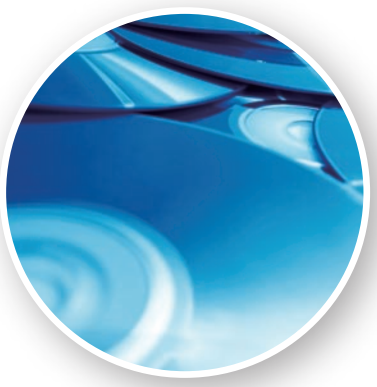
# ThinSoft

THINSOFT (HOLDINGS) INC
博軟(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8096)

## Annual Report 2008



## CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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# CHAIRMAN'S STATEMENT

ThinSoft (Holdings) Inc. ("ThinSoft" or the "Group") completed a significant year of changes in 2008.

Most important in 2008 was the change in majority ownership of the Group which took place when Inno Smart Group Limited acquired the shares of ThinSoft from IPC Corporation Ltd on 14 July 2008. In this transaction we recognized the necessity to retain the key managers and personnel of the Group which has proven successful. These talented personnel continued to propel new product development, sales and distribution of ThinSoft's leading software products throughout the world. New software such as WinConnect Server VS (64bit) was released in December 2008.

At the same time, the Group managed its operations throughout the course of 2008 with significant attention to expense containment in line with the revenue stream. The global economic crisis, while being felt by companies large and small in all sectors of the business world, gave rise to continued frugal operations management within the company. It also gave added momentum to the Group's marketing strategy which promotes the cost-effectiveness of the ThinSoft product suite.

The Group knows 2009 shall be a very difficult year filled with global recession and uncertainty leading to significant slowdown in all areas of consumptions which will have an impact on ThinSoft's earnings inevitably. ThinSoft shall however trade cautiously and do its best to minimise the negative impact due to the unfavourable global crisis.

## FINANCIAL HIGHLIGHTS

Turnover from the sales of software for the year ended 31 December 2008 slightly increased by approximately HK$0.31 million to approximately HK$14.37 million when compared to last year of approximately HK$14.06 million. Overall turnover for the year under review decreased approximately 4% from approximately HK$17.19 million to approximately HK$16.51 million due in part to the economic slowdown in the fourth quarter.

2008 was an interesting year from a sales and operating standpoint but was not without financial challenges. An additional provision for the impairment of the Group's investment in Vietnam was taken in the year ended 31 December 2008 as a result of worsening global market conditions and as a prudent conservative accounting treatment of this investment. Before this provision for impairment, the Group registered a net pre-tax operating profit of approximately HK$1.22 million. The after-tax net loss attributable to shareholders for the year under review to approximately HK$4.45 million compared to a profit of approximately HK$0.37 million in the prior year.

## BUSINESS REVIEW

The Group entered 2008 with its focus clearly on improving its products and therefore its customers' experiences in light of Microsoft's new Vista Windows platform releases in 2007.

Software collaboration amongst the Group's engineering staff in the United States, the United Kingdom and Singapore ensured the highest quality and reliability standards were maintained throughout the year. It is for this reason that customer satisfaction continues to be strong and ThinSoft has been able to further expand its customer reach in Europe, the United States and Asia.

Through its substantial network of international distributors and resellers, ThinSoft managed to demonstrate the benefits of its product solutions to customers, worldwide, by promoting product awareness and the Group's value proposition at tradeshows and exhibitions in countries as far-reaching as Brazil and Germany and closer to home in Malaysia.

## PROSPECTS

At the outset of 2008, the Group considered what affect the US presidential election would bring to world political and economic prospects. No one was able to anticipate and imagine the global melt-down that occurred in financial markets.

2009 will likely be a most challenging year for the Group. Nonetheless, ThinSoft shall keep emphasising the benefits its software solutions that could improve the total cost of ownership of customers' investments.

Meanwhile, the Group will continue to focus on exploiting and pursuing any investment opportunities which can enhance the Group's performance and returns to shareholder.

## APPRECIATION

I would like to acknowledge the dedication of its staff and the continued support of its business partners and shareholders over this period in making improved performance possible. I would like to express my personal appreciation to each of these groups for their contributions.

**Yu Won Kong Dennis**
*Chairman*

Hong Kong
26th March 2009

# CORPORATE INFORMATION

## EXECUTIVE DIRECTORS
Yu Won Kong Dennis
Yue Wai Keung

## NON-EXECUTIVE DIRECTORS
Chan Kwan Pak
Lam Kit Sun

## INDEPENDENT NON-EXECUTIVE DIRECTORS
Chen Tzyh-Trong
Lee Chung Mong
Yeung Chi Hung

## AUDIT COMMITTEE
Chen Tzyh-Trong
Lee Chung Mong
Yeung Chi Hung

## REMUNERATION COMMITTEE
Chen Tzyh-Trong
Lee Chung Mong
Yeung Chi Hung

## NOMINATION COMMITTEE
Chen Tzyh-Trong
Lee Chung Mong
Yeung Chi Hung

## COMPLIANCE OFFICER/COMPANY SECRETARY
So Kin Wing

## AUTHORISED REPRESENTATIVE
So Kin Wing

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

## AUDITOR
PricewaterhouseCoopers

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS
6/F, New Henry House
10 Ice House Street,
Central, Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
Bank of Bermuda (Cayman) Limited
P.O. Box 513 GT
Strathvale House
North Church Street
George Town
Grand Cayman
Cayman Islands
British West Indies

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
Hong Kong Registrars Limited
Rooms 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

## WEBSITE ADDRESSES
www.ThinSoftinc.com
www.Thincomputinginc.com
www.Austin.com.sg

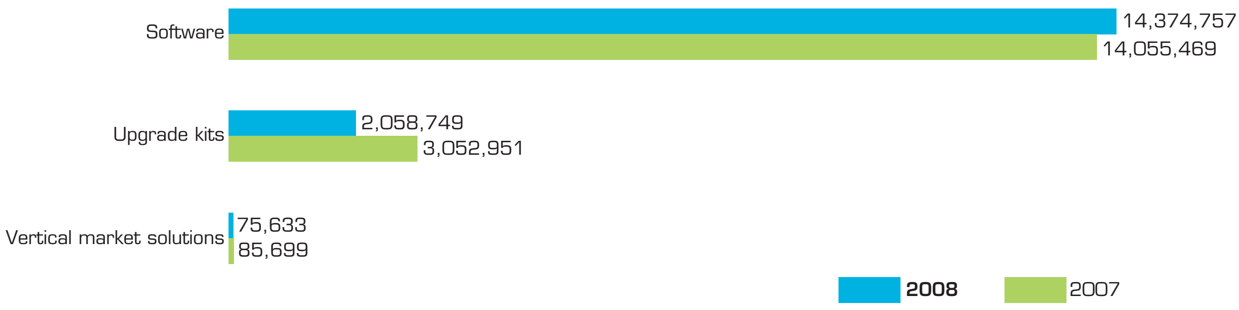
## PRINCIPAL BANKERS
Citibank, N.A.
DBS Bank (Hong Kong) Limited
First Niagara Bank

## STOCK CODE
8096

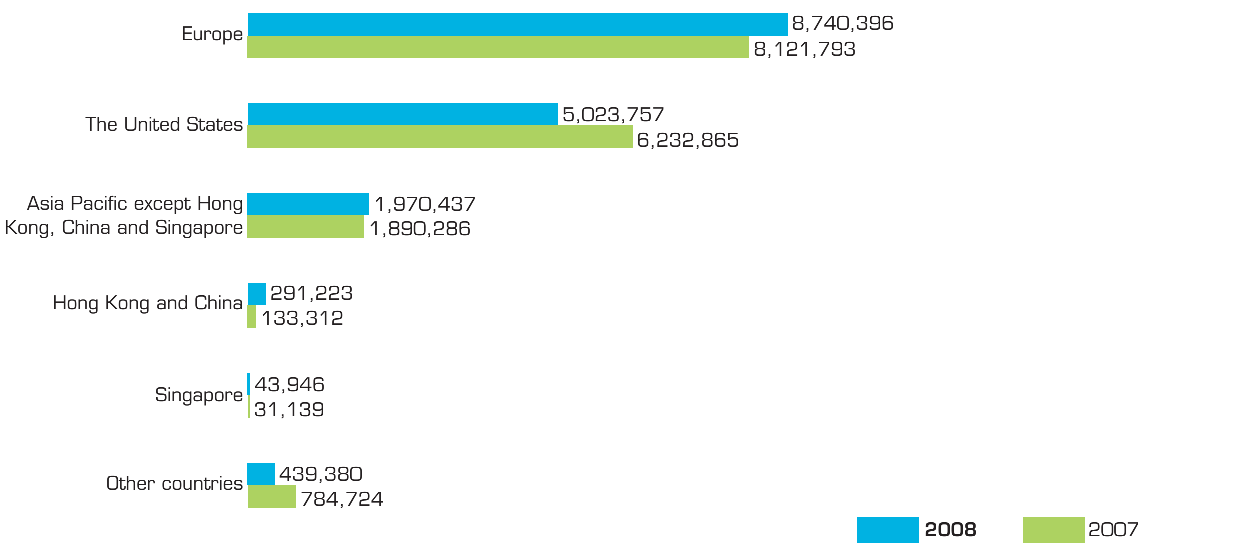
# FINANCIAL HIGHLIGHTS

| | Year ended 31st December | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$** | HK$ |
| **Results** | | |
| Turnover | **16,509,139** | 17,194,119 |
| (Loss)/Profit for the year | **(4,446,880)** | 370,624 |
| **Assets and liabilities** | | |
| Total assets | **36,927,757** | 41,550,688 |
| Total liabilities | **3,084,732** | 2,794,651 |
| Shareholders' equity | **33,843,025** | 38,756,037 |

## TURNOVER BY PRINCIPAL ACTIVITIES




## TURNOVER BY GEOGRAPHICAL



# MANAGEMENT DISCUSSION AND ANALYSIS

## OPERATIONS AND BUSINESS REVIEW

The Group entered 2008 with its focus clearly on improving its products and therefore its customers' experiences in light of Microsoft's new Vista Windows platform releases in 2007.

Software collaboration amongst the Group's engineering staff in the United States, the United Kingdom and Singapore ensured the highest quality and reliability standards were maintained throughout the year.

To expand the range of its already leading products, the Group released new software – WinConnect Server VS (64-bit), in December 2008 as a result of constant customers' request. This again demonstrated the Group responsiveness to market demands and its technical competency to be able to continuously release new software to tap new markets opportunities.

The Group, through its network of worldwide distributors, continue to increase its product awareness and value proposition by participating in many tradeshows and exhibitions in countries such as Brazil, Germany and Malaysia.

At the same time, the Group viewed 2008 with the intent of keeping expenses in tow and in line with revenue expectations. The weakened economy, while being felt by companies large and small in all sectors of the global business world, gave rise to continued frugal operations management within the company. It also gave added momentum to the Group's marketing strategy which promotes the cost-effectiveness of the ThinSoft product suite. Today, every business is looking for ways to economize and the WinConnect, WinConnect Server and BeTwin product solutions offer very appealing cost benefits to customers, Individuals, small to medium enterprises, and even large entities can benefit from the Group's product solutions.

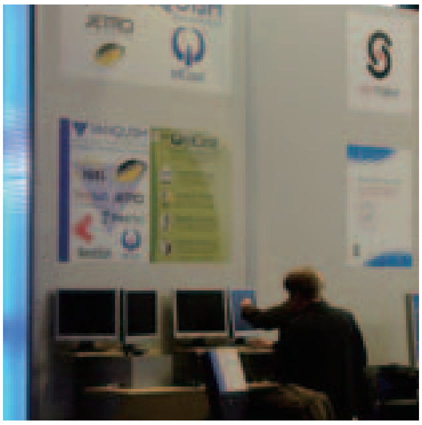
Pursuant to announcement dated 19 December 2008, the management determined to wind up a major subsidiary – ThinSoft (USA) Inc with the relevant USA governmental authority. The management considers that there would be cost savings in the long run after the business restructuring. The management also believes that the adoption of this strategy would enable the Company to effectively reallocate its resources to its existing core business and other areas of high capital growth in order to have a positive impact on the overall performance of the Group.

## FINANCIAL REVIEW

Turnover from the sales of software for the year ended 31st December 2008 was slightly increased by approximately 2% to approximately HK$14.37 million when compared to last year of approximately HK$14.06 million.

Overall turnover for the year under review decreased from approximately HK$17.19 million to approximately HK$16.51 million as the Group continued to put more efforts on software-only sales. All of the reduction in total turnover was attributable to lower sales of upgrade kits and vertical market solutions which include both hardware and software and carried lower profit margins.

During the year under review, Europe became the largest single geographic market for the Group, where turnover amounted to approximately HK$8.74 million or 53% of total turnover. Sales in the United States amounted to approximately HK$5.02 million or approximately 30% of the Group's total sales.



***Details of the exhibition :***
Name : Cebit 2008, Hannover, Germany
Date : 4 to 9 March 2008

This is an international trade show held annually in Hannover, Germany.

Gross profit margin for the year ended 31st December 2008 increased to approximately 86.9% as compared with approximately 85.6% in the corresponding previous year. The richer margins were attributable to increased software sales during the year under review.

Selling and distribution costs in the year under review decreased to approximately HK$0.81 million, when compared to approximately HK$1.24 million incurred in the previous year. The decrease was due to tightening control on marketing expenses. The marketing expenses included participation in exhibitions at Cebit 2008 Hannover in Germany which was one of largest consumers shows in the world. The Company also participated shows in Australia, and Shanghai in China. Attendance at these events is viewed as investments in the future by the Group.

Administrative expenses in the year under review increased by approximately 10% to approximately HK$12.92 million when compared to approximately HK$11.76 million incurred in the previous year. The increase was mainly due to the relevant expenses incurred for the change of shareholdings of the Company.

In addition, adjustments to the fair value of the Group's available-for-sale financial assets resulted in a net charge to impairment provisions of approximately HK$3.50 million.

The Group consequently registered a loss attributable to shareholders for the year under review of approximately HK$4.45 million compared to a profit of approximately HK$0.37 million in the prior year.

The Group continues to be in a healthy financial position. Cash and bank balances as at 31st December 2008 was approximately HK$24.97 million (2007: approximately HK$30.83 million). There were no bank borrowings as at 31st December 2008 (2007: Nil).

## CAPITAL STRUCTURE

There has been no change in the capital structure of the Company during the year under review. The capital of the Company comprises only ordinary shares. The Company and the Group had no borrowing and long-term debts as at 31st December 2008.

## SIGNIFICANT INVESTMENTS

On 27th February 2007, ThinSoft Pte Ltd, a wholly owned subsidiary of the Company, entered into the subscription agreement for the subscription of 100,000 shares in Vietnam Emerging Market Fund Limited at a subscription price of US$10 per share at the consideration of US$1,000,000. The subscription constituted a disclosable transaction of the Company for the purposes of the GEM Listing Rules. A circular containing details of the subscription was issued on 28th March 2007.

The fair value of the investment decreased by HK$3.91 million as at 31st December 2008. A provision for impairment loss of HK$3.50 million was recorded in the consolidated income statement in view of the significant decline in value.

On 1st December 2008, a wholly-owned subsidiary of the Company, ThinSoft Investment Holdings Limited, entered into a loan agreement with Kiu Hung Energy Holdings Ltd. ("Kiu Hung"), pursuant to which the Company agreed to advance to Kiu Hung a loan of HK$5.50 million for a period of 12 calender months. The effective interest rate of the loan is 11% per annum. The loan was financed by the Company from its internal resources. The Board of the Company considers that the loan provides another opportunity for the Group to get a higher rate of return for its surplus fund. Details of the loan was disclosed in the circular of the Company dated 12th December 2008.

Apart from the above, as at 31st December 2008, the Group did not have any significant investments.

## MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES/FUTURE PLANS FOR MATERIAL INVESTMENT

There had been no material acquisitions and disposals during the year. At present, the Group has no plans for material investments or capital assets.

## GEARING RATIO

As at 31st December 2008, the Group did not have any long-term debts and its shareholders' funds amounted to approximately HK$33.84 million. In this regard, the Group had a net cash position and its gearing ratio was zero (net debt to shareholders' funds) as at 31st December 2008.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group generally financed its operations with internally generated cash flows.

As at 31st December 2008, the Group had cash and cash equivalents of approximately HK$24.97 million as compared to approximately HK$30.83 million as at 31st December 2007.

## FOREIGN EXCHANGE EXPOSURE

The functional currency of ThinSoft Pte Ltd, a subsidiary of the Group is Singapore dollar. It is exposed to foreign exchange risk in US dollar mainly arising from the US dollar deposits placed with a reputable bank.

To manage the foreign exchange risk arising from recognised assets as mentioned above, the Group took steps to ensure that the US dollar deposits placed with banks are within the limit set by the Group.

## CHARGES ON GROUP ASSETS

As at 31st December 2008, the Group did not have any charges on its assets.

## CONTINGENT LIABILITY

The Group did not have any significant contingent liabilities as at 31st December 2008.

## SEGMENTAL INFORMATION

The segmental information of the Group's products is set out in Note 5 to the consolidated financial statements.

## EMPLOYEES

As at 31st December 2008, the Group had 15 full-time employees. The aggregate remuneration of the Group's employees, including that of the directors, for the year under review and the previous year amounted to approximately HK$7.44 million and approximately HK$6.29 million respectively. The Group remunerates its employees based on their performance, experience and the prevailing industry practice.

Each of the executive Directors has entered into a service contract with the Company for the term of two years commencing from 11th August 2008 and expiring on 12th August 2010 unless terminated by either party giving not less than three months' prior written notice to the other. Under the service contracts, after each completed year of service, the remuneration payable to each of them may, subject to the discretion of the directors, be adjusted and each will be entitled to a discretionary bonus.

At the date of this report, all share options granted to the employees of the Group pursuant to the Pre-IPO share option scheme adopted by the Company on 2nd February 2002 were lapsed and no share options have been granted under the Post-IPO share option scheme adopted by the Company on 2nd February 2002.

Other remuneration and benefits, including retirement benefits scheme, remained at appropriate level. Particulars are detailed in the relevant section of this report.

# PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

### YU WON KONG DENNIS

Aged 58, is the chairman of the Company, has over 20 years of experience in financial investment field. In the last 3 years, Mr. Yu was a director of Fortuna International Holdings Limited, a company listed on the Stock Exchange. During the period from 1995 to 2003, he acted as executive director respectively in several listed companies in Australia, Frankfurt and NASDAQ and was responsible for identifying acquisition targets, raising fund, and monitoring those companies' direct investment activities in the PRC. Mr. Yu is currently the managing director of Strong Choice Investments (Holding) Limited which is engaged in direct investment in the Greater China area.

### YUE WAI KEUNG

Aged 56, is an executive director of the Company, is a member of Shantou Committee of the Chinese People's Political Consultative Conference and a director of The Overseas Teo Chew Entrepreneurs Association. He is the chairman of Luen Fat Securities Company Limited as well as a director of a number of privately-held securities and financial service companies. Mr. Yue has over 30 years of experience in the securities and futures industry. He is the vice chairman of Hong Kong Securities Professionals Association, an honorary advisor of The Chamber of Hong Kong Listed Companies and an honorary advisor of Hong Kong Stockbrokers Association Limited. He has also been a member of the Election Committee of Financial Services Sector of Legislative Council of Hong Kong since 2000. He was a member of the Council of the Stock Exchange (from 1993 to 2000), the deputy chairman of Hong Kong Securities Clearing Company Limited (from 1997 to 2000) and a non-executive director of Hong Kong Exchanges and Clearing Limited (from 2000 to 2003), a company whose shares are listed on the Stock Exchange. Mr. Yue was the independent non-executive of Trasy Gold Ex Limited (from 2006 to 2007), a company whose shares are listed on GEM.

### CHAN KWAN PAK

Aged 52, is a non-executive director of the Company, is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants, the Institute of Chartered Secretaries and Administrators as well as the Hong Kong Institute of Chartered Secretaries. He holds a Master's degree in business administration. With extensive experience in corporate finance and corporate governance, Mr. Chan is the company secretary of two companies listed on the Main Board of the Stock Exchange. Mr. Chan is an Adjudicator of the Registration of Persons Tribunal of the Hong Kong SAR Government. He is also a Council Member and the Hon. Treasurer of the Internet Professional Association.

### LAM KIT SUN

Aged 31, is a non-executive director of the Company, has over 9 years of experience in the field of financial reporting, financial management and audit experience in Great China area and Hong Kong. Mr. Lam has worked in an international accountancy firm in Hong Kong for over 4 years and has been the company secretary and qualified accountant of China Leason Investment Group Co. Limited, a company listed on GEM. Mr. Lam is a practising member of the Hong Kong Institute of Certificate Public Accountants.

### CHEN TZYH-TRONG

Aged 51, has been appointed as an independent non-executive director of the Company since 31st October 2001. He is also the chairman of the audit committee and the remuneration committee and a member of the nomination committee of the Company. Mr. Chen holds a bachelor degree in Laws, from National Taiwan University in Taiwan and a degree of Doctor of Philosophy, from the Faculty of Laws, University of London in the United Kingdom. He was a researcher of a trade organisation in London. He served as a chairman's executive assistant of a public listed company in Hong Kong for several years. He had been working as a secretary general and an executive director of the Taiwan Business Association (Hong Kong) from 2000 to 2004. He was also a vice president of a financial advisory service company in Hong Kong, Currently, he is working as a city's general-affair advisor (part-time) for Taiwan's Taipei City government and a director (part-time) of the Taiwan Business Association (Hong Kong).

## LEE CHUNG MONG

Aged 50, has been appointed as an independent non-executive director of the Company since 31st October 2001. He is also a member of the audit committee, the remuneration committee and the nomination committee of the Company. Mr. Lee obtained Ph.D. Degree in Computer Science from the University of Minnesota, USA in 1989. In the same year, he was appointed as Associate, Research Staff in the Institute of Systems Science at National University of Singapore. He had also worked as Professor of Computer Science at The Hong Kong University of Science & Technology for 8 years. In 1999, he was awarded a Teaching Excellence Appreciation Award by the Dean of the School of Engineering of The Hong Kong University of Science and Technology and was elevated as a Senior Member of the Institute of Electrical and Electronics Engineers. He invented the "Method and Apparatus for Verifying a Container Code" and the "Method for Identifying a Sequence of Alphanumeric Characters", which were patented in the United Kingdom and the United States respectively. He is now the chairman and chief executive officer of Asia Vision Technology Ltd.

## YEUNG CHI HUNG

Aged 47, has been appointed as an independent non-executive director of the Company since 30th September 2004. He is also a member of the audit committee, the remuneration committee and the nomination committee of the Company. Mr. Yeung is a fellow of the Hong Kong Institute of Certified Public Accountants and a member of the Institute of Chartered Accountants in England and Wales. Mr. Yeung has over 14 years of experience in accounting and auditing. Mr. Yeung is a certified public accountant (practising) in Hong Kong and the managing director of Yeung, Chan & Associates CPA Limited.

# REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements of ThinSoft (Holdings) Inc (the "Company") and of the consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31st December 2008.

## PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in Note 8 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

An analysis of the Group's performance for the year by business and geographical segments is set out in Note 5 to the consolidated financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 22.

The directors do not recommend the payment of a dividend.

## RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity and Note 18 to the consolidated financial statements.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in Note 7 to the consolidated financial statements.

## SHARE CAPITAL

Details of the share capital of the Company are set out in Note 16 to the consolidated financial statements.

## DISTRIBUTABLE RESERVES

The Company had no reserves available for cash distribution and/or distribution in specie to shareholders of the Company as at 31st December 2008, as computed in accordance with the Companies Law of the Cayman Islands. The Company's share premium as at 31st December 2008, with a balance of HK$24,054,063, may be distributed in the form of fully paid bonus shares.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association or under the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 60.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year under review.

## SHARE OPTIONS

Details of the Company's share option scheme are set out in Note 17 to the consolidated financial statements.

## DIRECTORS

The directors during the year were:

### Executive directors

| | |
|---|---|
| Ngiam Mia Hai Bernard | (resigned on 11th August 2008) |
| Ngiam Mia Hong Alfred | (resigned on 11th August 2008) |
| Yu Won Kong, Dennis | (appointed on 11th August 2008) |
| Yue Wai Keung | (appointed on 11th August 2008) |

### Non-executive directors

| | |
|---|---|
| Chan Kwan Pak | (appointed on 11th August 2008) |
| Lam Kit Sun | (appointed on 11th August 2008) |

### Independent non-executive directors

Chen Tzyh-Trong
Lee Chung Mong
Yeung Chi Hung

In accordance with Articles 86 and 87 of the Company's articles of association and as recommended by the nomination committee of the Company, Mr. Lee Chung Mong, Mr. Yu Won Kong Dennis, Mr. Yue Wai Keung, Mr. Chan Kwan Pak and Mr. Lam Kit Sun retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

## DIRECTORS' SERVICE CONTRACTS

Each of the executive directors and non-executive directors has entered into a service contract with the Company for term of two years commencing from 11th August 2008 and expiring on 12th August 2010 unless terminated by either party giving not less than three months' prior written notice to the other.

Each of the independent non-executive directors has entered into a service contract with the Company for one year commencing from 30th September 2008 and expiring on 1st October 2009 unless terminated by either party giving not less than one month's notice prior written notice to the other.

Details of the appointments of the independent non-executive directors are set out in the Corporate Governance Report.

Save as disclosed in Note 23 to the consolidated financial statements, there were no other emoluments, pension and any compensation arrangements for the directors and past directors as is specified in Sections 161 and 161A of the Hong Kong Companies Ordinance (Chapter 32 of the laws of Hong Kong).

The Company confirms that it has received from each of its independent non-executive directors a confirmation of his independence pursuant to Rule 5.09 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM Listing Rules") and the Company considers the independent non-executive directors to be independent.

None of the directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation, other than statutory obligations.

## DIRECTORS' INTERESTS IN CONTRACTS

Save for transactions as disclosed in Note 29 to the consolidated financial statements, no contracts of significance to the Group's business to which the Company, its holding company or any of its subsidiaries had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 December 2008, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required to be notified to the Company and the Stock Exchange pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, were as follows:

| Name of Directors | Beneficial owner | No. of shares held by controlled corporation | Total | Percentage of the issued share capital of the Company |
|---|---|---|---|---|
| Mr. Yu Won Kong, Dennis *(Notes 1 & 2)* | 630,000 | 375,000,000 | 375,630,000 | 74.94 |
| Mr. Yue Wai Keung *(Notes 1 & 3)* | – | 375,000,000 | 375,000,000 | 74.81 |

*Notes:*

1. Inno Smart Group Limited is beneficially owned 50% by Daylight Express Investments Limited and 50% by Billion Sky Resources Limited. For the purpose of Part XV of the SFO, each of Daylight Express Investments Limited and Billion Sky Resources Limited is deemed to be interested in the shares of the Company held by Inno Smart Group Limited.

2. Daylight Express Investments Limited is wholly owned by Strong Choice Investments (Holdings) Limited, which is in turn wholly owned by Mr. Yu Won Kong Dennis, an executive Director. For the purpose of the Part XV of SFO, Daylight Express Investments Limited is deemed to be interested in the shares of the Company which Strong Choice Investments (Holdings) Ltd is interested in. Mr. Yu Won Kong Dennis is deemed to be interested in the shares of the Company which Daylight Express Investments Limited is interested in.

3. Billion Sky Resources Limited is wholly owned by Mr. Yue Wai Keung, an executive Director. For the purpose of Part XV of SFO, Mr. Yue Wai Keung is deemed to be interested in the shares of the Company which Billion Sky Resources Limited is interested in.

Save as disclosed above, as at 31 December 2008, none of the Directors or chief executive 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 Divisions7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required to be notified to the Company and the Stock Exchange pursuant to rules 5.46 to 5.67 of GEM Listing Rules relating to securities transactions by Directors.

## SUBSTANTIAL SHAREHOLDERS

As at 31 December 2008, so far as was known to any Directors or chief executive of the Company, the following persons had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who is, directly or indirectly, interested in five per cent or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any options in respect of such capital:

### Long position in ordinary shares of the Company

| Name | Capacity | Number of ordinary shares held | Approximate percentage of the Company's issued share capital |
|---|---|---|---|
| Inno Smart Group Limited *(Note 1)* | Beneficial interest | 375,000,000 | 74.81% |
| Strong Choice Investments (Holdings) Limited *(Notes 1 & 2)* | Interest of controlled corporation | 375,000,000 | 74.81% |
| Yu Won Kong, Dennis *(Notes 1 & 2)* | Beneficial interest | 630,000 | 0.13% |
| | Interest of a controlled corporation | 375,000,000 | 74.81% |
| Ho Siu Lan Sandy *(Notes 1 & 2)* | Family interest | 375,630,000 | 74.94% |
| Billion Sky Resources Limited *(Notes 1 & 3)* | Interest of a controlled corporation | 375,000,000 | 74.81% |
| Yue Wai Keung *(Notes 1 & 3)* | Interest of a controlled corporation | 375,000,000 | 74.81% |
| Man Wing Tuen *(Notes 1 & 3)* | Family interest | 375,000,000 | 74.81% |

*Notes:*

1. Inno Smart Group Limited is owned as to 50% by Daylight Express Investments Limited and 50% by Billion Sky Resources Limited. For the purpose of Part XV of the SFO, each of Daylight Express Investments Limited and Billion Sky Resources Limited is deemed to be interested in the shares of the Company held by Inno Smart Group Limited.

2. Daylight Express Investments Limited is wholly owned by Strong Choice Investments (Holdings) Limited which is in turn wholly owned by Mr. Yu Won Kong Dennis. Ms. Ho Siu Lan Sandy is the spouse of Mr. Yu Won Kong Dennis. For the purpose of Part XV of the SFO, Daylight Express Investments Limited is deemed to be interested in the shares of the Company which Strong Choice Investments (Holdings) Limited is interested in. Mr. Yu Won Kong Dennis is deemed to be interested in the shares of the Company which Daylight Express Investments Limited is interested in and Ms. Ho Siu Lan Sandy is deemed to be interested in the shares of the Company which Mr. Yu Won Kong Dennis is interested in.

3. Billion Sky Resources Limited is wholly owned by Mr. Yue Wai Keung. Ms. Man Wing Tuen is the spouse of Mr. Yue Wai Keung. For the purpose of Part XV, Mr. Yue Wai Keung is deemed to be interested in the shares of the Company which Billion Sky Resources Limited is interested in and Ms. Man Wing Tuen is deemed to be interested in the shares of the Company which Mr. Yue Wai Keung is interested in.

Save as disclosed above, there is no person (not being a Director or chief executive of the Company) known to the Directors or chief executive of the Company, who, as at the date of this report, had or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in five per cent or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group, or had any options in respect of such capital.

Save as disclosed above, as at 31st December 2008, no person had an 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.

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

## MAJOR SUPPLIERS AND CUSTOMERS

During the year, sales to the Group's five largest customers accounted for approximately 39.28% of the Group's total sales for the year and sales to the largest customer included therein accounted for approximately 24.55% of the Group's total sales.

Purchases from the Group's five largest suppliers accounted for approximately 45.95% of the Group's total purchases for the year and purchases from the largest supplier included therein accounted for approximately 13.35% of the Group's total purchases.

None of the directors, their associates or any shareholder (which to the best knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the Group's five largest suppliers or customers noted above.

## CONNECTED AND RELATED PARTY TRANSACTIONS

The related party transactions as disclosed in Note 29 to the consolidated financial statements also constitutes continuing connected transactions that are exempt under rule 20.33 of GEM Listing Rules prior to the transfer of control to InnoSmart Group Limited in August 2008.

Save as disclosed therein, there were no other transaction to be disclosed as connected and related party transactions in accordance with the requirements of the GEM Listing Rules and Hong Kong Financial Reporting Standards.

## COMPETING BUSINESS

None of the directors, the substantial shareholders of the Company or any of their respective associates has engaged in any businesses that competes or may compete, either directly or indirectly, with the business of the Group, as defined in the GEM Listing Rules, or has any other conflict of interests with the Group during the year.

## AUDITORS

In April 2007, Ernst & Young resigned as auditor of the Company and PricewaterhouseCoopers were appointed as the auditor of the Company to fill the causal vacancy.

The consolidated financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

**Yu Won Kong, Dennis**
*Chairman*

Hong Kong
26th March 2009

# CORPORATE GOVERNANCE REPORT

## INTRODUCTION

The Company has complied with all the code provisions on Corporate Governance Practices as set out in the GEM Listing Rules by establishing formal and transparent procedures to protect and maximise the interests of shareholders during the period under review.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, the Directors have complied with such code of conduct and the required standard of dealings and its code of conduct regarding securities transactions by the Directors throughout the year ended 31st December 2008.

## BOARD OF DIRECTORS AND BOARD MEETING

The board of Directors, which currently comprises seven Directors, is responsible for corporate strategy, annual and interim results, succession planning, risk management, major acquisitions, disposals and capital transactions, and other significant operational and financial matters. Major corporate matters that are specifically delegated by the board of Directors to the management include the preparation of annual and interim financial statements for board approval before public reporting, execution of business strategies and initiatives adopted by the board of Directors, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

Details of backgrounds and qualifications of the chairman of the Company and the other Directors are set out in the Report of the Directors. All Directors have given sufficient time and attention to the affairs of the Group. Each executive Director has sufficient experience to hold the position so as to carry out his duties effectively and efficiently. Mr. Yu Won Kong Dennis is the chairman of the Board and Mr. Yue Wai Keung is the executive Director of the Company. The Chairman is responsible for providing leadership for the Board of Directors and ensuring that the Board of Directors works effectively. The executive Director is responsible for the Group's business development and management.

The Company appointed two non-executive Directors and three independent non-executive Directors who have appropriate and sufficient experience and qualification to carry out their duties so as to protect the interests of shareholders. Mr. Chan Kwan Pak and Mr. Lam Kit Sun are the non-executive directors and Mr. Chen Tzyh-Trong, Mr. Lee Chung Mong and Mr. Yeung Chi Hung are the independent non-executive Directors. Their respective term of appointment is for a term of two years and one year respectively commencing from 11th August 2008 and 30th September 2008, determinable by either party serving not less than one month's written notice on the other, unless both parties agree otherwise.

All directors of the Company are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's articles of association.

The Company arranged appropriate insurance cover in respect of legal actions against directors.

The board of Directors held a full board meeting for each quarter.

Details of the attendance of the board of Directors are as follows:–

| Directors | Attendance |
|---|---|
| Mr. Ngiam Mia Hai Bernard | 3/3 |
| Mr. Ngiam Mia Hong Alfred | 3/3 |
| Mr. Yu Won Kong Dennis | 9/9 |
| Mr. Yue Wai Keung | 9/9 |
| Mr. Chan Kwan Pak | 9/9 |
| Mr. Lam Kit Sun | 9/9 |
| Mr. Chen Tzyh-Trong | 7/7 |
| Mr. Lee Chung Mong | 7/7 |
| Mr. Yeung Chi Hung | 7/7 |

Apart from the quarterly board meetings of the year, the board of Directors will meet on other occasions when a board-level decision on a particular matter is required. The Directors will receive details of agenda items for decision.

## REMUNERATION OF DIRECTORS

The remuneration committee was established in August 2005. The chairman of the committee is Mr. Chen Tzyh-Trong, an independent non-executive Director, and other members include Mr. Lee Chung Mong and Mr. Yeung Chi Hung, all are independent non-executive Directors.

The role and function of the remuneration committee included the determination of the specific remuneration packages of all executive Directors, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the board of the remuneration of non-executive Directors. The remuneration committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration.

During the year under review, 2 meetings of the remuneration committee were held. Details of the attendance of the remuneration committee meeting are as follows:–

| Members | Attendance |
|---|---|
| Mr. Chen Tzyh-Trong | 2/2 |
| Mr. Lee Chung Mong | 2/2 |
| Mr. Yeung Chi Hung | 2/2 |

The remuneration committee of the Company has considered and reviewed the existing terms of employment contracts of each of Directors of the Company. The remuneration committee of the Company considers that the existing terms of employment contracts of each of Directors are fair and reasonable.

## NOMINATION OF DIRECTORS

The nomination committee was established in August 2005. The chairman of the committee is Mr. Chen Tzyh-Trong, and other members include Mr. Lee Chung Mong and Mr. Yeung Chi Hung, all are independent non-executive Directors.

The role and function of the nomination committee included the recommendation on appointment and removal of Directors.

The nomination committee considers the past performance, qualification, general market conditions and the Company's articles of association in selecting and recommending candidates for directorship during the year under review.

During the year under review, a meeting of the nomination committee was held for discussing and approving the nomination of Directors. Details of the attendance of the meeting are as follows:–

| Members | Attendance |
|---|---|
| Mr. Chen Tzyh-Trong | 1/1 |
| Mr. Lee Chung Mong | 1/1 |
| Mr. Yeung Chi Hung | 1/1 |

During the meeting, the members of the nomination committee considered and resolved that all the existing Directors shall be recommended to be retained by the Company. Further, in accordance with the Company's articles of association, Mr. Lee Chung Mong, Mr. Yu Won Kong Dennis, Mr. Yue Wai Keung, Mr. Chan Kwan Pak and Mr. Lam Kit Sun will retire, and being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

## AUDITORS' REMUNERATION

The audit committee of the Company is responsible for considering the appointment of the external auditors and reviewing any non-audit functions performed by the external auditors, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year under review, the Group has paid an aggregate of HK$762,430 for audit services and HK$13,900 for non-audit services to the external auditors for their services including audit and taxation services.

## AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of the Group. The audit committee comprises three members, Mr. Chen Tzyh-Trong, Mr. Lee Chung Mong, and Mr. Yeung Chi Hung. All of them are independent non-executive Directors. The chairman of the audit committee is Mr. Chen Tzyh-Trong.

The audit committee held 4 meetings during the year under review. Details of the attendance of the audit committee meetings are as follows:–

| Members | Attendance |
|---|---|
| Mr. Chen Tzyh-Trong | 4/4 |
| Mr. Lee Chung Mong | 4/4 |
| Mr. Yeung Chi Hung | 4/4 |

The Group's unaudited quarterly results, interim results and annual audited results during the year ended 31st December 2008 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been made.

## DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR FINANCIAL STATEMENTS

The Directors' responsibilities for the financial statements and the responsibilities of the external auditor are set out on page 19 of this report.

## INTERNAL CONTROL

The Company has conducted a review of its system of internal control periodically to ensure the effective and adequate internal control system. The Company convened meetings periodically to discuss all material controls, including financial, operational and compliance controls and risk management functions.

## INVESTORS RELATIONS

The Company has disclosed all necessary information to the shareholders in compliance with GEM Listing Rules. The Company also replied the enquiries from shareholders timely. The Directors host the annual general meeting each year to meet the shareholders and answer to their enquiries.

# INDEPENDENT AUDITOR'S REPORT

羅兵咸永道會計師事務所

**PricewaterhouseCoopers**
22/F, Prince's Building
Central, Hong Kong
Telephone (852) 2289 8888
Facsimile (852) 2810 9888
www.pwchk.com

**TO THE SHAREHOLDERS OF THINSOFT (HOLDINGS) INC**
*(incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of ThinSoft (Holdings) Inc (the "Company") and its subsidiaries (together, the "Group") set out on pages 20 to 59, which comprise the consolidated and company balance sheets as at 31st December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company 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 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

Our responsibility is to express an opinion on these consolidated financial statements based on our audit 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 2008 and of the Group's 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.

## EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to Note 14 to the consolidated financial statements. As at 31st December 2008, the Group had a loan receivable of HK$5,550,417 from Kiu Hung Energy Holdings Limited ("Kiu Hung"). The recoverability of this amount is dependent on the financial capability of Kiu Hung to repay the loan receivable balance.

**PricewaterhouseCoopers**
*Certified Public Accountants*

Hong Kong, 26th March 2009

# CONSOLIDATED BALANCE SHEET

As at 31st December 2008

| | Note | 2008 HK$ | 2007 HK$ |
|---|---|---|---|
| **Non-current assets** | | | |
| Deferred development expenditure | 6 | – | – |
| Property, plant and equipment | 7 | – | – |
| Available-for-sale financial assets | 11 | **5,035,825** | 9,056,816 |
| Deferred income tax assets | 20 | – | 628,490 |
| | | **5,035,825** | 9,685,306 |
| **Current assets** | | | |
| Inventories | 12 | **457,110** | 315,970 |
| Trade receivables | 13 | **479,653** | 398,076 |
| Loan receivable | 14 | **5,550,417** | – |
| Prepayments, deposits and other receivables | | **434,127** | 321,144 |
| Cash and cash equivalents | 15 | **24,970,625** | 30,830,192 |
| | | **31,891,932** | 31,865,382 |
| **Total assets** | | **36,927,757** | 41,550,688 |
| **EQUITY** | | | |
| **Capital and reserves attributable to the Company's equity holders** | | | |
| Share capital | 16 | **25,062,750** | 25,062,750 |
| Share premium | | **11,347,425** | 11,347,425 |
| Other reserves | 18(a) | **10,464,337** | 10,930,469 |
| Accumulated losses | | **(13,031,487)** | (8,584,607) |
| **Total equity** | | **33,843,025** | 38,756,037 |
| **Current liabilities** | | | |
| Trade payables | 19 | **378,132** | 357,084 |
| Accruals for legal and professional fee | | **900,036** | 1,171,935 |
| Other accrued liabilities and other payables | | **604,079** | 1,151,411 |
| Tax payable | | **1,202,485** | 114,221 |
| Total current liabilities | | **3,084,732** | 2,794,651 |
| **Total equity and liabilities** | | **36,927,757** | 41,550,688 |
| **Net current assets** | | **28,807,200** | 29,070,731 |
| **Total assets less current liabilities** | | **33,843,025** | 38,756,037 |

*Director*
**Yu Won Kong, Dennis**

*Director*
**Yue Wai Keung**

The Notes on pages 25 to 59 are an integral part of these consolidated financial statements.

# BALANCE SHEET

As at 31st December 2008

| | Note | 2008 HK$ | 2007 HK$ |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments in subsidiaries | *8* | **12,856,654** | 22,122,527 |
| **Current assets** | | | |
| Prepayments, deposits and other receivables | | **425,988** | 312,949 |
| Amounts due from subsidiaries | *29* | **9,281,874** | 42,246 |
| Cash and cash equivalents | *15* | **11,099,968** | 7,353,078 |
| | | **20,807,830** | 7,708,273 |
| Total assets | | **33,664,484** | 29,830,800 |
| **EQUITY** | | | |
| **Capital and reserves attributable to the Company's equity holders** | | | |
| Share capital | *16* | **25,062,750** | 25,062,750 |
| Share premium | *18(b)* | **24,054,063** | 24,054,063 |
| Accumulated losses | *18(b)* | **(21,986,747)** | (20,008,543) |
| **Total equity** | | **27,130,066** | 29,108,270 |
| **Current liabilities** | | | |
| Accrued liabilities and other payables | | **600,860** | 722,530 |
| Amount due to a subsidiary | *29* | **5,933,558** | – |
| Total current liabilities | | **6,534,418** | 722,530 |
| **Total equity and liabilities** | | **33,664,484** | 29,830,800 |
| **Net current assets** | | **14,273,412** | 6,985,743 |
| **Total assets less current liabilities** | | **27,130,066** | 29,108,270 |

*Director*
**Yu Won Kong, Dennis**

*Director*
**Yue Wai Keung**

The Notes on pages 25 to 59 are an integral part of these financial statements.

# CONSOLIDATED INCOME STATEMENT

For the year ended 31st December 2008

| | Note | 2008 HK$ | 2007 HK$ |
|---|---|---|---|
| Revenue | 21 | **16,509,139** | 17,194,119 |
| Cost of sales | 22 | **(2,156,498)** | (2,481,538) |
| Gross profit | | **14,352,641** | 14,712,581 |
| Other income | 21 | **595,500** | 1,404,505 |
| Selling and distribution costs | 22 | **(808,419)** | (1,236,076) |
| Administrative expenses | 22 | **(12,916,708)** | (11,759,141) |
| Provision for impairment loss of available-for-sale financial assets | 11 | **(3,497,940)** | (591,966) |
| (Loss)/profit before income tax | | **(2,274,926)** | 2,529,903 |
| Income tax expense | 24 | **(2,171,954)** | (2,159,279) |
| (Loss)/profit for the year and attributable to equity holders of the Company | | **(4,446,880)** | 370,624 |
| (Loss)/earnings per share for (loss)/profit attributable to the equity holders of the Company during the year (expressed in Hong Kong cent per share) | | | |
| Basic | 26 | **(0.89)** | 0.07 |
| Diluted | 26 | **(0.89)** | 0.07 |

The Notes on pages 25 to 59 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December 2008

| | Attributable to equity holders of the Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital HK$ | Share premium HK$ | Capital reserve HK$ | Currency translation reserve HK$ | Available-for-sale financial assets HK$ | Accumulated losses HK$ | Total HK$ |
| Balance at 1st January 2007 | 25,062,750 | 8,634,598 | 6,840,000 | 2,489,559 | – | (8,955,231) | 34,071,676 |
| Currency translation differences | – | – | – | 1,162,341 | – | – | 1,162,341 |
| Revaluation *(Note 11)* | – | – | – | – | 438,569 | – | 438,569 |
| Profit for the year | – | – | – | – | – | 370,624 | 370,624 |
| Reversal of over-provision of share issuance costs *(Note)* | – | 2,712,827 | – | – | – | – | 2,712,827 |
| Balance at 31st December 2007 | 25,062,750 | 11,347,425 | 6,840,000 | 3,651,900 | 438,569 | (8,584,607) | 38,756,037 |
| Balance at 1st January 2008 | 25,062,750 | 11,347,425 | 6,840,000 | 3,651,900 | 438,569 | (8,584,607) | 38,756,037 |
| Currency translation differences | – | – | – | (27,563) | – | – | (27,563) |
| Impairment loss of an available-for-sale financial asset *(Note 11)* | – | – | – | – | (438,569) | – | (438,569) |
| Loss for the year | – | – | – | – | – | (4,446,880) | (4,446,880) |
| **Balance at 31st December 2008** | **25,062,750** | **11,347,425** | **6,840,000** | **3,624,337** | **–** | **(13,031,487)** | **33,843,025** |

*Note:* The Group incurred share issuance costs of approximately HK$16.9 million upon its listing on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in 2002, which were charged against the share premium account at the time of listing. During the year ended 31st December 2007, the Directors made a reversal to reverse the over-provided share issuance costs of HK$2,712,827. This reversal has been credited to the share premium account.

The Notes on pages 25 to 59 are an integral part of these consolidated financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December 2008

| | Note | 2008 HK$ | 2007 HK$ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash (used in)/generated from operations | *27* | **(506,369)** | 1,474,381 |
| Income tax paid | | **(444,827)** | (875,947) |
| Net cash (used in)/generated from operating activities | | **(951,196)** | 598,434 |
| **Cash flows from investing activities** | | | |
| Purchase of available-for-sale financial asset | *11* | **–** | (8,027,710) |
| Loan receivable | *14* | **(5,500,000)** | – |
| Interest received | *21* | **545,083** | 1,352,692 |
| Net cash used in investing activities | | **(4,954,917)** | (6,675,018) |
| **Net decrease in cash and cash equivalents** | | **(5,906,113)** | (6,076,584) |
| Cash and cash equivalents at beginning of year | | **30,830,192** | 36,058,765 |
| Exchange differences | | **46,546** | 848,011 |
| **Cash and cash equivalents at end of year** | *15* | **24,970,625** | 30,830,192 |

The Notes on pages 25 to 59 are an integral part of these consolidated financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

As at 31st December 2008

## 1 GENERAL INFORMATION

ThinSoft (Holdings) Inc (the "Company") is an investment holding company. The principal activities of the Company and its subsidiaries (together the "Group") are the development and distribution of Thin Computing solutions and related products.

ThinSoft (Holdings) Inc is a limited liability company incorporated in the Cayman Islands. The principal place of business of the Company is located at 6th Floor, New Henry House, No. 10 Ice House Street, Central, Hong Kong and the address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company is listed on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

These consolidated financial statements are presented in units of Hong Kong dollars, unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 26th March 2009.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 Basis of preparation

The consolidated financial statements of ThinSoft (Holdings) Inc have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of available-for-sale financial assets.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

*New/revised standard, amendment and interpretations effective from 1st January 2008 adopted by the Group, but have no significant impact on the Group's financial statements*

| | |
|---|---|
| HKFRS 7 and HKAS 1 Amendment | Financial Instruments: Disclosures and Presentation of Financial Statements – Capital Disclosures |
| 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 |
| Amendments to HKAS 39 | Financial Instruments: Recognition and Measurement |

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.1 Basis of preparation (Continued)

*New/revised standards and interpretation that have been issued but not yet effective for 2008 and have not been early adopted by the Group*

| | | Effective for annual periods beginning on or after |
|---|---|---|
| HKAS 1 (Revised) | Presentation of Financial Statements | 1st January 2009 |
| HKAS 23 (Revised) | Borrowing Costs | 1st January 2009 |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements | 1st July 2009 |
| HKAS 32 (Amendment) | Financial Instruments: Presentation and HKAS1 (Amendment) Presentation of Financial Statement – Puttable Financial Instruments and Obligations Arising on Liquidation | 1st January 2009 |
| HKAS 39 (Amendment) | Financial Instruments: Recognition and Measurement – Eligible Hedged Items | 1st July 2009 |
| Amendments to HKFRS 1 | First-time adoption of HKFRS and HKAS 27 Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate | 1st July 2009 |
| HKFRS 2 (Amendment) | Share-based Payment | 1st January 2009 |
| HKFRS 3 (Revised) | Business Combination | 1st July 2009 |
| HKFRS 8 | Operating Segments | 1st January 2009 |
| HK(IFRIC)-Int 13 | Customer Loyalty Programmes | 1st July 2008 |
| HK(IFRIC)-Int 15 | Agreements for the Construction of Real Estate | 1st January 2009 |
| HK(IFRIC)-Int 16 | Hedges of a Net Investment in a Foreign Operation | 1st October 2008 |
| HK(IFRIC)-Int 17 | Distribution of Non-cash Assets to Owner | 1st July 2009 |
| HK(IFRIC)-Int 18 | Transfers of Assets from Customers | 1st July 2009 |
| Improvements to HKFRS – Amendments to: | | |
| HKAS 1 | Presentation of Financial Statement | 1st January 2009 |
| HKAS 2 | Inventories | 1st January 2009 |
| HKAS 7 | Cash Flow Statements | 1st January 2009 |
| HKAS 16 | Property, Plant and Equipment | 1st January 2009 |
| HKAS 19 | Employee Benefits | 1st January 2009 |
| HKAS 20 | Accounting for Government Grants and Disclosure of Government Assistance | 1st January 2009 |
| HKAS 23 | Borrowing Costs | 1st January 2009 |
| HKAS 27 | Consolidated and Separate Financial Statements | 1st January 2009 |
| HKAS 28 | Investments in Associates | 1st January 2009 |
| HKAS 29 | Financial Reporting in Hyperinflationary Economies | 1st January 2009 |

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.1 Basis of preparation (Continued)

*New/revised standards and interpretation that have been issued but not yet effective for 2008 and have not been early adopted by the Group (Continued)*

| | | Effective for annual periods beginning on or after |
|---|---|---|
| Improvements to HKFRS – Amendments to (Continued): | | |
| HKAS 31 | Interests in Joint Ventures | 1st January 2009 |
| HKAS 32 | Financial Instruments: Presentation | 1st January 2009 |
| HKAS 36 | Impairment of Assets | 1st January 2009 |
| HKAS 38 | Intangible Assets | 1st January 2009 |
| HKAS 39 | Financial Instruments: Recognition and Measurement | 1st January 2009 |
| HKAS 40 | Investment Property | 1st January 2009 |
| HKAS 41 | Agriculture | 1st January 2009 |
| HKFRS 1 | First-time adoption | 1st July 2009 |
| HKFRS 5 | Non-current Assets Held for Sale and Discontinued Operations | 1st July 2009 |
| HKFRS 7 | Financial Instruments: Disclosures | 1st January 2009 |
| Other minor amendments to: | | |
| HKAS 8 | Accounting Policies, Changes in Accounting Estimates and Errors | 1st January 2009 |
| HKAS 10 | Events After the Balance Sheet Date | 1st January 2009 |
| HKAS 18 | Revenue | 1st January 2009 |
| HKAS 34 | Interim Financial Reporting | 1st January 2009 |

The Group has already commenced an assessment of the impact of these new HKFRS but is not yet in a position to state whether these new HKFRS would have a significant impact on its results of operations and financial position.

### 2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31st December.

(a) *Subsidiaries*

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.2 Consolidation (Continued)

*(b)* Subsidiaries acquired by the Company pursuant to the Group reorganization prior to the listing of the Company are consolidated using the merger accounting method as follows:

The consolidated financial statements incorporate the financial statements of the combining entities in which the common control combination occurs as if they had been consolidated from the date when they first came under the control of the controlling party. They are de-consolidated from the date that control ceases.

The net assets of those combining entities are consolidated using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the contribution of the controlling party's interest. All differences between the aggregate nominal value of share capital of the subsidiaries acquired over the nominal value of share capital of the Company issued as consideration in exchange have been recognised directly in equity as capital reserve.

The consolidated income statement includes the results of each of the consolidated entities since the date when the consolidated entities first came under common control regardless of the date of the common control combination.

Subsidiaries acquired by the Group after the listing of the Company are consolidated using the purchase method of accounting as follows:

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2.7). The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those segments operating in other economic environments.

### 2.4 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is different from the Company's functional currency of US dollar. As the Company operates in Hong Kong and is listed on The Growth Enterprise Market of The Stock Exchange, the directors have adopted Hong Kong dollar as the Company's presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the available-for-sale reserve in equity.

(c) *Group companies*

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.5 Deferred development expenditure

All research costs are charged to the income statement as incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the expected economic useful lives of the underlying products, subject to a maximum period of five years commencing in the year when the products are put into commercial production. The software development expenditure is amortised over a period of three years whereas the website development expenditure is amortised over a period of five years.

Useful lives and amortisation method are reviewed and adjusted if appropriate, at each balance sheet date.

### 2.6 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives of five years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount *(Note 2.7)*.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the consolidated income statement.

### 2.7 Impairment of investments in subsidiaries and non-financial assets

Assets that have an indefinite useful life or are not yet available for use are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

# 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

## 2.8 Financial assets

The Group classifies its financial assets in the following categories: loans and receivables and available-for-sale. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its assets at initial recognition.

*(a) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are classified as "loan receivable", "trade receivables" and "cash and cash equivalents" in the balance sheet *(Notes 2.10 and 2.11)*.

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

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

All financial assets are initially recognised at fair value plus transaction costs. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in note 2.10.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.9 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

### 2.10 Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within selling and distribution costs. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against selling and distribution costs in the income statement.

### 2.11 Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks.

### 2.12 Share capital

Ordinary shares are classified as equity.

### 2.13 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### 2.14 Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.15 Employee benefits

*(a) Pension obligations*

Group companies operate various defined contribution pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds. A defined contribution plan is a pension plan under which the Group pays contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. Contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

*(b) Bonus plans*

The Group recognises a liability and an expense for bonuses based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

### 2.16 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services rendered in the ordinary course of the Group's activities. Revenue is shown net of allowance for return and trade discounts, and applicable goods and services taxes and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

*(a) Sales of goods*

Sales of goods are recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has passed.

*(b) Interest income*

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

### 2.17 Leases (as the lessee for operating leases)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

## 3 FINANCIAL RISK MANAGEMENT

### 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk, cash flow and fair value interest rate risk), credit risk, and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by the finance department which identifies and evaluates financial risks in close co-operation within the Group.

*(a) Market risk*

(i) Foreign exchange risk

ThinSoft Pte Ltd, a subsidiary of the Group which the functional currency is Singapore dollars, is exposed to foreign exchange risk in respect of the US dollar. Foreign exchange risk of this subsidiary mainly arises from the US dollar deposits placed with a reputable bank.

To manage the foreign exchange risk arising from recognised assets as mentioned above, the Group ensures that the US dollar deposits placed with banks are within the limit set by the Group.

At 31st December 2008, if US dollar had weakened/strengthened by 10% against the Singapore dollar with all other variables held constant, post-tax loss for the year (2007: post tax profit) would have been HK$1,263,109 higher/lower (2007: HK$1,619,955 lower/higher), mainly as a result of foreign exchange gains/losses on translation of bank deposits and trade receivables and payables which are denominated in US dollars held by ThinSoft Pte Ltd.

(ii) Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet as available-for-sale. The Group is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

(iii) Cash flow and fair value interest rate risk

The Group's exposure to changes in interest rates is mainly attributable to its cash and cash equivalents. In view of the short maturity of its bank deposits, impact from changes in interest rates is considered to be minimal. Available-for-sale financial assets and other financial assets and liabilities do not have material interest rate risk.

*(b) Credit risk*

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables, and loan receivables. For banks and financial institutions, deposits are only placed with reputable banks. For credit exposures to customers, Group management assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. As at 31st December 2007 and 2008, no customers are rated independently. For credit exposures associated with the loan receivable, Group management assesses the credit quality of the debtor, taking into account its financial position, its business developments and other factors. In addition, the Group ensures that the amount of the loan is within the limit set by the Group.

*(c) Liquidity risk*

Prudent liquidity risk management includes maintaining sufficient cash and cash equivalents and available-for-sale financial assets. The Group maintains its liquidity mainly through funding generated from the daily operation of its subsidiaries and by keeping sufficient cash and cash equivalents. As at 31 December 2008, the cash and cash equivalents maintained by the Group totaled HK$24,970,625 (2007: HK$30,830,192) and the Group had no borrowing or debt.

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as "equity", as shown in the consolidated balance sheet.

During 2008, the Group's strategy, which was unchanged from 2007, was to maintain a gearing ratio of zero. The gearing ratios at 31st December 2008 and 2007 were zero as the Group has no borrowing or debt.

### 3.3 Fair value estimation

The fair value of the unlisted investment fund in Vietnam classified as available-for-sale financial asset is determined with reference to the market prices of the equity investments comprising the portfolio of the fund. The Group adopted the quotation provided by the issuer as its best estimate.

The fair value of the unlisted equity investment in Hong Kong is determined with reference to its share of net assets of the unlisted equity investment as at 31st December 2008. The Group considered the net assets of the unlisted equity investment to be a reasonable approximation of the fair value of the unlisted equity investment.

The carrying value less impairment provision of trade and other receivables and payables are a reasonable approximation of their fair values.

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### (a) Impairment of available-for-sale financial assets

The Group follows the guidance of HKAS 39 to determine when an available-for-sale financial asset is impaired. The determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow. The fair value of the available-for-sale financial assets at 31st December 2008 is below its carrying amount by HK$3,497,940. Such decline in value is considered to be significant and therefore it is recognised as an impairment loss of an available-for-sale financial asset for the year ended 31st December 2008.

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

### (b) Impairment of loan receivable

The Group makes impairment provision for receivables based on an assessment of the recoverability of the balance. Provisions are applied to receivables where events or changes in circumstances indicate that the balance may not be collectible. The identification of impaired receivables requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of receivables and provision for impaired receivables in the year in which such estimate has been changed. If the financial condition of the debtors were to deteriorate, additional impairment may be required.

## 5 SEGMENT INFORMATION

### (a) Primary reporting format – business segments

As at 31st December 2008, the Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

(i) the software segment is a supplier of the Group's software solutions;

(ii) the engineering segment engages in the provision of engineering services;

(iii) the upgrade kits segment comprises the sale of the Group's Thin client solutions related to hardware peripherals and accessories; and

(iv) the vertical market solutions segment provides the Group's Thin client solutions for several vertical market applications such as call centres, kiosks, point-of-sale and industrial applications.

The segment results for year ended 31st December 2008 are as follows:

| | Software HK$ | Engineering HK$ | Upgrade kits HK$ | Vertical market solutions HK$ | Unallocated HK$ | Group HK$ |
|---|---|---|---|---|---|---|
| Total segment revenue | 14,374,757 | 6,206,690 | 2,112,012 | 75,633 | – | 22,769,092 |
| Inter-segment revenue | – | (6,206,690) | (53,263) | – | – | (6,259,953) |
| **Revenue** | 14,374,757 | – | 2,058,749 | 75,633 | – | 16,509,139 |
| Operating profit/(loss) | 6,920,490 | – | 854,450 | 45,708 | (7,193,134) | 627,514 |
| Other income | | | | | | 595,500 |
| Provision for impairment loss of available-for-sale financial assets *(Note 11)* | | | | | | (3,497,940) |
| **Loss before income tax** | | | | | | (2,274,926) |
| Income tax expense *(Note 24)* | | | | | | (2,171,954) |
| **Loss for the year** | | | | | | (4,446,880) |

## 5 SEGMENT INFORMATION (Continued)

### (a) Primary reporting format – business segments (Continued)

The segment results for year ended 31st December 2007 are as follows:

| | Software HK$ | Engineering HK$ | Upgrade kits HK$ | Vertical market solutions HK$ | Unallocated HK$ | Group HK$ |
|---|---|---|---|---|---|---|
| Total segment revenue | 14,055,469 | 975,319 | 3,320,261 | 85,699 | – | 18,436,748 |
| Inter-segment revenue | – | (975,319) | (267,310) | – | – | (1,242,629) |
| **Revenue** | 14,055,469 | – | 3,052,951 | 85,699 | – | 17,194,119 |
| Operating profit/(loss) | 5,814,781 | – | 1,219,112 | (12,198) | (5,304,331) | 1,717,364 |
| Other income | | | | | | 1,404,505 |
| Provision for impairment loss of an available-for-sale financial asset *(Note 11)* | | | | | | (591,966) |
| **Profit before income tax** | | | | | | 2,529,903 |
| Income tax expense *(Note 24)* | | | | | | (2,159,279) |
| **Profit for the year** | | | | | | 370,624 |

Inter-segment revenues are charged at prices mutually agreed among relevant parties.

Segment assets consist primarily of inventories, trade receivables, prepayments, deposits and other receivables. Unallocated assets mainly comprise deferred income tax, available-for-sale financial assets, loan receivable and cash and cash equivalents.

Segment liabilities comprise trade payables. Unallocated liabilities comprise items such as tax payable and accrued liabilities and other payables.

The segment assets and liabilities at 31st December 2008 are as follows:

| | **Business segment** | | | | | |
|---|---|---|---|---|---|---|
| | **Software HK$** | **Engineering HK$** | **Upgrade kits HK$** | **Vertical market solutions HK$** | **Unallocated HK$** | **Group HK$** |
| Assets | **487,791** | **–** | **457,110** | **–** | **35,982,856** | **36,927,757** |
| Liabilities | **–** | **–** | **518,771** | **17,572** | **2,548,389** | **3,084,732** |

## 5 SEGMENT INFORMATION (Continued)

### (a) Primary reporting format – business segments (Continued)

Segment assets and liabilities are reconciled to consolidated assets and liabilities as follows:

| | Assets HK$ | Liabilities HK$ |
|---|---|---|
| Segment assets/liabilities | **944,901** | **536,343** |
| Unallocated: | | |
| Current tax | **–** | **1,202,485** |
| Available-for-sale financial assets | **5,035,825** | **–** |
| Cash and cash equivalents | **24,970,625** | **–** |
| Loan receivable | **5,550,417** | **–** |
| Others | **425,989** | **1,345,904** |
| Total | **36,927,757** | **3,084,732** |

The segment assets and liabilities at 31st December 2007 are as follows:

| | Business segment | | | | | |
|---|---|---|---|---|---|---|
| | Software HK$ | Engineering HK$ | Upgrade kits HK$ | Vertical market solutions HK$ | Unallocated HK$ | Group HK$ |
| Assets | 406,271 | – | 315,970 | – | 40,828,447 | 41,550,688 |
| Liabilities | – | – | 519,869 | 13,553 | 2,261,229 | 2,794,651 |

Segment assets and liabilities are reconciled to consolidated assets and liabilities as follows:

| | Assets HK$ | Liabilities HK$ |
|---|---|---|
| Segment assets/liabilities | 722,241 | 533,422 |
| Unallocated: | | |
| Deferred tax | 628,490 | – |
| Current tax | – | 114,221 |
| Available-for-sale financial assets | 9,056,816 | – |
| Cash and cash equivalents | 30,830,192 | – |
| Others | 312,949 | 2,147,008 |
| Total | 41,550,688 | 2,794,651 |

## 5 SEGMENT INFORMATION (Continued)

### (b) Secondary reporting format – geographical segments

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

The Group's revenue is mainly generated within Europe and the United States ("US").

| **Revenue** | **2008 HK$** | 2007 HK$ |
|---|---|---|
| Europe | **8,740,396** | 8,121,793 |
| US | **5,023,757** | 6,232,865 |
| Asia Pacific except Hong Kong, China and Singapore | **1,970,437** | 1,890,286 |
| Hong Kong and China | **291,223** | 133,312 |
| Singapore | **43,946** | 31,139 |
| Other countries | **439,380** | 784,724 |
| | **16,509,139** | 17,194,119 |

Revenue is allocated based on the country in which the customer is located.

| **Total assets** | **2008 HK$** | 2007 HK$ |
|---|---|---|
| Singapore | **10,619,013** | 16,687,592 |
| Vietnam | **4,890,692** | 8,803,077 |
| US | **4,341,477** | 8,035,132 |
| Hong Kong and China | **17,076,575** | 8,024,887 |
| | **36,927,757** | 41,550,688 |

Total assets are allocated based on where the assets are located.

## 6 DEFERRED DEVELOPMENT EXPENDITURE

**Group**

| | **Software development expenditure** HK$ | **Website development expenditure** HK$ | **Total** HK$ |
|---|---|---|---|
| Cost: | | | |
| At 1st January 2007, 31st December 2007 and 31st December 2008 | 20,573,121 | 1,761,427 | 22,334,548 |
| Accumulated amortisation: | | | |
| At 1st January 2007, 31st December 2007 and 31st December 2008 | (20,573,121) | (1,761,427) | (22,334,548) |
| Net book value: | | | |
| At 31st December 2008 and 2007 | – | – | – |

## 7 PROPERTY, PLANT AND EQUIPMENT

**Group**

| | Office equipment HK$ | Plant and machinery HK$ | Furniture and fittings HK$ | Total HK$ |
|---|---|---|---|---|
| At 1st January 2007 | | | | |
| Cost | 108,014 | 239,472 | 23,400 | 370,886 |
| Accumulated depreciation | (108,014) | (239,472) | (23,400) | (370,886) |
| Net book amount | – | – | – | – |
| Year ended 31st December 2007 | | | | |
| Opening net book amount | – | – | – | – |
| Depreciation | – | – | – | – |
| Closing net book amount | – | – | – | – |
| At 31st December 2007 | | | | |
| Cost | 108,014 | 239,472 | 23,400 | 370,886 |
| Accumulated depreciation | (108,014) | (239,472) | (23,400) | (370,886) |
| Net book amount | – | – | – | – |
| Year ended 31st December 2008 | | | | |
| Opening net book amount | – | – | – | – |
| Depreciation | – | – | – | – |
| Closing net book amount | – | – | – | – |
| At 31st December 2008 | | | | |
| Cost | 108,014 | 239,472 | 23,400 | 370,886 |
| Accumulated depreciation | (108,014) | (239,472) | (23,400) | (370,886) |
| Net book amount | – | – | – | – |

No depreciation expense has been charged to the consolidated income statement for the years ended 31st December 2008 and 2007.

## 8 INVESTMENTS IN SUBSIDIARIES

| | Company 2008 HK$ | 2007 HK$ |
|---|---|---|
| Unlisted shares, at cost *(Note (a))* | **12,856,654** | 12,856,638 |
| Amount due from a subsidiary *(Note (b))* | **–** | 12,565,889 |
| | **12,856,654** | 25,422,527 |
| Impairment for an amount due from a subsidiary | **–** | (3,300,000) |
| | **12,856,654** | 22,122,527 |

## 8 INVESTMENTS IN SUBSIDIARIES (Continued)

(a) The following is a list of subsidiaries as at 31st December 2008:

| Name | Place of incorporation and kind of legal entity | Principal activities and place of operation | Particulars of issued share capital | Interest held |
|---|---|---|---|---|
| ThinSoft Investment Inc ("ThinSoft BVI") | British Virgin Islands ("BVI"), limited liability company | Investment holding in Hong Kong | 100 ordinary shares of 1 US dollar each | 100[1] |
| ThinSoft Inc | BVI, limited liability company | Holding of intellectual properties in Hong Kong | 1 ordinary shares of 1 US dollar each | 100 |
| ThinSoft Pte Ltd | Singapore, limited liability company | Development and distribution of Thin Computing solutions and related products in Singapore | 1,500,000 ordinary shares of 1 Singapore dollar each | 100 |
| ThinSoft (USA) Inc | United States of America ("US"), limited liability company | Development and distribution of Thin Computing solutions and related products in the US | 1 ordinary shares of 0.01 US dollar each | 100 |
| ThinSoft Investment Holdings Ltd | BVI, limited liability company | Investment holding in Hong Kong | 1 ordinary shares of 1 US dollar each | 100[1] |
| ThinSoft Management Ltd | BVI, limited liability company | Provision of management services in Hong Kong | 1 ordinary shares of 1 US dollar each | 100[1] |

[1] *Shares held directly by the Company.*

(b) On 16th December 2008, the Group passed a resolution to wind-up ThinSoft (USA) Inc. The operation of ThinSoft (USA) Inc will be transferred to ThinSoft Pte Ltd. after its wind-up. ThinSoft (USA) Inc was still in the process of filing the wind-up application as at 31st December 2008.

The provision for impairment previously provided on the amount due from ThinSoft (USA) Inc, amounting to HK$3,300,000 as at 31st December 2007, was reversed during the year ended 31st December 2008, after taking into consideration of its financial position and its ability to repay the outstanding balance. As a result of the above resolution, the amount was reclassified as a current asset as at 31st December 2008.

Movements on the provision for impairment of an amount due from a subsidiary are as follows:

| | Company | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$** | HK$ |
| At 1st January | **3,300,000** | 12,790,000 |
| Reversal of provision for receivable impairment | **(2,376,000)** | (8,770,000) |
| Unwind of discount | **(924,000)** | (720,000) |
| At 31st December | **–** | 3,300,000 |

As at 31st December 2007, the amount due from a subsidiary was interest-free, unsecured and with no fixed terms of repayment. The maximum exposure to credit risk as at that date was the fair value of the amounts due from a subsidiary mentioned above.

## 9 FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below:

**Group**

| | **Loans and receivables** HK$ | **Available-for-sale financial assets** HK$ | **Total** HK$ |
|---|---|---|---|
| Assets as per consolidated balance sheet | | | |
| 31st December 2008 | | | |
| Available-for-sale financial assets *(Note 11)* | – | 5,035,825 | 5,035,825 |
| Trade receivables *(Note 13)* | 479,653 | – | 479,653 |
| Cash and cash equivalents *(Note 15)* | 24,970,625 | – | 24,970,625 |
| Loan receivable *(Note 14)* | 5,550,417 | – | 5,550,417 |
| Total | 31,000,695 | 5,035,825 | 36,036,520 |
| 31st December 2007 | | | |
| Available-for-sale financial assets *(Note 11)* | – | 9,056,816 | 9,056,816 |
| Trade receivables *(Note 13)* | 398,076 | – | 398,076 |
| Cash and cash equivalents *(Note 15)* | 30,830,192 | – | 30,830,192 |
| Total | 31,228,268 | 9,056,816 | 40,285,084 |

| | **Other financial liabilities** HK$ |
|---|---|
| Liabilities as per consolidated balance sheet | |
| 31st December 2008 | |
| Trade payables *(Note 19)* | 378,132 |
| 31st December 2007 | |
| Trade payables *(Note 19)* | 357,084 |

**Company**

| | **Loans and receivables** HK$ |
|---|---|
| Assets as per Company balance sheet | |
| 31st December 2008 | |
| Amounts due from subsidiaries *(Note 8 and 29)* | 9,281,874 |
| Cash and cash equivalents *(Note 15)* | 11,099,968 |
| Total | 20,381,842 |
| 31st December 2007 | |
| Amounts due from subsidiaries *(Note 8 and 29)* | 9,308,135 |
| Cash and cash equivalents *(Note 15)* | 7,353,078 |
| Total | 16,661,213 |

## 9 FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

| | Other financial liabilities HK$ |
|---|---|
| Liabilities as per company balance sheet | |
| 31st December 2008 | |
| Amount due to a subsidiary *(Note 29)* | 5,933,558 |

## 10 CREDIT QUALITY OF FINANCIAL ASSETS

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to historical information about counterparty default rates:

**Trade receivables**

| | Group 2008 HK$ | 2007 HK$ |
|---|---|---|
| Counterparties without external credit rating | | |
| Group 1 | – | – |
| Group 2 | **479,653** | 398,076 |
| Total trade receivables | **479,653** | 398,076 |

Group 1 – new customers (less than 6 months).
Group 2 – existing customers (more than 6 months) with no defaults in the past.

| | Group 2008 HK$ | 2007 HK$ |
|---|---|---|
| Loan receivable: | | |
| Group 1 | **5,550,417** | – |
| Group 2 | – | – |
| | **5,550,417** | – |

Group 1 – Debtor with no default in the past.
Group 2 – Debtor with some defaults in the past.

## 11 AVAILABLE-FOR-SALE FINANCIAL ASSETS

**Group**

| | 2008 HK$ | 2007 HK$ |
|---|---|---|
| Beginning of the year | **9,056,816** | 817,521 |
| (Impairment loss transferred from equity)/ net gains transfer to equity | **(438,569)** | 438,569 |
| Exchange differences | **(84,482)** | 364,982 |
| Provision for impairment loss | **(3,497,940)** | (591,966) |
| Addition | – | 8,027,710 |
| End of the year | **5,035,825** | 9,056,816 |

## 11 AVAILABLE-FOR-SALE FINANCIAL ASSETS (Continued)

Available-for-sale financial assets include the following:

| | 2008<br>HK$ | 2007<br>HK$ |
|---|---|---|
| Unlisted equity investment in Hong Kong | **145,133** | 253,739 |
| Unlisted investment fund in Vietnam | **4,890,692** | 8,803,077 |
| | **5,035,825** | 9,056,816 |

There were no disposals of available-for-sale financial assets in 2008 or 2007. During the year ended 31st December 2008, impairment loss of HK$110,223 and HK$3,387,717 were recognised in the consolidated income statement on the unlisted equity investment in Hong Kong and Vietnam respectively (2007: HK$591,966 on the unlisted investment in Hong Kong).

The unlisted equity investments in Hong Kong and Vietnam are denominated in Hong Kong and US dollars respectively.

The unlisted investment fund in Vietnam is stated at fair value which is based on the market value of the equity investments, which are listed either on Hochiminh Stock Exchange and Hanoi Stock Exchange, composing the portfolio as at 31st December 2008.

The unlisted equity investment in Hong Kong, which is engaged in the software development business in China, is stated at fair value which is based on its share of the net assets of the unlisted equity company as at 31st December 2008.

The maximum exposure to credit risk of the available-for-sale financial assets at the reporting date is the carrying value of the unlisted equity investment in Hong Kong and the fair value of the unlisted investment fund in Vietnam.

## 12 INVENTORIES

**Group**

| | 2008<br>HK$ | 2007<br>HK$ |
|---|---|---|
| Finished goods | **457,110** | 315,970 |

The cost of inventories recognised as an expense and included in cost of sales amounted to HK$335,887 (2007: HK$527,826).

## 13 TRADE RECEIVABLES

**Group**

| | 2008 HK$ | 2007 HK$ |
|---|---|---|
| Trade receivables | **479,653** | 398,076 |

The majority of the Group's sales are on-line sales through the Internet paid by credit cards. The remaining amounts are with credit terms of 60 days.

**Group**

| | Group | |
|---|---|---|
| | **2008 HK$** | 2007 HK$ |
| 0 – 30 days | **479,653** | 380,352 |
| 31 to 60 days | – | 3,930 |
| 61 to 90 days | – | 13,794 |
| | **479,653** | 398,076 |

Trade receivables that are less than three months past due are not considered impaired. They belong to the age group of 61 to 90 days of the above aging analysis.

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

| | 2008 HK$ | 2007 HK$ |
|---|---|---|
| US dollar | **453,814** | 377,291 |
| Other currencies | **25,839** | 20,785 |
| | **479,653** | 398,076 |

The maximum exposure to credit risk at the reporting date is the fair value of trade receivables mentioned above. The Group does not hold any collateral as security.

## 14 LOAN RECEIVABLE

On 1st December 2008, the Group entered into a loan agreement with Kiu Hung Energy Holdings Limited ("Kiu Hung"), pursuant to which the Group agreed to advance to Kiu Hung a loan of HK$5,500,000 for a period of 12 months. The loan is interest bearing at 11% per annum, unsecured, and repayable on 4th December 2009. At any time after 6 calendar months from the date of the drawdown of the loan, the Group shall have the right to require Kiu Hung to repay the loan in full or any part thereof as requested by the Group provided that the Group shall have given to Kiu Hung not less than 1 calendar month prior written notice. Kiu Hung shall repay the loan in the amount as specified in the written notice together with all interest accrued and all money payable under the loan agreement on the date specified in the written notice.

Kiu Hung may prepay all or part of the loan 6 calendar months after the date of the drawdown of the loan provided that it shall have given to the Group not less than 1 calendar month prior written notice and that the amount of any partial prepayment shall not be less than HK$500,000 or any integral multiples thereof.

The carrying value of this asset approximated its fair value as at 31st December 2008.

## 14 LOAN RECEIVABLE (Continued)

As at 31st December 2008, Mr. Yu Won Kong, Dennis, a director and a substantial shareholder of the Company, is interested in approximately 11.65% of the total issued share capital of Kiu Hung. Mr. Yu Won Kong, Dennis is also interested in 50% of the total issued share capital of Top Advance through Strong Choice Investments (Holdings) Limited, a company solely owned by Mr. Yu Won Kong, Dennis. Top Advance is a company interested in 45% of the total issued share capital of Gold Dynasty Investments Limited ("Gold Dynasty"). As at the balance sheet date, Gold Dynasty held (i) convertible bonds issued by Kiu Hung with principal amount of approximately HK$254,065,000 ("Convertible Bonds") which is convertible into 362,949,764 conversion shares of Kiu Hung at a conversion price of HK$0.7; and (ii) a promissory note issued by Kiu Hung in the amount of approximately HK$95,416,000. Assuming the Convertible Bonds are converted into ordinary shares of Kiu Hung, Mr. Yu Won Kong, Dennis will be deemed to be interested in approximately 18.81% of the then enlarged share capital of Kiu Hung.

As at 31st December 2008, Mr. Yue Wai Keung, another director and a substantial shareholder of the Company, is also interested in approximately 4.49% of the total issued share capital of Kiu Hung.

As at 31st December 2008, the loan receivable was neither past due nor impaired. There were no collateral held as security and other credit enhancement against the loan receivable. The maximum exposure to credit risk at the reporting date is the fair value of loan receivable mentioned above.

The directors of the Company have reviewed the financial position of Kiu Hung and concluded that no provision for impairment of the loan receivable balance is necessary as at 31st December 2008, notwithstanding that as disclosed in Kiu Hung's consolidated financial statements as at 30 June 2008, being its latest publicly available financial information, Kiu Hung had net current liabilities position of approximately HK$30,185,000.

## 15 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following for the purposes of the cash flow statement:

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **HK$** | HK$ | **HK$** | HK$ |
| Cash on hand | **6,787** | 5,000 | **6,787** | 5,000 |
| Cash at bank | **15,781,772** | 15,205,088 | **11,093,181** | 7,348,078 |
| Short-term bank deposits | **9,182,066** | 15,620,104 | **–** | – |
| | **24,970,625** | 30,830,192 | **11,099,968** | 7,353,078 |
| Maximum exposure to credit risk | **24,963,838** | 30,825,192 | **11,093,181** | 7,348,078 |

Short-term bank deposits at the balance sheet date have an average maturity of 24 days (2007: 26 days) from that date and earning interests at rates ranging from 0.1% to 1.4% (2007: 3.50% to 4.95%) per annum.

Cash and cash equivalents are denominated in the following currencies:

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **HK$** | HK$ | **HK$** | HK$ |
| US dollar | **13,709,516** | 28,682,677 | **830** | 5,466,574 |
| Hong Kong dollar | **11,099,339** | 1,991,625 | **11,099,138** | 1,886,504 |
| Singapore dollar | **161,770** | 155,890 | **–** | – |
| | **24,970,625** | 30,830,192 | **11,099,968** | 7,353,078 |

## 16 SHARE CAPITAL

| | Number of ordinary shares of HK$0.05 each | Nominal value HK$ |
|---|---|---|
| Authorised: | | |
| At 1st January 2007, 31st December 2007 and 31st December 2008 | 2,000,000,000 | 100,000,000 |
| Issued and fully paid: | | |
| At 1st January 2007, 31st December 2007 and 31st December 2008 | 501,255,000 | 25,062,750 |

## 17 SHARE OPTION SCHEMES

### (a) Pre-IPO share option scheme

The Company has a pre-IPO share option scheme (the "Pre-Scheme"). On 2nd February 2002, the Pre-Scheme was approved pursuant to a written resolution of the sole shareholder of the Company. The purpose of the Pre-Scheme is to recognise the contribution of certain directors, employees, consultants and advisers of the Group to the growth of the Group and/or the listing of the Company's shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM"). The Company had granted pre-IPO share options to 26 employees (including four executive directors of the Company) of the Group to subscribe for a total of 52,600,000 shares, representing in aggregate approximately 10.52% of the then issued share capital of the Company immediately following the completion of the placing and the capitalisation issue, at a subscription price ranging from 20% to 70% of the issue price of HK$0.40 per placing share. Factors taken into consideration for the discount are based on the seniority, contributions and as part of the remuneration package to the relevant grantee. No further share options would be granted under the Pre-Scheme after listing of the Company's shares on the GEM. The Pre-Scheme contains no provision on the maximum entitlement of a grantee under the Pre-Scheme. All these share options were granted on 2nd February 2002 and may be exercised in the following manner:

(i) 50% of the share options so granted to him/her (rounded down to the nearest whole number) after the expiry of 12 months from 27th February 2002, the date on which the Company's shares are first listed on the GEM;

(ii) 25% of the share options so granted to him/her (rounded down to the nearest whole number) after the expiry of 24 months from 27th February 2002; and

(iii) the remaining 25% of the share options so granted to him/her (rounded down to the nearest whole number) after the expiry of 36 months from 27th February 2002,

and in each case, not later than five years from 2nd February 2002 (date of acceptance of the share options).

Each grantee has paid HK$1 to the Company as the consideration for such grant.

## 17 SHARE OPTION SCHEMES (Continued)

### (a) Pre-IPO share option scheme (Continued)

The Pre-Scheme contains no provision on the maximum entitlement of a grantee under the Pre-Scheme. All share options granted under the Pre-scheme lapsed during the year ended 31st December 2007.

| | Number of share options | | | | | |
|---|---|---|---|---|---|---|
| Name of participant | At 1st January 2007 | Exercised during the year | Lapsed during the year | At 31st December 2007 | Exercise period of share options | Exercise price of share options HK$ *(Note)* |
| **Former directors** | | | | | | |
| Ngiam Mia Hai Bernard | 3,800,000 | – | (3,800,000) | – | 27th February 2003 to 1st February 2007 | 0.08 |
| | 1,900,000 | – | (1,900,000) | – | 27th February 2004 to 1st February 2007 | 0.08 |
| | 1,900,000 | – | (1,900,000) | – | 27th February 2005 to 1st February 2007 | 0.08 |
| | 7,600,000 | – | (7,600,000) | – | | |
| Ngiam Mia Hong Alfred | 3,600,000 | – | (3,600,000) | – | 27th February 2003 to 1st February 2007 | 0.08 |
| | 1,800,000 | – | (1,800,000) | – | 27th February 2004 to 1st February 2007 | 0.08 |
| | 1,800,000 | – | (1,800,000) | – | 27th February 2005 to 1st February 2007 | 0.08 |
| | 7,200,000 | – | (7,200,000) | – | | |
| William Michael Driscoll | 1,800,000 | – | (1,800,000) | – | 27th February 2003 to 1st February 2007 | 0.08 |
| | 900,000 | – | (900,000) | – | 27th February 2004 to 1st February 2007 | 0.08 |
| | 900,000 | – | (900,000) | – | 27th February 2005 to 1st February 2007 | 0.08 |
| | 3,600,000 | – | (3,600,000) | – | | |
| **Directors of subsidiaries** | | | | | | |
| Ngiam Mia Je Patrick | 1,800,000 | – | (1,800,000) | – | 27th February 2003 to 1st February 2007 | 0.08 |
| | 900,000 | – | (900,000) | – | 27th February 2004 to 1st February 2007 | 0.08 |
| | 900,000 | – | (900,000) | – | 27th February 2005 to 1st February 2007 | 0.08 |
| | 3,600,000 | – | (3,600,000) | – | | |

## 17 SHARE OPTION SCHEMES (Continued)
### (a) Pre-IPO share option scheme (Continued)

| Name of participant | Number of share options: At 1st January 2007 | Exercised during the year | Lapsed during the year | At 31st December 2007 | Exercise period of share options | Exercise price of share options HK$ *(Note)* |
|---|---|---|---|---|---|---|
| Ngiam Mia Kiat Benjamin | 1,800,000 | – | (1,800,000) | – | 27th February 2003 to 1st February 2007 | 0.08 |
| | 900,000 | – | (900,000) | – | 27th February 2004 to 1st February 2007 | 0.08 |
| | 900,000 | – | (900,000) | – | 27th February 2005 to 1st February 2007 | 0.08 |
| | 3,600,000 | – | (3,600,000) | – | | |
| Lauw Hui Kian | 1,800,000 | – | (1,800,000) | – | 27th February 2003 to 1st February 2007 | 0.08 |
| | 900,000 | – | (900,000) | – | 27th February 2004 to 1st February 2007 | 0.08 |
| | 900,000 | – | (900,000) | – | 27th February 2005 to 1st February 2007 | 0.08 |
| | 3,600,000 | – | (3,600,000) | – | | |
| **Other employees** | | | | | | |
| In aggregate | 8,095,000 | – | (8,095,000) | – | 27th February 2003 to 1st February 2007 | 0.08 |
| | 4,275,000 | – | (4,275,000) | – | 27th February 2004 to 1st February 2007 | 0.08 |
| | 4,275,000 | – | (4,275,000) | – | 27th February 2005 to 1st February 2007 | 0.08 |
| | 16,645,000 | – | (16,645,000) | – | | |
| | 500,000 | – | (500,000) | – | 27th February 2003 to 1st February 2007 | 0.20 |
| | 650,000 | – | (650,000) | – | 27th February 2004 to 1st February 2007 | 0.20 |
| | 650,000 | – | (650,000) | – | 27th February 2005 to 1st February 2007 | 0.20 |
| | 1,800,000 | – | (1,800,000) | – | | |
| | 47,645,000 | – | (47,645,000) | – | | |

*Note:* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

## 17 SHARE OPTION SCHEMES (Continued)

### (b) Post-IPO share option scheme

On 2nd February 2002, a further share option scheme (the "Post-Scheme") was approved pursuant to a written resolution of the Company. The purpose of the Post-Scheme is to provide incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Post-Scheme include directors of the Company or any of its subsidiaries, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, or minority shareholder in the Company's subsidiaries.

The maximum number of shares of the Company which may be issued upon exercise of the options which may be granted under the Post-Scheme is 50,000,000, representing approximately 9.97% of the issued share capital of the Company as at the balance sheet date.

The total number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Post-Scheme and other schemes (including the Pre-Scheme) of the Company must not exceed 30% of the Company's shares in issue at any time. A nominal consideration of HK$1 is payable by the grantee upon acceptance of a grant.

The subscription price for shares under the Post-Scheme may be determined by the board of directors at its absolute discretion but in any event will not be less than the higher of: (i) the nominal value of the shares; (ii) the closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a business day; and (iii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the relevant share option.

Any grant of share options to a director, chief executive, substantial shareholder of the Company or any of their respective associates must be approved by the independent non-executive directors (excluding the independent non-executive director who is the grantee). Any share options granted to a substantial shareholder or an independent non-executive director of the Company, or any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting. In addition, any share options granted to any one person in excess of 1% of the shares of the Company in issue at any time within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The share options granted may be exercised at any time during the period commencing immediately after the date on which the option is deemed to be granted and accepted and expiring on a date to be determined and notified by the board of directors which shall not be more than 10 years from the date on which the share option is deemed to be granted and accepted. The Post-Scheme remains in force for a period of 10 years with effect from 2nd February 2002. No share options were granted by the Company under the Post-Scheme as at 31st December 2008 and up to the date of approval of these financial statements.

The Group elected not to apply HKFRS 2 Share-based Payments to equity instruments that were granted on or before 7th November 2002.

## 18 RESERVES

### (a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 23 of the consolidated financial statements.

The share premium account of the Group represents the excess of proceeds received over the nominal value of the Company's shares issued, less amounts attributable to the capitalisation issue and share issue expenses.

The capital reserve of the Group represents the difference between the aggregate nominal value of share capital of the subsidiaries acquired by the Company pursuant to the Group reorganisation prior to the listing of the Company's shares over the nominal value of share capital of the Company issued as consideration in exchange thereof.

### (b) Company

| | **Share premium** HK$ *(Note)* | **Accumulated losses** HK$ | **Total** HK$ |
|---|---|---|---|
| At 1st January 2007 | 21,341,236 | (26,522,486) | (5,181,250) |
| Reversal of over-provision of share issuance costs | 2,712,827 | – | 2,712,827 |
| Profit for the year *(Note 25)* | – | 6,513,943 | 6,513,943 |
| At 31st December 2007 | 24,054,063 | (20,008,543) | 4,045,520 |
| Loss for the year *(Note 25)* | – | (1,978,204) | (1,978,204) |
| **At 31st December 2008** | **24,054,063** | **(21,986,747)** | **2,067,316** |

*Note:* The share premium account of the Company includes: (i) the shares of the Company issued at a premium; and (ii) the excess of the then consolidated net assets of the subsidiaries acquired pursuant to the Group reorganisation over the nominal value of the Company's shares issued in exchange thereof. Under the Companies Law of the Cayman Islands, the share premium account is distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

## 19 TRADE PAYABLES

### Group

At 31st December 2008 and 2007, the aging analysis of the trade payables, based on the invoice date, were as follows:

| | **2008** **HK$** | 2007 HK$ |
|---|---|---|
| 0 – 30 days | **31,269** | 18,256 |
| 31 to 60 days | **7,230** | – |
| 61 to 90 days | – | – |
| 91 to 180 days | **339,633** | 338,828 |
| | **378,132** | 357,084 |

## 20 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The details are as follows:

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$** | HK$ |
| Deferred tax assets to be recovered after more than 12 months | – | 628,490 |

The gross movement on the deferred income tax account is as follows:

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$** | HK$ |
| Beginning of the year | **628,490** | 2,649,270 |
| Exchange difference | **(1,411)** | 1,056 |
| Income statement charge *(Note 24)* | **(627,079)** | (2,021,836) |
| End of the year | – | 628,490 |

Deferred tax asset:

| | | Group | |
|---|---|---|---|
| | **Accelerated tax depreciation** | **Tax losses** | **Total** |
| | HK$ | HK$ | HK$ |
| At 1st January 2007 | 58,305 | 2,590,965 | 2,649,270 |
| Exchange difference | 19 | 1,037 | 1,056 |
| Income statement charge | (58,324) | (1,963,512) | (2,021,836) |
| At 31st December 2007 | – | 628,490 | 628,490 |
| Exchange difference | – | (1,411) | (1,411) |
| Write off of deferred tax assets | – | (627,079) | (627,079) |
| At 31st December 2008 | – | – | – |

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of HK$2,679,022 (2007: HK$1,780,281) in respect of losses amounting to HK$16,236,499 (2007: HK$10,173,032) that can be carried forward against future taxable income. The tax losses do not have expiry dates.

## 21 REVENUE AND OTHER INCOME

An analysis of the Group's turnover, which represents revenue from the sales of goods, and other income is as follows:

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$** | HK$ |
| Revenue: | | |
| Sale of goods | **16,509,139** | 17,194,119 |
| Bank interest income | **545,083** | 1,352,692 |
| Interest income from loan receivable | **50,417** | – |
| Sundries | **–** | 51,813 |
| | **595,500** | 1,404,505 |
| Total | **17,104,639** | 18,598,624 |

## 22 EXPENSES BY NATURE

| | **2008** | 2007 |
|---|---|---|
| | **HK$** | HK$ |
| Costs of inventories sold *(Note 12)* | **335,887** | 527,826 |
| Auditor's remuneration | **762,430** | 976,261 |
| Employee benefits expenses (including directors' remuneration) *(Note 23)* | **7,440,774** | 6,293,429 |
| Operating lease payments | **396,822** | 401,144 |
| Net foreign exchange loss | **41,737** | 928,512 |
| Others | **6,903,975** | 6,349,583 |
| Total cost of sales, selling and distribution costs and administrative expenses | **15,881,625** | 15,476,755 |

## 23 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

| | 2008 HK$ | 2007 HK$ |
|---|---|---|
| Wages and salaries | 7,112,433 | 6,016,917 |
| Pension costs – defined contribution plans *(Note a)* | 328,341 | 276,512 |
| | 7,440,774 | 6,293,429 |

### (a) Pensions – defined contribution plans

At 31st December 2008, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2007: Nil).

### (b) Directors' and senior management's emoluments

The remuneration of each Director for the year ended 31st December 2008 is set out below:

| Name of Director | Fees HK$ | Salaries, allowances, and benefits in kind HK$ | Pension scheme contributions HK$ | Total HK$ |
|---|---|---|---|---|
| **Executive directors** | | | | |
| Ngiam Mia Hai Bernard (Former director) | – | 681,701 | 26,394 | 708,095 |
| Ngiam Mia Hong Alfred (Former director) | – | 681,701 | 26,394 | 708,095 |
| Yu Won Kong | – | 467,742 | 5,000 | 472,742 |
| Yue Wai Keung | – | 467,742 | 5,000 | 472,742 |
| **Non-executive directors** | | | | |
| Chan Kwan Pak | 46,774 | – | – | 46,774 |
| Lam Kit Sun | 46,774 | – | – | 46,774 |
| **Independent non-executive directors** | | | | |
| Chen Tzyh-Trong | 150,000 | – | – | 150,000 |
| Lee Chung Mong | 150,000 | – | – | 150,000 |
| Yeung Chi Hung | 150,000 | – | – | 150,000 |
| | 543,548 | 2,298,886 | 62,788 | 2,905,222 |

## 23 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) (Continued)

### (b) Directors' and senior management's emoluments (Continued)

The remuneration of each Director for the year ended 31st December 2007 is set out below:

| Name of Director | Fees<br>HK$ | Salaries, allowances, and benefits in kind<br>HK$ | Pension scheme contributions<br>HK$ | Total<br>HK$ |
|---|---|---|---|---|
| **Executive directors** | | | | |
| Ngiam Mia Hai Bernard | – | 1,098,440 | 38,487 | 1,136,927 |
| Ngiam Mia Hong Alfred | – | 1,098,440 | 38,487 | 1,136,927 |
| **Independent non-executive directors** | | | | |
| Chen Tzyh-Trong | 150,000 | – | – | 150,000 |
| Lee Chung Mong | 150,000 | – | – | 150,000 |
| Yeung Chi Hung | 150,000 | – | – | 150,000 |
| | 450,000 | 2,196,880 | 76,974 | 2,723,854 |

There was no arrangement under which a director waived or agreed to waive any emoluments during the current and prior year.

### (c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2007: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2007: three) non-directors during the year are as follows:

| | **2008**<br>**HK$** | 2007<br>HK$ |
|---|---|---|
| Basic salaries, other allowances and benefits in kind | **479,223** | 1,342,271 |

The emoluments fell within the following bands:

| | **Number of individuals**<br>**2008** | 2007 |
|---|---|---|
| **Emolument bands** | | |
| Nil – HK$1,000,000 | **1** | 3 |

## 24 INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made as the Group had no estimated assessable profits arising in Hong Kong during the year (2007: Nil).

ThinSoft Pte Ltd, a wholly-owned subsidiary incorporated in Singapore, is subject to Singapore income tax. Singapore income tax has been provided at the rate of 18% (2007: 18%) on the estimated assessable profit arising in Singapore for the year.

ThinSoft (USA) Inc is a wholly-owned subsidiary incorporated in the State of Delaware in the United States of America. During the year ended 31st December 2008, it has been operating in the states of New York and California in the United States of America and is subject to United States federal income tax at progressive rates ranging from 15% to 39%, New York state corporate tax at a rate of 7.5% and California state corporate tax at a rate of 8.84%, on its estimated assessable profits arising on a worldwide basis.

| | **2008**<br>**HK$** | 2007<br>HK$ |
|---|---|---|
| Current income tax | | |
| – Hong Kong | **–** | – |
| – Overseas taxation | **1,544,875** | 137,443 |
| Deferred income tax *(Note 20)* | **627,079** | 2,021,836 |
| | **2,171,954** | 2,159,279 |

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profit of the consolidated entities as follows:

| | **2008**<br>**HK$** | 2007<br>HK$ |
|---|---|---|
| (Loss)/profit before income tax | **(2,274,926)** | 2,529,903 |
| Tax calculated at domestic tax rates applicable to profits in the respective countries | **187,855** | 1,407,010 |
| Income not subject to tax | **(289,797)** | (132,543) |
| Expenses not deductible for tax | **646,345** | 364,942 |
| Tax loss not recognised | **1,000,472** | 519,870 |
| Write off of deferred tax assets *(Note 20)* | **627,079** | – |
| Tax charge | **2,171,954** | 2,159,279 |

The weighted average applicable tax rate is (8.30%) (2007: 55.6%). The decrease is caused by a change in the profitability of the Group's subsidiary in the respective countries.

## 25 LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$1,978,204 (2007: net income of HK$6,513,943).

## 26 (LOSS)/EARNINGS PER SHARE

### (a) Basic

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

| | 2008<br>HK$ | 2007<br>HK$ |
|---|---|---|
| (Loss)/profit attributable to equity holders of the Company | (4,446,880) | 370,624 |
| Weighted average number of ordinary shares in issue (thousands) | 501,255 | 501,255 |
| Basic (loss)/earnings per share (HK cents per share) | (0.89) | 0.07 |

### (b) Diluted

Diluted (loss)/earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. During the year ended 31st December 2008, diluted loss per share is the same as basic loss per share as there was no potential dilutive ordinary shares outstanding. During the year ended 31st December 2007, the Company has one category of dilutive potential ordinary shares: share options. For the share options, a calculation is made in order to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

| | 2008<br>HK$ | 2007<br>HK$ |
|---|---|---|
| (Loss)/profit attributable to equity holders of the Company | (4,446,880) | 370,624 |
| Weighted average number of ordinary shares in issue (thousands) | 501,255 | 501,255 |
| Adjustments for:<br>– share options (thousands) | – | 1,732 |
| Weighted average number of ordinary shares for diluted (loss)/earnings per share (thousands) | 501,255 | 502,987 |
| Diluted (loss)/earnings per share (HK cents per share) | (0.89) | 0.07 |

## 27 CASH GENERATED FROM OPERATIONS

| | 2008 HK$ | 2007 HK$ |
|---|---|---|
| (Loss)/profit before income tax | **(2,274,926)** | 2,529,903 |
| Adjustments for: | | |
| – Interest income *(Note 21)* | **(595,500)** | (1,352,692) |
| – Provision for impairment loss of an available-for-sale financial asset *(Note 11)* | **3,497,940** | 591,966 |
| | **627,514** | 1,769,177 |
| Changes in working capital: | | |
| Inventories | **(141,140)** | 16,321 |
| Trade receivables | **(81,577)** | 18,008 |
| Prepayments, deposits and other receivables | **(112,983)** | 690,965 |
| Trade payables | **21,048** | (35,831) |
| Accruals for legal and professional fee | **(271,899)** | 52,835 |
| Other accrued liabilities and other payables | **(547,332)** | (333,920) |
| Amount due to the ultimate holding company | **–** | (703,174) |
| Net cash (used in)/generated from operating activities | **(506,369)** | 1,474,381 |

## 28 COMMITMENTS UNDER OPERATING LEASES

At 31st December 2008, the Company had future aggregate minimum lease payments under non-cancellable operating leases in respect of office premises and management fees as follows:

| | 2008 HK$ | 2007 HK$ |
|---|---|---|
| Not later than one year | **588,000** | – |
| Later than one year and not later than five years | **539,000** | – |
| | **1,127,000** | – |

## 29 RELATED PARTY TRANSACTIONS

The Group is controlled by Inno Smart Group Limited ("ISG") (incorporated in BVI with limited liability) which owns approximately 74.81% of the Company's shares as at 31st December 2008. The directors regard ISG as the Group's ultimate holding company.

The following transactions were carried out with related parties:

### (a) Purchases of goods and services

| | Note | 2008 HK$ | 2007 HK$ |
|---|---|---|---|
| Provision of management services from the former ultimate holding company | *(i)* | **99,205** | 186,529 |
| Rental expenses paid to the former ultimate holding company | *(ii)* | **198,411** | 373,055 |
| | | **297,616** | 559,584 |

*Notes:*

(i) The management fees were paid at S$3,000 (approximately equivalent to HK$15,544) per month. It was charged with reference to the costs incurred in respect of, inter alia, the provision of office space and equipment and other overheads.

(ii) The rental expenses were charged by the former ultimate holding company at prices mutually agreed between both parties.

In the opinion of the directors of the Company, the above related party transactions were entered into by the Group in the ordinary course of business.

### (b) Key management compensation

| | 2008 HK$ | 2007 HK$ |
|---|---|---|
| Salaries and other short-term employee benefits | **2,842,434** | 2,646,880 |
| Pension costs – defined contribution plans | **62,788** | 76,974 |
| | **2,905,222** | 2,723,854 |

### (c) Year-end balances with the related parties

*Amounts due from subsidiaries*

The amounts due from subsidiaries are interest-free, unsecured and repayable on demand. The carrying values of these assets approximate their fair values.

*Amounts due to subsidiaries*

The amounts due to a subsidiary are interest-free, unsecured and repayable on demand. The carrying value of this liability approximates its fair value.

# FIVE YEAR FINANCIAL SUMMARY

The following is a summary of the consolidated results and the consolidated assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements.

## Results

| | Year ended 31st December | | | | |
|---|---|---|---|---|---|
| | **2008** | 2007 | 2006 | 2005 | 2004 |
| | **HK$** | HK$ | HK$ | HK$ | HK$ |
| | | | | | (Restated) |
| Revenue | **16,509,139** | 17,194,119 | 20,580,131 | 17,405,935 | 17,972,049 |
| Cost of sales | **(2,156,498)** | (2,481,538) | (3,891,040) | (3,648,676) | (15,435,204) |
| Gross profit | **14,352,641** | 14,712,581 | 16,689,091 | 13,757,259 | 2,536,845 |
| Other income | **595,500** | 1,404,505 | 1,256,948 | 539,959 | 292,062 |
| Selling and distribution costs | **(808,419)** | (1,236,076) | (650,603) | (415,879) | (123,245) |
| Administrative expenses | **(12,916,708)** | (11,759,141) | (11,018,061) | (8,715,654) | (10,261,072) |
| Provision for impairment loss of available-for-sale financial assets | **(3,497,940)** | (591,966) | – | – | – |
| Other operating expenses | **–** | – | – | (16,741) | (247,855) |
| (Loss)/profit before income tax | **(2,274,926)** | 2,529,903 | 6,277,375 | 5,148,944 | (7,803,265) |
| Income tax (expense)/credit | **(2,171,954)** | (2,159,279) | (1,500,810) | 3,173,876 | 112,321 |
| (Loss)/profit for the year | **(4,446,880)** | 370,624 | 4,776,565 | 8,322,820 | (7,690,944) |

## Assets and liabilities

| | As at 31st December | | | | |
|---|---|---|---|---|---|
| | **2008** | 2007 | 2006 | 2005 | 2004 |
| | **HK$** | HK$ | HK$ | HK$ | HK$ |
| Non-current assets | **5,035,825** | 9,685,306 | 3,466,791 | 4,136,638 | 4,959 |
| Current assets | **31,891,932** | 31,865,382 | 37,819,249 | 28,932,146 | 23,990,639 |
| Current liabilities | **(3,084,732)** | (2,794,651) | (7,214,364) | (5,037,548) | (4,287,182) |
| | **33,843,025** | 38,756,037 | 34,071,676 | 28,031,236 | 19,708,416 |

*Note:* The figures for the year ended 31st December 2004 had been restated pursuant to the adoption of Hong Kong Financial Reporting Standards.