



**Artel Group**  
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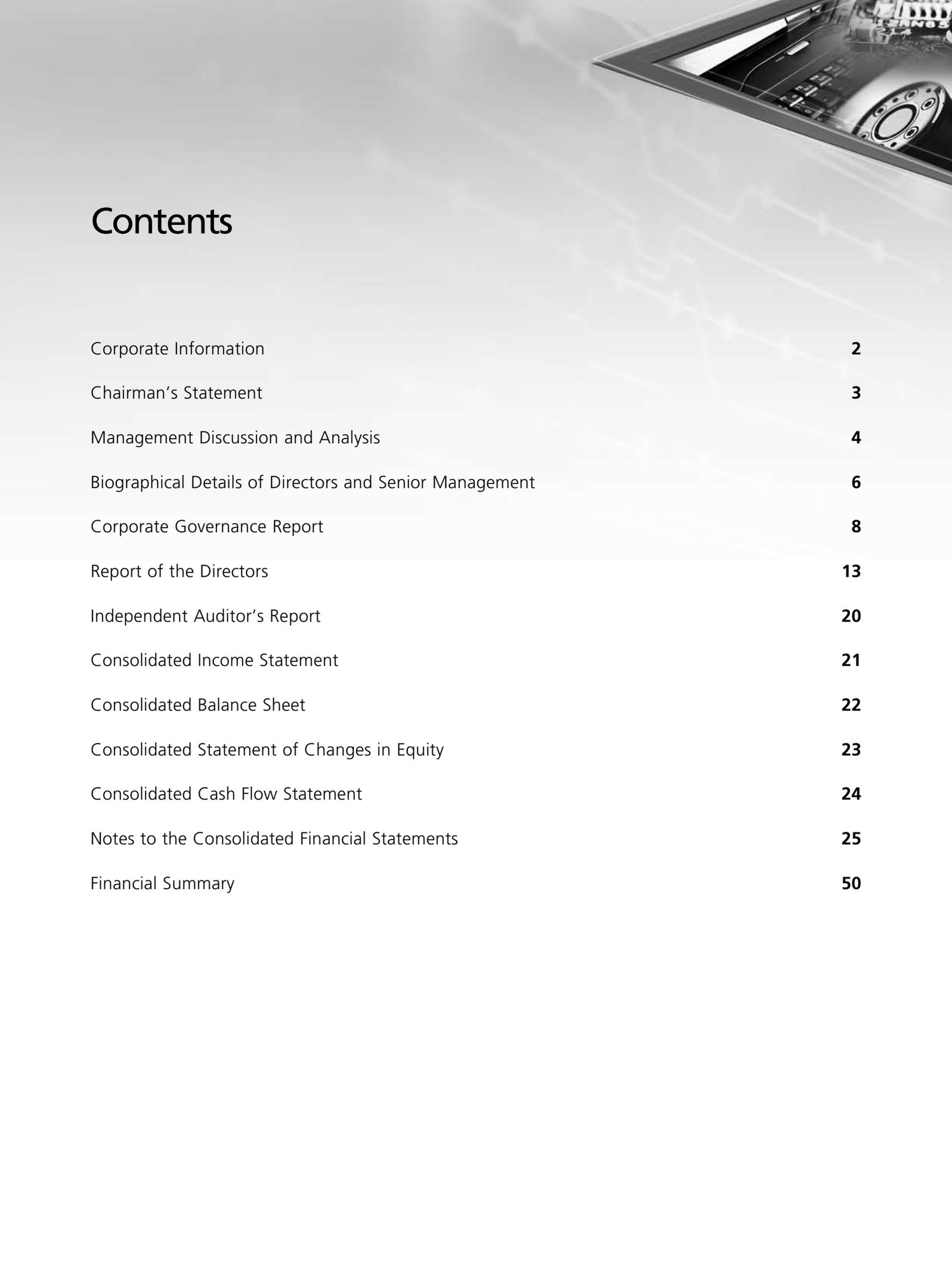
**ARTEL SOLUTIONS GROUP HOLDINGS LIMITED**

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 931)



**2007**  
ANNUAL REPORT



# Contents

Corporate Information	2
Chairman's Statement	3
Management Discussion and Analysis	4
Biographical Details of Directors and Senior Management	6
Corporate Governance Report	8
Report of the Directors	13
Independent Auditor's Report	20
Consolidated Income Statement	21
Consolidated Balance Sheet	22
Consolidated Statement of Changes in Equity	23
Consolidated Cash Flow Statement	24
Notes to the Consolidated Financial Statements	25
Financial Summary	50

# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

Mr. Kan Che Kin, Billy Albert (*Chairman*)  
Mr. Yu Pen Hung (*Chief Executive Officer*)  
Mrs. Kan Kung Chuen Lai  
Ms. Li Shu Han, Eleanor Stella  
Mr. Li Kai Yien, Arthur Albert

### Independent Non-Executive Directors

Mr. Li Siu Yui  
Mr. Ip Woon Lai  
Mr. Lee Kong Leong

## AUDIT COMMITTEE

Mr. Li Siu Yui (*Chairman*)  
Mr. Ip Woon Lai  
Mr. Lee Kong Leong

## REMUNERATION COMMITTEE

Mr. Kan Che Kin, Billy Albert (*Chairman*)  
Mr. Li Siu Yui  
Mr. Ip Woon Lai

## NOMINATION COMMITTEE

Mr. Kan Che Kin, Billy Albert (*Chairman*)  
Mr. Li Siu Yui  
Mr. Ip Woon Lai

## COMPANY SECRETARY & QUALIFIED ACCOUNTANT

Ms. Seto Ying

## LEGAL ADVISERS

Kirkpatrick & Lockart Preston Gates Ellis

## INDEPENDENT AUDITORS

PKF

## AUTHORISED REPRESENTATIVES

Mr. Kan Che Kin, Billy Albert  
Ms. Seto Ying

## PRINCIPAL BANKERS

Hang Seng Bank Limited  
Bank of China (Hong Kong) Limited

## REGISTERED OFFICE

Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Flat 18, 1st Floor  
Flourish Industrial Building  
33 Sheung Yee Road  
Kowloon Bay, Kowloon  
Hong Kong

## PRINCIPAL SHARE REGISTRAR

Butterfield Fund Services (Cayman) Limited

## HONG KONG BRANCH SHARE REGISTRAR

Tricor Standard Limited  
26th Floor, Tesbury Centre  
28 Queen's Road East, Wanchai  
Hong Kong

## WEBSITE

[www.finance.thestandard.com.hk/en/0931artelsolutions/index.asp](http://www.finance.thestandard.com.hk/en/0931artelsolutions/index.asp)

## STOCK CODE

931

# Chairman's Statement

On behalf of the board of directors (the "Directors") of Artel Solutions Group Holdings Limited (the "Company" or "Artel"), I now present the annual report of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2007.

## OUR VISION

Artel is committed to serve the genuine need for computing, multimedia and networking solutions in the high-tech community. We are dedicated to provide cutting edge solutions and digital products as well as reliable services to our customers in reaching their business goals.

## BUSINESS REVIEW

During the year, the Group has expanded its sales team in order to expand its client base and devoted substantial effort in expanding its product range by sourcing supplies from new suppliers. The Group recorded a turnover of approximately HK\$40 million in 2007, representing an increase of approximately 10% of revenue compared with 2006.

The Group recorded a gross profit of approximately HK\$2 million in 2007, representing an increase of approximately 52% compared with 2006.

The Group, in summary, recorded a loss of approximately HK\$1 million in 2007.

## PROSPECTS

The financial position of the Group has been improved after the change in the controlling shareholder of the Company and the completion of the debt assignments regarding the amounts due to banks and a major supplier from the Group during the year and the subsequent issuance of the convertible notes by the Company in February 2008.

The Group is looking for new business opportunities that afford better returns for our shareholders, including but not limited to the computer-related products. In conclusion, the Group will seize the golden opportunity offered by the booming market in Hong Kong and the continuous economic growth in the People's Republic of China. It is expected that a number of promising businesses may be introduced and the Directors believe the Group will turnaround and restore to grow in the future.

**Kan Che Kin, Billy Albert**

*Chairman*

Hong Kong, 21 April 2008

# Management Discussion and Analysis

## FINANCIAL REVIEW

Artel Solutions Group Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") recorded a loss of approximately HK\$1 million for the year 2007.

During the year, the Group's turnover was approximately HK\$40 million (2006: approximately HK\$36 million), representing an increase of approximately 10% compared with 2006.

Gross profit of approximately HK\$2 million was recorded for the year 2007. It represented an increase of approximately 52% compared with 2006.

## LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

The Group had total cash and bank balances of approximately HK\$5 million as at 31 December 2007 (2006: approximately HK\$3 million). Balance of bank overdrafts and short-term borrowings were approximately HK\$2 million as at 31 December 2007 (2006: approximately HK\$259 million). The gearing ratio of the Group as at 31 December 2007 calculated as a ratio of total interest-bearing loans to total assets was approximately 32% (2006: approximately 4,812%). Net liabilities were approximately HK\$326 million (2006: approximately HK\$326 million).

The Group recorded total current asset value of approximately HK\$6 million as at 31 December 2007 (2006: approximately HK\$5 million) and total current liability value of approximately HK\$333 million (2006: approximately HK\$331 million). The current ratio of the Group, calculated by dividing the total current asset value by the total current liability value, was about 0.02 as at 31 December 2007 (2006: approximately 0.01).

The Group recorded a loss in 2007 and this attributed to a decrease in shareholders' funds to a negative value of approximately HK\$326 million as at 31 December 2007 (2006: a negative value of approximately HK\$326 million).

## FOREIGN EXCHANGE EXPOSURE

Transactions of the Group were mainly denominated either in Hong Kong dollars or United States dollars. In view of the stability of the exchange rate between these currencies, the directors of the Company did not consider that the Group was significantly exposed to foreign exchange risk for the year.

## TREASURY POLICIES

The Group's major borrowings are in Hong Kong dollars and with fixed interest rates. The Group currently does not have a foreign currency and interest rate hedging policy. However, the management of the Group monitored foreign exchange and interest rate exposure from time to time and will consider hedging significant foreign currency and interest rate exposure should the need arise.

## PLEDGE OF ASSETS

The Group had no pledged assets as at 31 December 2007.

# Management Discussion and Analysis



## INVESTMENTS

The Group had not held any significant investment for the year ended 31 December 2007.

## MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES OR ASSOCIATED COMPANIES

In June 2007, the Group disposed of all interests in its associated company, Jet Fidelity Holdings Company Limited which wholly-owned two companies, namely Jet Fidelity Limited and Synergrator Logistics (HK) Limited, at an aggregate consideration of approximately HK\$500,000, resulting in a loss on disposal of associated companies of approximately HK\$374,000 for the year ended 31 December 2007. Save as disclosed, the Group had no material acquisition or disposal of subsidiaries or associated companies for the year ended 31 December 2007.

## SEGMENTAL INFORMATION

Details of segmental information for the year ended 31 December 2007 are set out in note 7 to the consolidated financial statements.

## CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 31 December 2007.

## STAFF AND REMUNERATION POLICIES

As at 31 December 2007, the Group had 7 employees (2006: 5 employees). The Group's total staff costs amounted to approximately HK\$593,000 (2006: HK\$5,601,000) for the year ended 31 December 2007.

The Group remunerated its employees mainly based on the industry practice, individual's performance and experience. Apart from the basic remuneration, discretionary bonus and share options may be granted to eligible employees by reference to the Group's performance as well as individual's performance. Other benefits include medical and retirement schemes.

## AUDIT COMMITTEE

The principal responsibilities of the audit committee of the Company (the "Audit Committee") include the revision and supervision of the Group's financial reporting process and internal control. The Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2007 and was of the opinion that the audited consolidated financial statements have been properly prepared in accordance with the statutory requirements and applicable accounting standards.

The Audit Committee currently comprises three independent non-executive directors of the Company, namely Mr. Li Siu Yui, Mr. Ip Woon Wai and Mr. Lee Kong Leong.

# Biographical Details of Directors and Senior Management



## EXECUTIVE DIRECTORS

### **Mr. Kan Che Kin, Billy Albert (“Mr. Kan”)**

Mr. Kan, aged 55, joined the Board on 10 October 2007 and is the chairman of the Company and an executive Director. He graduated from the University of East Anglia with a Bachelor of Science degree. Mr. Kan is an associate member of the Institute of Chartered Accountants in England and Wales, the Hong Kong Institute of Certified Public Accountants and Hong Kong Securities Institute. Mr. Kan had worked with Deloitte Touche Tohmatsu and KPMG and is equipped with extensive experience in accounting, taxation and corporate finance. In addition, Mr. Kan has over 20 years of experience in serving on the board of directors of financial institutions and listed companies in Hong Kong, including Security Pacific Finance Limited, Burlingame International Company Limited (now renamed Interchina Holdings Company Limited) (stock code: 202) and Greater China Holdings Limited (stock code: 431). Mr. Kan resigned as a director of Interchina Holdings Company Limited in September 2000 and of Greater China Holdings Limited in June 2004. Mrs. Kan Kung Chuen Lai is the wife of Mr. Kan, Ms. Li Shu Han, Eleanor Stella is a niece of Mr. Kan, Mr. Li Kai Yien, Arthur Albert is a nephew of Mr. Kan.

### **Mr. Yu Pen Hung (“Mr. Yu”)**

Mr. Yu, aged 45, is the founder of the Group, an executive Director and the chief executive officer of the Company. Mr. Yu is also the director of Artel International Holdings Limited, Elite City International Limited, Wisdom Best Trading Limited, Yiu Fai Trading Limited, Advance Great Limited, Ariel International Technology Co., Limited, Artel e-Solutions Limited, ASEP Solutions Limited, Artel Industries Limited, Best Hero Limited and Artel Computer International Trade (Shanghai) Co., Ltd., all being subsidiaries of the Company. Before founding the Group in 1995, Mr. Yu has been engaged in the distribution of computer components in Taiwan. Mr. Yu has been engaged in the distribution of computer components business in Taiwan, the People's Republic of China and Hong Kong for around 18 years.

### **Mrs. Kan Kung Chuen Lai (“Mrs. Kan”)**

Mrs. Kan, aged 57, joined the Board on 10 October 2007 and is an executive Director. Mrs. Kan is a director of BK Capital Limited, a private company engaged in merchandise trading, properties investment and securities trading, for over 10 years. She has extensive secretarial and administrative experience for over 10 years with an international audit firm. Mrs. Kan is the wife of Mr. Kan.

### **Ms. Li Shu Han, Eleanor Stella (“Ms. Li”)**

Ms. Li, aged 38, joined the Board on 10 October 2007 and is an executive Director. She holds a Bachelor of Science Accounting degree from University of South California. Ms. Li was admitted as a member of American Institute of Certified Public Accountants and the Hong Kong Institute of Certified Public Accountants in 1995. She has extensive experience in accounting, corporate finance and corporate restructuring. Ms. Li is currently a director of Wealth Loyal Development Limited, a private company engaged in investment holding. Ms. Li is a niece of Mr. Kan and sister of Mr. Li Kai Yien, Arthur Albert.

### **Mr. Li Kai Yien, Arthur Albert (“Mr. Li”)**

Mr. Li, aged 35, joined the Board on 10 October 2007 and is an executive Director. Mr. Li graduated from University of Southern California with a Bachelor of Science degree in 1995. Mr. Li has been a Certified Public Accountant since 2001 and has more than 9 years' experience in accounting and securities dealing. Mr. Li is currently a dealer representative of Phillip Securities (HK) Ltd. Mr. Li is a nephew of Mr. Kan and brother of Ms. Li.

# Biographical Details of Directors and Senior Management

## INDEPENDENT NON-EXECUTIVE DIRECTORS

### Mr. Li Siu Yui

Mr. Li Siu Yui, aged 38, joined the Board on 10 October 2007 and is an independent non-executive Director. He holds a Master's degree in Business Administration from University of Wales. He has over 9 years' experience in the area of investment. He was working in securities companies during the period from 1997 to 2002. He has been engaged as an investment manager in two private companies since 2002.

### Mr. Ip Woon Lai ("Mr. Ip")

Mr. Ip, aged 37, joined the Board on 10 October 2007 and is an independent non-executive Director. Mr. Ip holds a Bachelor of Commerce in Accounting and Finance degree from University of New South Wales and was admitted as a certified practicing accountant of the Australian Society of Certified Practising Accountants in 1998. He began his professional career with Arthur Andersen & Co. in Hong Kong in 1994. Mr. Ip has extensive corporate finance and investment banking experience and had worked for various international investment banks including Warburg Dillon Read and ING Bank N.V.. He had also worked in Hysan Development Company Limited where he served as deputy head of corporate finance from 2005 to 2006. In 2006, Mr. Ip joined Lotus Capital Management Limited, a private equity investment fund.

### Mr. Lee Kong Leong ("Mr. Lee")

Mr. Lee, aged 43, joined the Board on 7 December 2006 and is an independent non-executive Director. Mr. Lee holds a Bachelor of Commerce in Accounting and Information Systems degree from the University of New South Wales. He began his professional career with Coopers & Lybrand in Malaysia in 1988. From 1989 to 1995, he held senior positions with PriceWaterhouseCoopers and C.P. Pokphand Ltd. in Hong Kong. He is a certified practicing accountant with the Australian Society of Certified Public Accountants and a member of the Hong Kong Institute of Certified Public Accountants. From 2001 to 2004, he was a director of Harbin Brewery Group Limited, a company listed on the Stock Exchange from 2002 to 2004.

## SENIOR MANAGEMENT

### Ms. Seto Ying ("Ms. Seto")

Ms. Seto, aged 31, was appointed as the chief financial officer and company secretary of the Company in October 2007. Ms. Seto graduated from the Chinese University of Hong Kong in 1998 with a bachelor's degree of business administration in accountancy. She is a fellow of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. Ms. Seto has more than 9 years of working experience in the field of finance and accounting including with international accounting firm. Ms. Seto is also a director of two subsidiaries of the Company.

# Corporate Governance Report

## CODE ON CORPORATE GOVERNANCE PRACTICES

Artel Solutions Group Holdings Limited (the "Company") is committed to maintaining a high standard of corporate governance. It believes that high standards of corporate governance provide a framework and solid foundation for the Company and its subsidiaries (collectively, the "Group") to manage business risks, enhance transparency, maintain high standards of accountability and protect interests of shareholders of the Company (the "Shareholders") and other stakeholders.

The Company has complied with the code provisions as set out in the Code on Corporate Governance Practices (the "Code") under Appendix 14 to the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the year ended 31 December 2007 except the followings:

1. Under the Code Provision A.1.1, the board (the "Board") of the directors (the "Directors") of the Company should meet regularly and Board meetings should be held at least four times a year at approximately quarterly intervals. During the year, due to the financial difficulties faced by the Group and resignations of some Directors, only one full Board meeting was held during the year.
2. Under the Code Provision A.2.1, the roles of chairman and chief executive officer should be separate. Due to the fact that Mr. Yu Pen Hung ("Mr. Yu") possesses extensive experience in the information technology business which is invaluable for the Group and the Board had confidence in Mr. Yu and believed that the dual role is beneficial to the Group, the roles of chairman and chief executive officer of the Company were held by Mr. Yu until Mr. Kan Che Kin, Billy Albert ("Mr. Kan") was appointed as the chairman of the Company on 10 October 2007.
3. Under the Code Provision A.3 and pursuant to Rule 3.10 of the Listing Rules, every Board must include at least three independent non-executive Directors. After the resignations of Dr. Liu James Juh and Ms. Hu Gin Ing in March 2007, the Board only had one independent non-executive Director until the appointments of Mr. Li Siu Yui and Mr. Ip Woon Lai as independent non-executive Directors on 10 October 2007.
4. Under the Code Provisions A.4.1 and A.4.2, non-executive Director should be appointed for a specific term and each Director should be subject to retirement by rotation at least once every three years. The independent non-executive Directors are not appointed for specific terms but are subject to retirement by rotation and re-election in accordance with the Company's articles of association (the "Articles of Association") at least once every three years.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. The Company has made specific enquiry of all Directors, they all confirmed that they have fully complied with the required standards as set out in the Model Code during the year ended 31 December 2007.

# Corporate Governance Report

## BOARD OF DIRECTORS

There were changes in the composition of the Board during the year. Details are set out in the section headed "Directors attendance at Board, Remuneration Committee and Audit Committee meetings" in this Corporate Governance Report.

The Board is responsible for approving and monitoring the Group's strategies, policies and business plans, reevaluating the performance of the Group and supervising the work of management. The management is responsible for the daily operations of the Group including the preparation of annual and interim accounts for Board approval before publication, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures, and ensuring compliance in accordance with the relevant statutory requirements and rules and regulations.

For a Director to be considered independent, the Board must determine that the Director does not have any direct or indirect material relationship with the Group. The Board follows the requirements set out in the Listing Rules to determine the independence of Directors. The Company has received from each of its independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and considers all independent non-executive Directors are independent. There was only one independent non-executive Director for a period of approximately seven months during the year. Thus, the Company was not in compliance with Rule 3.10 of the Listing Rules regarding the minimum number of independent non-executive Directors during that period. The reasons have been explained in the paragraph 3 under the section headed "Code on Corporate Governance Practices" in this Corporate Governance Report. The Company has appointed sufficient number of independent non-executive Directors since October 2007.

The independent non-executive Directors are not appointed for specific terms but are subject to retirement by rotation and re-election in accordance with the Articles of Association at least once every three years.

The roles of the chairman and the chief executive officer were both held by Mr. Yu for more than nine months during the year. The reasons have been explained in the paragraph 2 under the section headed "Code on Corporate Governance Practices" in this Corporate Governance Report.

## REMUNERATION COMMITTEE

The Remuneration Committee consists of one executive Director and two independent non-executive Directors and its members during the year were:

Ms. Hu Gin Ing (resigned on 9 March 2007)

Dr. Liu James Juh (resigned on 13 March 2007)

Mr. Lee Kong Leong (resigned on 10 October 2007)

Mr. Kan Che Kin, Billy Albert (*Chairman*) (appointed on 10 October 2007)

Mr. Li Siu Yui (appointed on 10 October 2007)

Mr. Ip Woon Lai (appointed on 10 October 2007)

The Remuneration Committee is responsible for determining the specific remuneration packages of all executive Directors and senior management, including benefits-in-kind, pension rights and compensation payments, and to advise the Board on the remuneration of the non-executive Directors. In developing remuneration policies and making recommendation as to the remuneration of the Directors and senior management, the Remuneration Committee takes into account the performance of the Group as well as individual Directors and senior management.

# Corporate Governance Report

## REMUNERATION COMMITTEE (continued)

No Directors can determine their own remuneration package. Due to the resignations of Dr. Liu James Juh and Ms. Hu Gin Ing in March 2007 and the financial difficulties faced by the Group during that period, the Remuneration Committee did not hold any meeting during the first ten months of the year until one meeting was held after the appointment of new members to the Remuneration Committee in October 2007. Matters considered at the meeting included revision of the compensation payable to all Directors and senior management of the Group and recommendation to the Board on the Group's remuneration policy and structure.

Directors' emoluments comprise payments to Directors by the Group in connection with the management of the affairs of the Group and other benefits. The amounts paid to each Director for the year ended 31 December 2007 are shown in note 10 to the consolidated financial statements.

## AUDIT COMMITTEE

The Audit Committee was formed to review and supervise the financial reporting process and internal control of the Company. The Audit Committee comprises solely the three independent non-executive Directors and both Mr. Ip Woon Lai and Mr. Lee Kong Leong possess the appropriate professional qualifications, business and financial experience and skills. The Audit Committee members during the year were:

Dr. Liu James Juh (*Chairman*) (resigned on 13 March 2007)

Ms. Hu Gin Ing (resigned on 9 March 2007)

Mr. Lee Kong Leong

Mr. Li Siu Yui (*Chairman*) (appointed on 10 October 2007)

Mr. Ip Woon Lai (appointed on 10 October 2007)

Under its terms of reference, which were prepared and adopted with reference to the Code and "A Guide for the Formation of an Audit Committee" published by the Hong Kong Institute of Certified Public Accountants, the Audit Committee is required, amongst other things, to oversee the relationship with the external auditors, to review the Group's interim and annual results, to review the scope, extent and effectiveness of internal control of the Group, to review accounting policies and practices adopted by the Group, to engage independent legal or other advisers as it determine is necessary and to perform investigations.

During the year, the Audit Committee held one meeting. Matters considered at the meeting included revision of the Group's 2006 annual results, 2007 interim results, the fees for engaging the external auditors to provide the audit for 2006, the independence of the external auditors, the fees for non-audit services, the Company's financial control, internal control and risk management system.

During the year, the Company was not in compliance with Rule 3.21 of the Listing Rules regarding the minimum number of independent non-executive Directors as members of the Audit Committee for approximately seven months due to the resignations of Dr. Liu James Juh and Ms. Hu Gin Ing in March 2007 until the appointments of Mr. Li Siu Yui and Mr. Ip Woon Lai in October 2007.

# Corporate Governance Report

## DIRECTORS ATTENDANCE AT BOARD, REMUNERATION COMMITTEE AND AUDIT COMMITTEE MEETINGS

	Attendance/Number of meetings held during the year		
	Full Board meeting	Audit Committee meeting	Remuneration Committee meeting
<b>Directors</b>			
<b>Executive Directors</b>			
Mr. Kan Che Kin, Billy Albert* (appointed on 10 October 2007)	1/1	N/A	1/1
Mrs. Kan Kung Chuen Lai* (appointed on 10 October 2007)	0/1	N/A	N/A
Ms. Li Shu Han, Eleanor Stella* (appointed on 10 October 2007)	1/1	N/A	N/A
Mr. Li Kai Yien, Arthur Albert* (appointed on 10 October 2007)	1/1	N/A	N/A
Mr. Yu Pen Hung	0/1	N/A	N/A
Mr. Kwok Chung Yin (resigned on 9 March 2007)	0/1	N/A	N/A
Ms. Ma Pun Sai, Betsy (resigned on 9 March 2007)	0/1	N/A	N/A
<b>Independent Non-executive Directors</b>			
Mr. Li Siu Yui (appointed on 10 October 2007)	1/1	1/1	1/1
Mr. Ip Woon Lai (appointed on 10 October 2007)	1/1	1/1	1/1
Mr. Lee Kong Leong	1/1	1/1	0/1
Dr. Liu James Juh (resigned on 13 March 2007)	0/1	0/1	0/1
Ms. Hu Gin Ing (resigned on 9 March 2007)	0/1	0/1	0/1

Due to the financial difficulties faced by the Group and resignations of some Directors during the year, only one full Board meeting was held during the year. Regular Board meetings will be held in the coming year and the Board will convene other meetings when necessary.

\* Mrs. Kan Kung Chuen Lai is the spouse of Mr. Kan, Ms. Li Shu Han, Eleanor Stella is the niece of Mr. Kan and sister of Mr. Li Kai Yien, Arthur Albert. Mr. Li Kai Yien, Arthur Albert is the nephew of Mr. Kan.

## NOMINATION OF DIRECTORS

The Company has established a nomination committee (the "Nomination Committee") in October 2007. The Nomination Committee consists of one executive Director and two Independent non-executive Directors and its members during the year were:

Mr. Kan Che Kin, Billy Albert (*Chairman*) (appointed on 10 October 2007)  
Mr. Li Siu Yui (appointed on 10 October 2007)  
Mr. Ip Woon Lai (appointed on 10 October 2007)

The Nomination Committee has established formal procedures for the appointments of new Directors and re-nomination and re-election of Directors. In nominating candidates for appointment of Directors, the Nomination Committee will consider their necessary expertise and experience. The Nomination Committee held one meeting during the year. Matters considered at the meeting included revision of the structure, size and composition of the Board, qualifications for all Directors and senior management of the Group and independence of the independent non-executive Directors.

# Corporate Governance Report



## **AUDITORS' REMUNERATION**

The amount of audit fee for the year ended 31 December 2007 was HK\$260,000. Messrs. PKF also provided non-audit services including taxation services to the Group for the year ended 31 December 2007 for a fee of HK\$20,000. In considering the re-appointment of external auditors, the Audit Committee has taken into consideration their relationship with the Company and their independence in the provision of non-audit services. Based on the results of the review and after taking into account the opinion of the management of the Group, the Audit Committee recommended the Board to re-appoint Messrs. PKF as the external auditors of the Company for 2008, subject to approval by the Shareholders at the forthcoming Annual General Meeting to be held on 22 May 2008. There is no former partner of the existing firm auditing the accounts of the Company acting as a member of the Audit Committee within one year commencing on the date of his ceasing to be a partner of the firm. In addition, the Audit Committee is of the view that the auditors' independence is not affected by the non-audit services rendered.

## **INTERNAL CONTROL**

The Board has conducted a review of the effectiveness of the system of internal control of the Group during the year. The review has covered all material aspects of internal control including financial, operational and compliance controls and risk management functions of the Group.

## **DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

The Directors acknowledge their responsibility for preparing the audited consolidated financial statements of the Group for the year ended 31 December 2007. The Directors ensure that the audited consolidated financial statements of the Group for the year ended 31 December 2007 have been properly prepared in accordance with the statutory requirements and applicable accounting standards.

A report of the independent auditors of the Group is set out on page 20 of this annual report.

# Report of the Directors

The board (the "Board") of directors (the "Directors") of Artel Solutions Group Holdings Limited (the "Company") presents the annual report and the audited consolidated financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2007.

## PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 32 to the consolidated financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2007 are set out in the consolidated income statement on page 21 of this annual report.

The Directors do not recommend any payment of dividend for the year ended 31 December 2007.

## SHARE CAPITAL

Details of share capital of the Company are set out in note 24(a) to the consolidated financial statements.

## PLANT AND EQUIPMENT

Details of movements in plant and equipment of the Group during the year are set out in note 16 to the consolidated financial statements.

## SHARE OPTION SCHEME

Details of share option scheme adopted by the Company (the "Option Scheme") are set out in note 27 to the consolidated financial statements.

As at the date of this report, the total number of shares of the Company (the "Shares") available for issue under the Option Scheme is 127,725,000 Shares, representing approximately 5.37% of the issued share capital of the Company.

All share options (the "Share Options") granted under the Option Scheme have been exercised/cancelled/lapsed during the year. There was no outstanding Share Option to subscribe for Shares as at 31 December 2007.

# Report of the Directors

## SHARE OPTION SCHEME (continued)

A summary of the outstanding Share Options and their movements thereon during the year is as follows:–

Grantee	Date of grant	Exercise price per Share HK\$	Number of Shares to be subscribed under the Share Options				Outstanding as at 31 December 2007
			Outstanding as at 1 January 2007	Granted during the year	Exercised during the year	Lapsed/ cancelled during the year	
Former employees	9 October 2003	0.3810	45,370,000	–	(2,330,000)	(43,040,000)	–
	15 November 2004	0.2166	14,300,000	–	–	(14,300,000)	–
Principal buyers	9 October 2003	0.3810	12,980,000	–	–	(12,980,000)	–
	15 November 2004	0.2166	30,700,000	–	–	(30,700,000)	–
Suppliers of services	9 October 2003	0.3810	10,745,000	–	–	(10,745,000)	–
			114,095,000	–	(2,330,000)	(111,765,000)	–

Share Options granted by the Company in October 2003 were exercisable during the period from 10 October 2003 to 28 August 2011.

Share Options granted by the Company in November 2004 were exercisable during the period from 16 November 2004 to 28 August 2011.

The fair value of the Shares at the above dates of grant of the Share Options, being the closing price of the Shares as stated in the daily quotation sheets of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the trading day immediately preceding those days, were HK\$0.38 and HK\$0.21 respectively.

The weighted average closing price of the Shares immediately before the date on which the Share Options were exercised during the year was HK\$0.037, representing the closing price of the Shares as quoted on the Stock Exchange on the last trading day immediately prior to the suspension of trading in Shares on the Stock Exchange in September 2006. Trading in the Shares on the Stock Exchange has been resumed on 18 February 2008.

# Report of the Directors

## DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors of the Company during the year and up to the date of this report were:–

### Executive Directors:

Mr. Kan Che Kin, Billy Albert (appointed on 10 October 2007)

Mrs. Kan Kung Chuen Lai (appointed on 10 October 2007)

Ms. Li Shu Han, Eleanor Stella (appointed on 10 October 2007)

Mr. Li Kai Yien, Arthur Albert (appointed on 10 October 2007)

Mr. Yu Pen Hung

Mr. Kwok Chung Yin (resigned on 9 March 2007)

Ms. Ma Pun Sai, Betsy (resigned on 9 March 2007)

### Independent Non-Executive Directors:

Mr. Li Siu Yui (appointed on 10 October 2007)

Mr. Ip Woon Lai (appointed on 10 October 2007)

Mr. Lee Kong Leong

Ms. Hu Gin Ing (resigned on 9 March 2007)

Dr. Liu James Juh (resigned on 13 March 2007)

In accordance with the provisions of the Company's articles of association (the "Articles of Association"), Ms. Li Shu Han, Eleanor Stella, Mr. Li Kai Yien, Arthur Albert and Mr. Li Siu Yui will retire at the forthcoming annual general meeting of the Company (the "AGM") and, being eligible, offer themselves for re-election.

Mr. Yu Pen Hung has entered into a service agreement with the Company under which he is to act as an executive Director for an initial term of two years commencing from 1 September 2001 and renewable automatically for successive terms of one year each commencing from the day next after the expiry of the then current term unless terminated by not less than three months' notice in writing served by either party expiring at the end of the initial term or at any time thereafter. He may be entitled to a management bonus in respect of each financial year of the Company in an amount to be determined by the Board in its absolute discretion provided that the total amount of bonuses payable to all the executive Directors for the time being shall not exceed five percent of the combined or consolidated audited net profit of the Group (after taxation and minority interests and payment of such bonuses but before extraordinary items) for that financial year of the Company. Save as disclosed, the Company has not entered into any service agreement with other Directors.

Each of the independent non-executive Directors was appointed in accordance with the Articles of Association.

Save as disclosed above, none of the Directors being proposed for re-election at the forthcoming AGM has entered into a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

# Report of the Directors



## CONFIRMATIONS OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the three independent non-executive Directors an annual confirmation of his independence as required under Rule 3.13 of the Rules (the "Listing Rules") Governing the Listing of Securities on the Stock Exchange and considers all the independent non-executive Directors are independent.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2007, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have taken under such provisions of the SFO) or as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:—

### Long positions

Name of Director	Name of company in which interests were held	Nature of interests	Number of shares held	Approximate percentage of shareholding
Mr. Kan Che Kin, Billy Albert ("Mr. Kan")	The Company	Beneficial owner	1,217,558,000 Shares	75.99%
Mrs. Kan Kung Chuen Lai	The Company	Interest of spouse	1,217,558,000 Shares	75.99%
Mr. Yu Pen Hung	Artel Industries Limited	Beneficial owner	8,000,000 non-voting deferred shares of HK\$1 each	100%

Save as disclosed above, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or otherwise to be notified to the Company and the Stock Exchange pursuant to the Model Code as at 31 December 2007.

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the Directors nor the chief executives of the Company, nor any of their spouses or children under the age of 18, had any right to subscribe for securities of the Company or had exercised any such right.

# Report of the Directors

## DIRECTORS' INTERESTS IN CONTRACT OF SIGNIFICANCE

No contract of significance to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisting at the end of the year or at any time during the year, nor had there been any contract of significance entered into between the Group and a controlling shareholder of the Company during the year.

## REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors and the five highest paid individuals of the Group are set out in note 10 to the consolidated financial statements.

## SUBSTANTIAL SHAREHOLDERS

As at 31 December 2007, so far as was known to the Directors and chief executives of the Company, no person (other than a Director or chief executive of the Company) had any interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

## DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders of the Company as at 31 December 2007 and 2006 were as follows:–

	<b>2007</b> <b>HK\$'000</b>	2006 HK\$'000
Share premium	<b>123,222</b>	122,357
Contributed surplus	<b>112,369</b>	112,369
Accumulated losses	<b>(255,251)</b>	(253,924)
Total	<b>(19,660)</b>	(19,198)

Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium and contributed surplus of the Company are available for paying distributions or dividends to shareholders of the Company subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distribution of dividend, the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Articles of Association, dividends shall be distributed out of the retained profits or other reserves, including the share premium and contributed surplus account, of the Company.

# Report of the Directors

## **EMOLUMENT POLICY**

The emolument policy of the employees of the Group is set up by the remuneration committee of the Company (the "Remuneration Committee") on the basis of their merit, qualifications and competence.

The emoluments of the Directors are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted the Option Scheme as an incentive to Directors and eligible employees, details of the Option Scheme are set out in note 27 to the consolidated financial statements.

## **MAJOR CUSTOMERS AND SUPPLIERS**

The five largest suppliers of the Group in aggregate accounted for about 94% of its purchases for the year. Purchases from the largest supplier accounted for about 35% of its purchases.

The aggregate turnover attributable to the Group's five largest customers taken together accounted for about 98% of the Group's total turnover for the year. Sales to the largest customer accounted for about 51% of its turnover.

None of the Directors, their respective associates or any shareholders of the Company (which to the knowledge of the Directors own more than 5% of the Company's issued share capital) had any interest in any of the five largest suppliers or customers of the Group for the year ended 31 December 2007.

## **PRE-EMPTIVE RIGHTS**

There is no provision for pre-emptive rights under the Articles of Association or the laws of the Cayman Islands, which would oblige the Company to offer new Shares on a pro-rata basis to its existing shareholders.

## **RETIREMENT BENEFITS SCHEME**

Details of the retirement benefits scheme maintained by the Group are set out in note 28 to the consolidated financial statements.

## **DIRECTORS' INTERESTS IN COMPETING BUSINESS**

None of the Directors was interested in any business apart from the Group's business, which competed or was likely to compete either directly or indirectly with business of the Group during the year.

# Report of the Directors

## SUFFICIENCY OF PUBLIC FLOAT

The unconditional mandatory cash offers were made by CIMB-GK Securities (HK) Limited on behalf of Mr. Kan to acquire all issued Shares (other than those already owned by Mr. Kan or parties acting in concert with him) and to cancel all outstanding Share Options (the "Offers"), details of which are set out in the composite document issued by the Company and Mr. Kan dated 10 October 2007. As at 10 October 2007, Mr. Kan was interested in 75% of the then issued share capital of the Company.

To the best knowledge of the Directors and based on information publicly available to the Company, (i) there was insufficient public float as required by the Listing Rules since 16 October 2007 upon Mr. Kan's acquisition of certain Shares during the offer period of the Offers. Mr. Kan was interested in approximately 75.99% of the then issued share capital of the Company as at 31 October 2007, the closing date of the Offers; and (ii) there was sufficient public float as required by the Listing Rules since 13 February 2008 upon the completion of the placing of 16,000,000 Shares held by Mr. Kan to public shareholders. The Company maintained sufficient public float as required by the Listing Rules as at the latest practicable date prior to the issue of this report.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2007, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 31 to the consolidated financial statements.

## AUDITORS

Messrs. Deloitte Touche Tohmatsu resigned on 22 December 2006 and Messrs. PKF were appointed as auditors of the Company on 15 October 2007.

Messrs. PKF retired and were re-appointed as auditors of the Company at the annual general meeting of the Company held on 20 December 2007.

PKF will retire and a resolution to re-appoint Messrs. PKF as auditors of the Company will be proposed at the forthcoming AGM.

On behalf of the Board

**Kan Che Kin, Billy Albert**

*Chairman*

Hong Kong

21 April 2008

# Independent Auditor's Report



**To the Members of  
Artel Solutions Group Holdings Limited**  
*(Incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of Artel Solutions Group Holdings Limited set out on pages 21 to 49 which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## **DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS**

The directors are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## **AUDITOR'S RESPONSIBILITY**

It is our responsibility to form an independent opinion, based on our audit, on these consolidated financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **OPINION**

In our opinion, the consolidated financial statements give a true and fair view of the state of the Group's affairs as at 31 December 2007 and of its loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**PKF**  
*Certified Public Accountants*  
Hong Kong  
21 April 2008

# Consolidated Income Statement

For the year ended 31 December 2007

	Notes	2007 HK\$'000	2006 HK\$'000
Turnover	6	40,067	36,334
Cost of sales	8	(37,923)	(34,924)
Gross profit		2,144	1,410
Other operating income	9	467	3,278
Distribution costs		–	(94)
Administrative expenses		(3,028)	(23,861)
Allowance for doubtful debts		–	(103,400)
Allowance for rebates receivables		–	(6,109)
Write-down of inventories		–	(46,932)
Finance costs	11	(46)	(472)
Share of results of associates		(245)	(547)
Loss on disposal of interests in associates		(374)	–
Loss on disposal of interest in a subsidiary		(2)	–
Impairment loss recognised in respect of plant and equipment		–	(5,698)
Loss before taxation	12	(1,084)	(182,425)
Taxation	13	(187)	1,300
Loss for the year attributable to equity holders of the Company		(1,271)	(181,125)
Dividend	14	–	–
Loss per share (HK cents) –Basic	15	(0.08)	(11.3)

# Consolidated Balance Sheet

At 31 December 2007

	Notes	2007 HK\$'000	2006 HK\$'000
Non-current assets			
Plant and equipment	16	13	265
Interests in associates	17	–	245
		<b>13</b>	510
Current assets			
Trade receivables, prepayments, deposits and other receivables	18	1,579	1,326
Amount due from an associate		–	874
Bank balances and cash	19	4,845	2,680
		<b>6,424</b>	4,880
Current liabilities			
Trade payables, accrued charges and other payables	20	12,140	71,536
Amounts due to directors	21	318,184	198
Bank overdrafts and borrowings	22	2,031	259,378
Provision for taxation		187	–
		<b>332,542</b>	331,112
Net current liabilities		<b>(326,118)</b>	(326,232)
Net liabilities		<b>(326,105)</b>	(325,722)
Capital and reserves			
Share capital	24(a)	16,023	16,000
Reserves		(342,128)	(341,722)
Capital deficiencies		<b>(326,105)</b>	(325,722)

The consolidated financial statements set out on pages 21 to 49 were approved and authorised for issue by the Board of Directors on 21 April 2008 and are signed on its behalf by:–

**Kan Che Kin, Billy Albert**  
Director

**Yu Pen Hung**  
Director

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	<b>Share capital</b> HK\$'000	<b>Share Premium</b> HK\$'000	<b>Special reserve</b> HK\$'000	<b>Accumulated losses</b> HK\$'000	<b>Total</b> HK\$'000
At 1 January 2006	16,000	122,357	9,370	(292,324)	(144,597)
Loss for the year	–	–	–	(181,125)	(181,125)
At 1 January 2007	16,000	122,357	9,370	(473,449)	(325,722)
Exercise of share options	23	865	–	–	888
Loss for the year	–	–	–	(1,271)	(1,271)
<b>At 31 December 2007</b>	<b>16,023</b>	<b>123,222</b>	<b>9,370</b>	<b>(474,720)</b>	<b>(326,105)</b>

The special reserve of the Group represents the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition under the group reorganisation.

# Consolidated Cash Flow Statement

For the year ended 31 December 2007



	2007 HK\$'000	2006 HK\$'000
<b>OPERATING ACTIVITIES</b>		
Loss before taxation	<b>(1,084)</b>	(182,425)
Adjustments for:–		
Share of results of associates	<b>245</b>	547
Interest income on bank deposits	<b>(20)</b>	(159)
Change in fair value of derivative financial instruments	–	(1,057)
Depreciation	<b>1</b>	2,551
(Gain)/loss on disposal of plant and equipment	<b>(325)</b>	14
Loss on disposal of interests in associates	<b>374</b>	–
Loss on disposal of interest in a subsidiary	<b>2</b>	–
Allowance for doubtful debts	–	103,400
Allowance for rebates receivables	–	6,109
Write-down of inventories	–	46,932
Sales deposit and interest payable waived	–	(2,482)
Impairment loss recognised in respect of interest in a jointly controlled entity	–	195
Impairment loss recognised in respect of plant and equipment	–	5,698
Operating cash flows before movements in working capital	<b>(807)</b>	(20,677)
Decrease in inventories	–	7,936
Increase in trade receivables, prepayments, deposits and other receivables	<b>(255)</b>	(1,265)
Decrease in trade payables, accrued charges and other payables	<b>(372)</b>	(64,451)
Increase in amount due to a director	–	3
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(1,434)</b>	(78,454)
<b>INVESTING ACTIVITIES</b>		
Proceeds on disposal of plant and equipment	<b>590</b>	–
Proceeds on disposal of interests in associates	<b>500</b>	–
Interest received	<b>20</b>	159
Purchase of plant and equipment	<b>(14)</b>	(9)
Release of bank deposits pledged	–	43,797
<b>NET CASH FROM INVESTING ACTIVITIES</b>	<b>1,096</b>	43,947
<b>FINANCING ACTIVITIES</b>		
Increase in amounts due to directors	<b>53,293</b>	–
Proceeds from issue of shares	<b>888</b>	–
Repayment of other loan	<b>(1,474)</b>	–
New bank borrowings raised	–	10,810
Proceeds of other loan	–	3,505
Repayment of bank borrowings	–	(13,232)
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<b>52,707</b>	1,083
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>52,369</b>	(33,424)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	<b>(47,524)</b>	(14,100)
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	<b>4,845</b>	(47,524)
<b>ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Bank balances and cash	<b>4,845</b>	2,680
Bank overdrafts	–	(50,204)
	<b>4,845</b>	(47,524)

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2007



## 1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 5 December 2000 as an exempted company with limited liability under the Companies Law (2001 Second Revision) Chapter 22 of the Cayman Islands. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information of the annual report.

The shares of the Company have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 24 October 2001.

The consolidated financial statements are presented in Hong Kong dollars which is the functional currency of the Company.

The Company is an investment holding company and the principal activities of the Group are the trading of computer components and the provision of e-enabling solutions and technical services.

## 2. BASIS OF PREPARATION

(a) The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (hereinafter collectively referred to as "Hong Kong Financial Reporting Standards").

In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance.

### (b) Initial application of Hong Kong Financial Reporting Standards

In the current year, the Group initially applied the following Hong Kong Financial Reporting Standards:-

HKAS 1	Presentation of Financial Statements, Paragraphs 124A to 124C
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

The initial application of these Hong Kong Financial Reporting Standards does not necessitate material changes in the Group's accounting policies or retrospective adjustments of the comparatives presented.

### (c) Hong Kong Financial Reporting Standards in issue but not yet effective

The following Hong Kong Financial Reporting Standards in issue as at 31 December 2007 have not been applied in the preparation of the Group's consolidated financial statements for the year ended 31 December 2007 since they were not yet effective for the annual period beginning on 1 January 2007:-

HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKFRS 8	Operating Segments
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 13	Customer Loyalty Programmes
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2007



## 2. BASIS OF PREPARATION (continued)

### (c) Hong Kong Financial Reporting Standards in issue but not yet effective (continued)

The Group is required to initially apply HK(IFRIC)-Int 11, HK(IFRIC)-Int 12 and HK(IFRIC)-Int 14 in its annual consolidated financial statements beginning on 1 January 2008, and to initially apply HKAS 1 (Revised), HKAS 23 (Revised), HKFRS 8 and HK(IFRIC)-Int 13 in its annual consolidated financial statements beginning on 1 January 2009.

The directors anticipate that the application of these Hong Kong Financial Reporting Standards will have no material impact on the results and the financial position of the Group.

### (d) Going concern basis

In preparing the consolidated financial statements, the Directors have given careful consideration to the future liquidity of the Group in light of its net liabilities of approximately HK\$326 million as at 31 December 2007.

As detailed in note 31 to the consolidated financial statements, on 15 January 2008, the Company and Mr. Kan Che Kin, Billy Albert ("Mr. Kan") entered into a subscription agreement (the "Subscription Agreement") pursuant to which the Company had conditionally agreed to issue and Mr. Kan had conditionally agreed to subscribe for the convertible notes (the "Convertible Notes") of the Company in an aggregate principal amount of HK\$358 million. Immediately upon completion of the Subscription Agreement on 13 February 2008, the Group became almost debt-free, save for the current liabilities such as trade payables, other borrowings and other payables. In addition, given the irredeemable and compulsory conversion nature of the Convertible Notes, the Convertible Notes were classified as "equity" instead of "liabilities". Accordingly, the Group had net assets immediately after completion of the Subscription Agreement.

In view of the foregoing, the Directors are satisfied with the financial position of the Group and consider the preparation of the consolidated financial statements on a going concern basis as appropriate.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### Measurement basis

The consolidated financial statements are prepared using the historical cost basis.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2007



## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Interests in associates

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Goodwill arising on the acquisition of associates is included within the carrying amount of the interests in associates. Where a group entity transacts with an associate of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the relevant associate, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amount receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

Service income is recognised when services are provided.

Interest income is recognised as it accrued using the effective interest method.

### Leases

Rentals payable under operating leases are charged to the consolidated income statement on a straight-line basis over the terms of the relevant leases.

### Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation is provided to write off the cost of items of plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method at the rate of 20% per annum.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

### Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2007



## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are translated at the rates prevailing on the balance sheet date.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss for the year in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, in which case, the exchange rates prevailing at the dates of the transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

### Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period when they are incurred.

### Financial instruments

Financial assets and liabilities are recognised on the consolidated balance sheet when the Group becomes a party to the contractual provisions of the instrument. Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

### Trade receivables and other receivables/amount due from an associate

Trade receivables and other receivables/amount due from an associate are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

### Cash and cash equivalents

Cash and cash equivalents comprise bank balances, cash on hand and bank overdrafts.

### Bank borrowings and other loans

Bank borrowings and other loans are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs (see above).

### Trade payables and other payables/amounts due to directors

Trade payables and other payables/amounts due to directors are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2007



## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

### Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

### Derivative financial instruments

Derivative financial instruments are initially measured at fair value on the contract date, and are measured to fair values at subsequent reporting dates. Changes in the fair value of derivative financial instruments are recognised in profit or loss as they arise.

### Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expired). The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2007



## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### **Taxation** (continued)

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

### **Employee benefits**

#### *(i) Retirement benefits schemes*

The retirement benefits costs charged to the consolidated income statement represent the contributions payable in respect of the current year to the Group's defined contribution retirement benefits schemes for its employees.

#### *(ii) Share-based payments*

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in share option reserve within equity. The fair value is measured at grant date, taking into account the terms and conditions upon which the share options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the share options will vest. During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share option reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the share option reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the share option reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

#### *(iii) Termination benefits*

Termination benefits are recognised when and only when the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic probability of withdrawal.

### **Segment reporting**

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment.

Segment assets consist primarily of plant and equipment and trade receivables. Segment liabilities comprise operating liabilities and mainly exclude items such as income tax payable and deferred tax liabilities.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2007



## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Segment reporting (continued)

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year.

Unallocated items comprise financial and corporate assets, bank borrowings, other loans, and corporate and financing expenses.

### Related parties

An individual is related to the Group if the individual (i) has, directly or indirectly, control or joint control or significant influence over the Group, or (ii) is a member of the key management personnel of the Group, or (iii) is a close member of the family of the individuals in (i) or (ii).

An entity is related to the Group if the entity (i) has, directly or indirectly, control or joint control or significant influence over the Group, or (ii) is controlled by or under common control with the Group, or (iii) is an associate or jointly controlled entity of the Group, or (iv) is controlled, jointly-controlled or significantly influenced by an individual related to the Group.

## 4. 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.

### Allowance for trade receivables

The management regularly reviews the recoverability and aging of the trade receivables. Allowance for trade receivables is made based on the evaluation of collectability and aging analysis of accounts and on management's judgment by reference to the estimation of the future cash flow discounted at an effective interest rate to calculate the present value.

A considerable amount of judgment is required in assessing the ultimate realisation of these trade receivables, including the current creditworthiness of each customer. If the financial conditions of the Group's customers are to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. As at 31 December 2007, the carrying amount of trade receivables is approximately HK\$411,000 (net of allowance for doubtful debts of approximately HK\$506,884,000).

## 5. FINANCIAL RISK MANAGEMENT

### (a) Nature and extent of financial instrument risks

#### Credit risk

Credit risk is the risk that a party to a financial instrument will cause a financial loss for the Group by failing to discharge an obligation. The Group manages credit risk by setting up credit control policy and periodic evaluation of credit performance of other parties, measured by the extent of past due or default and their financial healthiness.

In respect of trade receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and may take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Normally, the Group does not obtain collateral from customers.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

## 5. FINANCIAL RISK MANAGEMENT (continued)

### (a) Nature and extent of financial instrument risks (continued)

#### Credit risk (continued)

As at 31 December 2007, the Group's maximum exposure to credit risk arises from the carrying amounts of the respective recognised financial assets as stated in the consolidated balance sheet.

The Group has no significant concentration of credit risk on the trade and other receivables. It has policies in place to ensure that sales are made to customers with an appropriate credit history.

The credit risk on bank balances is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

#### Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities. The Group manages liquidity risk by monitoring its liquidity position through periodic preparation of cash flows and cash balances forecasts and periodic evaluation of the ability of the Group to meet its financial obligations, measured by the debt-to-equity capital ratio as mentioned in note 24(b) to the consolidated financial statements.

In light of the Group's net liabilities as at 31 December 2007, the management has implemented several measures in order to improve the Group's working capital position and net financial position. Details of these measures are disclosed in note 2(d) to the consolidated financial statements.

The Group's amounts of contractual undiscounted obligations as at 31 December 2007 are as follows:-

	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Trade payables, accrued charges and other payables	<b>12,140</b>	71,536
Amounts due to directors	<b>318,184</b>	198
Bank overdrafts and borrowings	<b>2,031</b>	259,378
	<b>332,355</b>	331,112
Due for payment within one year or on demand	<b>332,355</b>	331,112

#### Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group considers hedging significant currency risk should the need arise.

The Group has minimal exposure to foreign currency risk as most of its business transactions, and recognised assets and liabilities are principally denominated in Hong Kong dollars and United States dollars ("USD"). Pursuant to Hong Kong's Linked Exchange Rate System under which Hong Kong dollars is pegged to the USD, the Group considers there are no significant foreign exchange risks with respect to the USD.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2007



## 5. FINANCIAL RISK MANAGEMENT (continued)

### (a) Nature and extent of financial instrument risks (continued)

#### Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group manages interest rate risk, when it is considered significant, by entering into appropriate swap contracts.

As at 31 December 2007, other loans of approximately HK\$2,031,000 (2006: HK\$3,505,000) bearing fixed interests were exposed to fair value interest rate risk.

The Group's exposure to interest rate risk arises from its bank balances. These bank balances bear interests at rates varied with the then prevailing market condition.

If the interest rate as at 31 December 2007 had been 10 basis point lower or higher with all other variables held constant, there would be no significant change to the consolidated loss for the year.

#### Market price risk

Market price risk is the risk that the fair value or future cash flows of a financial instrument traded in the market will fluctuate because of changes in market prices.

The Group does not have any financial instrument traded in the market and is not exposed to market price risk.

### (b) Fair value

The fair values of financial assets and financial liabilities are determined based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

## 6. TURNOVER

Turnover for the year represents the aggregate of the net amounts received and receivable for goods sold to outside customers less trade discounts and returns and for services provided to outside customers. Turnover of preceding year included the net amounts received and receivable for goods sold to outside customers.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2007



## 7. BUSINESS AND GEOGRAPHICAL SEGMENTS

### Business segments

The Group operated in the distribution of computer components and information technology products and provision of integrated e-enabling solutions during the year. It was engaged in the distribution of computer components and information technology products for the year ended 31 December 2006. These businesses are the basis on which the Group reports its primary segment information.

Segment information about the aforementioned businesses is set out as follows:–

	Distribution of computer components and information technology products		Provision of integrated e-enabling solutions		Consolidated	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
<b>TURNOVER</b>						
External sales	<b>39,244</b>	36,334	<b>823</b>	–	<b>40,067</b>	36,334
<b>RESULT</b>						
Segment result	<b>463</b>	(180,303)	<b>72</b>	(2,459)	<b>535</b>	(182,762)
Other operating income					<b>467</b>	3,278
Unallocated corporate expenses					<b>(1,419)</b>	(1,922)
Finance costs					<b>(46)</b>	(472)
Share of results of associates					<b>(245)</b>	(547)
Loss on disposal of interests in associates					<b>(374)</b>	–
Loss on disposal of interest in a subsidiary					<b>(2)</b>	–
Loss before taxation					<b>(1,084)</b>	(182,425)
Taxation					<b>(187)</b>	1,300
Loss for the year					<b>(1,271)</b>	(181,125)

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

## 7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

### Business segments (continued)

	Distribution of computer components and information technology products		Provision of integrated e-enabling solutions		Consolidated	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
<b>Assets</b>						
Segment assets	13	265	411	–	424	265
Unallocated corporate assets					6,013	5,125
Consolidated total assets					6,437	5,390
<b>Liabilities</b>						
Segment liabilities	6,474	65,498	329	–	6,803	65,498
Unallocated corporate liabilities					325,739	265,614
Consolidated total liabilities					332,542	331,112
<b>Other information</b>						
Allowance for doubtful debts	–	102,249	–	1,151	–	103,400
Allowance for rebates receivables	–	4,801	–	1,308	–	6,109
Impairment loss recognised in respect of plant and equipment	–	5,698	–	–	–	5,698
Write-down of inventories	–	46,932	–	–	–	46,932
Capital additions	14	9	–	–	14	9
Depreciation	1	2,551	–	–	1	2,551

### Geographical segments

The Group's operations are substantially located in Hong Kong and the People's Republic of China (the "PRC") throughout current and prior years. An analysis of the Group's segment information by geographical segments is set out as follows:–

	2007 HK\$'000	2006 HK\$'000
Turnover by geographical market:–		
PRC	9,806	30,969
Hong Kong	30,261	5,365
	40,067	36,334
Carrying amount of segment assets analysed by location of assets:–		
PRC	379	379
Macau	872	1,060
Hong Kong	5,186	3,951
	6,437	5,390
Additions to plant and equipment analysed by location of assets:–		
Hong Kong	14	9

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2007



## 8. COST OF SALES

	2007 HK\$'000	2006 HK\$'000
Cost of sales comprises:–		
Cost of goods sold	37,923	34,956
Rebates	–	(32)
	<b>37,923</b>	<b>34,924</b>

## 9. OTHER OPERATING INCOME

	2007 HK\$'000	2006 HK\$'000
Gain on disposal of plant and equipment	325	–
Interest income on bank deposits	20	159
Sales deposit and interest payable waived	–	2,482
Sundry income	122	637
	<b>467</b>	<b>3,278</b>

## 10. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

### (i) Directors' remuneration

The emoluments paid or payable to each of the twelve (2006: nine) directors were as follows:–

For the year ended 31 December 2007

	Fees HK\$'000	Salaries and other benefits HK\$'000	Other emoluments Pension costs HK\$'000	Total emoluments HK\$'000
Executive directors:–				
Kan Che Kin, Billy Albert	–	2	–	2
Yu Pen Hung	–	2	–	2
Kan Kung Chuen Lai	–	2	–	2
Li Shu Han, Eleanor Stella	–	2	–	2
Li Kai Yien, Arthur Albert	–	2	–	2
Kwok Chung Yin (Note 10(i)(a))	–	30	–	30
Ma Pun Sai, Betsy (Note 10(i)(a))	–	45	–	45
Independent non-executive directors:–				
Li Siu Yui	13	–	–	13
Ip Woon Lai	13	–	–	13
Lee Kong Leong	13	–	–	13
Hu Gin Ing (Note 10(i)(a))	45	–	–	45
Liu James Juh (Note 10(i)(a))	49	–	–	49
	<b>133</b>	<b>85</b>	<b>–</b>	<b>218</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

## 10. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

### (i) Directors' remuneration (continued)

For the year ended 31 December 2006

	Fees HK\$'000	Salaries and other benefits HK\$'000	Other emoluments Pension costs HK\$'000	Total emoluments HK\$'000
Executive directors:-				
Yu Pen Hung ( <i>Note 10(i)(b)</i> )	–	468	5	473
Lee Ran, Elizabeth	–	102	–	102
Kwok Chung Yin	–	10	–	10
Ma Pun Sai, Betsy	–	15	–	15
Chen Chih Ming	–	35	–	35
Independent non-executive directors:-				
Lee Kong Leong	–	–	–	–
Yim Hing Wah	86	–	–	86
Hu Gin Ing	240	–	–	240
Liu James Juh	240	–	–	240
	566	630	5	1,201

Note:-

- (a) Mr. Kwok Chung Yin and Ms. Ma Pun Sai, Betsy resigned as the Company's executive directors on 9 March 2007. Ms. Hu Gin Ing and Dr. Liu James Juh resigned as the Company's independent non-executive directors on 9 March 2007 and 13 March 2007 respectively. The remuneration paid to these directors represented the amount of remuneration paid to them for their services for the period from 1 January 2007 to their respective dates of resignation.
- (b) The director's salaries and other benefits include the operating lease rentals amounting to HK\$110,000 in respect of rented premises provided to the director under the service agreement. The amounts are included in the operating lease rentals in respect of rented premises disclosed in note 12 to the consolidated financial statements.

### (ii) Employees' emoluments

During the year, the five highest paid individuals included three directors (2006: three directors), details of whose emoluments are set out above in paragraph (i). The emoluments of the remaining two (2006: two) highest paid individuals are as follows:-

	2007 HK\$'000	2006 HK\$'000
Salaries and other benefits	363	716
Retirement benefit scheme contributions	7	5
	370	721

Remuneration of each of the employees for both years falls within the band of less than HK\$1,000,000.

During the year, there was no arrangement under which a director waived or agreed to waive any emoluments and no remuneration was paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

## 11. FINANCE COSTS

Finance costs comprise bank charges only for both the current and prior years.

## 12. LOSS BEFORE TAXATION

	2007 HK\$'000	2006 HK\$'000
Loss before taxation has been arrived at after charging/(crediting):–		
Auditors' remuneration	320	320
Depreciation of plant and equipment	1	2,551
Change in fair value of derivative financial instruments	–	(1,057)
Impairment loss recognised in respect of interest in a jointly controlled entity	–	195
(Gain)/loss on disposal of plant and equipment	(325)	14
Operating lease rentals in respect of rented premises	285	1,396
Staff costs:–		
Directors' remuneration		
– fees	133	566
– other emoluments	85	630
– retirement benefits scheme contributions	–	5
	218	1,201
Staff costs excluding directors' remuneration	363	4,365
Retirement benefits scheme contributions, excluding amounts included in directors' remuneration	12	35
	375	4,400
<b>Total staff costs</b>	<b>593</b>	<b>5,601</b>

## 13. TAXATION

	2007 HK\$'000	2006 HK\$'000
The taxation charge/(credit) comprises:–		
Current tax		
– Hong Kong Profits Tax	187	–
– Deferred tax (Note 23)	–	(1,300)
	187	(1,300)

Hong Kong Profits Tax has been provided for at the rate of 17.5% on the estimated assessable profits of certain subsidiaries operating in Hong Kong for the year.

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements in preceding year as the Group did not have any assessable profit.

No provision for taxation has been made in respect of the Company's subsidiaries operating in other jurisdictions as they did not have assessable profits for both years.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

## 13. TAXATION (continued)

The taxation charge/(credit) for the year can be reconciled to the loss before taxation per the consolidated income statement as follows:–

	2007 HK\$'000	2006 HK\$'000
Loss before taxation	<b>(1,084)</b>	(182,425)
Tax at Hong Kong Profits Tax rate of 17.5% (2006: 17.5%)	<b>(190)</b>	(31,924)
Tax effect of non-deductible expenses	<b>468</b>	10,463
Tax effect of non-taxable income	<b>(99)</b>	(3)
Tax effect of tax losses not recognised	<b>32</b>	20,065
Tax effect of deductible temporary differences not recognised	<b>(24)</b>	84
Others	–	15
Taxation charge/(credit) for the year	<b>187</b>	(1,300)

## 14. DIVIDEND

No dividend was paid or proposed during the year 2007, nor has any dividend been proposed since the balance sheet date.

## 15. LOSS PER SHARE

The calculation of the basic and diluted loss per share of the Company (the "Share") attributable to equity shareholders of the Company for the year is based on the loss for the year of HK\$1,271,000 (2006: HK\$181,125,000) and the weighted average number of 1,600,383,014 (2006: 1,600,000,000) Shares in issue.

The computation of diluted loss per Share in both years has not assumed the exercise of the then Company's outstanding share options as the exercise price of each Share is higher than the average market price per Share before the suspension of trading in Shares on the Stock Exchange in September 2006.

The aforementioned share options were exercised/cancelled/lapsed during the year and the Company had no dilutive potential Shares as at 31 December 2007.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

## 16. PLANT AND EQUIPMENT

	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
COST			
At 1 January 2006	13,496	2,311	15,807
Additions	9	–	9
Disposals	(149)	–	(149)
At 1 January 2007	13,356	2,311	15,667
Additions	14	–	14
Disposals	–	(2,311)	(2,311)
<b>At 31 December 2007</b>	<b>13,370</b>	<b>–</b>	<b>13,370</b>
DEPRECIATION			
At 1 January 2006	5,397	1,891	7,288
Provided for the year	2,396	155	2,551
Eliminated on disposals	(135)	–	(135)
At 1 January 2007	7,658	2,046	9,704
Provided for the year	1	–	1
Eliminated on disposals	–	(2,046)	(2,046)
<b>At 31 December 2007</b>	<b>7,659</b>	<b>–</b>	<b>7,659</b>
IMPAIRMENT			
<b>At 1 January 2006, 1 January 2007 and at 31 December 2007</b>	<b>5,698</b>	<b>–</b>	<b>5,698</b>
CARRYING VALUES			
<b>At 31 December 2007</b>	<b>13</b>	<b>–</b>	<b>13</b>
At 31 December 2006	–	265	265

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

## 17. INTERESTS IN ASSOCIATES

	2007 HK\$'000	2006 HK\$'000
Cost of unlisted investment in associates	–	879
Share of post-acquisition loss, net of dividend received	–	(634)
	–	245

In June 2007, the Group disposed of its interests in associates, namely Jet Fidelity Holdings Company Limited, Jet Fidelity Limited and Synergrator Logistics (HK) Limited, for a cash consideration of approximately HK\$500,000, resulting in a loss on disposal of approximately HK\$374,000.

## 18. TRADE RECEIVABLES, PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2007 HK\$'000	2006 HK\$'000
Trade receivables	507,295	506,884
Less: Allowance for doubtful debts	(506,884)	(506,884)
	411	–
Prepayments, deposits and other receivables	1,168	1,326
	1,579	1,326

The credit terms of the Group range from 30 to 180 days. The aged analysis of trade receivables (based on invoice date and before allowance for doubtful debts) as at 31 December 2007 and 2006 is as follows:–

	2007 HK\$'000	2006 HK\$'000
Aged:		
0 to 30 days (not past due nor impaired)	411	–
Over 180 days (past due and fully impaired)	506,884	506,884
Total trade receivables	507,295	506,884

Movements of the allowance for doubtful debts during the current and prior years were as follows:–

	2007 HK\$'000	2006 HK\$'000
At 1 January	506,884	403,484
Provided for the year	–	103,400
At 31 December	506,884	506,884

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

## 19. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with original maturity of three months or less at prevailing interest rates.

## 20. TRADE PAYABLES, ACCRUED CHARGES AND OTHER PAYABLES

The aged analysis of trade payables as at 31 December 2007 and 2006 is as follows:–

	2007 HK\$'000	2006 HK\$'000
Aged:–		
0 to 30 days	329	–
Over 1 year	6,474	65,498
Total trade payables	6,803	65,498
Accrued charges and other payables	5,337	6,038
	12,140	71,536

On 11 July 2006, one of the major suppliers, Intel Semiconductor Limited (“Intel”), served a statutory demand against the Group to recover the amount due from the Group. In September 2007, the amount due to Intel was assigned to Mr. Kan. Details of the debt assignment are disclosed in note 21(a) to the consolidated financial statements.

The trade payables are primarily denominated in Hong Kong dollars and USD.

## 21. AMOUNTS DUE TO DIRECTORS

(a) Included in the amounts is a balance of HK\$314,897,000 due to Mr. Kan arising from the assignment of the Group’s indebtedness. In August 2007, Mr. Kan acquired the bank overdrafts and borrowings due to the Group’s bank creditors, which aggregate balance was approximately HK\$256 million as at 12 December 2005, for a consideration of HK\$30,300,000 by way of assignment. In September 2007, Mr. Kan acquired the amount due to Intel, which balance was approximately US\$7,567,000 (equivalent to approximately HK\$59 million) as at 11 July 2006, for a consideration of US\$840,000 by way of assignment.

Following the completion of the aforesaid debt assignments, the Group’s indebtedness to the banks and Intel of approximately HK\$315 million were assigned to Mr. Kan. Subsequent to the balance sheet date, the amount due to Mr. Kan was set off against the subscription price of the Convertible Notes. Details of the issue of the Convertible Notes are disclosed in note 31 to the consolidated financial statements.

(b) Included in the amounts is a balance of HK\$3,089,000 advanced by Mr. Kan. Subsequent to the balance sheet date, the advance was set off against the subscription price of the Convertible Notes. Details of the issue of the Convertible Notes are disclosed in note 31 to the consolidated financial statements.

(c) The amounts due to directors are unsecured, interest-free and repayable on demand.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

## 22. BANK OVERDRAFTS AND BORROWINGS

	2007 HK\$'000	2006 HK\$'000
Unsecured bank overdrafts (Note 22(a))	–	50,204
Unsecured bank borrowings (Note 22(a))	–	205,669
Unsecured other loans (Note 22(b))	2,031	3,505
	<b>2,031</b>	<b>259,378</b>

Notes:–

- (a) In August 2007, the bank overdrafts and borrowings were assigned to Mr. Kan. Details of the debt assignment are disclosed in note 21(a) to the consolidated financial statements.
- (b) The loans are denominated in Hong Kong dollars. The loan amounted to HK\$1,800,000 (2006: HK\$1,800,000) is secured by the property of a director of the Company, interest-bearing at an annual rate of 15% and repayable on demand.

The remaining loan of approximately HK\$231,000 (2006: HK\$1,705,000) is unsecured, interest-bearing at an annual rate of 10% and repayable on demand.

## 23. DEFERRED TAXATION

The following is the major deferred tax liability recognised and its movement thereon during the prior year:–

	Accelerated tax depreciation HK\$'000
At 1 January 2006	1,300
Credit to consolidated income statement for the year (Note 13)	(1,300)
At 31 December 2006	–

At the balance sheet date, the Group had unused tax losses of approximately HK\$499,476,000 (2006: HK\$500,000,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. The unrecognised tax losses may be carried forward indefinitely except the losses of approximately HK\$1,577,000 (2006: HK\$2,284,000) which will expire as follows:–

Year of expiry	2007 HK\$'000	2006 HK\$'000
2007	–	707
2008	616	616
2009	279	279
2010	54	54
2011	628	628
	<b>1,577</b>	<b>2,284</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2007



## 23. DEFERRED TAXATION (continued)

At the balance sheet date, the Group had deductible temporary differences of approximately HK\$1,777,000 (2006: HK\$1,911,000) arising from decelerated tax allowances. No deferred tax asset has been recognised in relation to these deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

## 24. SHARE CAPITAL

### (a) Share capital

	Number of shares	HK\$'000
Shares of HK\$0.01 each		
Authorised:–		
As at 1 January 2006, 31 December 2006 and 31 December 2007	10,000,000,000	100,000
Issued and fully paid:–		
As at 1 January 2006, 31 December 2006 and 1 January 2007	1,600,000,000	16,000
Exercise of share options (Note 27)	2,330,000	23
As at 31 December 2007	1,602,330,000	16,023

### (b) Capital management

The Group's equity capital management objectives are to safeguard the Group's ability to continue as a going concern and to provide an adequate return to shareholders commensurately with the level of risk. To meet these objectives, the Group manages the equity capital structure and makes adjustments to it in the light of changes in economic conditions by issuing new equity shares, and raising or repaying debts as appropriate.

The Group's equity capital management strategy, which was unchanged from the previous periods, was to maintain a reasonable proportion in total debts and equity capital. The Group monitors equity capital on the basis of the debt-to-equity capital ratio, which is calculated as net debts over equity capital.

The only externally imposed capital requirement is that under the Listing Rules, the Company has to maintain the minimum public float requirement of which at least 25% of the issued Shares being held in public hands. Details of sufficiency of public float have been included in the paragraph headed "Sufficiency of Public Float" in the section headed "Report of the Directors" of this Annual Report.

## 25. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had commitments for future minimum lease payments in respect of land and buildings under non-cancellable operating leases which fall due as follows:–

	2007 HK\$'000	2006 HK\$'000
Within one year	288	337
In the second to fifth year inclusive	106	–
	394	337

Operating lease payments represent rentals payable by the Group for its office premises. The lease is negotiated for a term of 2 years.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2007



## 26. CAPITAL COMMITMENTS

The Group had no material capital commitments at the balance sheet date.

## 27. SHARE OPTION SCHEME

The Company's share option scheme (the "Option Scheme") was adopted pursuant to a resolution passed on 29 August 2001 for the purpose of recognition of the contribution from directors, eligible employees and others of the Group, and will expire in August 2011. Under the Option Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for the Shares.

The total number of Shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Option Scheme and any other schemes of the Company must not in aggregate exceed 30% of the Shares in issue from time to time. The total number of Shares which may fall to be issued upon exercise of the options granted under the Option Scheme, when aggregated with any Shares which may fall to be issued under any other schemes must not exceed 10% of the issued share capital of the Company immediately upon the listing of the Shares on the Stock Exchange. Such 10% limit may be refreshed, subject to approval from the Company's shareholders. The number of Shares which may fall to be issued upon exercise of options granted to any individual in aggregate in any 12-month period shall not exceed 1% of the Shares in issue, without prior approval from the Company's shareholders.

Options granted must be taken up within 28 days from the date of grant, upon payment of HK\$1 per option. The exercise price is determined by the directors of the Company and will not be less than the higher of the average closing price of the Shares on the Stock Exchange for the five business days immediately preceding the date of grant or the closing price of the Shares on the Stock Exchange on the date of grant.

As the Listing Rules relating to the share option schemes were amended on 1 September 2001, share options may be granted under the Option Scheme provided that the existing Listing Rules on share option schemes are complied with.

On 30 May 2003, the shareholders of the Company resolved to make certain amendments to the Option Scheme. Under the amendments, (i) the board of directors of the Company may grant options to eligible participants in recognition of their contribution to the Group. Eligible participants are defined as any full-time or part-time employees of the Group (including any executive, non-executive and independent non-executive directors of the Company or any of its subsidiaries) and any suppliers, consultants and distributors of the Group who, in the sole discretion of the board of directors of the Company, have contributed or may contribute to the Group; and (ii) the options granted may be exercised at any time during a period to be determined and notified by the board of directors of the Company, such period may commence on a business day immediately after the date of acceptance and in any event shall not exceed the period of 10 years from a business day immediately after the date of acceptance subject to the provisions for early termination.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

## 27. SHARE OPTION SCHEME (continued)

The following table discloses details of the Company's share options outstanding as at the respective balance sheet dates and their movements thereon during the current and prior years:–

	Date of grant	Exercise price per Share HK\$	Number of Shares to be subscribed under the share options granted under the Option Scheme					Outstanding as at 31 December
			Outstanding as at 1 January	Granted during the year	Exercised during the year	Lapsed/cancelled during the year	Reallocation during the year	
<b>For the year ended 31 December 2007</b>								
Former employees	9 October 2003	0.3810	45,370,000	–	(2,330,000)	(43,040,000)	–	–
	15 November 2004	0.2166	14,300,000	–	–	(14,300,000)	–	–
Principal buyers	9 October 2003	0.3810	12,980,000	–	–	(12,980,000)	–	–
	15 November 2004	0.2166	30,700,000	–	–	(30,700,000)	–	–
Suppliers of services	9 October 2003	0.3810	10,745,000	–	–	(10,745,000)	–	–
			114,095,000	–	(2,330,000)	(111,765,000)	–	–
<b>For the year ended 31 December 2006</b>								
Former employees	9 October 2003	0.3810	–	–	–	–	45,370,000	45,370,000
	15 November 2004	0.2166	–	–	–	–	14,300,000	14,300,000
Employees	9 October 2003	0.3810	45,370,000	–	–	–	(45,370,000)	–
	15 November 2004	0.2166	14,300,000	–	–	–	(14,300,000)	–
Principal buyers	9 October 2003	0.3810	12,980,000	–	–	–	–	12,980,000
	15 November 2004	0.2166	30,700,000	–	–	–	–	30,700,000
Suppliers of services	9 October 2003	0.3810	10,745,000	–	–	–	–	10,745,000
			114,095,000	–	–	–	–	114,095,000

Share options granted under the Option Scheme by the Company in October 2003 are exercisable during the period from 10 October 2003 to 28 August 2011.

Share options granted under the Option Scheme by the Company in November 2004 are exercisable during the period from 16 November 2004 to 28 August 2011.

The fair value of the Shares at the above dates of grant of the share options, being the closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange on the trading day immediately preceding those days, were HK\$0.38 and HK\$0.21 respectively.

The weighted average closing price of the Shares immediately before the date on which the share options granted under the Option Scheme were exercised during the year was HK\$0.037, representing the closing price of the Shares as quoted on the Stock Exchange on the last trading day immediately prior to the suspension of trading in Shares on the Stock Exchange in September 2006. Trading in the Shares on the Stock Exchange has been resumed on 18 February 2008.

Total consideration received for Shares issued upon the exercise of share options granted under the Option Scheme during the year was approximately HK\$888,000.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2007



## 28. RETIREMENT BENEFITS SCHEME

The Group operates a defined contribution Mandatory Provident Fund Scheme under the Mandatory Provident Fund Scheme Ordinance for all qualifying employees in Hong Kong since December 2000. The assets of the scheme are held separately from those of the Group in funds under the control of trustees. The Group's employer contributions vest fully with employees when contributed into the scheme. The only obligation of the Group with respect of the retirement benefits scheme is to make the required contributions under the scheme.

The total cost charged to the consolidated income statement of HK\$12,000 (2006: HK\$40,000) represents contributions paid and payable to the scheme by the Group at rate specified in the rules of the scheme.

## 29. RELATED PARTY TRANSACTIONS

(a) Apart from the information as disclosed elsewhere in the consolidated financial statements, the Group did not have other material transactions with its related parties during the year.

During the year ended 31 December 2006, the Group paid rentals for staff quarter to a director amounting to approximately HK\$110,000.

### (b) Compensation of key management personnel

The remuneration of key management personnel during the year was as follows:–

	2007 HK\$'000	2006 HK\$'000
Short-term benefits	413	1,912
Post-employment benefits	3	10
	<b>416</b>	<b>1,922</b>

The remuneration of key management is determined by the Remuneration Committee having regard to the performance of individuals and market trends.

These transactions do not fall within the definition of "connected transactions" in Chapter 14A of the Listing Rules.

## 30. LITIGATIONS

(a) Around year 2006, one former employee of the Company brought claim numbered LBTC4162/2006 against the Company and Artel e-Solutions Limited ("Artel e-Solutions"), a wholly-owned subsidiary of the Company, at the Labour Tribunal. On 8 September 2006, with the consent of Artel e-Solutions, the Labour Tribunal ordered Artel e-Solutions to pay the sum of HK\$42,000 to the employee. On 18 September 2006, with the consent of the parties, the Labour Tribunal ordered Artel e-Solutions to pay the sum of HK\$208,000 to the employee. On 29 November 2006, the Labour Tribunal approved the employee's application to withdraw his claim against the Company. Both the said sums of HK\$42,000 and HK\$208,000 have not been settled as at 31 December 2007. The Group had provided for the liabilities in the consolidated financial statements during the year 2006.

(b) On 29 September 2006, A. Plus Financial Press Limited ("A. Plus") brought an action numbered DCCJ4897/2006 in District Court against the Company claiming the outstanding payable arising from provision of services to the Company amounting to approximately HK\$299,000 together with interest thereon. On 15 November 2006, the District Court ordered the Company to pay A. Plus the sum of approximately HK\$322,000 together with interest thereon and fixed costs in the sum of HK\$1,380. On 6 December 2006, the Company received a statutory demand under Section 327(4)(a) of the Companies Ordinance (Chapter 32 of the laws of Hong Kong) issued by A. Plus demanding payment of the said sum together with interest, in the aggregate sum of approximately HK\$334,000 as at the date of payment. Up to 31 December 2007, the Group had paid the sum of HK\$100,000 to A. Plus and had provided for the liabilities in the consolidated financial statements during the year 2006.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2007



## 31. EVENTS AFTER THE BALANCE SHEET DATE

On 15 January 2008, the Company and Mr. Kan entered into the Subscription Agreement pursuant to which the Company had conditionally agreed to issue and Mr. Kan had conditionally agreed to subscribe for the zero-coupon and non-redeemable Convertible Notes in an aggregate principal amount of HK\$358 million.

The subscription price of the Convertible Notes of HK\$358 million was satisfied in part of approximately HK\$318 million by setting off the full amount of (i) the bank overdraft and borrowings of approximately HK\$256 million and the debt of approximately HK\$59 million due to Intel which had been assigned to Mr. Kan (Note 21(a)); and (ii) the loan of approximately HK\$3 million advanced by Mr. Kan, against such amount of the subscription price of the Convertible Notes on a dollar for dollar basis (Note 21(b)). The remaining balance of approximately HK\$40 million was settled in cash, which would be used as working capital of the Group.

The completion of the Subscription Agreement took place on 13 February 2008 and the Convertible Notes were issued by the Company to Mr. Kan pursuant to the Subscription Agreement on the same date.

On 18 February 2008, Mr. Kan exercised his conversion rights attached to the Convertible Notes in relation to the conversion of an aggregate principal amount of HK\$30,000,000 of the Convertible Notes and an aggregate of 777,202,072 Shares were allotted and issued to Mr. Kan.

## 32. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2007 are as follows:–

Name of subsidiary	Place of incorporation and operation	Issued and fully paid share capital/registered capital	Attributable equity interest held by the Company		Principal activities
			Directly	Indirectly	
Advance Great Limited	Hong Kong	HK\$10,000	–	100%	Trading of computer components
Ariel International Technology Co., Limited	Hong Kong	HK\$10	–	100%	Trading of networking
Artel Computer International Trade (Shanghai) Co., Ltd. 亞邦電腦國際貿易(上海)有限公司*	PRC	US\$200,000	–	100%	Trading of computer components and networking products and provision of technical support and after-sales services
Artel e-Solutions Limited	British Virgin Islands	US\$110	–	100%	Investment holding
Artel Futec Technologies Limited	Hong Kong	HK\$10,000	–	100%	Trading of computer components and networking equipment and provision of integrated e-enabling solutions
Artel International Holdings Limited	British Virgin Islands	US\$5	100%	–	Investment holding
Artel Industries Limited	Hong Kong	Ordinary – HK\$2 Deferred – HK\$8,000,000**	–	100%	Trading of computer components and networking equipment and provision of integrated e-enabling solutions

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

## 32. PARTICULARS OF SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation and operation	Issued and fully paid share capital/registered capital	Attributable equity interest held by the Company		Principal activities
			Directly	Indirectly	
Artel Macao Commercial Offshore Limited	Macau	MOP1,000,000	–	100%	Trading of computer components and networking equipment and provision of integrated e-enabling solutions
ASEP Solutions Limited	Hong Kong	HK\$2	–	100%	Provision of e-enabling solutions and technical services
Best Hero Limited	Hong Kong	HK\$10,000	–	100%	Trading of computer components
Elite City International Limited	British Virgin Islands	US\$1	100%	–	Investment holding
Key Fit Group Limited	Hong Kong	HK\$1	100%	–	Trading of computer components and networking equipment
Wisdom Best Trading Limited	Hong Kong	HK\$1	–	100%	Trading of computer components
Yiu Fai Trading Limited	British Virgin Islands	US\$50,000	–	100%	Investment holding

\* The subsidiary is a wholly foreign owned enterprise under the PRC laws and regulations.

\*\* The deferred shares are not held by the Group and practically carry no right to dividend or to receive notice of or to attend or vote at any annual general meeting of the subsidiary or to participate in any distribution on winding up.

None of the subsidiaries had issued any debt securities at the end of the year.

# Financial Summary



## For the year ended 31 December

	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000	2006 HK\$'000	2007 HK\$'000
<b>RESULTS</b>					
Turnover	2,202,933	1,658,830	1,198,229	36,334	<b>40,067</b>
Profit/(loss) before taxation	52,829	33,807	(595,716)	(182,425)	<b>(1,084)</b>
Taxation	(2,549)	(585)	(734)	1,300	<b>(187)</b>
Profit/(loss) for the year	50,280	33,222	(596,450)	(181,125)	<b>(1,271)</b>
Earnings/(loss) per share (HK cents)					
Basic	3.1	2.1	(37.3)	(11.3)	<b>(0.08)</b>
<b>At 31 December</b>					
	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000	2006 HK\$'000	2007 HK\$'000
<b>ASSETS AND LIABILITIES</b>					
Total assets	925,785	1,088,320	226,291	5,390	<b>6,437</b>
Total liabilities	(499,954)	(636,467)	(370,888)	(331,112)	<b>(332,542)</b>
Shareholders' funds/(capital deficiencies)	425,831	451,853	(144,597)	(325,722)	<b>(326,105)</b>