

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

## 1. GENERAL

The Company is incorporated in the Cayman Islands on 5 December 2000 as an exempted company with limited liability under the Companies Law (2001 Second Revision) Chapter 22 of the Cayman Islands. The Company's ultimate holding company is E-Career Investments Limited, a limited company incorporated in the British Virgin Islands.

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

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

## 2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards ("HKFRSs") (hereinafter collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether the new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

### **Basis of consolidation**

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### **Basis of consolidation** (continued)

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

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

### **Investments in subsidiaries**

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

### **Interests in associates**

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates plus the goodwill (net of amortisation), less any identified impairment loss.

### **Goodwill**

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the net identifiable assets of the acquired subsidiaries or associates at the date of acquisition.

Goodwill is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of associates is included within the carrying amount of the associates. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

### **Revenue recognition**

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

Agency fee income is recognised when the service is provided.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Revenue recognition** (continued)

Interest income from deposits is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

#### **Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the Company. All other leases are classified as operating leases.

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

#### **Plant and equipment**

Plant and equipment are stated at cost less accumulated depreciation and impairment losses.

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

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

#### **Impairment**

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

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

### **Interest rate swaps**

Interest rate swaps of the Group are used for hedging purpose. To qualify as a hedge, the interest rate swap must effectively reduce the interest rate risk of the underlying asset or liability to which it is linked and be designated as a hedge at inception of the contract.

Net interest arising from interest rate swaps is accounted for on an accrual basis and are included in the related category of income and expense in the income statement on the same basis as that arising from the underlying hedging transactions.

### **Foreign currencies**

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates prevailing on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve and are recognised as income or as expense in the year in which the operation is disposed of.

### **Taxation**

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

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

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Taxation** (continued)

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

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

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

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

#### **Retirement benefits costs**

The retirement benefits costs charged to the income statement represent the contributions payable in respect of the current year to the Group's defined contribution retirement benefits schemes in Hong Kong and retirement plans in other jurisdictions for its employees.

### 4. TURNOVER

Turnover represents the amounts received and receivable for goods sold and services provided to outside customers, less trade discounts and returns, during the year.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS

### Business segments

For management purposes, the Group is currently organised into two operating divisions as follows:

- Distribution of computer components and information technology products
- Provision of integrated e-enabling solutions

Segment information about these businesses is set out as follows:

For the year ended 31 December 2004:

|                                | <b>Distribution<br/>of computer<br/>components<br/>and information<br/>technology<br/>products</b> | <b>Provision of<br/>integrated<br/>e-enabling<br/>solutions</b> | <b>Consolidated</b> |
|--------------------------------|--|---|---------------------|
|                                | HK\$'000   | HK\$'000  | HK\$'000            |
| <b>TURNOVER</b>                |  |   |                     |
| External sales                 | 1,557,798  | 101,032   | 1,658,830           |
| <b>RESULT</b>                  |  |   |                     |
| Segment result                 | 32,866   | 14,812  | 47,678              |
| Other operating income         |  |   | 6,518               |
| Unallocated corporate expenses |  |   | (4,974)             |
| Profit from operations         |  |   | 49,222              |
| Finance costs                  |  |   | (15,421)            |
| Share of results of associates |  |   | 6                   |
| Profit before taxation         |  |   | 33,807              |
| Taxation                       |  |   | (585)               |
| Net profit for the year        |  |   | 33,222              |

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

### 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

#### Business segments (continued)

|                                   | <b>Distribution<br/>of computer<br/>components<br/>and information<br/>technology<br/>products</b> | <b>Provision of<br/>integrated<br/>e-enabling<br/>solutions</b> | <b>Consolidated</b> |
|-----------------------------------|--|---|---------------------|
|                                   | HK\$'000   | HK\$'000  | HK\$'000            |
| At 31 December 2004:              |  |   |                     |
| Assets                            |  |   |                     |
| Segment assets                    | 814,355  | 7,737   | 822,092             |
| Unallocated corporate assets      |  |   | 146,453             |
| <hr/>                             |  |   |                     |
| Consolidated total assets         |  |   | 968,545             |
| Liabilities                       |  |   |                     |
| Segment liabilities               | 86,296   | 2,746   | 89,042              |
| Unallocated corporate liabilities |  |   | 427,650             |
| <hr/>                             |  |   |                     |
| Consolidated total liabilities    |  |   | 516,692             |
| OTHER INFORMATION                 |  |   |                     |
| Allowance for doubtful debts      | 3  | 1,509   | 1,512               |
| Allowance for inventories         | 830  | 1,661   | 2,491               |
| Capital additions                 | 10,800   | –   | 10,800              |
| Depreciation                      | 1,982  | 19  | 2,001               |
| <hr/>                             |  |   |                     |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

### Business segments (continued)

For the year ended 31 December 2003:

|                                | <b>Distribution<br/>of computer<br/>components<br/>and information<br/>technology<br/>products</b> | <b>Provision of<br/>integrated<br/>e-enabling<br/>solutions</b> | <b>Consolidated</b> |
|--------------------------------|--|---|---------------------|
|                                | HK\$'000   | HK\$'000  | HK\$'000            |
| <b>TURNOVER</b>                |  |   |                     |
| External sales                 | 2,101,947  | 100,986   | 2,202,933           |
| <b>RESULT</b>                  |  |   |                     |
| Segment result                 | 43,575   | 14,321  | 57,896              |
| Other operating income         |  |   | 13,137              |
| Unallocated corporate expenses |  |   | (3,264)             |
| Profit from operations         |  |   | 67,769              |
| Finance costs                  |  |   | (14,940)            |
| Profit before taxation         |  |   | 52,829              |
| Taxation                       |  |   | (2,549)             |
| Net profit for the year        |  |   | 50,280              |



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

### 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

#### Business segments (continued)

|                                   | <b>Distribution<br/>of computer<br/>components<br/>and information<br/>technology<br/>products</b> | <b>Provision of<br/>integrated<br/>e-enabling<br/>solutions</b> | <b>Consolidated</b> |
|-----------------------------------|--|---|---------------------|
|                                   | HK\$'000   | HK\$'000  | HK\$'000            |
| At 31 December 2003:              |  |   |                     |
| Assets                            |  |   |                     |
| Segment assets                    | 740,233  | 25,764  | 765,997             |
| Unallocated corporate assets      |  |   | 159,788             |
| <hr/>                             |  |   |                     |
| Consolidated total assets         |  |   | 925,785             |
| <hr/>                             |  |   |                     |
| Liabilities                       |  |   |                     |
| Segment liabilities               | 165,671  | 4,514   | 170,185             |
| Unallocated corporate liabilities |  |   | 329,769             |
| <hr/>                             |  |   |                     |
| Consolidated total liabilities    |  |   | 499,954             |
| <hr/>                             |  |   |                     |
| OTHER INFORMATION                 |  |   |                     |
| Capital additions                 | 947  | –   | 947                 |
| Depreciation                      | 926  | 9   | 935                 |
| <hr/>                             |  |   |                     |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

### Geographical segments

The Group's operations are substantially located in Hong Kong and the People's Republic of China (the "PRC") throughout the year. An analysis of the Group's sales by geographical market is set out as follows:

|   | <b>2004</b>      | 2003      |
|---|------------------|-----------|
|   | <b>HK\$'000</b>  | HK\$'000  |
| Turnover by geographical market:                                  |                  |           |
| PRC   | <b>1,023,654</b> | 1,020,999 |
| Hong Kong   | <b>635,176</b>   | 1,181,934 |
|   | <b>1,658,830</b> | 2,202,933 |
| Contribution to gross profit by geographical market:              |                  |           |
| PRC   | <b>57,107</b>    | 52,374    |
| Hong Kong   | <b>25,895</b>    | 40,147    |
|   | <b>83,002</b>    | 92,521    |
| Carrying amount of segment assets analysed by location of assets: |                  |           |
| PRC   | <b>549,427</b>   | 485,740   |
| Hong Kong   | <b>419,118</b>   | 440,045   |
|   | <b>968,545</b>   | 925,785   |
| Additions to plant and equipment analysed by location of assets:  |                  |           |
| PRC   | -                | -         |
| Hong Kong   | <b>10,800</b>    | 947       |
|   | <b>10,800</b>    | 947       |

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

### 6. COST OF SALES

|                          | <b>2004</b>      | 2003      |
|--------------------------|------------------|-----------|
|                          | <b>HK\$'000</b>  | HK\$'000  |
| Cost of sales comprises: |                  |           |
| Cost of goods sold       | <b>1,656,527</b> | 2,196,802 |
| Rebates                  | <b>(80,699)</b>  | (86,390)  |
|                          | <b>1,575,828</b> | 2,110,412 |

### 7. OTHER OPERATING INCOME

|  | <b>2004</b>     | 2003     |
|--|-----------------|----------|
|  | <b>HK\$'000</b> | HK\$'000 |
| Agency fee income                                  | –               | 9,800    |
| Gain on disposal of plant and equipment            | –               | 13       |
| Interest income on bank deposits                   | <b>787</b>      | 1,283    |
| Promotional services income                        | <b>3,256</b>    | 1,317    |
| Unrealised gain on interest rate swap transactions | <b>551</b>      | –        |
| Sundry income                                      | <b>1,924</b>    | 724      |
|  | <b>6,518</b>    | 13,137   |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

## 8. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging and (crediting):

|  | <b>2004</b>     | 2003     |
|--|-----------------|----------|
|  | <b>HK\$'000</b> | HK\$'000 |
| Allowance for doubtful debts   | <b>1,512</b>    | –        |
| Allowance for inventories  | <b>2,491</b>    | –        |
| Amortisation of goodwill   | <b>353</b>      | –        |
| Auditors' remuneration   | <b>800</b>      | 730      |
| Depreciation of plant and equipment  | <b>2,001</b>    | 935      |
| Loss (gain) on disposal of plant and equipment   | <b>118</b>      | (13)     |
| Operating lease rentals in respect of rented premises  | <b>5,115</b>    | 3,905    |
| Staff costs:   |                 |          |
| Directors' remuneration  |                 |          |
| – fees   | <b>511</b>      | 480      |
| – other emoluments   | <b>4,905</b>    | 6,125    |
| – retirement benefit scheme contributions  | <b>25</b>       | 35       |
|  | <b>5,441</b>    | 6,640    |
| Staff costs excluding directors' remuneration  | <b>12,851</b>   | 15,135   |
| Retirement benefit scheme contributions, excluding amounts included in directors' remuneration | <b>181</b>      | 273      |
|  | <b>13,032</b>   | 15,408   |
| Total staff costs  | <b>18,473</b>   | 22,048   |

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

### 9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors' emoluments:

|   | <b>2004</b><br><b>HK\$'000</b> | 2003<br>HK\$'000 |
|---|--------------------------------|------------------|
| Fees:                                       |                                |                  |
| Executive directors                         | –                              | –                |
| Independent non-executive directors         | <b>511</b>                     | 480              |
|   | <b>511</b>                     | 480              |
| Other emoluments (executive directors):     |                                |                  |
| Salaries and other benefits ( <i>note</i> ) | <b>4,905</b>                   | 6,125            |
| Bonus                                       | –                              | –                |
| Retirement benefit scheme contributions     | <b>25</b>                      | 35               |
|   | <b>4,930</b>                   | 6,160            |
| <b>Total emoluments</b>                     | <b>5,441</b>                   | 6,640            |

*Note:* The directors' salaries and other benefits include the operating lease rentals amounting to HK\$840,000 (2003: HK\$800,000) in respect of rented premises provided to a director. The amounts are also included in the operating lease rentals in respect of rented premises under note 8 above.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

## 9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

The emoluments of directors were within the following bands:

|                                | Number of directors |          |
|--------------------------------|---------------------|----------|
|                                | 2004                | 2003     |
| Nil to HK\$1,000,000           | 4                   | 2        |
| HK\$1,000,001 to HK\$1,500,000 | 1                   | 1        |
| HK\$1,500,001 to HK\$2,000,000 | –                   | 1        |
| HK\$2,000,001 to HK\$2,500,000 | 1                   | –        |
| HK\$2,500,001 to HK\$3,000,000 | –                   | 1        |
|                                | <b>6</b>            | <b>5</b> |

### Employees' emoluments:

During the year, the five highest paid individuals included three directors (2003: three directors), details of whose emoluments are set out above. The emoluments of the remaining two (2003: two) highest paid individuals are as follows:

|   | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
|---|------------------|------------------|
| Salaries and other benefits             | 1,807            | 1,942            |
| Retirement benefit scheme contributions | 20               | 19               |
|   | <b>1,827</b>     | <b>1,961</b>     |

The emoluments of the remaining two (2003: two) highest paid individuals are within the following bands:

|                      | Number of employees |      |
|----------------------|---------------------|------|
|                      | 2004                | 2003 |
| Nil to HK\$1,000,000 | 2                   | 2    |

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

### 10. FINANCE COSTS

|   | <b>2004</b>     | 2003     |
|---|-----------------|----------|
|   | <b>HK\$'000</b> | HK\$'000 |
| Interest on bank overdrafts and short-term bank borrowings wholly repayable within five years | <b>13,250</b>   | 11,777   |
| Bank charges  | <b>2,171</b>    | 3,163    |
|   | <b>15,421</b>   | 14,940   |

### 11. TAXATION

|   | <b>2004</b>     | 2003     |
|---|-----------------|----------|
|   | <b>HK\$'000</b> | HK\$'000 |
| The charge comprises:                                     |                 |          |
| Hong Kong Profits Tax:                                    |                 |          |
| Current year  | –               | 2,314    |
| Underprovision in previous years                          | <b>19</b>       | 235      |
| Deferred tax ( <i>Note 24</i> )                           | <b>566</b>      | –        |
| Taxation attributable to the Company and its subsidiaries | <b>585</b>      | 2,549    |

Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) of the estimated assessable profit for the year.

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

## 11. TAXATION (continued)

The charge for the year can be reconciled to the profit per the consolidated income statement as follows:

|  | <b>2004</b><br><b>HK\$'000</b> | 2003<br>HK\$'000 |
|--|--------------------------------|------------------|
| Profit before taxation   | <b>33,807</b>                  | 52,829           |
| Tax at Hong Kong Profits Tax rate of 17.5% (2003: 17.5%)                       | <b>5,916</b>                   | 9,245            |
| Tax effect of non-deductible expenses  | <b>78</b>                      | 88               |
| Tax effect of exempted offshore profits  | <b>(6,507)</b>                 | (7,450)          |
| Tax effect of non-taxable income   | <b>(132)</b>                   | (40)             |
| Tax effect of utilisation of tax losses not previously recognised              | <b>(50)</b>                    | –                |
| Tax effect of tax losses not recognised  | <b>1,048</b>                   | 368              |
| Tax effect of deductible temporary difference not previously recognised        | <b>201</b>                     | –                |
| Underprovision in previous years   | <b>19</b>                      | 235              |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | <b>7</b>                       | 15               |
| Others   | <b>5</b>                       | 88               |
| Tax charge for the year  | <b>585</b>                     | 2,549            |

## 12. DIVIDEND

|                         | <b>2004</b><br><b>HK\$'000</b> | 2003<br>HK\$'000 |
|-------------------------|--------------------------------|------------------|
| Interim dividend        | <b>7,200</b>                   | –                |
| Final dividend proposed | <b>–</b>                       | –                |
|                         | <b>7,200</b>                   | –                |

Notes:

- (a) An interim dividend at HK0.45 cent per share was paid during the year. The directors do not recommend the payment of a final dividend.
- (b) In respect of the year ended 31 December 2003, no dividend had been paid or declared by the Company.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

### 13. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year is based on the net profit for the year of HK\$33,222,000 (2003: HK\$50,280,000) and on 1,600,000,000 (2003: 1,600,000,000) shares in issue.

The calculation of the diluted earnings per share is based on the net profit for the year of HK\$33,222,000 (2003: HK\$50,280,000) and on the weighted average of 1,600,048,792 (2003: 1,602,729,443) shares in issue and issuable on the assumption that the outstanding options are exercised on the date on which they are granted.

### 14. PLANT AND EQUIPMENT

|                            | <b>Furniture,<br/>fixtures and<br/>equipment</b> | <b>Motor<br/>vehicles</b> | <b>Total</b>  |
|----------------------------|--|---------------------------|---------------|
|                            | HK\$'000   | HK\$'000                  | HK\$'000      |
| <b>THE GROUP</b>           |  |                           |               |
| COST                       |  |                           |               |
| At 1 January 2004          | 2,947  | 2,364                     | 5,311         |
| Additions                  | 10,800   | –                         | 10,800        |
| Disposals                  | (322)  | –                         | (322)         |
| <b>At 31 December 2004</b> | <b>13,425</b>                                    | <b>2,364</b>              | <b>15,789</b> |
| DEPRECIATION               |  |                           |               |
| At 1 January 2004          | 1,567  | 1,072                     | 2,639         |
| Provided for the year      | 1,528  | 473                       | 2,001         |
| Eliminated on disposals    | (204)  | –                         | (204)         |
| <b>At 31 December 2004</b> | <b>2,891</b>                                     | <b>1,545</b>              | <b>4,436</b>  |
| NET BOOK VALUES            |  |                           |               |
| <b>At 31 December 2004</b> | <b>10,534</b>                                    | <b>819</b>                | <b>11,353</b> |
| At 31 December 2003        | 1,380  | 1,292                     | 2,672         |

The Company did not have any plant and equipment during the year and at the balance sheet date.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

## 15. INTERESTS IN ASSOCIATES

|                        | THE GROUP        |                  |
|------------------------|------------------|------------------|
|                        | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
| Share of net assets    | 885              | –                |
| Goodwill of associates | 13,768           | –                |
|                        | <b>14,653</b>    | –                |

Details of the Group's associates as at 31 December 2004 are as follows:

| Name of associate                     | Place of incorporation | Principal place of operation | Attributable equity interest held by the Group | Principal activities                                     |
|---------------------------------------|------------------------|------------------------------|--|--|
| Jet Fidelity Holdings Company Limited | British Virgin Islands | Hong Kong                    | 30%  | Investment holding                                       |
| Jet Fidelity Limited                  | Hong Kong              | Hong Kong                    | 30%  | Provision of logistics and warehouse management services |
| Synergrator Logistics (HK) Limited    | Hong Kong              | Hong Kong                    | 30%  | Provision of logistics and warehouse management services |

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

### 15. INTERESTS IN ASSOCIATES (continued)

Details of the goodwill of associates are as follows:

|  | <b>THE GROUP</b> |
|--|------------------|
|  | HK\$'000         |
| <b>COST</b>  |                  |
| Arising on acquisition of associates during the year | <b>14,121</b>    |
| <b>AMORTISATION</b>                                  |                  |
| Charge for the year                                  | <b>353</b>       |
| <b>NET BOOK VALUE</b>                                |                  |
| At 31 December 2004                                  | <b>13,768</b>    |

Goodwill is amortised over 20 years.

### 16. INVESTMENT IN A SUBSIDIARY

|                 | <b>THE COMPANY</b>     |
|-----------------|------------------------|
|                 | <b>2004 &amp; 2003</b> |
|                 | HK\$'000               |
| Unlisted shares | <b>112,569</b>         |

The carrying value of the unlisted shares is based on the fair values of the underlying net assets of the subsidiaries at the time they became members of the Group under the group reorganisation of the Group in August 2001.

Particulars of the Company's subsidiaries at 31 December 2004 are set out in note 31.

### 17. AMOUNTS DUE FROM/TO SUBSIDIARIES

The amounts are unsecured and interest-free. They are repayable within one year or on demand.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

## 18. INVENTORIES

|                | THE GROUP        |                  |
|----------------|------------------|------------------|
|                | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
| Finished goods | <b>361,288</b>   | 331,924          |

Inventories of HK\$6,390,000 (2003: nil) are carried at net realisable value at the balance sheet date.

## 19. TRADE RECEIVABLES, PREPAYMENTS AND DEPOSITS

The credit terms of the Group range from 30 to 180 days. The aged analysis of trade receivables at the reporting date is as follows:

|   | THE GROUP        |                  |
|---|------------------|------------------|
|   | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
| Aged:                                       |                  |                  |
| 0 to 30 days                                | <b>114,548</b>   | 119,229          |
| 31 to 60 days                               | <b>62,355</b>    | 55,403           |
| 61 to 90 days                               | <b>65,310</b>    | 69,436           |
| 91 to 180 days                              | <b>207,238</b>   | 177,608          |
| Total trade receivables                     | <b>449,451</b>   | 421,676          |
| Prepayments, deposits and other receivables | <b>3,022</b>     | 13,545           |
|   | <b>452,473</b>   | 435,221          |

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

### 20. TRADE PAYABLES, SALES DEPOSITS AND ACCRUED CHARGES

The aged analysis of trade payables at the reporting date is as follows:

|                      | THE GROUP        |                  |
|----------------------|------------------|------------------|
|                      | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
| Aged:                |                  |                  |
| 0 to 30 days         | 88,480           | 164,441          |
| 31 to 60 days        | –                | –                |
| 61 to 90 days        | –                | –                |
| Over 90 days         | 561              | –                |
| Total trade payables | 89,041           | 164,441          |
| Sales deposits       | 3,483            | 5,744            |
| Accrued charges      | 5,315            | 5,299            |
|                      | 97,839           | 175,484          |

### 21. BANK OVERDRAFTS AND BANK BORROWINGS

|  | THE GROUP        |                  |
|--|------------------|------------------|
|  | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
| Bank overdrafts  | 268              | –                |
| Bank borrowings  | 418,019          | 324,470          |
|  | 418,287          | 324,470          |
| Less: Amount due within one year included under<br>current liabilities | (387,487)        | (324,470)        |
| Amount due after one year, but not exceeding two years                 | 30,800           | –                |
| Secured  | 350,622          | 256,067          |
| Unsecured  | 67,665           | 68,403           |
|  | 418,287          | 324,470          |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

## 22. SHARE CAPITAL

|  | No. of shares  | HK\$'000 |
|--|----------------|----------|
| Shares of HK\$0.01 each                                  |                |          |
| Authorised:  |                |          |
| At 1 January 2003, 31 December 2003 and 31 December 2004 | 10,000,000,000 | 100,000  |
| Issued and fully paid:                                   |                |          |
| At 1 January 2003, 31 December 2003 and 31 December 2004 | 1,600,000,000  | 16,000   |

## 23. RESERVES

|   | Share<br>premium<br>HK\$'000 | Special<br>reserve<br>HK\$'000 | Accumulated<br>profits<br>HK\$'000 | Total<br>HK\$'000 |
|---|------------------------------|--------------------------------|------------------------------------|-------------------|
| <b>THE GROUP</b>                          |                              |                                |                                    |                   |
| A 1 January 2003                          | 122,357                      | 9,370                          | 237,424                            | 369,151           |
| 2002 final dividend paid                  | –                            | –                              | (9,600)                            | (9,600)           |
| Net profit for the year                   | –                            | –                              | 50,280                             | 50,280            |
| At 31 December 2003 and<br>1 January 2004 | 122,357                      | 9,370                          | 278,104                            | 409,831           |
| 2004 interim dividend paid                | –                            | –                              | (7,200)                            | (7,200)           |
| Net profit for the year                   | –                            | –                              | 33,222                             | 33,222            |
| <b>At 31 December 2004</b>                | <b>122,357</b>               | <b>9,370</b>                   | <b>304,126</b>                     | <b>435,853</b>    |

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

### 23. RESERVES (continued)

|   | Share<br>premium<br>HK\$'000 | Contributed<br>reserve<br>HK\$'000 | Accumulated<br>profits<br>HK\$'000 | Total<br>HK\$'000 |
|---|------------------------------|------------------------------------|------------------------------------|-------------------|
| <b>THE COMPANY</b>                        |                              |                                    |                                    |                   |
| At 1 January 2003                         | 122,357                      | 112,369                            | 67                                 | 234,793           |
| 2002 final dividend paid                  | –                            | –                                  | (9,600)                            | (9,600)           |
| Net profit for the year                   | –                            | –                                  | 9,607                              | 9,607             |
| <hr/>                                     |                              |                                    |                                    |                   |
| At 31 December 2003 and<br>1 January 2004 | 122,357                      | 112,369                            | 74                                 | 234,800           |
| 2004 interim dividend paid                | –                            | –                                  | (7,200)                            | (7,200)           |
| Net profit for the year                   | –                            | –                                  | 7,207                              | 7,207             |
| <hr/>                                     |                              |                                    |                                    |                   |
| <b>At 31 December 2004</b>                | <b>122,357</b>               | <b>112,369</b>                     | <b>81</b>                          | <b>234,807</b>    |

The contributed surplus of the Company represents the difference between the carrying amounts of the underlying net assets of the subsidiaries at the date on which they were acquired by the Company and the nominal amount of the Company's shares issued under the group reorganisation of the Group in August 2001.

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

The Company's reserves available for distribution to shareholders as at 31 December 2004 represent the aggregate of share premium, contributed surplus, accumulated profits of HK\$234,807,000 (2003: HK\$234,800,000).

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

## 24. DEFERRED TAXATION

The following are the major deferred tax liability and asset recognised and movements thereon during the current accounting year:

|   | <b>Accelerated<br/>tax<br/>depreciation</b> | <b>Tax<br/>loss</b> | <b>Total</b> |
|---|---|---------------------|--------------|
|   | HK\$'000                                    | HK\$'000            | HK\$'000     |
| <b>THE GROUP</b>  |   |                     |              |
| Charge (credit) to income statement for<br>the year and as at 31 December 2004 ( <i>Note 11</i> ) | 1,474                                       | (908)               | 566          |

For purpose of the balance sheet presentation, the above deferred tax assets and liabilities were offset. A deferred tax asset has been recognised for the year ended 31 December 2004 in respect of HK\$5,191,000 (2003: nil).

At the balance sheet date, the Group had unused tax losses of approximately HK\$18,327,000 (2003: HK\$4,546,000) available for offset against future profits. A deferred tax asset has been recognised for the year ended 31 December 2004 in respect of HK\$5,191,000 (2003: nil) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses due to the unpredictability of future profit streams of relevant subsidiaries. The unrecognised tax losses may be carried forward indefinitely except the losses of HK\$2,450,000 (2003: HK\$2,170,000) which will expire as follows:

| <b>Year of expiry</b> | <b>2004<br/>HK\$'000</b> | 2003<br>HK\$'000 |
|-----------------------|--------------------------|------------------|
| 2005                  | <b>351</b>               | 351              |
| 2006                  | <b>496</b>               | 496              |
| 2007                  | <b>707</b>               | 707              |
| 2008                  | <b>616</b>               | 616              |
| 2009                  | <b>280</b>               | –                |
|                       | <b>2,450</b>             | 2,170            |

At the balance sheet date, there were no other significant temporary differences.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

### 24. DEFERRED TAXATION (continued)

#### THE COMPANY

No provision for deferred taxation has been recognised in the financial statements, as the amount involved is insignificant.

### 25. PLEDGE OF ASSETS

In accordance with the terms of the distribution agreement entered into between the Group and a major supplier, the Group has granted the major supplier a security interest in the inventories supplied and in any proceeds (including accounts receivable) as security for any outstanding amount due by the Group. The aggregate amount of relevant assets pledged at the respective balance sheet dates is as follows:

|                | <b>2004</b><br><b>HK\$'000</b> | 2003<br>HK\$'000 |
|----------------|--------------------------------|------------------|
| Assets pledged | <b>77,748</b>                  | 118,877          |

In addition, the Group's bank deposits at the balance sheet date pledged to bankers to secure certain banking facilities were as follows:

|                       | <b>2004</b><br><b>HK\$'000</b> | 2003<br>HK\$'000 |
|-----------------------|--------------------------------|------------------|
| Bank deposits pledged | <b>67,493</b>                  | 65,999           |

### 26. MAJOR NON-CASH TRANSACTION

During the year, the Group transferred an amount of HK\$8,190,000 (2003: nil) from deposits paid in respect of an accounting software to plant and equipment.

### 27. CONTINGENT LIABILITIES

The Group had no contingent liabilities at the balance sheet date.

The Company had executed guarantees for unlimited amounts in favour of its bankers in respect of banking facilities granted to its subsidiaries. The total amounts utilised by the subsidiaries as at 31 December 2004 were approximately HK\$418,019,000 (2003: HK\$324,470,000).

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

## 28. OPERATING LEASE COMMITMENTS

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

|                                       | THE GROUP        |                  |
|---------------------------------------|------------------|------------------|
|                                       | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
| Within one year                       | 1,706            | 1,010            |
| In the second to fifth year inclusive | 1,593            | 560              |
|                                       | <b>3,299</b>     | 1,570            |

Operating lease payments represent rentals payable by the Group for certain of its office premises and employees' quarters. Leases are negotiated for an average of 2 years.

The Company had no operating lease commitment at the balance sheet date.

## 29. SHARE OPTION SCHEME

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

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

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

### 29. SHARE OPTION SCHEME (continued)

Options granted must be taken up within 28 days of the date of grant, upon payment of HK\$1 per option. Options may be exercised at any time from the expiry of 6 months from the date of acceptance of the share option to such date as determined by the board of directors but in any event not exceeding 10 years. The exercise price is determined by the directors of the Company and will not be less than the higher of the average closing price of the shares for the five business days immediately preceding the date of grant or the closing price of the shares on the date of grant.

As the Rules Governing the Listing of Securities on the Stock Exchange (“the Listing Rules”) relating to the share option schemes were amended on 1 September 2001, share option can be granted under the Option Scheme provided that the existing Listing Rules on share option schemes are complied with.

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

## 29. SHARE OPTION SCHEME (continued)

The following table discloses details of the Company's share options held by a director and employees and movements in such holdings during the year:

|  | Outstanding at<br>1 January | Granted<br>during<br>the year | Reallocation<br>during<br>the year | Outstanding at<br>31 December |
|--|-----------------------------|-------------------------------|------------------------------------|-------------------------------|
| <b>For the year ended<br/>31 December 2004</b> |                             |                               |                                    |                               |
| Director ( <i>Note a</i> )                     | –                           | –                             | 2,080,000                          | 2,080,000                     |
| Employees                                      | 45,370,000                  | 14,300,000                    | (2,080,000)                        | 57,590,000                    |
| Principal buyers ( <i>Note b</i> )             | 12,980,000                  | 30,700,000                    | –                                  | 43,680,000                    |
|  | <u>58,350,000</u>           | <u>45,000,000</u>             | <u>–</u>                           | <u>103,350,000</u>            |
| <b>For the year ended<br/>31 December 2003</b> |                             |                               |                                    |                               |
| Employees                                      | –                           | 45,370,000                    | –                                  | 45,370,000                    |
| Principal buyers ( <i>Note b</i> )             | –                           | 12,980,000                    | –                                  | 12,980,000                    |
|  | <u>–</u>                    | <u>58,350,000</u>             | <u>–</u>                           | <u>58,350,000</u>             |

*Notes:*

- (a) Mr. Yen Chung Chuan was appointed as an executive director of the Company on 5 February 2004. Prior to the appointment, Mr. Yen was an employee of one of the subsidiaries of the Company.
- (b) Principal buyers are the former employees of the Group.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

### 29. SHARE OPTION SCHEME (continued)

Details of options granted are as follows:

| Date of grant    | Exercise period                   | Exercise price per share<br>HK\$ |
|------------------|-----------------------------------|----------------------------------|
| 9 October 2003   | 10 October 2003 – 28 August 2011  | 0.3810                           |
| 16 November 2004 | 17 November 2004 – 28 August 2011 | 0.2166                           |

Total consideration received during the year from employees for taking up the options amounted to HK\$3 (2003: HK\$28).

The fair value of the Company's share at the date of offer of the above options, being the closing price of the Company's shares as stated in the daily quotation sheets issued by The Stock Exchange on the trading day immediately preceding that day, was HK\$0.21 (2003: HK\$0.38).

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

### 30. RETIREMENT BENEFITS SCHEMES

The Group operates a defined contribution Mandatory Provident Fund Scheme under the Mandatory Provident Fund Scheme Ordinance for all qualifying employees in Hong Kong since December 2000. The assets of the scheme are held separately from those of the Group in funds under the control of trustees.

The employees of the Group's subsidiaries in other jurisdictions are members of state-managed retirement benefit schemes operated by the government of the jurisdictions. The subsidiaries are required to contribute a specified percentage of their payroll costs to the retirement benefit schemes. The only obligation of the Group with respect to the retirement benefit schemes is to make the specified contributions.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

## 30. RETIREMENT BENEFITS SCHEMES (continued)

The total cost charged to the income statement of HK\$197,000 (2003: HK\$308,000) represents contributions payable to the schemes by the Group at rates specified in the rules of the schemes. As at 31 December 2004, contributions of HK\$19,000 (2003: HK\$26,000) due in respect of the current reporting year had not been paid to the schemes.

## 31. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries, all of which are wholly owned at 31 December 2004 are as follows:

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

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

### 31. PARTICULARS OF SUBSIDIARIES (continued)

| Name of subsidiary                      | Place of incorporation and operation | Issued and fully paid share capital/ registered capital | Attributable equity interest held by the Company |            | Principal activities   |
|---|--------------------------------------|---|--|------------|--|
|   |                                      |   | Directly   | Indirectly |  |
| Artel International Holdings Limited    | British Virgin Islands               | US\$5   | 100%   | –          | Investment holding   |
| Artel Industries Limited                | Hong Kong                            | Ordinary – HK\$2<br>Deferred – HK\$8,000,000*           | –  | 100%       | Trading of computer components and networking equipment and provision of integrated e-enabling solutions |
| Artel International Investments Limited | British Virgin Islands               | US\$1   | –  | 100%       | Inactive   |
| Artel Macao Commercial Offshore Limited | Macau                                | MOP1,000,000  | –  | 100%       | Trading of computer components and networking equipment and provision of integrated e-enabling solutions |
| ASEP Solutions Limited                  | Hong Kong                            | HK\$2   | –  | 100%       | Provision of e-enabling solutions and technical services   |
| Best Hero Limited                       | Hong Kong                            | HK\$10,000  | –  | 100%       | Trading of computer components   |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

## 31. PARTICULARS OF SUBSIDIARIES (continued)

| Name of subsidiary                  | Place of incorporation and operation | Issued and fully paid share capital/ registered capital | Attributable equity interest held by the Company |            | Principal activities |
|-------------------------------------|--------------------------------------|---|--|------------|----------------------|
|                                     |                                      |   | Directly   | Indirectly |                      |
| Cyber King Group Limited            | British Virgin Islands               | US\$1   | -  | 100%       | Inactive             |
| Hashan Development Company, Limited | Hong Kong                            | HK\$100,000   | -  | 100%       | Assets holding       |
| Yiu Fai Trading Limited             | British Virgin Islands               | US\$50,000  | -  | 100%       | Investment holding   |

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

\*\* *This subsidiary is a wholly foreign owned enterprise.*

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