the Company and of the Group bear interest at 2.75% - 5.64% (2004 : 1.32% - 6.45%) per annum.

The unsecured long term loans of the Company and of the Group bear interest ranging between 4.14% - 5.07% (2004 : 1.74% - 3.45%) per annum and is repayable by July 2007. These floating rate loans fix interest rates based on the prevailing market rate at intervals of 6 months.

16. PROVISION FOR WARRANTIES

	Group		Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Balance at 1 January	1,330	730	–	110
Currency realignment	(43)	24	–	–
Due to subsidiaries acquired	–	225	–	–
Due to subsidiary disposed	–	(68)	–	–
Transfers to subsidiary	–	–	–	(110)
Provision during the year	1,423	2,406	–	2
Provision written back	(264)	(430)	–	(1)
Provision utilised	(852)	(1,557)	–	(1)
	1,594	1,330	–	–

Provision for warranties relates to estimated costs for possible rectification work during the warranty period of the project-in-progress. The provision for such costs is based on estimates made from historical data associated with similar projects.

17. SHARE CAPITAL

	Group and Company	
	2005 \$'000	2004 \$'000
Authorised :-		
600,000,000 ordinary shares at \$0.05 each	30,000	30,000
Issued and fully paid :-		
Balance at 1 January -		
319,681,407 (2004 : 312,507,407) ordinary shares of \$0.05 each	16,028	15,625
Issued during the year -		
2,868,500 (2004 : 2,710,000) ordinary shares of \$0.05 each		
for cash at \$0.5046 each	143	136
Nil (2004 : 200,000) ordinary shares of \$0.05 each		
for cash at \$0.4269 each	–	10
1,530,000 (2004 : 2,730,000) ordinary shares of \$0.05 each		
for cash at \$0.3060 each	77	136
4,036,000 (2004 : 1,374,000) ordinary shares of \$0.05 each		
for cash at \$0.3072 each	159	69
1,197,000 (2004 : 160,000) ordinary shares of \$0.05 each		
for cash at \$0.3840 each	59	8
500,000 (2004 : Nil) ordinary shares of \$0.05 each		
for cash at \$0.4359 each	25	–
329,812,907 (2004 : 319,681,407) ordinary shares of \$0.05 each	16,491	15,984

17. SHARE CAPITAL (CONT'D)

	Group and Company	
	2005 \$'000	2004 \$'000
Add:		
Subscription monies received for nil (2004 : 860,000) ordinary shares of \$0.05 each issued for cash at \$0.3072 each	-	43
Subscription monies received for nil (2004 : 13,000) ordinary shares of \$0.05 each issued for cash at \$0.3840 each	-	1
Balance at 31 December	16,491	16,028

The Company issued 2,868,500 (2004 : 2,170,000 and 200,000) new ordinary shares of \$0.05 each in the share capital of the Company fully paid up at a premium of \$0.4546 (2004 : \$0.4546 and \$0.3769) for cash respectively, pursuant to the exercise of vested share options that were granted under the CSE Global Limited Executives' Share Option Scheme prior to 9 October 2001 to Directors and full time employees of the Group.

In addition, the Company also issued 900,000, 4,036,000 and 500,000 (2004 : 2,245,000 and 1,374,000) new ordinary shares of \$0.05 (2004 : \$0.2560 and \$0.2572) each in the share capital of the Company fully paid up at a premium of \$0.2560, \$0.2572 and \$0.3859 each for cash respectively, pursuant to the exercise of vested share options that were granted under the CSE Global Limited Executives' Share Option Scheme subsequent to 9 October 2004 to Directors and full time employees of the Group.

Furthermore, the Company also issued 630,000 and 1,197,000 (2004 : 485,000 and 160,000) new ordinary shares of \$0.05 (2004 : \$0.2560 and \$0.3340) each in the share capital of the Company fully paid up at a premium of \$0.2560 and \$0.3340 each for cash respectively, pursuant to the exercise of vested options that were granted under the CSE(US Subsidiaries) Incentive Stock Option Scheme to Directors and full time employees of the Group.

The 10,131,500 new ordinary shares of \$0.05 each in the share capital of the Company that were issued as a result of the above mentioned share option exercises rank pari passu in all respects with the existing issued ordinary shares in the Company.

The holders of ordinary shares are entitled to receive dividends when declared by the Company. All ordinary shares carry one vote per share without restriction.

The Company grants share options to Directors and full time employees of the Company and of the Group pursuant to the following share option schemes :-

- (i) CSE Global Limited Executives' Share Option Scheme ("CSE ESOS") prior to 9 October 2001;
- (ii) CSE Global Limited Executives' Share Option Scheme ("CSE ESOS") subsequent to 9 October 2001;
and
- (iii) CSE (US Subsidiaries) Incentive Stock Option Plan ("US Plan")

17. SHARE CAPITAL (CONT'D)

Details of the share option schemes and the respective share options that are granted as at 31 December 2005 are disclosed in the following :-

(i) CSE Global Limited Executives' Share Option Scheme ("CSE ESOS") prior to 9 October 2001

Under the Company's CSE ESOS prior to 9 October 2001, the share options that are granted as at 31 December 2005 are as follows :-

Date of grant	Balance as at 1.1.2005	Add-ition	Cancelled	Exercised	Balance as at 31.12.2005	Exercise Price	Exercise Period
30 October 2000	2,900,000	-	(31,500)	(2,868,500)	-	\$0.5046	30 October 2003 to 30 October 2005

The above share options have not been recognised in accordance with FRS 102 as they were granted before 22 November 2002.

There are no participants of CSE ESOS prior to 9 October 2001 who are controlling shareholders of the Company or their associates, or who received 5 percent or more of the total number of share options available under the CSE ESOS prior to 9 October 2001.

The participants of CSE ESOS prior to 9 October 2001 who are Directors of the Company as at 31 December 2005 are disclosed in the following table:

Share options granted on 30.10.2000 exercisable at the price of \$0.5046 each in Ordinary shares of \$0.05 each fully paid exercisable from 30.10.2003 to 30.10.2005

Name of participant in respect of CSE ESOS prior to 9 October 2001	Options granted during the financial year under review	Aggregate options granted since commencement of scheme to end of financial year under review	Aggregate options exercised since commencement of scheme to end of financial year under review	Aggregate options outstanding as at end of financial year under review
Goh Boon Seong	-	120,000	120,000	-
Lee Soo Hoon Phillip	-	120,000	120,000	-
Lim Boh Soon	-	120,000	120,000	-

The terms of the share options granted under the CSE ESOS prior to 9 October 2001 to the Directors of the Company are the same as those granted to the employees of the Group and they are disclosed below.

Only Directors and full time employees of the Group who have attained the age of twenty one (21) years are eligible to participate in the CSE ESOS prior to 9 October 2001. Each option entitles the participant to subscribe for a number of new ordinary shares of \$0.05 each in the Company pre-determined at the date of grant. The options are granted in consideration of \$1.00 per option for all the shares in respect of which the option is granted. The shares under option may be exercised in full or in blocks of 1,000 shares or a multiple thereof on the payment of the exercise price. The participants to whom the options have been granted do not have the right to participate by virtue of the options in a share issue of any other company. Options granted are cancelled when the participant ceases to be a full-time employee of the Company or any corporation in the Group subject to certain exceptions at the discretion of the Company. The exercise of the options is also subjected to the satisfactory performance of the participant's duties.

17. SHARE CAPITAL (CONT'D)**(i) CSE Global Limited Executives' Share Option Scheme ("CSE ESOS") prior to 9 October 2001 (cont'd)**

For all the options that are granted under CSE ESOS prior to 9 October 2001, the options may be exercised within a period commencing after the third anniversary of the date of grant and expiring on the fifth anniversary of the date of grant.

For all the options that are granted under CSE ESOS prior to 9 October 2001, the subscription price at which a participant subscribes for new ordinary shares of \$0.05 each of the Company upon the exercise of the option granted shall be at a discount of between zero (0) percent and forty (40) per cent (as determined in accordance with the Formula as set out below) of the average of the last dealt prices for an ordinary share of \$0.05 each of the Company, as determined by reference to the daily Official List published by the Singapore Exchange Securities Trading Limited, for the five (5) consecutive trading days immediately preceding the date of grant of the option, or the nominal value of the ordinary shares of \$0.05 each of the Company, whichever is higher.

The Formula for the determination of the discount is given as follows :-

$$\text{Discount} = \frac{\text{Average Profit} - 0.6 (\text{Base Figure})}{1.456 (\text{Base Figure}) - 0.6 (\text{Base Figure})} \times 40\%$$

whereby:

the Base Figure represents the higher of the audited profit before tax and extraordinary items of the CSE Group of the financial year immediately preceding the financial year in which the date of grant falls, or ten (10) percent of the audited sales revenue of the Group for the financial year immediately preceding the financial year in which the date of grant falls; and

the Average Profit represents the average audited profit before tax and extraordinary items of the Group for three (3) consecutive financial years beginning from the financial year in which the date of grant falls; and

In the event that the Average Profit is more than or equal to 1.456 times of the higher of:-

- (a) audited profit before tax and extraordinary items of the CSE Group of the financial year immediately preceding the financial year in which the date of grant falls; and
- (b) ten (10) percent of the audited sales revenue of the Group for the financial year immediately preceding the financial year in which the date of grant falls;

the subscription price shall be calculated to be the result after a discount of forty (40) per cent.

No discount shall be given if the Average Profit falls below 0.6 times of the Base Figure. In the event that the Average Profit is more than 0.6 times but less than 1.456 times of the Base Figure, the discount shall be determined proportionately.

17. SHARE CAPITAL (CONT'D)**(i) CSE Global Limited Executives' Share Option Scheme ("CSE ESOS") prior to 9 October 2001 (cont'd)**

The subscription prices of the share options issued under CSE ESOS prior to 9 October 2001 are entitled to a maximum discount of 40%. The determination of the quantum of the 40% discount on the subscription prices of share options issued under CSE ESOS prior to 9 October 2001 is based on the performance of the CSE Group for the three consecutive financial years beginning from the financial year in which the date of grant falls. The quantum of the discount on the subscription prices of share options issued under CSE ESOS prior to 9 October 2001 is only determined on the respective vesting dates. The number, proportion and discount entitlements of the various categories of share options granted under CSE ESOS prior to 9 October 2001, where determinable to date, are disclosed in the following table:

Date of grant	Aggregate options outstanding as at end of financial year under review	Proportion against aggregate options outstanding	Financial years considered for performance evaluation	Vesting date of share options	Expiry date of share options	Discount entitlement
30 October 2000	–	100%	FY2000 to FY2002	30 October 2003	30 October 2005	40%

(ii) CSE Global Limited Executives' Share Option Scheme ("CSE ESOS") subsequent to 9 October 2001

Under the Company's CSE ESOS subsequent to 9 October 2001, the share options that are granted as at 31 December 2005 are as follows :-

Date of grant	Balance as at 1.1.2005	Add-ition	Cancelled	Exercised	Balance as at 31.12.2005	Exercise Price	Exercise Period
30 October 2001	972,000	–	(7,000)	(900,000)	65,000	\$0.3060	30 October 2003 to 30 October 2006
31 October 2002	5,807,000	–	(18,000)	(4,036,000)	1,753,000	\$0.3072	31 October 2004 to 31 October 2007
10 September 2003	500,000	–	–	(500,000)	–	\$0.4359	10 September 2005 to 10 September 2008
31 December 2003	8,169,000	–	(582,000)	–	7,587,000	\$0.5300	31 December 2005 to 31 December 2008
	15,448,000	–	(607,000)	(5,436,000)	9,405,000		

¹ These share options have not been recognised in accordance with FRS 102 as they were granted before 22 November 2002.

17. SHARE CAPITAL (CONT'D)

(ii) *CSE Global Limited Executives' Share Option Scheme ("CSE ESOS") subsequent to 9 October 2001 (cont'd)*

There are no participants of CSE ESOS subsequent to 9 October 2001 who are controlling shareholders of the Company or their associates, or who received 5 percent or more of the total number of share options available under the CSE ESOS subsequent to 9 October 2001.

The participants of CSE ESOS subsequent to 9 October 2001 who are Directors of the Company as at 31 December 2005 are disclosed in the following tables:

Share options granted on 30.10.2001 exercisable at the price of \$0.3060 each in Ordinary shares of \$0.05 each fully paid exercisable from 30.10.2003 to 30.10.2006

Name of participant in respect of CSE ESOS prior to 9 October 2001	Options granted during the financial year under review	Aggregate options granted since commencement of scheme to end of financial year under review	Aggregate options exercised since commencement of scheme to end of financial year under review	Aggregate options outstanding as at end of financial year under review
Goh Boon Seong	–	60,000	–	60,000
Lee Soo Hoon Phillip	–	60,000	60,000	–
Lim Boh Soon	–	60,000	60,000	–

Share options granted on 31.10.2002 exercisable at a price of \$0.3072 each in Ordinary shares of \$0.05 each fully paid exercisable from 31.10.2004 to 31.10.2007

Name of participant in respect of CSE ESOS prior to 9 October 2001	Options granted during the financial year under review	Aggregate options granted since commencement of scheme to end of financial year under review	Aggregate options exercised since commencement of scheme to end of financial year under review	Aggregate options outstanding as at end of financial year under review
Goh Boon Seong	–	60,000	–	60,000
Lee Soo Hoon Phillip	–	60,000	60,000	–
Lim Boh Soon	–	60,000	60,000	–
Sin Boon Ann	–	30,000	30,000	–

Share options granted on 31.12.2003 exercisable at a price of \$0.5300 each in Ordinary shares of \$0.05 each fully paid exercisable from 31.12.2005 to 31.12.2008

Name of participant in respect of CSE ESOS prior to 9 October 2001	Options granted during the financial year under review	Aggregate options granted since commencement of scheme to end of financial year under review	Aggregate options exercised since commencement of scheme to end of financial year under review	Aggregate options outstanding as at end of financial year under review
Goh Boon Seong	–	60,000	–	60,000
Lee Soo Hoon Phillip	–	60,000	–	60,000
Lim Boh Soon	–	60,000	–	60,000
Sin Boon Ann	–	60,000	–	60,000

17. SHARE CAPITAL (CONT'D)**(ii) *CSE Global Limited Executives' Share Option Scheme ("CSE ESOS") subsequent to 9 October 2001 (cont'd)***

The terms of the share options granted under the CSE ESOS subsequent to 9 October 2001 to the Directors of the Company are the same as those granted to the employees of the Group and they are disclosed below.

Only Directors and full time employees of the Group who have attained the age of twenty one (21) years are eligible to participate in the CSE ESOS subsequent to 9 October 2001. Each option entitles the participant to subscribe for a number of new ordinary shares of \$0.05 each in the Company pre-determined at the date of grant. The options are granted in consideration of \$1.00 per option for all the shares in respect of which the option is granted. The shares under option may be exercised in full or in blocks of 1,000 shares or a multiple thereof on the payment of the exercise price. The participants to whom the options have been granted do not have the right to participate by virtue of the options in a share issue of any other company. Options granted are cancelled when the participant ceases to be a full-time employee of the Company or any corporation in the Group subject to certain exceptions at the discretion of the Company. The exercise of the options is also subjected to the satisfactory performance of the participant's duties.

For all the options that are granted under CSE ESOS subsequent to 9 October 2001, those options may be exercised within a period commencing after the second anniversary of the date of grant and expiring on the fifth anniversary of the date of grant.

For all the options that are granted under CSE ESOS subsequent to 9 October 2001, the subscription price at which a participant subscribes for new ordinary shares of \$0.05 each of the Company upon the exercise of the option granted shall be at a discount of between zero (0) percent and twenty (20) per cent of the average of the last dealt prices for an ordinary share of \$0.05 each of the Company, as determined by reference to the daily Official List published by the Singapore Exchange Securities Trading Limited, for the five (5) consecutive trading days immediately preceding the date of grant of the option, or the nominal value of the ordinary shares of \$0.05 each of the Company, whichever is higher.

The quantum of the discount shall be equal to the compounded rate of growth (expressed in percentage terms) of the Group's audited profit before tax and extraordinary items for two (2) consecutive financial years beginning from the financial year in which the date of grant falls. The discount shall, in no event, exceed twenty (20) per cent, notwithstanding that the compounded rate of growth may exceed twenty (20) per cent. No discount shall be given if the compounded rate of growth is nil or negative.

17. SHARE CAPITAL (CONT'D)**(ii) CSE Global Limited Executives' Share Option Scheme ("CSE ESOS") subsequent to 9 October 2001 (cont'd)**

The subscription prices of the share options issued under CSE ESOS subsequent to 9 October 2001 are entitled to a maximum discount of 20%. The determination of the quantum of the 20% discount on the subscription prices of share options issued under CSE ESOS subsequent to 9 October 2001 is based on the performance of the CSE Group for the two consecutive financial years beginning from the financial year in which the date of grant falls. The quantum of the discount on the subscription prices of share options issued under CSE ESOS subsequent to 9 October 2001 is only determined on the respective vesting dates. The number, proportion and discount entitlements of the various categories of share options granted under CSE ESOS subsequent to 9 October 2001, where determinable to date, are disclosed in the following table:

Date of grant	Aggregate options outstanding as at end of financial year under review	Proportion against aggregate options outstanding	Financial years considered for performance evaluation	Vesting date of share options	Expiry date of share options	Discount entitlement
30 October 2001	65,000	6%	FY2001 to FY2002	30 October 2003	30 October 2006	0%
31 October 2002	1,753,000	38%	FY2002 to FY2003	31 October 2004	31 October 2007	20%
10 September 2003	–	3%	FY2003 to FY2004	10 September 2005	10 September 2008	18%
31 December 2003	7,587,000	53%	FY2003 to FY2004	31 December 2005	31 December 2008	18%

(iii) CSE (US Subsidiaries) Incentive Stock Option Plan ("US Plan")

Under the Company's US Plan, the share options that are granted as at 31 December 2005 are as follows :-

Date of grant	Balance as at 1.1.2005	Add-ition	Cancelled	Exercised	Balance as at 31.12.2005	Exercise Price	Exercise Period
30 October 2001	740,000	–	–	(630,000)	110,000	\$0.3060	30 October 2003 to 30 October 2006
31 October 2002	1,384,000	–	(20,000)	(1,197,000)	167,000	\$0.3840	31 October 2004 to 31 October 2007
31 December 2003	1,585,000	–	(248,000)	–	1,337,000	\$0.6480	31 December 2005 to 31 December 2008
	3,709,000	–	(268,000)	(1,827,000)	1,614,000		

¹ These share options have not been recognised in accordance with FRS 102 as they were granted before 22 November 2002.

17. SHARE CAPITAL (CONT'D)**(iii) CSE (US Subsidiaries) Incentive Stock Option Plan ("US Plan") (cont'd)**

There are no participants of US Plan who are Directors of the Company, controlling shareholders of the Company or their associates, or who received 5 percent or more of the total number of share options available under the US Plan. As the Company does not have any parent company, there are therefore no participants of US Plan who are directors or employees of the Company's parent company and its subsidiary companies.

Only full time employees of the subsidiary companies of the Group incorporated in any state of the United States of America who have attained the age of twenty one (21) years are eligible to participate in the US Plan, except for the employees who were already holding options that are granted under the CSE ESOS at the time the US Plan was adopted by the Company. Each option entitles the participant to subscribe for a number of new ordinary shares of \$0.05 each in the Company pre-determined at the date of grant. The shares under option may be exercised in full or in blocks of 1,000 shares or a multiple thereof on the payment of the exercise price. The participants to whom the options have been granted do not have the right to participate by virtue of the options in a share issue of any other company. Options granted are cancelled when the participant ceases to be a full-time employee of the subsidiary companies of the Group incorporated in any state of the United States of America subject to certain exceptions at the discretion of the Company. The exercise of the options is also subjected to the satisfactory performance of the participant's duties.

The options granted under the US Plan may be exercised within a period commencing after the second anniversary of the date of grant and expiring on the fifth anniversary of the date of grant.

The subscription price at which a participant subscribes for new ordinary shares of \$0.05 each of the Company upon the exercise of the option granted under the US Plan shall be the average of the last dealt prices for an ordinary share of \$0.05 each of the Company, as determined by reference to the daily Official List published by the Singapore Exchange Securities Trading Limited, for the five (5) consecutive trading days immediately preceding the date of grant of the option, or the nominal value of the ordinary shares of \$0.05 each of the Company, whichever is higher. The subscription prices of the share options issued under US Plan are not entitled to any form of discounts.

In accordance with FRS 102, the fair value of share options, which were granted after 22 November 2002, as at the respective dates of grant, has been estimated by an external valuer using a Black-Scholes Option Pricing Model, taking into account the terms and conditions upon which the options were granted. The inputs to the model used for the years ended 31 December 2005 and 31 December 2004 are shown below :

	2005/2004
CSE ESOS subsequent to 9 October 2001 granted on 10 September 2003	
Dividend yield (%)	2.79%
Expected volatility (%)	35.73%
Risk-free interest rate (%)	1.04
Expected life of option (years)	2.01
Weighted average share price (\$)	0.177

17. SHARE CAPITAL (CONT'D)**(iii) CSE (US Subsidiaries) Incentive Stock Option Plan ("US Plan") (cont'd)**

	2005/2004
CSE ESOS subsequent to 9 October 2001 granted on 31 December 2003	
Dividend yield (%)	2.39%
Expected volatility (%)	37.33%
Risk-free interest rate (%)	1.56%
Expected life of option (years)	2.90
Weighted average share price (\$)	0.222

	2005/2004
US Plan granted on 31 December 2003	
Dividend yield (%)	2.39%
Expected volatility (%)	37.43%
Risk-free interest rate (%)	1.62%
Expected life of option (years)	3.00
Weighted average share price (\$)	0.173

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the realised volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of the option grant were incorporated into the measurement of fair value.

The carrying amount of the liability recognised in the Group's and the Company's balance sheets relating to share options granted under the CSE ESOS and US Plan at 31 December 2005 is \$2,002,000 (2004: \$1,128,000). All options granted under these plans had vested as at 31 December 2005 (2004: Nil).

18. SHARE PREMIUM

	Group and Company	
	2005	2004
	\$'000	\$'000
Balance at 1 January	65,450	62,827
Premium on issue of ordinary shares :-		
2,868,500 (2004 : 2,710,000) ordinary shares of \$0.05 each for cash at \$0.5046 each	1,304	1,232
Nil (2004 : 200,000) ordinary shares of \$0.05 each for cash at \$0.4269 each	-	75
1,530,000 (2004 : 2,730,000) ordinary shares of \$0.05 each for cash at \$0.3060 each	392	699
4,036,000 (2004 : 1,374,000) ordinary shares of \$0.05 each for cash at \$0.3072 each	817	353
1,197,000 (2004 : 160,000) ordinary shares of \$0.05 each for cash at \$0.3840 each	395	53
500,000 (2004 : Nil) ordinary shares of \$0.05 each for cash at \$0.4359 each	193	-
	68,551	65,239

18. SHARE PREMIUM (CONT'D)

	Group and Company	
	2005	2004
	\$'000	\$'000
Add : Subscription monies received for nil (2004 : 860,000)		
ordinary shares of \$0.05 each issued for cash at \$0.3072 each	–	221
Add : Subscription monies received for nil (2004 : 13,000)		
ordinary shares of \$0.05 each issued for cash at \$0.3840 each	–	5
Less : Expenses on issuance of ordinary shares	(3)	(15)
Balance at 31 December	68,548	65,450

19. OTHER RESERVES

	Hedging reserve \$'000	Share-based payment reserve \$'000	Total \$'000
At 31.12.2003 as previously reported	–	–	–
Cumulative effects of adopting FRS 102	–	14	14
At 1.1.2004 as restated	–	14	14
Cost of share-based payments	–	1,114	1,114
At 31.12.2004 as restated	–	1,128	1,128
At 31.12.2004 as previously reported	–	–	–
Cumulative effects of adopting FRS 102	–	1,128	1,128
At 31.12.2004 as restated	–	1,128	1,128
Net effects of adopting FRS 39	729	–	729
At 1.1.2005 as restated	729	1,128	1,857
Net fair value changes on cash flow hedges	(1,914)	–	(1,914)
Cost of share-based payments	–	874	874
At 31.12.2005	(1,185)	2,002	817

Hedging reserve

Hedging reserve records the cumulative fair value changes on the derivative financial instruments designated as hedging instruments in cash flow hedges that is determined to be an effective hedge.

Share-based payment reserve

Share-based payment reserve represents the equity-settled share options granted to employees. The reserve is made up of the cumulative value of services received from employees recorded on grant of equity-settled share options.

20. FOREIGN CURRENCY TRANSLATION RESERVE

	Group		Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Balance at 1 January	(1,665)	(888)	(1,658)	(1,143)
Cumulative effects of adopting revised FRS21 [Note 2(b)(iv)]	–	–	1,672	1,143
Balance at 1 January as restated	(1,665)	(888)	14	–
Exchange difference for the year arising on consolidation	(258)	(777)	(24)	14
Balance at 31 December	(1,923)	(1,665)	(10)	14

Foreign currency translation reserve

The foreign current translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency.

21. REVENUES

Revenues mainly represent the revenue recognised on projects-in-progress.

22. MISCELLANEOUS INCOME

	Group	
	2005 \$'000	2004 \$'000
Gain on partial disposal of an associated company	95	12
Writeback of provision for impairment in value of investment in an associated company	–	150
Rental income	186	512
Commission income	27	96
Miscellaneous income	408	144
Net exchange gain	599	935
	1,315	1,849

23. FINANCE INCOME

	Group	
	2005 \$'000	2004 \$'000
Interest income – short-term deposits	377	217

24. FINANCE COSTS

	Group	
	2005	2004
	\$'000	\$'000
Interest expense – bank loans	2,675	1,388
Bank charges	184	162
	2,859	1,550

25. PROFIT FROM CONTINUING OPERATIONS BEFORE TAXATION

	Group	
	2005	2004
	\$'000	\$'000
		(restated)
The following items have been included in arriving at profit from continuing operations before taxation :-		
Non-audit services paid to: -		
Auditors of the Company	88	66
Other auditors of subsidiary companies	184	49
Depreciation of fixed assets	2,442	1,720
Loss on disposal of fixed assets	106	45
Amortisation of intangible assets	240	91
Allowance for stock obsolescence	626	26
Stocks written off directly to the profit & loss account	–	58
Allowance/ (Write-back of allowance) for doubtful debts :-		
- trade	187	(240)
- associated company	–	(5)
Bad trade debts written off directly to the profit & loss	129	92
Provision for warranties, net	1,159	1,976
Personnel and related costs comprising :-		
Salaries and bonuses	30,163	21,323
Employees' provident fund	1,348	1,114
Share-based payment expense	874	1,365
Other personnel and related costs	4,065	2,715
Directors' fees		
- Directors of the Company	196	202
Fair value loss of derivative financial instruments (Note 14)	241	–

26. TAXATION

	Group	
	2005	2004
	\$'000	\$'000
Provision for taxation in respect of profit for the year :-		
Current taxation :		
- Singapore	1,587	1,597
- Foreign	5,222	2,240
Deferred taxation :		
- Singapore	(517)	(113)
- Foreign	(4)	(80)
	6,288	3,644
Withholding tax	416	265
Overprovision for prior years' taxation	(267)	(287)
Taxation	6,437	3,622

A reconciliation between the tax expense and the product of accounting profit before tax multiplied by the applicable tax rate for the financial years ended 31 December can be analysed as follows :

	Group	
	2005	2004
	\$'000	\$'000
		(restated)
Profit from continuing operations before taxation (excluding share of results of associated companies)	28,086	18,996
Taxation at statutory tax rate of 20.0% (2004 : 20.0%)	5,617	3,799
Adjustments :		
Expenses not deductible for tax purposes	1,993	402
Temporary differences previously not recognised, now recognised	6	(369)
Utilisation of tax losses and capital allowance previously not recognised	(41)	-
Income not subjected to taxation	(3,965)	(1,613)
Different effective tax rates of other countries	2,677	1,361
Effect of change in tax rates	-	4
Others	1	60
	6,288	3,644
Share of profit of associated companies is net of tax amounting to :-	21	27

As at 31 December 2005, the Group has unutilised tax losses amounting to approximately \$6,034,000 (2004 : \$2,765,000) and capital allowance amounting to \$1,636,000 (2004 : \$194,000) available for offset against future profits, subject to agreement by tax authorities and compliance with tax regulations in the respective countries in which certain subsidiary companies operate.

27. EARNINGS PER SHARE

	Group and Company	
	2005	2004
	\$'000	\$'000
		(restated)
Basic earnings per share		
The basic earning per share is computed based on :-		
Profit for the year attributable to ordinary equity holders of the Company	22,122	16,299
	2005	2004
	No. of shares	
Weighted average number of shares :-		
Outstanding during the year	319,681,407	312,507,407
Issued during the year	6,736,038	4,493,555
	326,417,445	317,000,962
Diluted earnings per share		
The weighted average number of ordinary shares adjusted for the effect of all dilutive potential ordinary shares is determined as follows :-		
	2005	2004
	No. of shares	
Weighted average number of shares outstanding during the year, used in the computation of basic earnings per share	326,417,445	317,000,962
Weighted average number of unissued ordinary shares under share options	15,142,575	23,510,475
Number of shares that would have been issued at fair value under share options	(10,857,079)	(14,319,641)
Weighted average number of ordinary shares	330,702,941	326,191,796

28. DIRECTORS' REMUNERATION

Pursuant to Rule 1207(11) to (14) of the Singapore Exchange Securities Trading Limited Listing Manual, the following number of Directors of the Company whose remuneration falls within the stipulated remuneration bands is disclosed as follows :-

	Company					
	2005			2004		
	Executive Directors	Non-executive Directors	Total	Executive Directors	Non-executive Directors	Total
\$500,000 and above	1	–	1	1	–	1
\$250,000 to below \$500,000	–	–	–	–	–	–
Below \$250,000	–	5	5	–	5	5
	1	5	6	1	5	6

29. CASH AND CASH EQUIVALENTS

	Group	
	2005 \$'000	2004 \$'000
Short-term deposits	1,333	1,481
Cash and bank balances	28,029	20,057
	29,362	21,538

30. TURNOVER AND OPERATING PROFITS BY SEGMENTS

The major segments of the Group comprise the Industrial Business Unit and the IT Consulting Business Unit.

The Industrial Business unit ("IBU") delivers a wide and diverse range of solutions involving the implementation of Control and Safety Systems, Information Systems, Terminal Automation Systems, Pneumatic and Hydraulic Control Systems, Programmable and Supervisory Control and Data Acquisition (SCADA) Systems, Instrumentation and Electrical Field Construction Services, SCOPE Telemetry, Programmable Control Systems (Simplex and Duplex), Triplicate Modular Redundant Systems and Solid State Relay and Instrumentation for applications to the Energy and Petrochemical / Chemical, Oil and Gas and Power, Process Utility industries on a turnkey basis, Electrical engineering Systems and Air Injection Technology for Power Augmentation.

In addition, IBU also offers complete turnkey SCADA / Telemetry Systems to the water, drainage, sewerage and environmental (pollution and hydrology) industries through the implementation of the client-server distributed database SCADA package, SCOPE-X (Servelec Configurable Online Process Executive) and the Seprol Ranges of Remote Terminal Unit (RTU). Moreover, the Group also offers the implementation of RIO, a fully integrated Clinical Information System, to automate and facilitate the recording and reporting of patients' related information to the Healthcare industry in relation to Mental Health, Maternity and Children.

30. TURNOVER AND OPERATING PROFITS BY SEGMENTS (CONT'D)

IBU also provides turnkey telecommunication network solutions for infrastructure projects in the Oil and Gas and Energy industry, both onshore and offshore. This includes Offshore Platforms, Onshore Processing Facilities (Refineries, LNG plants, Gas Plants and Petrochemical Plants) and Power Generation Plants. Moreover, the Group develops and markets a pipeline simulation, monitoring, management and leak detection system for oil and gas pipelines. In addition, IBU supplies and distributes electrical engineering products to the mining, process engineering, power generation, power transmission/distribution, and manufacturing industries. IBU also provides electrical engineering design and system solutions to energy (oil & gas and power), the heavy industrial (mining & minerals), water and sewerage sectors. Furthermore, IBU manufactures and distributes Kingfisher Ranges of RTU products designed for SCADA applications in a broad range of industrial fields.

In addition, IBU also provides Intelligent Transport Systems that include systems such as the toll collection system, congestion charging system, urban traffic control and surveillance system, motorway management system, transportation communication system and security system.

IT Consulting Business Unit ("ITCBU") offers solutions for Credit Management, Cash Management, Online Internet Banking Services, Mobile/Wireless Banking, Provision of Digital Sales Force Automation with built-in Customer Relationship Management Systems and the Trade Finance to the banking and finance industry.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise corporate assets, liabilities and expenses.

The turnover by geographical segments is based on the location of customers regardless of where the goods are produced. The assets and capital expenditure are based on the location of those assets.

Segment accounting policies are the same as the policies of the Group as described in Note 2.

	Industrial Business Unit		IT Consulting Business Unit		Consolidated	
	2005 \$'000	2004 \$'000 (restated)	2005 \$'000	2004 \$'000 (restated)	2005 \$'000	2004 \$'000 (restated)
<i>Business activities segments</i>						
Sales to external customers	267,335	193,586	-	4,882	267,335	198,468
Operating profit	30,568	18,593	-	1,736	30,568	20,329
Finance income					377	217
Finance costs					(2,859)	(1,550)
Share of profit of unconsolidated associated companies, net of tax					474	960
Profit from continuing operations before taxation					28,560	19,956
Taxation					(6,437)	(3,622)
Profit from continuing operations after tax from ordinary activities					22,123	16,334

30. TURNOVER AND OPERATING PROFITS BY SEGMENTS (CONT'D)

	Industrial Business Unit		IT Consulting Business Unit		Consolidated	
	2005 \$'000	2004 \$'000 (restated)	2005 \$'000	2004 \$'000 (restated)	2005 \$'000	2004 \$'000 (restated)
Business activities segments (cont'd)						
Segment assets	206,957	145,586	–	8,126	206,957	153,712
Unallocated assets					16,929	8,895
Total assets					223,886	162,607
Segment liabilities	(57,353)	(31,234)	–	(2,538)	(57,353)	(33,772)
Unallocated liabilities					(79,148)	(60,041)
Total liabilities					(136,501)	(93,813)
Other segment information :-						
Capital expenditure	4,735	16,580	–	3,498	4,735	20,078
Depreciation	2,442	1,626	–	94	2,442	1,720
Amortisation	240	–	–	91	240	91
Provision made for/ (write-back of) warranty expenses	1,159	1,980	–	(4)	1,159	1,976

Geographical segments

The following table presents revenue and expenditure information regarding geographical segments for the year ended 31 December 2005 and 2004.

	Asia-Pacific		America		Europe/ Middle East		Consolidated	
	2005 \$'000	2004 \$'000 (restated)	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000 (restated)
Segment revenue :-								
Sales to external customers	85,236	52,152	122,157	106,119	59,942	40,197	267,335	198,468
Total assets	118,692	74,123	78,302	63,586	26,892	24,898	223,886	162,607
Projects in Asia-Pacific cover countries such as Singapore, China, Hong Kong, Korea, Japan, Thailand, Malaysia, Indonesia, Vietnam and Australia.								
Other Segment Information :-								
Capital expenditure	2,374	17,494	1,957	2,300	404	284	4,735	20,078

31. COMMITMENTS**a) Operating lease commitments – As lessee**

As at the balance sheet date, the Group has the following minimum lease payments under non-cancellable operating lease on premises and equipment with initial or remaining term of one year or more :-

	Group	
	2005	2004
	\$'000	\$'000
Payable within 1 year	2,204	1,760
Payable later than 1 year but not later than 5 years	6,035	4,136
Payable later than 5 years	–	829
	8,239	6,725
Rental expenses (principally for offices and equipment)	2,678	2,620

The Group leases a number of office premises under operating leases. These leases typically run for an initial tenure of between one to five years. Certain leases include options to renew the leases after the expiry of the initial tenure. Lease payments under these leases are usually fixed for the entire initial tenure.

b) Operating lease commitments – As lessor

As at the balance sheet date, the Group and Company have the following minimum lease payments under non-cancellable operating lease on rental premises located within its leasehold building with a remaining term of one year or more :-

	Group and Company	
	2005	2004
	\$'000	\$'000
Payable within 1 year	56	56
Payable later than 1 year but not later than 5 years	33	89
	89	145
Rental income (Note 22)	186	512

As of the date of this report, an agreement for the disposal of the leasehold building within which the rental premises are located, has not yet been finalised.

c) Finance lease commitments

The Group conducts a portion of its operations from leased office equipments and motor vehicles. These leases are classified as finance leases and expire over the next four years.

31. COMMITMENTS (CONT'D)

c) *Finance lease commitments (cont'd)*

As at the balance sheet date, the Group has the following future minimum lease payments under finance leases together with the present value of the net minimum lease payments on equipment with initial or remaining term of one year or more :-

	Group		Company	
	Total minimum lease payments 2005 \$'000	Present value of payments 2005 \$'000	Total minimum lease payments 2004 \$'000	Present value of payments 2004 \$'000
Payable within 1 year	263	225	214	182
Payable later than 1 year but not later than 5 years	403	366	342	314
	666	591	556	496
Less: Amounts representing finance charges	(75)	-	(60)	-
Present value of minimum lease payments	591	591	496	496

32. KEY MANAGEMENT PERSONNEL COMPENSATION

	Group	
	2005 \$'000	2004 \$'000
Directors of the Group :-		
Short-term employee benefits*	3,030	2,213
Fees paid	196	202
Share-based payments#	355	444
	3,581	2,859
Key executive officers :-		
Short-term employee benefits*	2,673	1,381
Share-based payments#	733	821
	3,406	2,202
* Comprising employees' provident fund contributions made to:-		
- Directors of the Group	123	98
- Key executive officers	99	74
	222	172

No share options were granted in 2004 and 2005. The share based payments have been computed for share options granted in 2003 using the Black-Scholes Option Pricing Model as stated in Note 17, in accordance with FRS 102. This disclosure is required under FRS 24.

33. RISK MANAGEMENT

Exposure to interest rate, foreign currency and credit risks arises in the normal course of the Group's business. The Group uses pre-dominantly foreign exchange forward contracts in connection with its risk management activities to reduce the Group's exposure to fluctuations in foreign exchange rates. While these are subject to the risk of market rates changing subsequent to the contract date, such changes are generally offset by the opposite effects on the items being hedged. The Group does not hold any foreign exchange forward contracts for trading or speculative purposes.

The Group has established processes to monitor and control hedging transactions in respect of the foreign exchange forward contracts on a timely and effective manner as part of the Group's risk management procedures. These risk management processes are reviewed by the management on a periodic basis to ensure its effectiveness in managing the Group's risk in respect of the above.

The Group's accounting policies in relation to derivative financial instruments are set out in Note 2(x).

Foreign currency risk

The Group has exposure to foreign currency risk as a result of engaging in transactions denominated in foreign currencies that arise from the Group's trading and investing activities in the course of business. Where exposures to foreign currency risk are certain, it is the Group's policy to conduct foreign currency hedging activities to hedge against such risks. The primary purpose of the Group's foreign currency hedging activities is to protect the Group against the volatility associated with foreign currency exposure. The Group uses pre-dominantly foreign exchange forward contracts with maturities of less than 12 months to hedge the above mentioned transactions denominated in foreign currencies.

As at 31 December 2005, the Company and the Group have entered into foreign currency forward sell/buy contracts amounting to \$25,862,000 (2004 : \$51,812,000). The fair value adjustment of the sell/buy contracts (which is the difference between the notional principal amount and market value of the contracts) is a loss of \$1,426,000 (2004 : \$729,000). These foreign currency forward contracts, whose maturity dates are up to 10 months from the financial year end, were entered into for the purpose of hedging of foreign currency bank loans and trade receivables.

It is the Group's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximise hedge effectiveness.

Credit risks

The Group's maximum exposure to credit risk, in the event that the counter-parties to the transactions with the Group fail to perform their obligations as of balance sheet date in relation to each class of recognised financial assets, is the carrying amount of those assets as indicated in the balance sheet, and is generally limited to the amounts, if any, by which the counter-parties' obligations exceed the obligations of the Group.

In the aspect of credit risk arising from the inability of customers of the Group to make payments when their receivables fall due, it is the Group's policy to provide credit terms to creditworthy and reputable customers. These receivables are continually monitored on an ongoing basis to ensure that issues arising from non-collectibility are minimised. Therefore, the Group does not expect material credit losses on its debts with customers.

In the aspect of credit risk arising from the Group's foreign exchange forward contracts, it is the Group's policy to enter into foreign exchange forward contracts with a diversity of creditworthy and reputable financial institutions. Therefore, the Group does not expect material credit losses on its foreign exchange forward contracts.

The Group has no significant concentration of credit risk.

33. RISK MANAGEMENT (CONT'D)***Interest rate risk***

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's borrowings and overdraft facilities from financial institutions, from which the Group obtains additional financing for its activities. The Group's policy is to manage its interest costs by obtaining the most favourable interest rates on its borrowings of various tenors and overdraft facilities available without increasing its foreign currency exposure. Information relating to the Group's interest rate exposure on its borrowings is also disclosed in Note 15.

Surplus funds of the Group are also placed with financial institutions as short-term deposits to generate interest income. The short-term deposits of the Group bear interest ranging between 2.50% - 7.00 % (2004 : 0.50% - 7.00%) per annum.

Liquidity risk

To ensure the continuity of funding for the Group's operations, the Group obtains short term funding from reputable financial institutions.

Fair value

The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than in a forced or liquidation sale.

Financial instruments carried at fair value

The Group and Company has carried all derivative financial instruments, at their fair value as required by FRS 39.

Financial instruments whose carrying amount approximate fair value

Management has determined that the carrying amounts of cash and short term deposits, current trade and other receivables, bank overdrafts, current trade and other payables and current bank loans, based on their notional amounts, reasonably approximate their fair values because these are mostly short term in nature or are repriced frequently.

Management has determined that the carrying amounts of the non-current portions of the finance leases amounting to \$366,000 (2004 : \$314,000) approximate their fair values.

Derivative financial instruments and hedging activities

Derivative financial instruments included in the balance sheets of the Group and Company at 31 December are as follows:

	Group and Company			
	2005		2004	
	Assets \$'000	Liabilities \$'000	Assets \$'000	Liabilities \$'000
Forward currency contracts	-	1,426	-	-

As at 31 December 2004, the Group and Company has a fair value gain of approximately \$729,000. The change in accounting policy on 1 January 2005 resulted in the increase of \$729,000 to the Group's and the Company's hedging reserve and comparative figures were not adjusted under the transitional provisions of FRS 39.

33. RISK MANAGEMENT (CONT'D)***Fair value (cont'd)******Derivative financial instruments and hedging activities (cont'd)*****(i) Cash flow hedges**

As at 31 December 2005, the Group and Company held forward currency contracts designated as hedges of expected future sales to customers in the United States, Middle East and United Kingdom for which the Group had firm commitments. The forward currency contracts are being used to hedge the foreign currency risk of the firm commitments. The terms of these contracts are as follows:

	Maturity	Exchange Rate
Forward contracts to hedge expected future sales :-		
Sell		
GBP7,800,000	13 December 06	GBP/US\$ 1.77
EUR4,652,000	14 December 06	EUR/US\$ 1.18

The terms of the forward currency contracts have been negotiated to match the terms of the commitments.

The cash flow hedge of the expected future sales and purchases in December 2006 was assessed to be highly effective and as such, the fair value loss of \$1,185,000 of the forward contracts was recognised to hedging reserve (Note 19) in the Group's and Company's balance sheets.

(ii) Derivative financial instruments fair valued through profit and loss

As at 31 December 2005, the Group and Company held forward currency contracts which are fair valued through profit and loss. The terms of these contracts are as follows:

	Maturity	Exchange Rate
Forward contracts:-		
Sell		
GBP3,000,000	12 June 06	GBP/US\$1.79
Buy		
GBP3,000,000	12 June 06	GBP/US\$1.70
USD2,500,000	13 March 06	US\$/S\$1.65
USD3,537,000	31 March 06	US\$/S\$1.66

A fair value loss of \$241,000 arising from the above forward contracts fair- valued through profit and loss, was recognised in the profit and loss account (Note 19).

(iii) Hedge of net investments in foreign operations

Included in 'Amount due to bankers' (Note 15) at 31 December 2005 was a borrowing of £3,000,000 (2004: £3,500,000) which has been designated as hedge of the net investments in the United Kingdom operations and is being used to hedge the Group's exposure to foreign currency risk on these investments. The treatment of the exchange differences arising from the translation of this borrowing is in accordance with Note 2(d)(ii).

34. DIVIDENDS

	Group and Company	
	2005	2004
	\$'000	\$'000
Final exempt (one-tier) dividend for 2004 of \$0.02 per ordinary share	6,524	–
Final dividend for 2003 of \$0.01 per ordinary share less tax at 20%	–	2,536
Special dividend for 2003 of \$0.01 per ordinary share less tax at 20%	–	2,536
	6,524	5,072

The proposed first and final tax exempt dividends of \$0.025 cents per ordinary share to be paid in respect of the financial year ended 31 December 2005 have not been recognised as a liability as at year-end as it is subject to approval at the Annual General Meeting of the Company.

35. SUBSEQUENT EVENTS

Subsequent to the end of the financial year ended 31 December 2005 until the date of this report on 15 March 2006, the Company issued 1,283,000 and 812,000 new ordinary shares of \$0.05 each in the share capital of the Company fully paid up at a premium of \$0.2572 and \$0.4800 each for cash respectively, pursuant to the exercise of vested share options that were granted under the CSE Global Limited Executives' Share Option Scheme subsequent to 9 October 2001 to full time employees of the Group.

In addition, the Company also issued 100,000 new ordinary shares of \$0.05 each in the share capital of the Company fully paid up at a premium of \$0.5980 for cash, pursuant to the exercise of vested share options that were granted under the CSE (US Subsidiaries) Incentive Stock Option Plan to full time employees of the Group.

The 2,195,000 new ordinary shares of \$0.05 each in the share capital of the Company that were issued as a result of the above mentioned share option exercises rank pari passu in all respects with the existing issued ordinary shares in the Company.

36. COMPARATIVES

Comparatives in the financial statements have been changed from the previous year due to the changes in accounting policies as described in Note 2 and to be consistent with current year presentation.

The following accounts have also been adjusted in accordance with FRS 103. This is due to an adjustment amounting to approximately \$907,000 made to goodwill that was determined provisionally in the previous financial year, as disclosed in Note 8 to the financial statements.

	Restated	Previously reported
	2004	2004
	\$'000	\$'000
Presented in the Balance Sheet		
Intangible assets	33,513	32,606
Stocks	3,287	4,194

