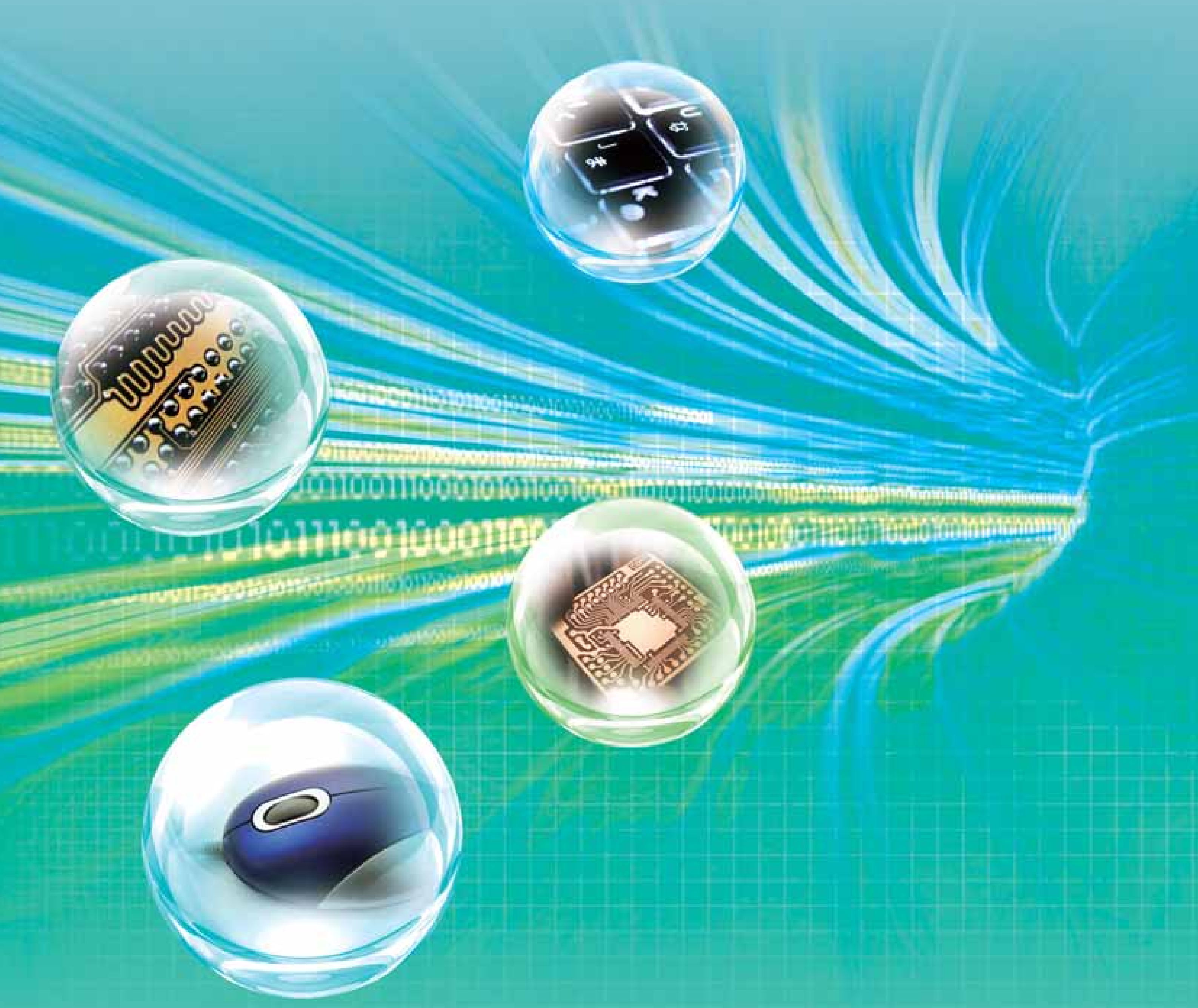
Artel Group
宏 通 集 團

# ARTEL SOLUTIONS GROUP HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)
(Stock Code: 931)



# Annual Report **2008**

# Contents

# Corporate Information

## BOARD OF DIRECTORS

**Executive Directors**
Mr. Kan Che Kin, Billy Albert
*(Chairman and 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

K&L Gates

## INDEPENDENT AUDITORS

PKF

## AUTHORISED REPRESENTATIVES

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

## PRINCIPAL BANKERS

UBS AG
Hang Seng Bank Limited

## REGISTERED OFFICE

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

## HEAD OFFICE AND 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 Fulcrum Group (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

## STOCK CODE

931

# Chairman's Statement

On behalf of the board of directors (the "Directors") of Artel Solutions Group Holdings Limited (the "Company"), I now present the annual report of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2008.

## BUSINESS REVIEW

Trading in the shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") has been suspended since 7 September 2006 and has been resumed on 18 February 2008.

After the issuance of the convertible notes (the "Convertible Notes") in an aggregate principal amount of HK$358 million by the Company to Mr. Kan Che Kin, Billy Albert, an executive director and the substantial shareholder of the Company, on 13 February 2008, the Group became almost debt free, save for the current liabilities such as trade payables, other borrowings and other payables. There was approximately HK$40 million of cash injected as general working capital of the Group. Approximately HK$10 million of the cash injected has been used in acquiring listed securities on the open market at the market price during the year. Accordingly, the financial position of the Group has been improved with net assets of approximately HK$29 million as at 31 December 2008 (2007: net liabilities of approximately HK$326 million).

During the year, the Group started to trade securities as one of its ordinary course of business in order to generate a better return for the shareholders of the Company. Due to the worsening financial crisis, the Group recorded a turnover of approximately HK$12 million in 2008, representing a decrease of approximately 70% of revenue compared with that of 2007.

The Group recorded a gross profit of approximately HK$2 million in 2008, approximately 75% of which came from distribution of computer components and information technology products and the remaining came from trading of securities.

The Group, in summary, recorded a loss of approximately HK$3 million in 2008.

## PROSPECTS

The financial position of the Group has been improved after the issuance of the Convertible Notes in February 2008.

The Directors are of the view that given the lack of suitable investment opportunities in the computer components and information technology related business during the year and the Directors considered some quality stocks listed on the Stock Exchange had been undervalued due to the fluctuation in the global stock market, the Group might be able to increase the return to the shareholders of the Company by identifying and investing in those undervalued stocks. The Group would continue to look for such trading opportunity in the future in order to capture the potential gain in the stock market. Should the business environment recovers in the future, the Group will consider to invest in related computer businesses.

Furthermore, the Group will continue to look for new business opportunities that provide better returns for the shareholders of the Company, including but not limited to the computer-related products and trading of securities and the Directors believe the Group will restore to grow in the future.

**Kan Che Kin, Billy Albert**
*Chairman*

Hong Kong, 31 March 2009

# Management Discussion and Analysis

## FINANCIAL REVIEW

After the issuance of the convertible notes in an aggregate principal amount of HK$358 million by Artel Solutions Group Holdings Limited (the "Company") to Mr. Kan Che Kin, Billy Albert, an executive director and the substantial shareholder of the Company, the financial position of the Group has been improved from net liabilities of approximately HK$326 million as at 31 December 2007 to net assets of approximately HK$29 million as at 31 December 2008.

The Company and its subsidiaries (collectively, the "Group") recorded a loss of approximately HK$3 million for the year 2008, mainly resulting from the decrease in the turnover of the Group and the increase in legal and professional costs incurred in relation to the resumption (the "Resumption") of trading in the shares of the Company in February 2008 and the increase in staff costs for daily operations of the Group after the Resumption.

During the year, due to the worsening financial crisis, the computer related business has slowed down and the Group's turnover was only approximately HK$12 million (2007: approximately HK$40 million), representing a decrease of approximately 70% compared with that of 2007.

Due to the fluctuation in the global stock market, the Group started to trade securities as one of its ordinary course of business, which generated a turnover of approximately HK$399,000 to the Group during the year.

Gross profit of approximately HK$2 million was recorded for the year.

## LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

The Group had total cash and bank balances of approximately HK$31 million as at 31 December 2008 (2007: approximately HK$5 million). Balance of other short-term borrowings was approximately HK$2 million as at 31 December 2008 (2007: approximately HK$2 million). The gearing ratio of the Group as at 31 December 2008 calculated as a ratio of total interest-bearing loans to total assets was approximately 5% (2007: approximately 32%). Net assets were approximately HK$29 million as at 31 December 2008 (2007: net liabilities of approximately HK$326 million).

The Group recorded total current asset value of approximately HK$42 million as at 31 December 2008 (2007: approximately HK$6 million) and total current liability value of approximately HK$13 million as at 31 December 2008 (2007: approximately HK$333 million). The current ratio of the Group, calculated by dividing the total current asset value by the total current liability value, was approximately 3.19 as at 31 December 2008 (2007: approximately 0.02).

## 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 were in Hong Kong dollars and with fixed interest rates. Bank balances and cash held by the Group were denominated in Hong Kong dollars and United States dollars. 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 2008.

# Management Discussion and Analysis

## SIGNIFICANT INVESTMENTS

The Group acquired 2,700,000 shares of HK$0.25 each in the capital of PCCW Limited ("PCCW") in December 2008. The Group held approximately 0.04% equity interest of PCCW at fair value of approximately HK$9,990,000 as at 31 December 2008. Given the approximately 19% discount of the acquisition price to the cancellation price of HK$4.50 per share pursuant to the proposed privatisation of PCCW by way of the scheme of arrangement, which is subject to the results of the court hearing of the petition to sanction the scheme of arrangement of PCCW to be published on 2 April 2009 as announced by PCCW, the directors of the Company are of the view that the investment in PCCW shall help the Group to capture the potential gain should the court sanctioned the scheme of arrangement of PCCW.

## MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES OR ASSOCIATED COMPANIES

The Group had no material acquisition or disposal of subsidiaries or associated companies for the year ended 31 December 2008.

## SEGMENTAL INFORMATION

Details of segmental information for the year ended 31 December 2008 are set out in note 7 to the consolidated financial statements.

## CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 31 December 2008.

## STAFF AND REMUNERATION POLICIES

As at 31 December 2008, the Group had 7 employees (2007: 7 employees). The Group's total staff costs amounted to approximately HK$1,484,000 (2007: HK$593,000) for the year ended 31 December 2008.

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 review 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 2008 and was of the opinion that the audited consolidated financial statements of the Group 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 Lai 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 56, joined the Board on 10 October 2007 and is an executive Director, the chairman and the chief executive officer of the Company. 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 21 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.

**Mrs. Kan Kung Chuen Lai ("Mrs. Kan")**

Mrs. Kan, aged 58, 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 39, joined the Board on 10 October 2007 and is an executive Director. She holds a Bachelor of Science Accounting degree from University of Southern 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 36, 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 10 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 39, 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 10 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 38, 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 Practicing 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. After that, Mr. Ip has been working in private equity industry in the Greater China region.

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

Mr. Lee, aged 44, 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 32, 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 10 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 2008 except the followings:

1. Under the Code Provision A.2.1, the roles of chairman and chief executive officer should be separate. The positions of chairman and chief executive officer of the Company were held by Mr. Kan Che Kin, Billy Albert (“Mr. Kan”) after the resignation of Mr. Yu Pen Hung (“Mr. Yu”) as an executive Director and the chief executive officer of the Company with effect from 23 May 2008. The board (the “Board”) of directors (the “Directors”) of the Company believes that holding of both positions of chairman and chief executive officer by the same person allows more effective planning and execution of business strategies. The Board has full confidence in Mr. Kan and believes that his dual roles will be beneficial to the Group.

2. 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 existing independent non-executive Directors are not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the articles of association (the “Articles of Association”) of the Company 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 2008.

# Corporate Governance Report

## BOARD OF DIRECTORS

There was change in the composition of the Board during the year. Details are set out in the section headed "Directors' attendance at Board, Remuneration Committee, Nomination 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, revaluating 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.

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. Kan after resignation of Mr. Yu as an executive Director and the chief executive officer of the Company with effect from 23 May 2008. The reasons have been explained in the paragraph 1 under the section headed "Code on Corporate Governance Practices" in this Corporate Governance Report.

## REMUNERATION COMMITTEE

The remuneration committee of the Company (the "Remuneration 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)*
Mr. Li Siu Yui
Mr. Ip Woon Lai

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. During the year, the Remuneration Committee held one meeting. 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 the 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 2008 are shown in note 9 to the consolidated financial statements.

## AUDIT COMMITTEE

The Company's 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:

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

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 two meetings. Matters considered at the meetings included revision of the Group's 2007 annual results, 2008 interim results, the fees for engaging the external auditors to provide the audit for the year 2007 and the interim review for the year 2008, the independence of the external auditors, the fees for non-audit services, the Company's financial control, internal control and risk management system.

# Corporate Governance Report

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

| | | Attendance/Number of meetings held during the year | | |
|---|---|---|---|---|
| **Directors** | **Board meeting** | **Audit Committee meeting** | **Remuneration Committee meeting** | **Nomination Committee meeting** |
| **Executive Directors** | | | | |
| Mr. Kan Che Kin, Billy Albert* *(Chairman)* | 8/8 | N/A | 1/1 | 1/1 |
| Mrs. Kan Kung Chuen Lai* | 6/8 | N/A | N/A | N/A |
| Ms. Li Shu Han, Eleanor Stella* | 6/8 | N/A | N/A | N/A |
| Mr. Li Kai Yien, Arthur Albert* | 8/8 | N/A | N/A | N/A |
| Mr. Yu Pen Hung (resigned on 23 May 2008) | 1/4 (during appointment period) | N/A | N/A | N/A |
| **Independent Non-executive Directors** | | | | |
| Mr. Li Siu Yui | 7/8 | 2/2 | 1/1 | 1/1 |
| Mr. Ip Woon Lai | 6/8 | 2/2 | 1/1 | 1/1 |
| Mr. Lee Kong Leong | 7/8 | 2/2 | N/A | N/A |

* 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)
Mr. Li Siu Yui
Mr. Ip Woon Lai

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 auditors' remuneration for the year ended 31 December 2008 was HK$340,000. Messrs. PKF also provided non-audit services including taxation services to the Group for the year ended 31 December 2008 for a fee of HK$18,000. 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 the year 2009, subject to approval by the Shareholders at the forthcoming annual general meeting to be held on 18 May 2009. 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 2008. The Directors ensure that the audited consolidated financial statements of the Group for the year ended 31 December 2008 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 pages 19 to 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 2008.

## PRINCIPAL ACTIVITIES

The Company acts as an investment holding company and the principal activities of the Group are distribution of computer components and information technology products, provision of integrated e-enabling solutions and trading of securities. The principal activities of its subsidiaries are set out in note 31 to the consolidated financial statements.

## RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2008 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 2008.

## SHARE CAPITAL

Details of share capital of the Company are set out in note 23(a) to the consolidated financial statements.

## CONVERTIBLE NOTES

The Company issued the convertible notes (the “Convertible Notes”) in an aggregate principal amount of HK$358 million to Mr. Kan Che Kin, Billy Albert (“Mr. Kan”) on 13 February 2008. Details of the issue and movements in the Convertible Notes during the year are set out in note 24 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 15 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 annual 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 4.84% of the issued share capital of the Company.

There was no outstanding share option to subscribe for Shares as at 1 January 2008 and no share option to subscribe for Shares had been granted during the year ended 31 December 2008. Accordingly, there was no share option to subscribe for Shares outstanding as at 31 December 2008.

# Report of the Directors

## DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors during the year and up to the date of this annual report were:–

**Executive Directors:**
Mr. Kan Che Kin, Billy Albert *(Chairman)*
Mrs. Kan Kung Chuen Lai
Ms. Li Shu Han, Eleanor Stella
Mr. Li Kai Yien, Arthur Albert
Mr. Yu Pen Hung (resigned on 23 May 2008)

**Independent Non-Executive Directors:**
Mr. Li Siu Yui
Mr. Ip Woon Lai
Mr. Lee Kong Leong

In accordance with the provisions of the Company's articles of association (the "Articles of Association"), Mr. Kan, Mrs. Kan Kung Chuen Lai and Mr. Ip Woon Lai 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. Such service agreement entered into between Mr. Yu Pen Hung and the Company has been terminated during the year. 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.

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.

## 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 of Hong Kong Limited (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 2008, 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 | The Company | Beneficial owner | 10,047,151,397 Shares | 380.78% *(Note 1)* |
| Mrs. Kan Kung Chuen Lai | The Company | Interest of spouse *(Note 2)* | 10,047,151,397 Shares | 380.78% |
| Mr. Li Kai Yien, Arthur Albert | The Company | Beneficial owner | 3,000,000 Shares | 0.11% |
| Ms. Li Shu Han, Eleanor Stella | The Company | Beneficial owner | 2,000,000 Shares | 0.08% |
| Mr. Ip Woon Lai | The Company | Beneficial owner | 1,000,000 Shares | 0.04% |

*Notes:–*

1. These Shares represent: (i) 1,808,809,429 Shares held by Mr. Kan; and (ii) 8,238,341,968 Shares to be allotted and issued to Mr. Kan upon the exercise in full of the conversion rights attaching to the outstanding Convertible Notes.

2. Mrs. Kan Kung Chuen Lai is the spouse of Mr. Kan. Therefore, she is deemed to be interested in the Shares for which Mr. Kan is interested pursuant to the SFO.

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 as otherwise to be notified to the Company and the Stock Exchange pursuant to the Model Code as at 31 December 2008.



## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save for the Convertible Notes as set out in note 24 to the consolidated financial statements, 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.

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save for the Convertible Notes as set out in note 24 to the consolidated financial statements, no contracts 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, subsisted 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.

## CONNECTED TRANSACTION

On 15 January 2008, the Company and Mr. Kan, an executive Director and the substantial shareholder of the Company, entered into a 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. Such transaction constituted a connected transaction of the Company under the Listing Rules as Mr. Kan is regarded as a connected person of the Company.

Details of the above connected transaction are set out in note 24 to the consolidated financial statements.

## 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 9 to the consolidated financial statements.

## SUBSTANTIAL SHAREHOLDERS

As at 31 December 2008, 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 2008 and 2007 were as follows:–

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Share premium | **152,859** | 123,222 |
| Contributed surplus | **112,369** | 112,369 |
| Accumulated losses | **(565,380)** | (255,494) |
| Total | **(300,152)** | (19,903) |

Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium is 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. The Articles of Association provide that an ordinary resolution passed by the shareholders of the Company is required for any distribution out of the share premium account. In the opinion of the Directors, the reserves of the Company available for distribution comprise share premium, contributed surplus and retained profits.

## 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 which 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 100% of its purchases for the year. Purchases from the largest supplier accounted for about 93% of its purchases.

The aggregate turnover attributable to the Group's largest customer and five largest customers taken together accounted for about 93% and 100% of the Group's total turnover derived from distribution of computer components and information technology products for the year respectively.

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 2008.



## 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 SCHEMES

Details of the retirement benefits schemes 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.

## SUFFICIENCY OF PUBLIC FLOAT

To the best knowledge of the Directors and based on information publicly available to the Company, 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 up to the latest practicable date prior to the issue of this annual report.

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

During the year ended 31 December 2008, 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 30 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 were re-elected as auditors of the Company at the annual general meeting of the Company held on 22 May 2008.

Messrs. 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
31 March 2009

# 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 and its subsidiaries (collectively, the "Group") set out on pages 21 to 53 which comprise the consolidated balance sheet as at 31 December 2008, 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.

# Independent Auditor's Report

## 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 2008 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
31 March 2009

# Consolidated Income Statement

*For the year ended 31 December 2008*

| | *Notes* | **2008** | 2007 |
|---|---|---|---|
| | | **HK$'000** | HK$'000 |
| Turnover | *6* | **12,142** | 40,067 |
| Revenue from:– | | | |
| Distribution of computer components and information technology products | | **11,743** | 39,244 |
| Provision of integrated e-enabling solutions | | **–** | 823 |
| | | **11,743** | 40,067 |
| Cost of revenue | | **(10,519)** | (37,923) |
| | | **1,224** | 2,144 |
| Gain on disposal of held for trading investments | | **293** | – |
| Gain on fair value changes on held for trading investments | | **106** | – |
| Gross profit | | **1,623** | 2,144 |
| Other operating income | *8* | **1,752** | 467 |
| Administrative expenses | | **(5,680)** | (3,028) |
| Finance costs | *10* | **(293)** | (46) |
| Share of results of associates | | **–** | (245) |
| Loss on disposal of interests in associates | | **–** | (374) |
| Loss on disposal of interest in a subsidiary | | **–** | (2) |
| Loss before taxation | *11* | **(2,598)** | (1,084) |
| Taxation | *12* | **38** | (187) |
| Loss for the year attributable to equity holders of the Company | | **(2,560)** | (1,271) |
| Dividend | *13* | **–** | – |
| Loss per share (HK cents) | *14* | | |
| – Basic | | **(0.11)** | (0.08) |

# Consolidated Balance Sheet

*At 31 December 2008*

| | Notes | 2008 | 2007 |
|---|---|---|---|
| | | **HK$'000** | HK$'000 |
| Non-current asset | | | |
| Plant and equipment | *15* | **11** | 13 |
| Current assets | | | |
| Held for trading investments | *16* | **9,990** | – |
| Trade receivables, prepayments, deposits and other receivables | *17* | **1,034** | 1,579 |
| Bank balances and cash | *18* | **31,328** | 4,845 |
| | | **42,352** | 6,424 |
| Current liabilities | | | |
| Trade payables, accrued charges and other payables | *19* | **11,261** | 12,140 |
| Amounts due to directors | *20* | **–** | 318,184 |
| Unsecured other loans | *21* | **2,031** | 2,031 |
| Provision for taxation | | **–** | 187 |
| | | **13,292** | 332,542 |
| Net current assets/(liabilities) | | **29,060** | (326,118) |
| Net assets/(liabilities) | | **29,071** | (326,105) |
| Capital and reserves | | | |
| Share capital | *23(a)* | **26,386** | 16,023 |
| Reserves | | **2,685** | (342,128) |
| Shareholders' funds/(capital deficiencies) | | **29,071** | (326,105) |

The consolidated financial statements set out on pages 21 to 53 were approved and authorised for issue by the Board of Directors on 31 March 2009 and are signed on its behalf by:–

**Kan Che Kin, Billy Albert**
*Director*

**Li Kai Yien, Arthur Albert**
*Director*

# Consolidated Statement of Changes in Equity

*For the year ended 31 December 2008*

| | Share capital | Share premium | Special reserve | Convertible notes reserve | Exchange reserve | Accumulated losses | Total |
|---|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| 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 and total expenses recognised for the year | – | – | – | – | – | (1,271) | (1,271) |
| At 1 January 2008 | 16,023 | 123,222 | 9,370 | – | – | (474,720) | (326,105) |
| Issue of convertible notes | – | – | – | 358,000 | – | – | 358,000 |
| Conversion of convertible notes | 10,363 | 29,637 | – | (40,000) | – | – | – |
| Sub-total | 26,386 | 152,859 | 9,370 | 318,000 | – | (474,720) | 31,895 |
| Exchange differences arising on translation of foreign operations | – | – | – | – | (264) | – | (264) |
| Loss for the year | – | – | – | – | – | (2,560) | (2,560) |
| Total expenses recognised for the year | – | – | – | – | (264) | (2,560) | (2,824) |
| **At 31 December 2008** | **26,386** | **152,859** | **9,370** | **318,000** | **(264)** | **(477,280)** | **29,071** |

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 2008*

| | 2008 | 2007 |
|---|---|---|
| | HK$'000 | HK$'000 |
| OPERATING ACTIVITIES | | |
| Loss before taxation | (2,598) | (1,084) |
| Adjustments for:– | | |
| Interest income on bank deposits | (589) | (20) |
| Waiver of accrued director's remuneration | (205) | – |
| Waiver of amount due to a director | (198) | – |
| Gain on fair value changes on held for trading investments | (106) | – |
| Interest expenses | 293 | – |
| Depreciation | 2 | 1 |
| Share of results of associates | – | 245 |
| Gain on disposal of plant and equipment | – | (325) |
| Loss on disposal of interests in associates | – | 374 |
| Loss on disposal of interest in a subsidiary | – | 2 |
| Operating cash flows before movements in working capital | (3,401) | (807) |
| Increase in held for trading investments | (9,884) | – |
| Decrease/(increase) in trade receivables, prepayments, deposits and other receivables | 548 | (255) |
| Decrease in trade payables, accrued charges and other payables | (1,270) | (372) |
| Cash used in operations | (14,007) | (1,434) |
| Hong Kong Profits Tax paid | (149) | – |
| NET CASH USED IN OPERATING ACTIVITIES | (14,156) | (1,434) |
| INVESTING ACTIVITIES | | |
| Interest received | 589 | 20 |
| Proceeds on disposal of plant and equipment | – | 590 |
| Proceeds on disposal of interests in associates | – | 500 |
| Purchase of plant and equipment | – | (14) |
| NET CASH FROM INVESTING ACTIVITIES | 589 | 1,096 |
| FINANCING ACTIVITIES | | |
| Proceeds from issue of convertible notes | 40,000 | – |
| Increase in amounts due to directors | – | 53,293 |
| Proceeds from issue of shares | – | 888 |
| Repayment of other loan | – | (1,474) |
| NET CASH FROM FINANCING ACTIVITIES | 40,000 | 52,707 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 26,433 | 52,369 |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES | 50 | – |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | 4,845 | (47,524) |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH | 31,328 | 4,845 |

# Notes to the Consolidated Financial Statements

*For the year ended 31 December 2008*

## 1. GENERAL INFORMATION

Artel Solutions Group Holdings Limited (the "Company", together with its subsidiaries, the "Group") 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 this 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 distribution of computer components and information technology products, provision of integrated e-enabling solutions and trading of securities.

## 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 (the "Listing Rules") Governing the Listing of Securities on the Stock Exchange 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:–

| | |
|---|---|
| Amendments to HKAS 39 and HKFRS 7 | Reclassification of Financial Assets |
| HK(IFRIC)-Int 11 | HKFRS 2 – Group and Treasury Share Transactions |
| HK(IFRIC)-Int 12 | Service Concession Arrangements |
| HK(IFRIC)-Int 14 | HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction |

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.



## 2. BASIS OF PREPARATION (continued)

### (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 2008 have not been applied in the preparation of the Group's consolidated financial statements for the year ended 31 December 2008 since they were not yet effective for the annual period beginning on 1 January 2008:–

| | |
|---|---|
| HKAS 1 (Revised) | Presentation of Financial Statements[3] |
| HKAS 23 (Revised) | Borrowing Costs[3] |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements[4] |
| HKFRS 1 (Revised) | First-time Adoption of Hong Kong Financial Reporting Standards[4] |
| HKFRS 3 (Revised) | Business Combinations[4] |
| HKFRS 8 | Operating Segments[3] |
| Amendments to HKAS 32 and HKAS 1 | Puttable Financial Instruments and Obligations Arising on Liquidation[3] |
| Amendments to HKAS 39 | Eligible Hedged Items[4] |
| Amendments to HKFRS 1 and HKAS 27 | Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[3] |
| Amendments to HKFRS 2 | Share-based Payment – Vesting Conditions and Cancellations[3] |
| HK(IFRIC)-Int 13 | Customer Loyalty Programmes[1] |
| HK(IFRIC)-Int 15 | Agreements for the Construction of Real Estate[3] |
| HK(IFRIC)-Int 16 | Hedges of a Net Investment in a Foreign Operation[2] |
| HK(IFRIC)-Int 17 | Distributions of Non-cash Assets to Owners[4] |
| Amendments to HKFRSs | Improvements to HKFRSs[5] |

1 Effective for annual periods beginning on or after 1 July 2008
2 Effective for annual periods beginning on or after 1 October 2008
3 Effective for annual periods beginning on or after 1 January 2009
4 Effective for annual periods beginning on or after 1 July 2009
5 Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, which are effective for annual periods beginning on or after 1 July 2009

The directors of the Company (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.



## 3. SIGNIFICANT ACCOUNTING POLICIES

**Measurement basis**

The consolidated financial statements are prepared using the historical cost basis as modified by the revaluation of held for trading investments.

**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.

**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.

Realised gains or losses from held for trading investments are recognised on a trade date basis whilst the unrealised gains or losses are recognised from valuation at the balance sheet date.

Interest income is recognised as it accrues 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.



## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**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.

**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 exchange reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

**Borrowings 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 financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial instruments** (continued)

*Financial assets*

The Group's financial assets are classified into financial assets at fair value through profit or loss and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

*Financial assets at fair value through profit or loss*

The Group's financial assets at fair value through profit or loss include financial assets held for trading. A financial asset is classified as held for trading if:–

– it has been acquired principally for the purpose of selling in the near future; or

– it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

– it is a derivative that is not designated and effective as a hedging instrument.

At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables, including trade receivables, other receivables and bank balances, are carried at amortised cost using the effective interest rate method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial instruments** (continued)

*Financial liabilities and equity*

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.

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 comprise share capital and convertible notes reserve.

The Group's financial liabilities, including trade payables, other payables, amounts due to directors and other unsecured loans, are generally classified as other financial liabilities. Other financial liabilities are subsequently measured at amortised cost, using the effective interest rate method.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

**Cash and cash equivalents**

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

**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.

**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 or receivable 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**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, 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.

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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Employee benefits** (continued)

*(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.

## 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, other unsecured 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 a 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 AND JUDGEMENT

In the process of applying the Group's accounting policies which are described in note 3 to the consolidated financial statements, management has made the following estimation uncertainty and judgement that has most significant effect on the amounts recognised in the consolidated financial statements.

**Impairment of plant and equipment**

Determining whether plant and equipment are impaired requires an estimation of the value in use of the cash generating units to which the plant and equipment have been allocated. The calculation of value in use requires the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value.

**Income tax**

At 31 December 2008, no deferred tax assets had been recognised in respect of the tax losses of approximately HK$498,005,000 (2007: HK$498,425,000) due to the unpredictability of future taxable profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in future. In case where the actual future profit generated is more than expected, a material recognition of deferred tax assets may arise, which would be recognised in the income statement for the period in which such a recognition takes place.

## 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.

As at 31 December 2008, 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 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 23(b) to the consolidated financial statements.

## 5. FINANCIAL RISK MANAGEMENT (continued)

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

*Liquidity risk* (continued)

The Group's amounts of contractual undiscounted obligations as at 31 December 2008 are as follows:–

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Trade payables, accrued charges and other payables | **11,261** | 12,140 |
| Amounts due to directors | **–** | 318,184 |
| Unsecured other loans | **2,031** | 2,031 |
| | **13,292** | 332,355 |
| Due for payment within one year or on demand | **13,292** | 332,355 |

*Currency risk*

Currency risk is the risk that the fair value or 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.

*Interest rate risk*

Interest rate risk is the risk that the fair value or 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 2008, other unsecured loans of approximately HK$2,031,000 (2007: HK$2,031,000) 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 marketing condition.

If the interest rate as at 31 December 2008 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.



## 5. FINANCIAL RISK MANAGEMENT (continued)

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

*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 manages market price risk, when it is considered significant, by maintaining a portfolio of investments with different risk and return profiles.

The Group is exposed to equity price risk through its investment in a listed equity security, which is quoted in the Stock Exchange. If the equity price of this equity security as at 31 December 2008 had been 15% lower or higher, post-tax loss for the year ended 31 December 2008 would increase or decrease by approximately HK$1,499,000 or HK$1,309,000 respectively.

**(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 represents the aggregate of the net amounts received and receivable for goods sold and services provided to outside customers, less returns and allowance and net realised and unrealised gains or losses from trading of securities and is analysed as follows:–

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Distribution of computer components and information technology products | **11,743** | 39,244 |
| Provision of integrated e-enabling solutions | **–** | 823 |
| Gain on disposal of held for trading investments | **293** | – |
| Gain on fair value changes on held for trading investments | **106** | – |
| | **12,142** | 40,067 |

## 7. BUSINESS AND GEOGRAPHICAL SEGMENTS

**Business segments**

The Group operated in distribution of computer components and information technology products and trading of securities during the year. It was engaged in distribution of computer components and information technology products and provision of integrated e-enabling solutions during the year ended 31 December 2007. These businesses are the basis on which the Group reports its primary segment information.

## 7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

**Business segments** (continued)

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

| | Distribution of computer components and information technology products | | Trading of securities | | Provision of integrated e-enabling solutions | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| TURNOVER | | | | | | | | |
| External Sales | **11,743** | 39,244 | **399** | – | **–** | 823 | **12,142** | 40,067 |
| RESULT | | | | | | | | |
| Segment result | **280** | 463 | **344** | – | **–** | 72 | **624** | 535 |
| Other operating income | | | | | | | **1,752** | 467 |
| Unallocated corporate expenses | | | | | | | **(4,681)** | (1,419) |
| Finance costs | | | | | | | **(293)** | (46) |
| Share of results of associates | | | | | | | **–** | (245) |
| Loss on disposal of interests in associates | | | | | | | **–** | (374) |
| Loss on disposal of interest in a subsidiary | | | | | | | **–** | (2) |
| Loss before taxation | | | | | | | **(2,598)** | (1,084) |
| Taxation | | | | | | | **38** | (187) |
| Loss for the year | | | | | | | **(2,560)** | (1,271) |
| **Assets** | | | | | | | | |
| Segment assets | **11** | 13 | **9,990** | – | **–** | 411 | **10,001** | 424 |
| Unallocated corporate assets | | | | | | | **32,362** | 6,013 |
| Consolidated total assets | | | | | | | **42,363** | 6,437 |
| **Liabilities** | | | | | | | | |
| Segment liabilities | **6,744** | 6,474 | **–** | – | **–** | 329 | **6,744** | 6,803 |
| Unallocated corporate liabilities | | | | | | | **6,548** | 325,739 |
| Consolidated total liabilities | | | | | | | **13,292** | 332,542 |
| **Other information** | | | | | | | | |
| Capital additions | **–** | 14 | **–** | – | **–** | – | **–** | 14 |
| Depreciation | **2** | 1 | **–** | – | **–** | – | **2** | 1 |

## 7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

**Geographical segments**

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

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Turnover by geographical market:– | | |
| Hong Kong | **12,142** | 30,261 |
| PRC | **–** | 9,806 |
| | **12,142** | 40,067 |
| Carrying amount of segment assets analysed by location of assets:– | | |
| Hong Kong | **41,708** | 5,186 |
| Macau | **655** | 872 |
| PRC | **–** | 379 |
| | **42,363** | 6,437 |
| Additions to plant and equipment analysed by location of assets:– | | |
| Hong Kong | **–** | 14 |

## 8. OTHER OPERATING INCOME

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Gain on sales of inventories previously written off | **636** | – |
| Interest income on bank deposits | **589** | 20 |
| Waiver of accrued director's remuneration | **205** | – |
| Waiver of amount due to a director | **198** | – |
| Sundry income | **124** | 122 |
| Gain on disposal of plant and equipment | **–** | 325 |
| | **1,752** | 467 |

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

### (i) Directors' remuneration

The emoluments paid or payable to each of the eight (2007: twelve) directors were as follows:–

| | | Other emoluments | | |
|---|---|---|---|---|
| | **Fees** | **Salaries and other benefits** | **Pension costs** | **Total emoluments** |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **For the year ended 31 December 2008** | | | | |
| Executive directors:– | | | | |
| Kan Che Kin, Billy Albert | **–** | **10** | **–** | **10** |
| Yu Pen Hung *(Note 9(i)(a))* | **–** | **–** | **–** | **–** |
| Kan Kung Chuen Lai | **–** | **10** | **–** | **10** |
| Li Shu Han, Eleanor Stella | **–** | **10** | **–** | **10** |
| Li Kai Yien, Arthur Albert | **–** | **10** | **–** | **10** |
| Independent non-executive directors:– | | | | |
| Li Siu Yui | **50** | **–** | **–** | **50** |
| Ip Woon Lai | **50** | **–** | **–** | **50** |
| Lee Kong Leong | **50** | **–** | **–** | **50** |
| | **150** | **40** | **–** | **190** |
| For the year ended 31 December 2007 | | | | |
| 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 9(i)(b))* | – | 30 | – | 30 |
| Ma Pun Sai, Betsy *(Note 9(i)(b))* | – | 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 9(i)(b))* | 45 | – | – | 45 |
| Liu James Juh *(Note 9(i)(b))* | 49 | – | – | 49 |
| | 133 | 85 | – | 218 |



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

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

*Note:–*

(a) Mr. Yu Pen Hung ("Mr. Yu") resigned as the Company's executive director on 23 May 2008. No remuneration was paid to Mr. Yu during the year.

(b) 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.

(c) At 31 December 2008, the remuneration payable to the Directors was approximately HK$48,000 (2007: HK$253,000) which was included in accrued charges and other payables in note 19 to the consolidated financial statements.

### (ii) Employees' emoluments

During the year, the seven (2007: five) highest paid individuals included three directors (2007 : three directors) receiving the same amount of emoluments, details of which are set out above in paragraph (i). The emoluments of the remaining four (2007: two) highest paid individuals are as follows:–

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Salaries and other benefits | **1,262** | 363 |
| Retirement benefits scheme contributions | **29** | 7 |
| | **1,291** | 370 |

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

During the year, the accrued director's remuneration of approximately HK$205,000 was waived by Mr. Yu. Apart from this, 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 seven highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.



## 10. FINANCE COSTS

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Interests on unsecured other loans | **293** | – |
| Bank charges | **–** | 46 |
| | **293** | 46 |

## 11. LOSS BEFORE TAXATION

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Loss before taxation has been arrived at after charging/(crediting):– | | |
| Auditors' remuneration | **340** | 320 |
| Depreciation of plant and equipment | **2** | 1 |
| Operating lease rentals in respect of rented premises | **282** | 285 |
| Staff costs:– | | |
| Directors' remuneration | | |
| – fees | **150** | 133 |
| – other emoluments | **40** | 85 |
| | **190** | 218 |
| Staff costs excluding directors' remuneration | **1,262** | 363 |
| Retirement benefits scheme contributions, excluding amounts included in directors' remuneration | **32** | 12 |
| | **1,294** | 375 |
| Total staff costs | **1,484** | 593 |
| Gain on disposal of plant and equipment | **–** | (325) |

## 12. TAXATION

Taxation for the year represents the over-provision of Hong Kong Profits Tax for the preceding year.

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

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 preceding year.

The Hong Kong Profits Tax rate decreased from 17.5% to 16.5% with effect from the year of assessment 2008/2009.

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.

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

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Loss before taxation | **(2,598)** | (1,084) |
| Tax at Hong Kong Profits Tax rate of 16.5% (2007: 17.5%) | **(429)** | (190) |
| Tax effect of non-deductible expenses | **544** | 468 |
| Tax effect of non-taxable income | **(129)** | (99) |
| Tax effect of tax losses not recognised | **32** | 32 |
| Tax effect of deductible temporary differences not recognised | **(18)** | (24) |
| Over-provision in prior year | **(38)** | – |
| Taxation (credit)/charge for the year | **(38)** | 187 |

## 13. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2008, nor has any dividend been proposed since the balance sheet date.

## 14. LOSS PER SHARE

The calculation of the basic 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 approximately HK$2,560,000 (2007: HK$1,271,000) and the weighted average number of 2,386,610,415 (2007: 1,600,383,014) Shares in issue.

Diluted loss per Share has not been calculated for the year as the exercise of the convertible notes in the aggregate principal amount of HK$358 million issued by the Company would result in a decrease in the loss per Share. For the year ended 31 December 2007, the calculation of diluted loss per Share did not assume the exercise of the Company's outstanding share options as the exercise price per Share of those options was higher than the average market price per Share before the suspension of trading in the Shares in September 2006. The aforementioned share options were exercised/cancelled/lapsed during the year ended 31 December 2007 and the Company had no dilutive potential Shares as at 31 December 2007.

## 15. PLANT AND EQUIPMENT

| | **Furniture, fixtures and equipment** | **Motor vehicles** | **Total** |
|---|---|---|---|
| | **HK$'000** | **HK$'000** | **HK$'000** |
| COST | | | |
| At 1 January 2007 | 13,356 | 2,311 | 15,667 |
| Additions | 14 | – | 14 |
| Disposals | – | (2,311) | (2,311) |
| **At 31 December 2007 and 31 December 2008** | **13,370** | **–** | **13,370** |
| DEPRECIATION | | | |
| At 1 January 2007 | 7,658 | 2,046 | 9,704 |
| Provided for the year | 1 | – | 1 |
| Eliminated on disposals | – | (2,046) | (2,046) |
| At 1 January 2008 | 7,659 | – | 7,659 |
| Provided for the year | 2 | – | 2 |
| **At 31 December 2008** | **7,661** | **–** | **7,661** |
| IMPAIRMENT | | | |
| **At 1 January 2007, 1 January 2008 and 31 December 2008** | **5,698** | **–** | **5,698** |
| CARRYING VALUES | | | |
| **At 31 December 2008** | **11** | **–** | **11** |
| At 31 December 2007 | 13 | – | 13 |

## 16. HELD FOR TRADING INVESTMENTS

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Equity securities listed in Hong Kong, at fair value | **9,990** | – |

The fair value of the Group's investments in listed equity securities has been determined directly by reference to their published price quotations in active market as at 31 December 2008.

Details of the Group's investments as at 31 December 2008 are as follows:–

| **Name** | **Place of incorporation** | **Principal activities** | **Particulars of investment** | **Approximate percentage of equity interest held** |
|---|---|---|---|---|
| PCCW Limited | Hong Kong | Provision of telecommunications services, internet access services, interactive multimedia and pay-TV services, the sale and rental of telecommunications equipment, and the provision of computer, engineering and other technical services; investments in, and development of, systems integration and technology-related businesses; and investments in, and development of, infrastructure and properties | Ordinary shares of HK$0.25 each | 0.04% |

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

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Trade receivables | **–** | 507,295 |
| Less: Allowance for doubtful debts | **–** | (506,884) |
| | **–** | 411 |
| Prepayments, deposits and other receivables | **1,034** | 1,168 |
| | **1,034** | 1,579 |

## 17. TRADE RECEIVABLES, PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

The credit terms of the Group range from 30 to 60 days. The aged analysis of trade receivables (based on invoice dates and before allowance for doubtful debts) as at 31 December 2008 and 2007 is as follows:–

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Aged:– | | |
| 0 to 30 days (not past due nor impaired) | **–** | 411 |
| Over 180 days (past due and fully impaired) | **–** | 506,884 |
| Total trade receivables | **–** | 507,295 |

No further allowance for doubtful debts has been provided for during the two years ended 31 December 2008 and 2007. The allowance for doubtful debts was fully written off against trade receivables during the year ended 31 December 2008.

## 18. 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.

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

The aged analysis of trade payables as at 31 December 2008 and 2007 is as follows:–

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Aged:– | | |
| 0 to 30 days | **–** | 329 |
| Over 1 year | **6,744** | 6,474 |
| Total trade payables | **6,744** | 6,803 |
| Accrued charges and other payables | **4,517** | 5,337 |
| | **11,261** | 12,140 |

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

## 20. AMOUNTS DUE TO DIRECTORS

During the year, the amount of approximately HK$317,986,000 due to Mr. Kan Che Kin, Billy Albert ("Mr. Kan"), an executive Director and the chairman of the Company, was set off against the subscription price of the convertible notes issued during the year (Note 24). The remaining balance of approximately HK$198,000 due to Mr. Yu was waived by Mr. Yu during the year.

## 21. UNSECURED OTHER LOANS

The loans are denominated in Hong Kong dollars, unsecured and repayable on demand.

The loan amounted to HK$1,800,000 (2007: HK$1,800,000) is interest-bearing at an annual rate of 15% while the remaining loan of approximately HK$231,000 (2007: HK$231,000) is interest-bearing at an annual rate of 10%.

## 22. DEFERRED TAXATION

At the balance sheet date, the Group had unused tax losses of approximately HK$498,005,000 (2007: HK$498,425,000) 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$961,000 (2007: HK$1,577,000) which will expire as follows:–

| **Year of expiry** | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| 2008 | **–** | 616 |
| 2009 | **279** | 279 |
| 2010 | **54** | 54 |
| 2011 | **628** | 628 |
| | **961** | 1,577 |

At the balance sheet date, the Group had deductible temporary differences of approximately HK$1,670,000 (2007 : HK$1,777,000) 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.

## 23. SHARE CAPITAL

### (a) Share capital

| | Number of shares | HK$'000 |
|---|---:|---:|
| Shares of HK$0.01 each | | |
| Authorised:– | | |
| At 1 January 2007 and 31 December 2007 | 10,000,000,000 | 100,000 |
| Increase during the year | 30,000,000,000 | 300,000 |
| **At 31 December 2008** | **40,000,000,000** | **400,000** |
| Issued and fully paid:– | | |
| At 1 January 2007 | 1,600,000,000 | 16,000 |
| Exercise of share options *(Note 27)* | 2,330,000 | 23 |
| At 31 December 2007 | 1,602,330,000 | 16,023 |
| Conversion of convertible notes *(Note 24)* | 1,036,269,429 | 10,363 |
| **At 31 December 2008** | **2,638,599,429** | **26,386** |

Pursuant to an ordinary resolution passed on 11 February 2008, the Company's authorised share capital increased from HK$100 million to HK$400 million by the creation of 30,000 million Shares which ranked pari passu in all aspects with the then existing Shares.

### (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 is unchanged from the previous periods, is 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.

## 24. CONVERTIBLE NOTES

On 15 January 2008, the Company and Mr. Kan, an executive Director and the substantial shareholder of the Company, 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 zero-coupon and non-redeemable convertible notes (the "Convertible Notes") of the Company in an aggregate principal amount of HK$358 million. The initial conversion price is HK$0.0386 per Share. Assuming that the conversion rights attaching to the Convertible Notes are exercised in full at the conversion price of HK$0.0386 per Share, an aggregate of 9,274,611,398 Shares will be issued.

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. 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 a supplier which had been assigned to Mr. Kan; 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. The remaining balance of the subscription price of approximately HK$40 million was settled in cash, which was used as general working capital of the Group. The maturity date of the conversion rights attaching to the Conversion Notes is 13 February 2013, being the date falling on the fifth anniversary from the date of issue of the Convertible Notes. In the event the compulsory conversion of the outstanding principal amount of the Convertible Notes on the maturity date would render the then issued Shares held in the public hands being less than the minimum public float as required under the Listing Rules from time to time, the Convertible Notes will be renewed automatically for successive term of one year commencing the day next after the expiry of the then current term of the Convertible Notes.

On 18 February 2008 and 31 July 2008, Mr. Kan exercised the conversion rights attaching to the Convertible Notes in relation to the conversion of an aggregate principal amount of HK$30,000,000 and HK$10,000,000 of the Convertible Notes respectively and an aggregate of 777,202,072 Shares and 259,067,357 Shares were allotted and issued to Mr. Kan respectively. There was no other conversion thereafter during the year and the outstanding principal amount of the Convertible Notes as at 31 December 2008 was HK$318,000,000.

The issue of Convertible Notes was satisfied in part by setting off against the amount of approximately HK$318 million due to Mr. Kan on a dollar for dollar basis, which constituted a non-cash transaction during the year.

## 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:–

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within one year | **83** | 288 |
| In the second to fifth year inclusive | **–** | 106 |
| | **83** | 394 |

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

## 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 (the "Board") of Directors may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for 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 of the date of grant, upon payment of HK$1 per option. The exercise price is determined by the Directors 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.

On 30 May 2003, the shareholders of the Company resolved to make certain amendments to the Option Scheme as the Listing Rules were amended on 1 September 2001. Pursuant to the amended Option Scheme, (i) the Board 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, 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, 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.

## 27. SHARE OPTION SCHEME (continued)

The following table discloses details of the Company's share options outstanding as at 31 December 2007 and their movements thereon during the year ended 31 December 2007:–

| | | | Number of Shares to be subscribed under the share options granted pursuant to the Option Scheme | | | | |
|---|---|---|---|---|---|---|---|
| | Date of grant | Exercise price per Share HK$ | Outstanding as at 1 January 2007 | Granted during the year | Exercised during the year | Lapsed/ cancelled during the year | Outstanding as at 31 December 2007 |
| For the year ended 31 December 2007 | | | | | | | |
| 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 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 on 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, was 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 under the Option Scheme were exercised during the year 2007 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 the 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 2007 was approximately HK$888,000.

There was no outstanding share option to subscribe for Shares as at 1 January 2008 and no share option to subscribe for Shares had been granted during the year ended 31 December 2008. Accordingly, there was no share option to subscribe for Shares outstanding as at 31 December 2008.

## 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 approximately HK$32,000 (2007: HK$12,000) represents contributions paid and payable to the scheme by the Group at rate specified in the rules of the scheme. When there are employees who leave the defined contribution retirement benefits scheme prior to becoming fully vested in the contributions, the amount of the forfeited contributions will be used to reduce future contributions payable by the Group. As at 31 December 2008 and 2007, no forfeited contributions were available to reduce the contributions payable in the future years.

## 29. RELATED PARTY TRANSACTIONS

**(a)** Apart from the information as disclosed in notes 9, 20 and 24 in the consolidated financial statements, the Group did not have other material transactions with its related parties during the year.

(b) **Compensation of key management personnel**

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

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Short-term benefits | **1,109** | 413 |
| Post-employment benefits | **12** | 3 |
| | **1,121** | 416 |

The remuneration of key management is determined by the remuneration committee of the Company 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. EVENTS AFTER THE BALANCE SHEET DATE

On 2 January 2009, Key Fit Group Limited, a wholly owned subsidiary of the Company, entered into a sale and purchase agreement (the "Agreement") with BK Capital Limited (the "Vendor") for the acquisition of an office unit (the "Property") for a consideration of HK$7,000,000, which was determined after arm's length negotiations between the Company and the Vendor with reference to the valuation of the Property as at 2 December 2008. The acquisition will be completed on 1 June 2009, subject to the terms and conditions in the Agreement.

# Notes to the Consolidated Financial Statements

*For the year ended 31 December 2008*

## 30. EVENTS AFTER THE BALANCE SHEET DATE (continued)

Mr. Kan, an executive Director and the substantial shareholder of the Company, holds 999,999 issued shares of the Vendor while Mrs. Kan Kung Chuen Lai, an executive Director and the spouse of Mr. Kan, holds one issued share of the Vendor. The Vendor is therefore regarded as a connected person of the Company under the Listing Rules and such acquisition is regarded as a connected transaction of the Company under the Listing Rules. Details of the acquisition of the Property are set out in the announcement of the Company dated 6 January 2009.

## 31. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2008 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 | |
| Ariel International Technology Co., Limited | Hong Kong | HK$10 | – | 100% | Trading of networking equipment |
| 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% | Dormant |
| Artel Computer Solutions Limited | British Virgin Islands | US$200,000 | – | 100% | Investment holding |
| Artel e-Solutions Limited | British Virgin Islands | US$110 | – | 100% | Investment holding |
| Artel Futac 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 International Investments Limited | British Virgin Islands | US$1 | – | 100% | Dormant |

## 31. 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 Directly | Attributable equity interest held by the Company Indirectly | Principal activities |
|---|---|---|---|---|---|
| Artel Industries Limited | Hong Kong | Ordinary – HK$2<br>Deferred – HK$8,000,000** | – | 100% | Trading of computer components and networking equipment and provision of integrated e-enabling solutions |
| Artel Macao Commercial Offshore Limited | Macau | MOP1,000,000 | – | 100% | Dormant |
| ASEP Solutions Limited | Hong Kong | HK$2 | – | 100% | Dormant |
| Best Hero Limited | Hong Kong | HK$10,000 | – | 100% | Dormant |
| Cyber King Group Limited | British Virgin Islands | US$1 | – | 100% | Dormant |
| 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, networking equipment and securities |
| 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**

| | 2004 | 2005 | 2006 | 2007 | **2008** |
|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | **HK$'000** |
| **RESULTS** | | | | | |
| Turnover | 1,658,830 | 1,198,229 | 36,334 | 40,067 | **12,142** |
| Profit/(loss) before taxation | 33,807 | (595,716) | (182,425) | (1,084) | **(2,598)** |
| Taxation | (585) | (734) | 1,300 | (187) | **38** |
| Profit/(loss) for the year | 33,222 | (596,450) | (181,125) | (1,271) | **(2,560)** |
| Earnings/(loss) per share (HK cents) | | | | | |
| Basic | 2.1 | (37.3) | (11.3) | (0.08) | **(0.11)** |

**At 31 December**

| | 2004 | 2005 | 2006 | 2007 | **2008** |
|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | **HK$'000** |
| **ASSETS AND LIABILITIES** | | | | | |
| Total assets | 1,088,320 | 226,291 | 5,390 | 6,437 | **42,363** |
| Total liabilities | (636,467) | (370,888) | (331,112) | (332,542) | **(13,292)** |
| Shareholders' funds/(capital deficiencies) | 451,853 | (144,597) | (325,722) | (326,105) | **29,071** |