M DREAM INWORLD LIMITED

聯夢活力世界有限公司

(Incorporated in the Cayman Islands with limited liability)

# M DREAM INWORLD LIMITED ANNUAL REPORT 2008

Stock Code : 8100

**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 of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**

*Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.*

*This report, for which the directors of M Dream Inworld Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules ("GEM Listing Rules") Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

# Contents

# Corporate Information

**DIRECTORS**

**Executive Directors**

Yu Shu Kuen (Chairman)
Li Fang Hong
Rong Hsu

**Independent Non-executive Directors**

Zhao yang
Chan Kam Kwan, Jason
Cho Chun Wai

**COMPLIANCE OFFICER**

Yu Shu Kuen

**AUTHORIZED REPRESENTATIVES**

Yu Shu Kuen
Ng Kay Kwok

**COMPANY SECRETARY**

Ng Kay Kwok

**AUDIT COMMITTEE**

Zhao Yang
Chan Kam Kwan, Jason
Cho Chun Wai

**REGISTERED OFFICE**

P.O. Box 309
Ugland House
South Church Street
George Town
Grand Cayman
Cayman Islands
British West Indies

**HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS**

Room 909
9 Floor, Harbour Centre
25 Harbour Road
Wanchai, Hong Kong

**PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE**

Bank of Butterfield
International (Cayman) Limited
Butterfield House, 68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands
British West Indies

**HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE**

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

**PRINCIPAL BANKER**

Wing Hang Bank Limited

**AUDITORS**

Baker Tilly Hong Kong Limited
*Certified Public Accountants*

**STOCK CODE**

8100

# Board Of Directors

**Executive Directors**

**Mr. Yu Shu Kuen**, aged 40, was appointed as an Executive Director on 30 January 2007 and appointed as the Chairman of the Company on 19 May 2008. Mr. Yu has worked in the investment banking field in Hong Kong and has his own financial services business.

**Ms. Li Fang Hong**, aged 36, was appointed as an Executive Director and Managing Director of the Company on 19 May 2008. Ms. Li was graduated from the Zhejiang University with a doctor degree in optical engineering. She has profound knowledge and experience in the research and development of electro-optical technology gained in Japan and the People's Republic of China ("PRC"). Ms. Li presently is the managing director of a company in the field of electro-optical displays in the PRC.

**Mr. Rong Hsu**, age 58, was appointed as the Independent Non-executive Director of the Company on 26 March 2008 and was subsequently re-designated to be the Executive Director with effect from 11 December 2008. Mr. Hsu obtained his Mechanical Engineering Degree from the National Taiwan University, later on received his Masters Degree in Material Science from Brown University, USA and a Ph.D. in Material Engineering from the University of Maryland, USA. Mr. Hsu has been working in the science and technology field for more than 23 years. He is a founding member and senior advisor of the Chinese American Semiconductor Professional association. Mr. Hsu is the technical director of the company Delta Electronics, Inc. and he also has been serving as independent director for ChipMos technology, Limited which is a company listed in NASDAQ.

**Independent Non-executive Directors**

**Ms. Zhao Yang** was appointed as an Independent Non-executive Director on 6 March 2008. Ms. Zhao, aged 50, was graduated at Shen Yang Institute of Education and has been practicing law in the PRC since 1986. Ms. Zhao was once awarded "Shen Yang's Best Ten Lawyers". She is now a partner of Guangdong Liren Law Firm in Shenzhen and also acts as the Secretary of the Seventh Department of Communist in Shenzhen Lawyers Association.

**Mr. Cho Chun Wai** was appointed as an Independent Non-executive Director with effect from 19 November 2008. Mr. Cho, aged 32, obtained his Bachelor Degree of Arts in Accountancy and Master Degree of Corporate Finance from The Hong Kong Polytechnic University. Mr. Cho has been working in the accounting and finance field for various companies for more than nine years. He is now the Qualified Accountant and Finance Manager of a company listed on the Stock Exchange.

**Mr. Chan Kam Kwan, Jason** was appointed as an Independent Non-executive Director on 11 December 2008. Mr. Chan, aged 35, obtained his Bachelor Degree of Commerce from The University of British Columbia in Canada. Mr. Chan has been working in the accounting and corporate finance area for more than ten years. He is a member of the American Institute of Certified Public Accountants, and is now serving as the executive director and company secretary of China Windpower Group Limited and Wah Nam International Holdings Limited, both companies are currently listed on the main board of the Stock Exchange. Mr. Chan is also the independent non-executive director of Jackin International Holdings Limited, which is also listed on the main board of the Stock Exchange.

# Chairman's Statement

Year 2008 certainly would be a year to be remembered by people in terms of the toughness in the global economy. The financial tsunami has driven the world into recession and under such circumstances, we have taken a cautious approach in managing our Company's operations and investments throughout the year.

Our principal subsidiary in Singapore has been able to achieve small growth in sales in year 2008, but its near future looks gloomy as the economic environment in Singapore has been devastating. However, with our new subsidiary being set up in Beijing in last October with business focus on display equipments and technology, we are confident that remarkable results can be performed by this subsidiary in coming years. We consider the demand for display equipments and technology in the PRC will remain strong because of the PRC government's RMB 4 trillion economic stimulus plan to boost domestic demand. We will put in our best effort to capture this opportunity.



As mentioned previously the direction for expansion of our Group will principally lie on the huge PRC market. The joining of our managing director Ms. Li Fang Hong who has profound knowledge in optical engineering and solid business experience in the PRC certainly is a valuable asset to the Company. We will keep finding ways to increase our business exposures in the PRC and maximize the value of the Company to all shareholders.



**Yu Shu Kuen**
*Chairman*

23 March 2009

# Report of the Directors

The Directors are pleased to present the annual report ("the Report") together with the audited financial statements of the Company and its subsidiaries (together "the Group") for the year ended 31 December 2008 ("the Year").

The Company was incorporated in the Cayman Islands on 30 July 2001 as an exempted company with limited liability under the Companies Laws of the Cayman Islands. Its shares have been listed on the GEM of the Stock Exchange since 31 December 2001.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries are detailed in Note 16 to the financial statements.

## SEGMENT INFORMATION

An analysis of the principal activities and geographical locations of operations of the Group for the Year is set out in Note 14 to the financial statements.

## RESULTS AND APPROPRIATIONS

Details of the Group's results for the Year are set out in the consolidated income statement on pages 25 of the Report.

The Directors do not recommend the payment of a final dividend for the Year.

## SHARE CAPITAL

Details of the Company's share capital are set out in Note 28 to the financial statements.

## RESERVES

Movements in reserves of the Group and the Company during the Year are set out in Note 28 to the financial statements.

## PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company, nor any of its subsidiaries, has purchased, sold or redeemed any of the Company's shares during the Year.

## PRE-EMPTIVE RIGHTS

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

# Report of the Directors

## FIXED ASSETS

Details of the movements in fixed assets of the Group and the Company during the Year are set out in Note 15 to the financial statements.

## FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 92 of the Report.

## CONNECTED TRANSACTIONS

Details of the connected transactions of the Group are set out in Note 33 to the financial statements.

## MANAGEMENT CONTRACTS

No Director of the Company has any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation) during the Year.

## COMPETING INTEREST

None of the Directors or the management shareholders of the Company has any interest in a business which competes or may compete with the business of the Group during the Year.

## DIRECTORS

The Directors who held office during the Year and up to the date of the Report were:

| | Appointed on | Resigned on |
|---|---|---|
| **Executive Directors** | | |
| Mr. Yu Shu Kuen | 30 January 2007 | |
| Mr. Ha Shu Tong | | 17 May 2008 |
| Mr. Tham Ming Yong | | 22 May 2008 |
| Ms. Li Fang Hong | 19 May 2008 | |
| Mr. Rong Hsu re-designated on | 11 December 2008 | |

**Non-executive Director**

Mr. Koh Tat Lee, Michael retired on 29 February 2008

**Independent Non-executive Directors**

| | | |
|---|---|---|
| Mr. Cheung Wai Shing | | 31 March 2008 |
| Mr. Tsang Kwok Wai | | 24 November 2008 |
| Mr. Chu Ray | | 13 March 2008 |
| Mr. Rong Hsu | 26 March 2008 and re-designated to Executive Director on 11 December 2008 | |
| Ms. Zhao Yang | 6 March 2008 | |
| Mr. Cho Chun Wai | 19 November 2008 | |
| Mr. Chan Kam Kwan, Jason | 11 December 2008 | |

## INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company confirmed that annual confirmations of independence were received from each of the Company's existing Independent Non-executive Directors pursuant to Rules 5.09 of the GEM Listing Rules and all existing Independent Non-executive Directors are considered to be independent.

## DIRECTORS' INTERESTS IN CONTRACT

None of the Directors had any interests in any contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, and which subsisted at the end of the Year or at any time during the Year.

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

As at 31 December 2008, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), Chapter 571 under the Laws of Hong Kong), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they have taken or deemed to have taken 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, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

**Long position in the shares and underlying shares of the Company**

| Name of director | Personal interests | Corporate interests | Total interests | Percentage of interests |
|---|---|---|---|---|
| Mr. Yu Shu Kuen | – | 205,000,000 *(Note 1)* | 205,000,000 | 25.00% |
| Ms. Li Fang Hong | – | 155,000,000 *(Note 2)* | 155,000,000 | 18.91% |

*Notes:*

1. These shares are held by Ample Field Limited, which is wholly and beneficially owned by Mr. Yu Shu Kuen.

2. These shares are held by Universal Target Limited and it is wholly owned by Eternal Mass Limited. Eternal Mass Limited is 40% beneficially owned by Ms. Li Fang Hong and the rest 60% is beneficially owned by Mr. Gui Song, who is the spouse of Ms. Li Fang Hong.

Save as disclosed above, as at 31 December 2008, none of the Directors or chief executives of the Company had any other interests or short positions in any 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 notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they have taken or deemed to have taken 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, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

## DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

At no time during the Year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors and chief executives, their respective spouses or children under the age of 18 to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

## SHARE OPTION SCHEME

### 2007 New Share Option Scheme

On 24 December 2007, this new share option scheme was approved by shareholders of the Company in an extraordinary general meeting. This scheme is to enable the Company to grant option to either Directors or employees of the Group in order to recognize and motivate their contribution, to provide incentives and to help the Group in retaining its existing employees and recruiting additional quality employees and to provide them with a direct economic interest in attaining the long term business objectives of the Group.

No options were granted under this scheme as at 31 December 2008.

Details of the Company's share option schemes are set out in Note 27 to the financial statements.

## SUBSTANTIAL SHAREHOLDERS

As at 31 December 2008, the following persons had, or were deemed to have, interests or short positions in the shares or underlying shares which would require to be disclosed to the Company and the Stock Exchange under the provision of Divisions 2 and 3 or Part XV of the SFO or who were directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the group, or substantial shareholder details required to be kept by the Company under section 336 of the SFO were as follows:

| Name of shareholders | Number of shares held | Percentage of the Company's share capital |
|---|---|---|
| Temasek Holdings (Private) Limited *(Note 1)* | 50,786,236 | 6.19% |
| Singapore Technologies Telemedia Pte Ltd *(Note 1)* | 50,786,236 | 6.19% |
| STT Communications Ltd *(Note 1)* | 50,786,236 | 6.19% |
| stt Ventures Ltd *(Note 1)* | 50,786,236 | 6.19% |
| Ample Field Limited *(Note 2)* | 205,000,000 | 25% |
| Yu Shu Kuen *(Note 2)* | 205,000,000 | 25% |
| Universal Target Limited *(Note 3)* | 155,000,000 | 18.91% |
| Eternal Mass Limited *(Note 3)* | 155,000,000 | 18.91% |
| Mr. Gui Song *(Note 3)* | 155,000,000 | 18.91% |
| Ms. Li Fang Hong *(Note 3)* | 155,000,000 | 18.91% |

*Notes:*

1. These shares are held by stt Ventures Limited, which is a wholly-owned subsidiary of STT Communications Limited ("STTC"). 99.99% of the interest of STTC is in turn held by Singapore Technologies Telemedia Pte Ltd, which is in turn a wholly-owned indirect subsidiary of Temasek Holdings (Private) Limited. Accordingly, Temasek Holdings (Private) Limited, Singapore Technologies Telemedia Pte Ltd and STTC are deemed to be interested in the shares beneficially owned by stt Ventures Limited.

2. These shares are held by Ample Field Limited of which the entire issued capital is beneficially owned by Mr. Yu Shu Kuen. Accordingly, Mr. Yu is deemed to be interested in the shares beneficially owned by Ample Field Limited.

3. These shares are held by Universal Target Limited and it is wholly owned by Eternal Mass Limited. Eternal Mass Limited is 40% beneficially owned by Ms. Li Fang Hong and the rest 60% is beneficially owned by Mr. Gui Song, who is the spouse of Ms. Li Fang Hong. Accordingly, Eternal Mass Limited, Mr. Gui Song and Ms. Li Fang Hong are deemed to be interested in the shares of the Company beneficially owned by Universal Target Limited.

## AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in accordance with Rules 5.28 to 5.33 of the GEM Listing Rules. The audit committee members as at the date of this Report are Ms. Zhao Yang, Mr. Cho Chun Wai and Mr. Chan Kam Kwan, Jason. They are the Independent Non-executive Directors of the Company. The audit committee's principal duties are to review and supervise the financial reporting process and internal control procedures of the Group.

The Company's financial statements for the year ended 31 December 2008 have been reviewed and discussed by the audit committee before any disclosure and release of information.

## BOARD PRACTICES AND PROCEDURES

The Company has compiled with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules during the Year.

## MAJOR CUSTOMERS AND SUPPLIERS

The percentages of sales for the Year attributable to the Group's major customers are as follows:

Sales

– the largest customer 19%

– five largest customers combined 51%

The percentages of purchases for the Year attributable to the Group's major suppliers are as follows:

Purchases

– the largest supplier 15.4%

– five largest suppliers combined 42.1%

None of the Directors, their respective associates and shareholders of the Company (which to the knowledge of the Directors own more than 5% of the issued capital of the Company) had any interest in any of the five largest customers and suppliers of the Group for the Year.

## POST BALANCE EVENT

### Continuing Connected Transactions

On 2 February 2009廣泰益昌（北京）科技有限公司("Guang Tai Yichang (Beijing) Technology Co. Ltd.") (an indirectly wholly owned subsidiary of the Company) has entered into a Framework Agreement in relation to the purchases of display equipment, components and display technology, in an aggregate commercial value of not exceeding HK$97 million, HK$126 million and HK$149 million in the calendar years of 2009, 2010 and 2011 respectively, by the Group from 鴻源控股有限公司 ("Greatsource Holding Co., Ltd.") (as the Supplier). The Supplier is controlled by Ms. Li Fang Hong, an Executive Director and substantial shareholder of the Company, and her associate(s). Accordingly, the Supplier is an associate of Ms. Li and hence, a connected person of the Company within the meaning of the GEM Listing Rules. The entering into of the Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions for the Company under the GEM Listing Rules. The transaction has been approved in an extraordinary general meeting on 9 March 2009. Details of the transaction and the results of the extraordinary general meeting are set out in the Company's announcements dated 18 February and 9 March 2009 respectively.

# Report of the Directors

**AUDITORS**

Baker Tilly Hong Kong Limited acted as auditors of the Company for the year ended 31 December 2008. Baker Tilly Hong Kong Limited shall retire and offer themselves for re-appointment by the approval of the Company shareholders in the forthcoming annual general meeting.

ON BEHALF OF THE BOARD
**Yu Shu Kuen**
*Chairman*

23 March 2009

# Corporate Governance Report

The Board of Directors would like to present this Corporate Governance Report for the Year.

In November 2004, the Stock Exchange promulgated the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules which sets out corporate governance principles ("the Principles") and code provisions ("the Code Provisions") with which listed issuers are expected to follow and comply.

During the Year the Company has applied the Principles and, on a best effort basis complied with the Code Provisions.

Other key corporate governance principles and practices of the Company are summarized as follows:

## THE BOARD

As at 31 December 2008, the Board is comprised of three Executive Directors and three Independent Non-executive Directors.

### (1) Responsibilities

The Board should assume responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company. All Directors should take decisions objectively, in the interests of the Company. The Board should meet regularly, and at least four times a year, at approximately quarterly intervals. Formal notice of at least 14 days will be given in respect of a regular meeting. For special Board meeting, reasonable notice will be given. Directors participated, either in person or through other electronic means of communication in the Board meetings. During the Year there were 20 board meetings conducted. The attendance of Directors is summarized as follows:

| | | |
|---|---|---|
| Mr. Ha Shu Tong | (resigned on 17 May 2008) | 9 meetings |
| Mr. Tham Ming Yong | (resigned on 22 May 2008) | 12 meetings |
| Mr. Yu Shu Kuen | (appointed on 30 January 2007) | 20 meetings |
| Ms. Li Fang Hong | (appointed on 19 May 2008) | 8 meetings |
| Mr. Rong Hsu | (appointed on 26 March 2008) | 9 meetings |
| Mr. Koh Tat Lee, Michael | (retired on 29 February 2008) | 4 meetings |
| Mr. Cheung Wai Shing | (resigned on 31 March 2008) | 8 meetings |
| Mr. Tsang Kwok Wai | (resigned on 24 November 2008) | 14 meetings |
| Mr. Chu Ray | (resigned on 13 March 2008) | 6 meetings |
| Ms. Zhao Yang | (appointed on 6 March 2008) | 10 meetings |
| Mr. Cho Chun Wai | (appointed on 19 November 2008) | 3 meetings |
| Mr. Chan Kam Kwan, Jason | (appointed on 11 December 2008) | 2 meetings |

The Board should agree procedures to enable Directors, upon reasonable request, to seek independent professional advice at the Company's expense.

All Directors should have access to the advice and services of the company secretary with a view to ensuring that board procedures and all applicable rules are followed.

**(2) Composition**

The composition of the Board reflects the balance of skills and experience appropriate for the requirements of the Company's business and for the exercise of independent decisions.

The Company has three Independent Non-executive Directors which is more than one-third of the Board. They are professionals in different areas and provide independent opinions based on their expertise.

**(3) Appointments, re-election & removal of directors**

The Company has established formal, considered and transparent procedures for the appointment of new directors. Although the Company has not set up a nomination committee, the Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment and retirement of directors and assessing the independence of independent non-executive directors.

The Company's Articles of Association have been amended recently with the approval of shareholders. According to the present Articles of Association all non-executive directors retire at each annual general meeting and are subject to re-election by shareholders in the same meeting. Other relevant Articles state that all directors appointed to fill a casual vacancy should be subject to re-election by shareholders at the first annual general meeting after appointment, and one-third of the Directors for the time being, or if their number is not three or a multiple of three, then the number nearest to but not less than one-third shall retire from office by rotation at every annual general meeting. A retiring Director shall be eligible for re-election. All directors should retire by rotation at least once every three years including those appointed for a specific term.

Any director resigning or being removed should give explanations and reasons to the Board.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The following statement, which sets out the responsibility of Directors in relation to the financial statements, should be read in conjunction with, but distinguished from, the Independent Auditor's Report on page 23 to 24 which acknowledges the reporting responsibility of the Group's Auditor.

# Corporate Governance Report

## ANNUAL REPORT AND ACCOUNTS

The Directors acknowledge their responsibility for the preparation of the Annual Report and financial statements of the Company to ensure that these financial statements give a true and fair presentation in accordance with Hong Kong Companies Ordinance and the applicable accounting standards.

## ACCOUNTING POLICIES

The Directors consider that in preparing the financial statements, the Group applies appropriate accounting policies that are consistently adopted and makes judgements and estimates that are reasonable and prudent in accordance with the applicable accounting standards.

## ACCOUNTING RECORDS

The Directors are responsible for ensuring that the Group keeps accounting records which disclose the financial position of the Group upon which financial statements of the Group could be prepared in accordance with the Group's accounting policies.

## SAFEGUARDING ASSETS

The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities within the Group.

## TRAINING FOR DIRECTORS

Each newly appointed director receives comprehensive, formal and tailored induction on the first occasion of his/her appointment, so to ensure that he/she has appropriate understanding of the business and operations of the Company, and he/she is fully aware of his/her responsibilities and obligations under the GEM Listing Rules and relevant regulatory requirements.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code Provision A2.1 requires the separation of the roles of Chairman and Chief Executive Officer. The Chairman should be responsible for the management of the board of directors, whereas the daily management of business operations should rest on the Chief Executive Officer. The Company has appointed Ms. Li Fang Hong as the Managing Director of the Company and her role is the same as the Chief Executive Officer, and Mr. Yu Shu Kuen as the Chairman of the Company.

## BOARD COMMITTEES

### (1) Remuneration Committee

Code Provision B1.1 stipulates that an issuer should establish a Remuneration Committee with specific written terms of reference and a majority of the members of the Remuneration Committee should be independent non-executive directors.

The primary objectives of the Remuneration Committee include making recommendations on the remuneration policy and structure of, and determining the specific remuneration packages of, all directors and senior management.

The Company established its Remuneration Committee on 1 February 2007 with all the present Independent Non-executive Directors as committee members. During the financial year ended 31 December 2008, one meeting of Remuneration Committee was held with attendance of individual members as set out below to review and consider the specific remuneration packages of the Company's directors and senior management.

| | | |
|---|---|---|
| Mr. Cheung Wai Shing | (resigned on 31 March 2008) | 1 meeting |
| Mr. Tsang Kwok Wai | (resigned on 24 November 2008) | 1 meeting |
| Mr. Chu Ray | (resigned on 13 March 2008) | 1 meeting |
| Ms. Zhao Yang | (appointed on 6 March 2008) | 0 meeting |
| Mr. Cho Chun Wai | (appointed on 19 November 2008) | 0 meeting |
| Mr. Chan Kam Kwan, Jason | (appointed on 11 December 2008) | 0 meeting |

### (2) Audit Committee

The main duties of the Audit Committee include the following:

(a) To monitor the control procedures and the disclosures on the reporting of the Company's financial statements, and to review and discuss with the external auditors any significant financial reporting standards and guidelines applied to the financial statements.

(b) To consider any significant or unusual items that are, or may need to be, reflected in financial reports and accounts, and to give due consideration to matters raised by the Company's qualified accountant, compliance officer or external auditors.

(c) To review the relationship with the external auditors by reference to the work performed by them, their fees and terms of engagement, and make recommendations to the Board on the appointment, re-appointment and removal of auditors.

(d) To review the Company's financial controls, internal control and risk management systems.

The Audit Committee held four meetings during the year ended 31 December 2008 with attendance of individual members as set out below to review the financial results and reports, financial reporting and compliance procedures, report on the Company's internal control and risk management review and processes and the re-appointment of external auditors. All the present Independent Non-executive Directors are members of the Committee.

| | | |
|---|---|---|
| Mr. Cheung Wai Shing | (resigned on 31 March 2008) | 1 meeting |
| Mr. Tsang Kwok Wai | (resigned on 24 November 2008) | 4 meetings |
| Mr. Chu Ray | (resigned on 13 March 2008) | 1 meeting |
| Mr. Rong Hsu | (appointed on 26 March 2008 and re-designated as Executive Director on 11 December 2008) | 3 meetings |
| Ms. Zhao Yang | (appointed on 6 March 2008) | 3 meetings |
| Mr. Cho Chun Wai | (appointed on 19 November 2008) | 0 meeting |
| Mr. Chan Kam Kwan, Jason | (appointed on 11 December 2008) | 0 meeting |

The Audit Committee also held a meeting to review the annual results and the related reporting for the year ended 31 December 2008.

## DEALINGS FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has relied on Rules 5.48 to 5.67 of the GEM Listing Rules as the required standard of dealings in respect to any dealings in the Company's securities by the Company's Directors.

General and specific enquiries have been made of all Directors and they all confirmed they have complied with said GEM Listing Rules during the year ended 31 December 2008.

The Company has established written guidelines to further govern Directors when dealing in the Company's securities.

## DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR THE ACCOUNTS

The Board is responsible for presenting a balanced, clear and comprehensible assessment of the Group's performance and prospects. The Directors are responsible for the preparation of accounts which give a true and fair view of the state of affairs and of the results and cash flows of the Group on a going concern basis. The Company's accounts are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently and that judgments and estimates made are prudent and reasonable. The Directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group. The responsibilities of the auditors for the accounts are set out in the Independent Auditors' Report on pages 23 to 24 of this Annual Report.



## INTERNAL CONTROL

The Group does not have an internal audit department, but the Directors are responsible for the internal control of the Group and for reviewing its effectiveness. The internal control system of the Group comprises of a comprehensive organisational structure and delegation of authorities assigned to individuals based on experience and business need. Control procedures have been designed to safeguard assets against unauthorised use and disposition; ensure compliance with relevant laws, rules and regulations; ensure proper maintenance of accounting records for provision of reliable financial information used within the business or for publication; and to provide reasonable assurance against material misstatement, loss or fraud. The overall risk management functions of the Group are under responsibility of the Board. There are established control procedures to identify, assess, control and report to each of the four major types of risks consisting of business and market risk, compliance risk, financial and treasury risk and operational risk. In addition, there is regular dialogue with the Group's external auditors so that both are aware of the significant factors which may affect their respective scope of work. A review of the effectiveness of the Group's system of internal control covering all key controls, including financial, operational and compliance and risk management controls, is conducted annually.

## AUDITORS' REMUNERATION

The fees in relation to the audit and other services provided to the Company and its subsidiaries by external auditors of the Group, amounted approximately to HK$295,000. No non-audit services were provided by external auditors of the Group for the year ended 31 December 2008.

## DELEGATION BY THE BOARD

The Board is primarily responsible for overall strategy and direction for the Group and overseeing the Group's businesses and providing leadership in strategic issues. The management is delegated to manage the day-to-day businesses of the Group. When the Board delegates aspect of its management and administration functions to management, clear directions would be given as to the power of management, in particular, the circumstances where management should report back to the Board before making decisions or entering into any commitments on behalf of the Group. Principal functions that are specifically delegated by the Board to the management include (i) implementation of corporation strategy and policy initiatives; (ii) provision of management reports to the Board in respect of Group's performance, financial position and prospects; and (iii) day-to-day management of the Group.

## BOARD COMMITTEE

The Board established certain Board committees with specific written terms of reference which deal clearly with the committee's authority and duties and require the committees to report back on their decisions or recommendations.

## COMMUNICATION WITH SHAREHOLDERS

In respect of each separate issue at the general meeting held during the year ended 31 December 2008, separate resolution has been proposed by the Chairman of that meeting. The Chairman of the Board and member of Audit Committee attended the annual general meeting held on 29 February 2008 to answer questions, if any, at the meeting.

## SHAREHOLDER RIGHTS

According to GEM Listing Rules, all resolutions proposed in any general meetings are by poll.

Results of any voting conducted by poll will be posted on the websites of the Stock Exchange and the Company by way of an announcement on the business day following the shareholders' meeting.

The general meetings of the company provide an opportunity for communication between the shareholders and the Board. The Chairman of the Board as well as the chairmen of the board committees or, in their absence, other members of the respective committees and, where applicable, the independent board committee members, are normally available to answer questions at the shareholders' meetings.

# Management Discussion and Analysis

## BUSINESS REVIEW

Two loan capitalizations were carried out by the Company during the Year. An unsecured loan of HK$1,368,000 was settled by issuing 2,338,460 new shares of the Company while another loan of approximately HK$4,050,000 was settled by issuing 16,804,979 new shares of the Company.

A new Beijing subsidiary was incorporated in October 2008 to focus on display equipments and technology business. It has recorded turnover of approximately HK$400,000 during the Year since incorporation. With more competent sales staff joining this subsidiary, it is expected the sales volume can jump significantly in coming years.

Similar to year 2007, the Singapore subsidiary contributed the most in sales within the Group for the Year. Its turnover for the Year was approximately HK$13,191,000 which accounted for 87% of the total sales of the Group. During the Year, a 30% shareholding of this Singapore subsidiary was disposed to its CEO to deepen his commitment for procuring more businesses. Upon this disposal, the Group reckoned that there was a gain of approximately HK$9 million as the minority should take up part of the accumulated losses incurred by the subsidiary. This gain was recorded by the Company in its previous reports issued during the Year. However the auditors of the Company have different view on the recognition of the gain as its realization is not certain. The minority does not demonstrate his ability nor the subsidiary has the prospect that the minority can take up the proportional accumulated loss. To take a prudent approach, the Company concurs the view of the auditors of the Company not to recognise this considerable gain. This change leads to a loss position to the Group as at year end.

The cash position of the Group as at year end remained healthy with an amount of approximately HK$32 million which was also about the same as the net current assets of the Group. Based on such solid financial position the management will cautiously look for investment opportunities with good prospects.

## FINANCIAL REVIEW

### Turnover

The turnover of the Group was approximately HK$15.23 million for the Year, representing an increase of 1% compared to the turnover for the year ended 31 December 2007 of approximately HK$15.11 million.

**Loss for the year**

The consolidated loss of the Group for the Year was approximately HK$8.08 million compared to the profit of approximately HK$10.56 million for the year ended 31 December 2007. The change from a profit to a loss is mainly due to a large gain on derecognition of unsecured loans of HK$16.14 million in the year 2007, and the decrease in gross profit margin from 61% of the year 2007 to 46% of the year 2008.

**Liquidity and financial resources**

The Group's total liabilities decreased to approximately HK$4.06 million as at 31 December 2008 from approximately HK$24.13 million as at 31 December 2007. As at 31 December 2008, the Group has more than HK$32 million in cash and bank, and no liquidity problem is expected in the near future.

**Capital structure**

There has been no significant change in the capital structure of the Company during the Period except the issuance of 19,143,439 new ordinary shares in two loan capitalisation exercises.

**Foreign exchange exposure**

During the Year the business activities of the Group were mainly denominated in Hong Kong dollars, Renminbi and Singapore dollars. The directors do not consider that the Group was exposed to any significant foreign currency exchange risk.

**Aging of trade receivables and payables**

The aging of the Group's trade receivables and payables as at the end of the Year are set out in Note 20 to the financial statements.

**Significant investments**

The Group had no significant investments during the Year.

**Material acquisitions and disposals**

The Group had no material acquisition or disposal during the Year except for the disposal of a 30% shareholding of the Singapore subsidiary to its chief executive officer at a consideration of HK$560,000.

# Management Discussion and Analysis

**Gearing ratio**

As at 31 December 2008 the gearing ratio of the Group was 11% (2007: 41%).

**Employee information**

The Group currently has approximately 30 employees (2007: 25) working in Hong Kong, Beijing and Singapore. The Group remunerates its employees based on their experience, performance and values, which they contribute to the Group.

**Contingent liabilities**

As at 31 December 2008 the Directors did not consider the Group had any contingent liabilities (2007: nil).

## OUTLOOK

Due to the poor global economic environment the Singapore subsidiary which contributed the most in sales within the Group for the Year, may experience a drop in sales in this year. It mainly depends on how much contracts will be issued by the Singapore government and how much of those contracts will be awarded to us. But as most competitors are lowering their bids, this makes the tendering so harsh that the profit might be very minimal even a contract is awarded.

The Group has recently established a new business unit, engaged in the businesses of trading of display equipment and provision of certain related technology. The management is recently negotiating with certain potential customers and the management is confident that such new business can broaden the revenue base and enhance the return of the shareholders.

The Company has strong determination to take large steps to move forward in this year. With careful execution of the new business mentioned above, the Company believes it can achieve better results than last year. Meanwhile, the Company will continue to seek for new acquisition opportunities and new business plans which would bring value to the shareholders as a whole.

# Independent Auditor's Report

BAKER TILLY
HONG KONG LIMITED
Certified Public Accountants
香港天華會計師事務所有限公司
12th Floor, China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

**Independent auditor's report to the shareholders of**
**M Dream Inworld Limited**
*(Incorporated in the Cayman Islands with limited liability)*

We have audited the financial statements of M Dream Inworld Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 25 to 29, which comprise the consolidated and Company balance sheets as at 31 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 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 financial statements based on our audit. This report is made 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.

# Independent Auditor's Report

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 financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 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.

**Baker Tilly Hong Kong Limited**
*Certified Public Accountants*

Hong Kong, 23 March 2009

**Andrew David Ross**
Practising certificate number P01183

# Consolidated Income Statement

For the year ended 31 December 2008
(Expressed in Hong Kong dollars)

| | Notes | **2008** **$'000** | 2007 $'000 |
|---|---|---|---|
| **Turnover** | 4 | **15,233** | 15,112 |
| Cost of sales | | **(8,284)** | (5,831) |
| **Gross profit** | | **6,949** | 9,281 |
| Other revenue and net (loss)/income | 5 | **(262)** | 16,577 |
| Selling and administrative expenses | | **(14,734)** | (15,103) |
| **(Loss)/profit from operations** | | **(8,047)** | 10,755 |
| Finance costs | 6(a) | **(40)** | (174) |
| **(Loss)/profit before taxation** | 6 | **(8,087)** | 10,581 |
| Income tax credit/(expense) | 7 | **7** | (18) |
| **(Loss)/profit for the year** | | **(8,080)** | 10,563 |
| **Attributable to:** | | | |
| Equity shareholders of the Company | 12 | **(8,358)** | 10,563 |
| Minority interests | | **278** | – |
| **(Loss)/profit for the year** | | **(8,080)** | 10,563 |
| **(Loss)/earnings per share** | | | |
| Basic | 13(a) | **(HK1.02 cents)** | HK3.12 cents |
| Diluted | 13(b) | **N/A** | N/A |

The notes on pages 30 to 91 form part of these financial statements.

# Consolidated Balance Sheet

At 31 December 2008
(Expressed in Hong Kong dollars)

| | Notes | 2008 $'000 | 2007 $'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Fixed assets | 15(a) | **851** | 1,837 |
| | | **851** | 1,837 |
| **Current assets** | | | |
| Work-in-progress | 18 | **–** | 598 |
| Inventories | 19 | **59** | – |
| Trade and other receivables | 20 | **3,888** | 47,334 |
| Cash and cash equivalents | 21 | **32,377** | 9,178 |
| | | **36,324** | 57,110 |
| **Current liabilities** | | | |
| Trade and other payables | 22 | **2,639** | 5,651 |
| Unearned revenue | | **816** | 241 |
| Unsecured loans | 23 | **–** | 4,290 |
| Amounts due to related parties | 24 | **598** | 13,929 |
| Current taxation | 25(a) | **11** | 18 |
| | | **4,064** | 24,129 |
| **Net current assets** | | **32,260** | 32,981 |
| **NET ASSETS** | | **33,111** | 34,818 |
| **CAPITAL AND RESERVES** | 28(a) | | |
| Share capital | | **8,198** | 8,007 |
| Reserves | | **24,463** | 26,811 |
| **Total equity attributable to equity shareholders of the company** | | **32,661** | 34,818 |
| **Minority interests** | | **450** | – |
| **TOTAL EQUITY** | | **33,111** | 34,818 |

Approved and authorised for issue by the board of directors on 23 March 2009

**Yu Shu Kuen**
*Director*

**Li Fang Hong**
*Director*

The notes on pages 30 to 91 form part of these financial statements.

# Balance Sheet

At 31 December 2008
(Expressed in Hong Kong dollars)

| | Notes | 2008 $'000 | 2007 $'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Fixed assets | 15(b) | **–** | – |
| Investments in subsidiary companies | 16 | **4,200** | – |
| | | **4,200** | – |
| **Current assets** | | | |
| Amounts due from subsidiary companies | 16 | **11,217** | 5,035 |
| Other receivables | 20 | **63** | 43,941 |
| Cash and cash equivalents | 21 | **17,279** | 7,873 |
| | | **28,559** | 56,849 |
| **Current liabilities** | | | |
| Accrued charges and other payables | 22 | **623** | 617 |
| Unsecured loans | 23 | **–** | 1,368 |
| Amounts due to subsidiary companies | 16 | **–** | 6,011 |
| Amounts due to related parties | 24 | **–** | 13,665 |
| | | **623** | 21,661 |
| **Net current assets** | | **27,936** | 35,188 |
| **NET ASSETS** | | **32,136** | 35,188 |
| **CAPITAL AND RESERVES** | 28(b) | | |
| Share capital | | **8,198** | 8,007 |
| Reserves | | **23,938** | 27,181 |
| **TOTAL EQUITY** | | **32,136** | 35,188 |

Approved and authorised for issue by the board of directors on 23 March 2009

**Yu Shu Kuen**
*Director*

**Li Fang Hong**
*Director*

The notes on pages 30 to 91 form part of these financial statements.

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2008
(Expressed in Hong Kong dollars)

| | Notes | 2008 $'000 | 2007 $'000 |
|---|---|---|---|
| **Total equity/(deficit) at 1 January** | 28(a) | **34,818** | (33,478) |
| **Net income recognised directly in equity:** | | | |
| Exchange differences on translation of the financial statements of overseas subsidiaries | 28(a) | **965** | (176) |
| **Transfer from equity:** | | | |
| Transfer to minority interests on partial disposal of a subsidiary | 28(a) | **172** | – |
| **(Loss)/profit for the year** | 28(a) | **(8,080)** | 10,563 |
| **Total recognised income and expense for the year** | | **(6,943)** | 10,387 |
| **Attributable to:** | | | |
| Equity shareholders of the Company | | **(7,393)** | 10,387 |
| Minority interests | | **450** | – |
| | | **(6,943)** | 10,387 |
| **Movements in equity arising from capital transactions:** | | | |
| Shares issued upon loan capitalisation | 28 | **5,418** | – |
| Professional expenses incurred in loan capitalisation | 28 | **(182)** | – |
| Placement of new shares | 28 | **–** | 45,000 |
| Shares issued upon conversion of convertible bonds | 28 | **–** | 14,040 |
| Professional expenses incurred in placement of new shares | 28 | **–** | (1,131) |
| | | **5,236** | 57,909 |
| **Total equity at 31 December** | | **33,111** | 34,818 |

The notes on pages 30 to 91 form part of these financial statements.

# Consolidated Cash Flow Statement

For the year ended 31 December 2008
(Expressed in Hong Kong dollars)

| | Notes | 2008 $'000 | 2007 $'000 |
|---|---|---|---|
| **Operating activities** | | | |
| (Loss)/profit before taxation | | **(8,087)** | 10,581 |
| Adjustments for: | | | |
| – Finance costs | *6(a)* | **40** | 174 |
| – Interest income | *5* | **(445)** | (102) |
| – Depreciation | *6(c)* | **211** | 416 |
| – Loss on disposal of a subsidiary company | *5* | **–** | 154 |
| – Gain on partial disposal of a subsidiary company | *5* | **(267)** | – |
| – Gain on disposal of fixed assets | *5* | **(9)** | – |
| – Impairment losses of trade receivables | *6(c)* | **4** | – |
| – Waiver of principal and accrued interest on unsecured loans | *5* | **–** | (16,136) |
| **Operating loss before changes in working capital** | | **(8,553)** | (4,913) |
| Decrease/(increase) in work-in-progress | | **598** | (598) |
| Increase in inventories | | **(59)** | – |
| Decrease/(increase) in trade and other receivables | | **43,442** | (990) |
| Decrease in trade and other payables | | **(3,012)** | (5,290) |
| Increase in unearned revenue | | **575** | 241 |
| (Decrease)/increase in amounts due to related parties | | **(13,331)** | 13,929 |
| **Net cash generated from operating activities** | | **19,660** | 2,379 |
| **Investing activities** | | | |
| Interest received | | **445** | 102 |
| Purchase of fixed assets | *15(a)* | **(922)** | (1,819) |
| Proceeds from disposal of fixed assets | | **1,787** | – |
| Proceeds from partial disposal of a subsidiary company | *10(a)* | **560** | – |
| Payment for expenses incurred on partial disposal of a subsidiary company | *10(a)* | **(120)** | – |
| Cash outflow from disposal of a subsidiary company | *10(b)* | **–** | (4) |
| **Net cash generated from/(used in) investing activities** | | **1,750** | (1,721) |
| **Financing activities** | | | |
| Interest paid | | **(40)** | (174) |
| Proceeds from issue of shares | | **–** | 14,040 |
| Proceeds from unsecured loans | | **946** | – |
| Repayment of unsecured loans | | **–** | (5,849) |
| **Net cash generated from financing activities** | | **906** | 8,017 |
| **Net increase in cash and cash equivalents** | | **22,316** | 8,675 |
| **Cash and cash equivalents at 1 January** | | **9,178** | 679 |
| **Effect of foreign exchange rate changes** | | **883** | (176) |
| **Cash and cash equivalents at 31 December** | *21* | **32,377** | 9,178 |

The notes on pages 30 to 91 form part of these financial statements.

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)

## 1 COMPANY INFORMATION

M Dream Inworld Limited is incorporated in the Cayman Islands under the Companies Law (2001 Revision) of the Cayman Islands as an exempted company with limited liability. The registered office of the Company is located at P.O. Box 309, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands, British West Indies. The principal place of business in Hong Kong is located at Room 909, 9/F, Harbour Centre, 25 Harbour Centre, Wanchai, Hong Kong.

The Company has its primary listing on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The principal activity of the Company is investment holding. The principal activities of the Company's subsidiary companies are set out in note 16 to the financial statements.



These financial statements are presented in thousands of units of Hong Kong dollars ($'000) unless otherwise stated.

## 2 SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on the changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

**2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)***

**(b) Basis of preparation of the financial statements**

The consolidated financial statements for the year ended 31 December 2008 comprise the Company and its subsidiaries (together referred to as the "Group").

The measurement basis used in the preparation of the financial statements is the historical cost basis.

The preparation of financial statements in conformity with Hong Kong Financial Reporting Standards ("HKFRS") issued by Hong Kong Institute of Certified Public Accountants ("HKICPA") requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 34.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (c) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 2(g)).

**2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)***

**(d) Goodwill**

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 2(g)).

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in profit or loss.

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

**(e) Fixed assets**

Items of fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 2(g)).

Depreciation is calculated to write off the cost of items of fixed assets, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

| | | |
|---|---|---|
| – | Leasehold improvements | 5 years or over the lease term, if shorter |
| – | Office equipment | 3-5 years |
| – | Furniture and fixtures | 5 years |
| – | Computer hardware and software | 2-5 years |
| – | Motor vehicles | 5 years |

Both the useful life of an asset and its residual value, if any, are reviewed annually.

Gains or losses arising from the retirement or disposal of an item of fixed assets are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (f) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

*(i) Classification of assets leased to the Group*

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

*(ii) Operating lease charges*

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (g) Impairment of assets

*(i) Impairment of receivables*

Receivables that are stated at cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For trade and other receivables, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (g) Impairment of assets *(Continued)*

*(i) Impairment of receivables (Continued)*

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade and other receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

*(ii) Impairment of other assets*

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– fixed assets;

– investments in subsidiary companies; and

– goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

**2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)***

**(g) Impairment of assets *(Continued)***

*(ii) Impairment of other assets (Continued)*

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (h) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### (i) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 2(g)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

**2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)***

**(j) Interest-bearing borrowings**

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

Interest-bearing borrowings are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount derecognised and the consideration paid and payable is recognised in profit or loss.

**(k) Trade and other payables**

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

**(l) Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the company's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (m) Employee benefits

*(i) Short term employee benefits and contributions to defined contribution retirement plans*

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

The Group operates a mandatory provident fund scheme in Hong Kong and defined contribution government pension schemes for the employees of the Group's overseas entities.

Contributions to mandatory provident funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance and to the state-managed retirement benefits schemes for the employees of the Group's overseas entities are recognised as an expense in the income statement as incurred.

*(ii) Share-based payments*

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (m) Employee benefits *(Continued)*

*(iii) Termination benefits*

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

### (n) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (n) Income tax *(Continued)*

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (n) Income tax *(Continued)*

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

### (o) Provisions and contingent liabilities

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

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

**2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)***

**(p) Revenue recognition**

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

*(i) Service income*

Revenue from services are recognised when the services are rendered or under the stage of completion basis when the outcome of the transaction can be estimated reliably.

*(ii) Sale of goods*

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

*(iii) Interest income*

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

**(q) Translation of foreign currencies**

The financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (q) Translation of foreign currencies *(Continued)*

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

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

### (r) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred.

### (s) Work-in-progress

Uncompleted contracts at year end are stated in the financial statements as gross work-in-progress and are recorded at cost plus any attributable profits less progress payments received and receivable.

Contract costs comprise costs that relates directly to the contracts, attributable to the contract activity in general and can be allocated to the specific contract, and other costs chargeable to the customer within the terms of the contract. Losses on contracts are recognised in the financial statements as soon as the loss is foreseen. Such losses recognised include both the loss for the stage of completion reached on the contracts and the loss for future works on the contracts.

### (t) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (u) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (v) Segment reporting

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

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and fixed assets. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and transactions are eliminated as part of the consolidation process, except to the extent that such intragroup balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

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

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

## 3 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued certain new and revised HKFRSs and Interpretations that are first effective or available for early adoption for the current accounting period of the Group and the Company. The adoption of these new and revised HKFRSs has no material impact on the Group's financial statements for current year presented.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 36). Consequently, there have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments.

## 4 TURNOVER

The principal activities of the Group are sales of software and hardware and provision of system solution services.

Turnover represents the sales value of goods and services supplied to customers. The amount of each significant category of revenue recognised in turnover during the year is as follows:

| | **2008** | 2007 |
|---|---|---|
| | ***$'000*** | *$'000* |
| Sales of software and hardware | **1,902** | 1,923 |
| System solution services | **12,928** | 12,329 |
| Marketing service income | **–** | 860 |
| Sales of optical display equipment | **403** | – |
| | **15,233** | 15,112 |

## 5 OTHER REVENUE AND NET (LOSS)/INCOME

| | **2008** | 2007 |
|---|---|---|
| | ***$'000*** | *$'000* |
| **Other revenue** | | |
| Bank interest income | **445** | 102 |
| **Other net (loss)/income** | | |
| Forfeiture of deposit | **–** | 400 |
| Gain on disposal of fixed assets | **9** | – |
| Gain on partial disposal of a subsidiary company *(note 10(a))* | **267** | – |
| Loss on disposal of a subsidiary company *(note 10(b))* | **–** | (154) |
| Net foreign exchange (losses)/gains | **(1,006)** | 82 |
| Waiver of principal and accrued interest on unsecured loans (see below) | **–** | 16,136 |
| Sundry income | **23** | 11 |
| | **(707)** | 16,475 |
| | **(262)** | 16,577 |

*Note:*

In 2007, the Company reached agreements with four unsecured creditors by which the Company paid an aggregate of approximately HK$6,103,000 to discharge all outstanding loans and accrued interest of HK$22,239,000, in exchange for a waiver of principal and accrued interest of HK$16,136,000.

## 6 (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is arrived at after charging/(crediting):

| | | 2008 | 2007 |
|---|---|---|---|
| | | ***$'000*** | *$'000* |
| (a) | Finance costs: | | |
| | Interest expenses on unsecured loans | **40** | 174 |
| (b) | Staff costs (including directors' remuneration): | | |
| | Salaries, wages and other benefits | **9,013** | 8,685 |
| | Contributions to defined contribution retirement plan | **579** | 56 |
| | | **9,592** | 8,741 |
| (c) | Other items: | | |
| | Depreciation | **211** | 416 |
| | Impairment losses of trade receivables | **4** | – |
| | Net foreign exchange losses/(gains) | **1,006** | (82) |
| | Auditors' remuneration | **295** | 279 |
| | Operating lease charges: minimum lease payments – hire of other assets (including property rentals) | **2,019** | 1,074 |
| | Cost of inventories | **8,284** | 5,831 |

## 7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

| | 2008 | 2007 |
|---|---|---|
| | ***$'000*** | *$'000* |
| **Current tax – Hong Kong Profits Tax** | | |
| Provision for the year | **6** | 18 |
| Overprovision in respect of prior year | **(13)** | – |
| Actual tax (credit)/expense | **(7)** | 18 |

**7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT** ***(Continued)***

The provision for Hong Kong Profits Tax for 2008 is calculated at 16.5% (2007: 17.5%) of the estimated assessable profits for the year.

Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries. No taxation has been provided in the financial statements of the subsidiary companies operating outside Hong Kong for the year (2007: Nil).

(b) Reconciliation between tax (credit)/expense and accounting (loss)/profit at applicable tax rates:

| | **2008** | 2007 |
|---|---|---|
| | ***$'000*** | *$'000* |
| (Loss)/profit before taxation | **(8,087)** | 10,581 |
| Notional tax on (loss)/profit before taxation | **(1,334)** | 1,852 |
| Tax effect of non-deductible expenses | **660** | 154 |
| Tax effect of non-taxable income | **(79)** | (2,968) |
| Tax effect of unused tax losses not recognised | **837** | 1,037 |
| Overprovision in respect of prior year | **(13)** | – |
| Others | **(78)** | (57) |
| Actual tax (credit)/expense | **(7)** | 18 |

## 8 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

| | Directors' fees $'000 | Salaries, allowances and benefits in kind $'000 | Discretionary bonuses $'000 | Retirement scheme contributions $'000 | 2008 Total $'000 |
|---|---|---|---|---|---|
| **Executive Directors** | | | | | |
| Mr. Yu Shu Kuen | 1,000 | – | – | – | 1,000 |
| Ms. Li Fang Hong | – | – | – | – | – |
| Mr. Rong Hsu | 46 | – | – | – | 46 |
| **Independent Non-executive Directors** | | | | | |
| Mr. Cho Chun Wai | 14 | – | – | – | 14 |
| Mr. Chan Kam Kwan, Jason | 7 | – | – | – | 7 |
| Ms. Zhao Yang | 49 | – | – | – | 49 |
| **Former Directors** | | | | | |
| Mr. Tham Ming Yong | – | 50 | – | 2 | 52 |
| Mr. Ha Shu Tong | – | – | – | – | – |
| Mr. Koh Tat Lee, Michael | – | – | – | – | – |
| Mr. Cheung Wai Shing | 15 | – | – | – | 15 |
| Mr. Tsang Kwok Wai | 54 | – | – | – | 54 |
| Mr. Chu Ray | 2 | – | – | – | 2 |
| | 1,187 | 50 | – | 2 | 1,239 |

## 8 DIRECTORS' REMUNERATION *(Continued)*

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

| | Directors' fees | Salaries, allowances and benefits in kind | Discretionary bonuses | Retirement scheme contributions | 2007 Total |
|---|---|---|---|---|---|
| | *$'000* | *$'000* | *$'000* | *$'000* | *$'000* |
| **Executive Directors** | | | | | |
| Mr. Ha Shu Tong | – | – | – | – | – |
| Mr. Yu Shu Kuen | – | – | – | – | – |
| Mr. Tham Ming Yong | – | 120 | – | 6 | 126 |
| **Non-executive Directors** | | | | | |
| Mr. Koh Tat Lee, Michael | – | – | – | – | – |
| **Independent Non-executive Directors** | | | | | |
| Mr. Cheung Wai Shing | – | 60 | – | – | 60 |
| Mr. Tsang Kwok Wai | – | 60 | – | – | 60 |
| Mr. Chu Ray | – | 12 | – | – | 12 |
| | – | 252 | – | 6 | 258 |

## 9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, one (2007: Nil) is a director whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other four (2007: five) individuals are as follows:

| | **2008** | 2007 |
|---|---|---|
| | ***$'000*** | *$'000* |
| Salaries and other emoluments | **1,089** | 2,267 |
| Retirement scheme contributions | **29** | 191 |
| | **1,118** | 2,458 |

## 9 INDIVIDUALS WITH HIGHEST EMOLUMENTS *(Continued)*

The emoluments of the four (2007: five) individuals with the highest emoluments are within the following bands:

| | **2008 Number of individuals** | 2007 Number of individuals |
|---|---|---|
| $Nil-1,000,000 | **4** | 5 |

## 10 DISPOSAL OF A SUBSIDIARY COMPANY

(a) As reported in note 33(b)(i), on 20 March 2008, the Group disposed of a 30% equity interest in a wholly-owned subsidiary company, Elipva Limited, at a consideration of HK$560,000. Details of the net assets disposed of and the gain on the partial disposal of the subsidiary company are as follows:

| | **2008** *$'000* |
|---|---|
| **Net assets disposed of:** | |
| Fixed assets | **32** |
| Amount due from immediate holding company | **1,227** |
| Trade and other receivables | **2,025** |
| Cash and cash equivalents | **918** |
| Trade and other payables | **(3,627)** |
| | **575** |
| 30% share of net assets disposed of | **173** |
| Expenses incurred on disposal | **120** |
| Gain on partial disposal of a subsidiary company *(note 5)* | **267** |
| | **560** |
| **Satisfied by:** | |
| Cash consideration | **560** |

## 10 DISPOSAL OF A SUBSIDIARY COMPANY *(Continued)*

(b) In prior year, the Group disposed of its subsidiary company, Good Growth Limited, for HK$1 consideration. Details of the net assets disposed of and the loss on disposal of the subsidiary company are as follows:

| | 2007 |
|---|---|
| | *$'000* |
| **Net assets disposed of:** | |
| Prepayments, deposits and other receivables | 150 |
| Cash and cash equivalents | 4 |
| | 154 |
| Loss on disposal of a subsidiary company *(note 5)* | (154) |
| | – |
| **Satisfied by:** | |
| Cash consideration | – |
| **Net cash outflow arising on disposal:** | |
| Cash consideration | – |
| Cash and bank balances disposed of | (4) |
| | (4) |

For the period from 1 January 2007 to the respective date of disposal, the above subsidiary company contributed a profit of approximately HK$394,000 to the Group's profit before taxation.

## 11 DIVIDENDS

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2008 (2007: Nil).

## 12 (LOSS)/PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated (loss)/profit attributable to equity shareholders of the Company includes a loss of HK$8,358,000 (2007: a profit of HK$10,563,000) which has been dealt with in the financial statements of the Company.

## 13 (LOSS)/EARNINGS PER SHARE

### (a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to ordinary equity shareholders of the Company of HK$8,358,000 (2007: a profit of HK$10,563,000) and the weighted average of 817,499,000 ordinary shares (2007: 338,120,000 shares) in issue during the year, calculated as follows:

| | Number of shares | |
|---|---|---|
| | **2008** | 2007 |
| | ***'000*** | *'000* |
| Issued ordinary shares at 1 January | **800,694** | 2,606,949 |
| Effect of share consolidation | **–** | (2,401,965) |
| Effect of conversion of convertible bonds | **–** | 130,942 |
| Effect of placement of new shares | **–** | 2,194 |
| Effect of loan capitalisation | **16,805** | – |
| Weighted average number of ordinary share at 31 December | **817,499** | 338,120 |

### (b) Diluted (loss)/earnings per share

No diluted (loss)/earnings per share has been presented as there were no dilutive events during the years ended 31 December 2008 and 2007.

## 14 SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

**Business segments**

The Group comprises the following main business segments:

| | Sales of software and hardware and system solution services | | Others | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| | ***$'000*** | *$'000* | ***$'000*** | *$'000* | ***$'000*** | *$'000* |
| Revenue from external customers | **14,830** | 14,252 | **403** | 860 | **15,233** | 15,112 |
| Segment result | **16** | 11,770 | **(480)** | (1,015) | **(464)** | 10,755 |
| Unallocated operating income and expenses | | | | | **(7,583)** | – |
| (Loss)/profit from operations | | | | | **(8,047)** | 10,755 |
| Finance costs | | | | | **(40)** | (174) |
| Income tax credit/(expense) | | | | | **7** | (18) |
| (Loss)/profit for the year | | | | | **(8,080)** | 10,563 |
| Depreciation for the year | **47** | 155 | **164** | 261 | | |

## 14 SEGMENT REPORTING *(Continued)*

### Business segments *(Continued)*

| | Sales of software and hardware and system solution services | | Others | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| | ***$'000*** | *$'000* | ***$'000*** | *$'000* | ***$'000*** | *$'000* |
| Segment assets | **3,899** | 56,347 | **10,185** | 2,600 | **14,084** | 58,947 |
| Unallocated assets | **–** | – | **–** | – | **23,091** | – |
| Total assets | **3,899** | 56,347 | **10,185** | 2,600 | **37,175** | 58,947 |
| Segment liabilities | **2,544** | 24,123 | **552** | 6 | **3,096** | 24,129 |
| Unallocated liabilities | **–** | – | **–** | – | **968** | – |
| Total liabilities | **2,544** | 24,123 | **552** | 6 | **4,064** | 24,129 |
| Capital expenditure incurred during the year | **53** | 38 | **869** | 1,781 | | |

### Geographical segments

The Group's business is managed on a worldwide basis, but participates in three principal economic environments. Singapore is a major market for all of the Group's businesses, and it is the location where most of its system solution services are provided.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

| | Hong Kong | | PRC | | Singapore | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| | ***$'000*** | *$'000* | ***$'000*** | *$'000* | ***$'000*** | *$'000* | ***$'000*** | *$'000* |
| Revenue from external customers | **1,639** | 2,807 | **403** | 860 | **13,191** | 11,445 | **15,233** | 15,112 |
| Segment assets | **23,276** | 53,066 | **10,192** | 1,441 | **3,707** | 4,440 | **37,175** | 58,947 |
| Capital expenditure incurred during the year | **779** | 481 | **90** | 1,300 | **53** | 38 | | |

## 15 FIXED ASSETS

### (a) The Group

| | Leasehold improvements | Office equipment | Furniture and fixtures | Computer hardware and software | Motor vehicles | Total |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Cost:** | | | | | | |
| At 1 January 2007 | 166 | 167 | 120 | 2,521 | – | 2,974 |
| Exchange differences | 39 | 15 | (22) | 304 | – | 336 |
| Additions | 827 | 303 | 473 | 216 | – | 1,819 |
| At 31 December 2007 | 1,032 | 485 | 571 | 3,041 | – | 5,129 |
| At 1 January 2008 | 1,032 | 485 | 571 | 3,041 | – | 5,129 |
| Exchange differences | 67 | 16 | 4 | 7 | – | 94 |
| Additions | 2 | 196 | 80 | 224 | 420 | 922 |
| Disposals | (1,011) | (390) | (575) | (276) | – | (2,252) |
| At 31 December 2008 | 90 | 307 | 80 | 2,996 | 420 | 3,893 |
| **Accumulated depreciation:** | | | | | | |
| At 1 January 2007 | 44 | 99 | 30 | 2,386 | – | 2,559 |
| Exchange differences | 26 | 15 | (21) | 297 | – | 317 |
| Charge for the year | 171 | 66 | 57 | 122 | – | 416 |
| At 31 December 2007 | 241 | 180 | 66 | 2,805 | – | 3,292 |
| At 1 January 2008 | 241 | 180 | 66 | 2,805 | – | 3,292 |
| Exchange differences | 13 | 3 | 1 | (4) | – | 13 |
| Charge for the year | 38 | 29 | 48 | 89 | 7 | 211 |
| Written back on disposals | (205) | (82) | (101) | (86) | – | (474) |
| At 31 December 2008 | 87 | 130 | 14 | 2,804 | 7 | 3,042 |
| **Net book value:** | | | | | | |
| At 31 December 2008 | 3 | 177 | 66 | 192 | 413 | 851 |
| At 31 December 2007 | 791 | 305 | 505 | 236 | – | 1,837 |

## 15 FIXED ASSETS *(Continued)*

### (b) The Company

| | Office equipment | Furniture and fixtures | Computer hardware and software | Total |
|---|---|---|---|---|
| | *$'000* | *$'000* | *$'000* | *$'000* |
| **Cost:** | | | | |
| At 1 January 2007 | 69 | 98 | 54 | 221 |
| Additions | 32 | 401 | 39 | 472 |
| Transfer to a subsidiary company | (101) | (499) | (93) | (693) |
| At 31 December 2007 and 31 December 2008 | – | – | – | – |
| **Accumulated depreciation:** | | | | |
| At 1 January 2007 | 6 | 9 | 4 | 19 |
| Charge for the year | 12 | 27 | 12 | 51 |
| Transfer to a subsidiary company | (18) | (36) | (16) | (70) |
| At 31 December 2007 and 31 December 2008 | – | – | – | – |
| **Net book value:** | | | | |
| At 31 December 2007 and 31 December 2008 | – | – | – | – |

## 16 INVESTMENTS IN AND ACCOUNTS WITH SUBSIDIARY COMPANIES

| | **2008** | 2007 |
|---|---|---|
| | ***$'000*** | *$'000* |
| Unlisted shares, at cost | **11,985** | 7,785 |
| Less: Provision for impairment losses | **(7,785)** | (7,785) |
| | **4,200** | – |
| Amounts due from subsidiary companies | **13,958** | 97,110 |
| Less: Provision for impairment losses | **(2,741)** | (92,075) |
| | **11,217** | 5,035 |
| Amounts due to subsidiary companies | **–** | 6,011 |

The amounts due to or from subsidiary companies are unsecured, interest-free, have no fixed terms of repayment and are denominated in Hong Kong dollars.

(Expressed in Hong Kong dollars)

## 16 INVESTMENTS IN AND ACCOUNTS WITH SUBSIDIARY COMPANIES *(Continued)*

Details of the Group's subsidiaries at 31 December 2008 are as below:

| Name of company | Place of incorporation and operation | Particulars of issued and fully paid up share capital/registered capital | Proportion of ownership interest: Group's effective interest | Held by the Company | Held by a subsidiary | Principal activities |
|---|---|---|---|---|---|---|
| Elipva Limited *(note 1)* | Singapore | Ordinary S$10,614,998 | 70% | – | 70% | Provision of system integration services |
| Elipva Inc. *(note 1)* | United States of America | Ordinary US$100 | 100% | – | 100% | Dormant |
| Elite Ford Limited *(note 2)* | Hong Kong | Ordinary HK$1 | 100% | – | 100% | Investment holding |
| Elipva International Limited (formerly known as "Inworld International Limited") *(note 2)* | British Virgin Islands ("BVI") | Ordinary US$1,000 | 100% | 100% | – | Investment holding |
| Elipva (Greater China) Holdings Limited (formerly known as "iBar (Greater China) Holdings Limited") *(note 2)* | Hong Kong | Ordinary HK$1 | 100% | – | 100% | Investment holding |
| iBar International Holdings Limited *(note 2)* | BVI | Ordinary US$1 | 100% | 100% | – | Investment holding |
| Karlon Development Limited *(note 2)* | Hong Kong | Ordinary HK$1 | 100% | – | 100% | Sourcing of optical display equipments and components |

(Expressed in Hong Kong dollars)

## 16 INVESTMENTS IN AND ACCOUNTS WITH SUBSIDIARY COMPANIES *(Continued)*

| Name of company | Place of incorporation and operation | Particulars of issued and fully paid up share capital/registered capital | Proportion of ownership interest: Group's effective interest | Held by the Company | Held by a subsidiary | Principal activities |
|---|---|---|---|---|---|---|
| Mission Ahead Limited *(note 2)* | BVI | Ordinary US$1 | 100% | – | 100% | Investment holding |
| NewTrend MDI Limited *(note 2)* | Hong Kong | Ordinary HK$1 | 100% | – | 100% | Provision of IT solution and consultancy services |
| Upway (Hong Kong) Limited *(note 2)* | Hong Kong | Ordinary HK$1 | 100% | 100% | – | Inactive |
| 北京聯夢活力世界咨詢服務有限公司 *(note 3)* | The People's Republic of China ("PRC") | Registered capital HK$300,000 | 100% | – | 100% | Provision of IT marketing and consultancy services |
| 廣泰益昌（北京）科技有限公司 *(note 4)* | PRC | Registered capital HK$10,000,000 | 100% | – | 100% | Provision of optical display equipments, components and technology |

*Notes:*

1 Audited by Richard Ho & Co., Certified Public Accountants, Singapore, for statutory purposes.

2 Audited by Baker Tilly Hong Kong Limited, Certified Public Accountants, Hong Kong, for statutory or consolidation purposes.

3 Audited by 北京嘉潤會計師事務所有限公司, PRC, for statutory purpose.

4 Newly incorporated on 20 August 2008 in PRC, audited by 北京森和光會計師事務所有限責任公司.

## 17 GOODWILL

| | $’000 |
|---|---|
| **Cost:** | |
| At 1 January 2007, 31 December 2007 and 31 December 2008 | 18,334 |
| **Accumulated impairment losses:** | |
| At 1 January 2007, 31 December 2007 and 31 December 2008 | 18,334 |
| **Carrying value:** | |
| At 31 December 2007 and 2008 | – |

## 18 WORK-IN-PROGRESS

| | **2008** | 2007 |
|---|---|---|
| | ***$’000*** | *$’000* |
| Direct costs | – | 1,425 |
| Add: Attributable profits | – | 448 |
| | – | 1,873 |
| Less: Recognised as revenue using the stage-of-completion method | – | (1,275) |
| | – | 598 |

## 19 INVENTORIES

| | 2008 | 2007 |
|---|---|---|
| | **$'000** | *$'000* |
| Trading goods | **59** | – |

## 20 TRADE AND OTHER RECEIVABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **$'000** | *$'000* | **$'000** | *$'000* |
| Trade receivables | **3,398** | 2,896 | **–** | – |
| Less: allowance for doubtful debts *(note 20(c))* | **(374)** | (370) | **–** | – |
| | **3,024** | 2,526 | **–** | – |
| Other receivables | **63** | 63 | **63** | 63 |
| Amount due from placing agent | **–** | 43,869 | **–** | 43,869 |
| Deposits and prepayments | **801** | 876 | **–** | 9 |
| | **3,888** | 47,334 | **63** | 43,941 |

All of the trade and other receivables are expected to be recovered within one year.

## 20 TRADE AND OTHER RECEIVABLES *(Continued)*

### (a) Currency analysis

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

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | ***$'000*** | *$'000* | ***$'000*** | *$'000* |
| Hong Kong dollars | **726** | 44,537 | **63** | 43,941 |
| Renminbi | **91** | 137 | **–** | – |
| Singapore dollars | **3,071** | 2,486 | **–** | – |
| United States dollars | **–** | 174 | **–** | – |
| | **3,888** | 47,334 | **63** | 43,941 |

### (b) Ageing analysis

Included in trade and other receivables are trade receivables (net of allowance for doubtful debts) with the following ageing analysis as of the balance sheet date:

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***$'000*** | *$'000* |
| Current | **2,001** | 1,737 |
| Less than 1 month past due | **750** | 335 |
| 1 to 3 months past due | **33** | 188 |
| More than 3 months but less than 12 months past due | **240** | 266 |
| Amounts past due | **1,023** | 789 |
| | **3,024** | 2,526 |

Trade receivables are due within 30-60 days from the date of billing. Further details on the Group's credit policy are set out in note 29(a).

## 20 TRADE AND OTHER RECEIVABLES *(Continued)*

### (c) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that the recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly (see note 2(g)).

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***$'000*** | *$'000* |
| At 1 January | **370** | 343 |
| Impairment loss recognised | **4** | – |
| Exchange differences | **–** | 27 |
| At 31 December | **374** | 370 |

## 20 TRADE AND OTHER RECEIVABLES *(Continued)*

### (d) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

| | **The Group** | |
|---|---|---|
| | **2008** | 2007 |
| | ***$'000*** | *$'000* |
| Neither past due nor impaired | **2,001** | 1,737 |
| Less than 1 month past due | **750** | 335 |
| 1 to 3 months past due | **33** | 188 |
| More than 3 months but less than 12 months past due | **240** | 266 |
| | **1,023** | 789 |
| | **3,024** | 2,526 |

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

## 21 CASH AND CASH EQUIVALENTS

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | ***$'000*** | *$'000* | ***$'000*** | *$'000* |
| Deposits with banks | **17,206** | 6,222 | **17,000** | 6,017 |
| Cash at bank and in hand | **15,171** | 2,956 | **279** | 1,856 |
| | **32,377** | 9,178 | **17,279** | 7,873 |

The carrying amounts of cash and cash equivalents are denominated in the following currencies:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | ***$'000*** | *$'000* | ***$'000*** | *$'000* |
| Hong Kong dollars | **31,245** | 7,928 | **17,279** | 7,873 |
| Renminbi | **547** | 113 | **–** | – |
| Singapore dollars | **557** | 1,109 | **–** | – |
| United States dollars | **28** | 28 | **–** | – |
| | **32,377** | 9,178 | **17,279** | 7,873 |

## 22 TRADE PAYABLES, ACCRUED CHARGES AND OTHER PAYABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | ***$'000*** | *$'000* | ***$'000*** | *$'000* |
| Trade payables | **661** | 2,107 | **–** | – |
| Accrued charges and other payables | **1,978** | 3,544 | **623** | 617 |
| | **2,639** | 5,651 | **623** | 617 |

All of the trade payables, accrued charges and other payables are expected to be settled within one year or are repayable on demand.

### (a) Currency analysis

The carrying amounts of trade payables, accrued charges and other payables are denominated in the following currencies:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | ***$'000*** | *$'000* | ***$'000*** | *$'000* |
| Hong Kong dollars | **928** | 616 | **623** | 617 |
| Renminbi | **156** | 6 | **–** | – |
| Singapore dollars | **1,466** | 4,907 | **–** | – |
| United States dollars | **89** | 122 | **–** | – |
| | **2,639** | 5,651 | **623** | 617 |

### (b) Ageing analysis

Included in trade payables, accrued charges and other payables are trade payables with the following ageing analysis as of the balance sheet date.

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***$'000*** | *$'000* |
| 0 – 90 days | **353** | 1,210 |
| 91 – 180 days | **213** | 897 |
| Over 180 days | **95** | – |
| | **661** | 2,107 |

## 23 UNSECURED LOANS

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | ***$'000*** | *$'000* | ***$'000*** | *$'000* |
| Interest bearing loans | **–** | 2,646 | **–** | – |
| Interest free loan | **–** | 1,644 | **–** | 1,368 |
| | **–** | 4,290 | **–** | 1,368 |

*Notes:*

(a) The unsecured creditors agreed to subscribe for an aggregate of 19,143,439 ordinary shares of the Company by capitalising their loans owed by the Group (see note 28(c)(iv)).

(b) The interest bearing loans carried interest at a rate of 5% per annum and were repayable on demand.

(c) The carrying amounts of unsecured loans were denominated in the following currencies:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | ***$'000*** | *$'000* | ***$'000*** | *$'000* |
| Hong Kong dollars | **–** | 1,368 | **–** | 1,368 |
| Singapore dollars | **–** | 2,922 | **–** | – |
| | **–** | 4,290 | **–** | 1,368 |

## 24 AMOUNTS DUE TO RELATED PARTIES

The amounts due are unsecured, interest free, have no fixed terms of repayment and are denominated in the following currencies:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | ***$'000*** | *$'000* | ***$'000*** | *$'000* |
| Hong Kong dollars | **328** | 13,929 | **–** | 13,665 |
| Singapore dollars | **270** | – | **–** | – |
| | **598** | 13,929 | **–** | 13,665 |



## 25 CURRENT AND DEFERRED TAXATION

### (a) Current taxation in the consolidated balance sheet represents:

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***$'000*** | *$'000* |
| Provision for Hong Kong Profits Tax for the year | **6** | 18 |
| Balance of Profits Tax provision relating to prior years | **5** | – |
| | **11** | 18 |

### (b) Deferred taxation

No provision for deferred tax liabilities has been made as the Group and the Company do not have any material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements (2007: Nil).

The Group has not recognised any deferred tax assets in respect of losses of HK$24,793,000 (2007: HK$19,721,000) due to the unpredictability of the future profit streams. The tax losses do not expire under the current tax legislation.

## 26 DEFINED/RETIREMENT BENEFIT PLANS

The Group operates a mandatory provident fund scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the scheme vest immediately.

The employees of the Group's subsidiary in the PRC are members of the state-sponsored retirement benefit scheme organised by the relevant local government authority in the PRC. The subsidiary is required to contribute, based on a certain percentage of the basic salary of its employees, to the retirement benefit scheme and has no further obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions. The state-sponsored retirement benefit scheme represent for the entire pension obligations payable to retired employees.

Under the Central Provident Fund (the "CPF") of Singapore, the Group contributed 14.5% (2007: 13%) of the relevant income of staff and the contribution is charged to the income statement.

Under the MPF Scheme and CPF, there is no forfeited contribution which could be utilised to reduce the level of the contribution by the Group and therefore there was no such balance as at 31 December 2008.

The Group does not have any other pension schemes for its employees in respect of its subsidiary companies outside Hong Kong, Singapore and the PRC. In the opinion of the directors of the Company, the Group did not have any significant contingent liabilities as at 31 December 2008 in respect of the retirement of its employees.

## 27 EQUITY SETTLED SHARE-BASED TRANSACTIONS

### Pre-IPO Share Option Scheme

Pursuant to the pre-IPO share option scheme adopted by the Company on 14 December 2001 ("Pre-IPO Share Option Scheme") for the purpose of recognition of the contribution of certain directors and employees of the Group to the growth of the Group and/or to the listing of the shares on GEM.

No options granted under the Pre-IPO Share Option Scheme were outstanding up to the date of the approval of the financial statements.

### 2001 Share Option Scheme

Pursuant to the share option scheme adopted by the Company on 14 December 2001 ("2001 Share Option Scheme"), the directors may at their discretion grant options to employees (whether in full-time or party-time employment) and directors (whether executive, non-executive or independent non-executive) of the Group to subscribe for ordinary shares in the Company subject to the terms and conditions stipulated in the 2001 Share Option Scheme. The purpose of the 2001 Share Option Scheme is to provide incentives and to recognise the contributions of the employees.

The total number of shares in respect of which options may be granted under the 2001 Share Option Scheme shall not exceed 10% of the issued share capital of the Company as at the date of these financial statements. The number of shares in respect of which options may be granted to any individual in any 12-month period up to the date of the grant is not permitted to exceed 1% of the issued share capital of the Company as at the date of the grant, unless approved by the shareholders of the Company in accordance with the 2001 Share Option Scheme.

Options may be exercised at any time from the date of the grant of the options to the date of expiry of the option as may be determined by the directors which shall not exceed ten years from the date of the grant. The exercise price of the options is determined by the directors, save that such price shall not be less than the highest of (i) the closing price of the shares on the date of the grant; (ii) the average of the closing price per share on the GEM for the five business days immediately preceding the date of grant and (iii) the nominal value of the shares. Upon acceptance of the offer, the grantee shall pay HK$1 to the Company by way of consideration for the grant.

(Expressed in Hong Kong dollars)

## 27 EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

### 2001 Share Option Scheme *(Continued)*

Movements in the share options granted under the 2001 Share Option Scheme during the year are as follows:

| | Number of options | |
|---|---|---|
| | **2008** | 2007 |
| Options outstanding at 1 January | **–** | 22,000,000 |
| Cancelled/Lapsed | **–** | (22,000,000) |
| Options outstanding at 31 December | **–** | – |

Pursuant to an ordinary resolution passed by the shareholders on 24 December 2007, the 2001 Share Option Scheme of the Company was terminated and replaced by the new share option scheme ("2007 Share Option Scheme").

### 2007 Share Option Scheme

The purpose of the 2007 Share Option Scheme is to enable the Company to grant options to either directors or employees of the Group in order to recognise and motivate the contribution of them, and to provide incentives and to help the Group in retaining its existing employees and recruiting additional employees, providing them with direct economic interest in attaining the long term business objectives of the Group.

No options were granted under the 2007 Share Option Scheme up to the date of the approval of the financial statements.

## 28 CAPITAL AND RESERVES

### (a) The Group

| | Share capital $'000 | Share premium $'000 | Contributed surplus $'000 | Exchange reserve $'000 | Accumulated losses $'000 | Total $'000 | Minority interests $'000 | Total equity $'000 |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2007 | 26,069 | 106,730 | 6,426 | (307) | (172,396) | (33,478) | – | (33,478) |
| Conversion of convertible bonds upon its issuance | 3,600 | 10,440 | – | – | – | 14,040 | – | 14,040 |
| Share consolidation and reduction in share capital | (23,462) | – | – | – | 23,462 | – | – | – |
| Placement of new shares | 1,800 | 43,200 | – | – | – | 45,000 | – | 45,000 |
| Professional expenses incurred in placement of new shares | – | (1,131) | – | – | – | (1,131) | – | (1,131) |
| Exchange differences | – | – | – | (176) | – | (176) | – | (176) |
| Net profit for the year | – | – | – | – | 10,563 | 10,563 | – | 10,563 |
| At 31 December 2007 | 8,007 | 159,239 | 6,426 | (483) | (138,371) | 34,818 | – | 34,818 |
| At 1 January 2008 | 8,007 | 159,239 | 6,426 | (483) | (138,371) | 34,818 | – | 34,818 |
| Partial disposal of a subsidiary | – | – | – | – | – | – | 172 | 172 |
| Shares issued upon loan capitalisation | 191 | 5,227 | – | – | – | 5,418 | – | 5,418 |
| Professional expenses incurred in loan capitalisation | – | (182) | – | – | – | (182) | – | (182) |
| Exchange differences | – | – | – | 965 | – | 965 | – | 965 |
| Net loss for the year | – | – | – | – | (8,358) | (8,358) | 278 | (8,080) |
| At 31 December 2008 | 8,198 | 164,284 | 6,426 | 482 | (146,729) | 32,661 | 450 | 33,111 |

## 28 CAPITAL AND RESERVES *(Continued)*

### (b) The Company

| | Share capital | Share premium | Contributed surplus | Accumulated losses | Total |
|---|---|---|---|---|---|
| | *$'000* | *$'000* | *$'000* | *$'000* | *$'000* |
| At 1 January 2007 | 26,069 | 106,730 | 2,985 | (171,744) | (35,960) |
| Conversion of convertible bonds upon its issuance | 3,600 | 10,440 | – | – | 14,040 |
| Share consolidation and reduction in share capital | (23,462) | – | – | 23,462 | – |
| Placement of new shares | 1,800 | 43,200 | – | – | 45,000 |
| Professional expenses incurred in placement of new shares | – | (1,131) | – | – | (1,131) |
| Net profit for the year | – | – | – | 13,239 | 13,239 |
| At 31 December 2007 | 8,007 | 159,239 | 2,985 | (135,043) | 35,188 |
| At 1 January 2008 | 8,007 | 159,239 | 2,985 | (135,043) | 35,188 |
| Shares issued upon loan capitalisation | 191 | 5,227 | – | – | 5,418 |
| Professional expenses incurred in loan capitalisation | – | (182) | – | – | (182) |
| Net loss for the year | – | – | – | (8,288) | (8,288) |
| At 31 December 2008 | 8,198 | 164,284 | 2,985 | (143,331) | 32,136 |

## 28 CAPITAL AND RESERVES *(Continued)*

### (c) Share capital

*Authorised and issued share capital*

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | **No. of shares '000** | **$'000** | No. of shares '000 | $'000 |
| Authorised: | | | | |
| Ordinary shares of HK$0.01 each | **6,000,000** | **60,000** | 6,000,000 | 60,000 |
| Ordinary shares, issued and fully paid: | | | | |
| At 1 January | **800,694** | **8,007** | 2,606,949 | 26,069 |
| Share consolidation and reduction in share capital *(note (i))* | **–** | **–** | (2,346,255) | (23,462) |
| Issuance of shares for conversion of convertible bonds *(note (ii))* | **–** | **–** | 360,000 | 3,600 |
| Placement of new shares *(note (iii))* | **–** | **–** | 180,000 | 1,800 |
| Shares issued upon loan capitalisation *(note (iv))* | **19,144** | **191** | – | – |
| At 31 December | **819,838** | **8,198** | 800,694 | 8,007 |

## 28 CAPITAL AND RESERVES *(Continued)*

### (c) Share capital *(Continued)*

*Notes:*

(i) Pursuant to a special resolution passed by the shareholders on 29 December 2006, every 10 ordinary shares of the Company of HK$0.01 each were consolidated into one new ordinary share of HK$0.10 each, then the par value of each consolidated share was reduced to the extent of HK$0.09 per consolidated share was cancelled against the accumulated losses account. The share consolidation and capital reduction exercise was completed on 15 October 2007, details of which are set out in the Company's announcement dated 12 October 2007.

(ii) Pursuant to a subscription agreement entered into on 12 October 2007, the Company agreed to issue HK$14,040,000 of convertible bonds to a subscriber. On 15 October 2007, the convertible bonds were converted to 360,000,000 new ordinary shares of HK$0.01 each to the subscriber at a conversion price of HK$0.039 per conversion share. Details of conversion of convertible bonds and allotment and issue of new shares are set out in the Company's announcement dated 15 October 2007.

(iii) On 27 November 2007, the Company entered into a placing agreement with CCB International Capital Limited, an independent third party, for placing of 180,000,000 new ordinary shares of the Company of HK$0.01 each for a consideration of HK$45,000,000. On 31 December 2007, the shares were issued and allotted. The details of the share placing are set out in the Company's circular dated 5 December 2007.

(iv) On 15 January 2008, the Company entered into a Loan Capitalisation Agreement with AsiaVest Partners Limited ("AsiaVest"), an independent third party, pursuant to which AsiaVest agreed to subscribe for an aggregate of 2,338,460 new shares at a price of approximately HK$0.585 per share by capitalizing the unsecured loan owed by the Company to AsiaVest. As at the date of the Loan Capitalisation Agreement, the Company was indebted to AsiaVest in the sum of approximately HK$1,368,000.

On 5 February 2008, the Company entered into a Loan Capitalisation Agreement with Brilliant Path Limited ("Brilliant"), an independent third party, pursuant to which Brilliant agreed to subscribe for an aggregate of 16,804,979 new shares at a price of approximately HK$0.241 per share by capitalizing the unsecured loan owed by the Company to Brilliant. As at the date of the Loan Capitalisation Agreement, the Company was indebted to Brilliant in the sum of approximately HK$4,050,000.

Details of the loan capitalisations are set out in the Company's announcements dated 15 January 2008 and 5 February 2008 respectively.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

**28 CAPITAL AND RESERVES *(Continued)***

**(d) Nature and purpose of reserves**

*(i) Share premium reserve*

Under the Companies Law (Revised) of the Cayman Islands, the fund in the share premium account of the Company 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 they fall due in the ordinary course of business.

*(ii) Contributed surplus*

The contributed surplus of the Group represents the difference between the nominal value of share capital of the subsidiary companies acquired pursuant to the reorganisation scheme (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the public listing of the Company's shares on the Stock Exchange set out in the Company's prospectus dated 18 December 2001, over the nominal value of the shares of the Company issued in exchange thereof.

The contributed surplus of the Company represents the excess of the fair value of the subsidiary companies acquired pursuant to the Group Reorganisation over the nominal value of the shares of the Company issued in exchange thereof.

*(iii) Exchange reserve*

The exchange reserve of the Group comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 2(q).

*(iv) Distributability of reserves*

Under the Companies Law (Revised) of the Cayman Islands, a company may make distributions to its members out of the contributed surplus account under certain circumstances. In addition, the share premium account of the company is distributable to the shareholders of the company provided that immediately following the distribution or payment of dividend, the company is able to pay its debts as they fall due in the ordinary course of business. At 31 December 2008, the aggregate amount of reserves available for distribution to equity shareholders of the Company was approximately HK$23,938,000.

**28 CAPITAL AND RESERVES *(Continued)***

**(e) Capital management**

The Group's primarily objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes judgements to the capital structure in light of changes in economic conditions.

Consistent with industry practice, the Group and the Company monitor its capital structure on the basis of a net debt-to-adjusted-capital ratio. For this purpose the Group and the Company define net debt as total debt (which includes trade payables, accrued payables and other payables, unsecured loans, current taxation, amounts due to subsidiary companies and amounts due to related parties, which is applicable) less cash and cash equivalents. Adjusted capital comprises all components of equity.

During 2008, the Group's strategy was to maintain the net debt-to-adjusted-capital ratio at the lower end of the range 10% to 45%. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

## 28 CAPITAL AND RESERVES *(Continued)*

### (e) Capital management *(Continued)*

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | ***$'000*** | *$'000* | ***$'000*** | *$'000* |
| Current liabilities: | | | | |
| Trade payables, accrued charges and other payables | **2,639** | 5,651 | **623** | 617 |
| Unsecured loans | **–** | 4,290 | **–** | 1,368 |
| Amounts due to subsidiary companies | **–** | – | **–** | 6,011 |
| Amounts due to related parties | **598** | 13,929 | **–** | 13,665 |
| Current taxation | **11** | 18 | **–** | – |
| Total | **3,248** | 23,888 | **623** | 21,661 |
| Less: Cash and cash equivalents | **(32,377)** | (9,178) | **(17,279)** | (7,873) |
| **Net debt** | **(29,129)** | 14,710 | **(16,656)** | 13,788 |
| Total equity | **33,111** | 34,818 | **32,136** | 35,188 |
| **Adjusted capital** | **33,111** | 34,818 | **32,136** | 35,188 |
| **Net debt-to-adjusted-capital ratio** | **N/A** | 42% | **N/A** | 39% |

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

## 29 FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and foreign currency risks arises in the normal course of the Group's business.

These risks are limited by the Group's financial management policies and practices described below.

### (a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables and cash and cash equivalents. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

The credit risk on bank deposits is limited because the counterparties are banks with high credit-ratings.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The directors are of the opinion that adequate provision for uncollectible receivables has been made in the financial statements and the Group has no significant concentration of credit risk. Normally, the Group does not obtain collateral from customers.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 20.

### (b) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants and to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

## 29 FINANCIAL INSTRUMENTS *(Continued)*

### (b) Liquidity risk *(Continued)*

The following table details the remaining contractual maturities at the balance sheet date of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows and the earliest date the Group can be required to pay:

*(i) The Group*

| | **2008** | | | 2007 | | |
|---|---|---|---|---|---|---|
| | **Carrying amount** | **Total contractual undiscounted cash flow** | **Within 1 year or on demand** | Carrying amount | Total contractual undiscounted cash flow | Within 1 year or on demand |
| | ***$'000*** | ***$'000*** | ***$'000*** | *$'000* | *$'000* | *$'000* |
| Trade and other payables | **2,639** | **2,639** | **2,639** | 5,651 | 5,651 | 5,651 |
| Current taxation | **11** | **11** | **11** | 18 | 18 | 18 |
| Unsecured loans | **–** | **–** | **–** | 4,290 | 4,422 | 4,422 |
| Amounts due to related parties | **598** | **598** | **598** | 13,929 | 13,929 | 13,929 |
| | **3,248** | **3,248** | **3,248** | 23,888 | 24,020 | 24,020 |

*(ii) The Company*

| | **2008** | | | 2007 | | |
|---|---|---|---|---|---|---|
| | **Carrying amount** | **Total contractual undiscounted cash flow** | **Within 1 year or on demand** | Carrying amount | Total contractual undiscounted cash flow | Within 1 year or on demand |
| | ***$'000*** | ***$'000*** | ***$'000*** | *$'000* | *$'000* | *$'000* |
| Accrued charges and other payables | **623** | **623** | **623** | 617 | 617 | 617 |
| Unsecured loans | **–** | **–** | **–** | 1,368 | 1,368 | 1,368 |
| Amounts due to subsidiary companies | **–** | **–** | **–** | 6,011 | 6,011 | 6,011 |
| Amounts due to related parties | **–** | **–** | **–** | 13,665 | 13,665 | 13,665 |
| | **623** | **623** | **623** | 21,661 | 21,661 | 21,661 |

## 29 FINANCIAL INSTRUMENTS *(Continued)*

### (c) Interest rate risk

The Group's interest rate risk arose primarily from unsecured loans. Unsecured loans were issued at fixed rates and exposed the Group to fair value interest rate risk. At 31 December 2008, the Group has no cash flow interest rate risk as there are no borrowings which bear floating interest rates. The Group historically has not used any financial instruments to hedge potential fluctuations in interest rates.

### (d) Foreign currency risk

*(i) Forecast transactions*

The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily Renminbi, Singapore dollars and United States dollars.

*(ii) Recognised assets and liabilities*

In respect of receivables and payables held in currencies other than the functional currency of the operations to which they relate, the Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

All the Group's borrowings are denominated in the functional currency of the entity taking out the loan. Given this, management does not expect that there will be any significant currency risk associated with the Group's borrowings.

## 29 FINANCIAL INSTRUMENTS *(Continued)*

### (d) Foreign currency risk *(Continued)*

*(iii) Exposure to currency risk*

The following table details the Group's exposure at the balance sheet date to currency risk arising from forecast transactions or recognised assets or liabilities denominated in a currency other than the functional currency of the operations to which they relate.

**The Group**

| | **2008** | | | 2007 | | |
|---|---|---|---|---|---|---|
| | **Renminbi** | **Singapore dollars** | **United States dollars** | Renminbi | Singapore dollars | United States dollars |
| | ***'000*** | ***'000*** | ***'000*** | *'000* | *'000* | *'000* |
| Trade and other receivables | **79** | **570** | **–** | 128 | 460 | 22 |
| Cash and cash equivalents | **481** | **103** | **4** | 105 | 205 | 4 |
| Trade and other payables | **(135)** | **(272)** | **(11)** | (6) | (909) | (16) |
| Amounts due to related parties | **–** | **(50)** | **–** | – | – | – |
| Total exposure arising from recognised assets and liabilities | **425** | **351** | **(7)** | 227 | (244) | 10 |

The Company has no significant exposure to currency risk arising from forecast transactions or recognised assets or liabilities denominated in a currency other than the functional currency of the Company as at 31 December 2008 and 2007.

### (e) Equity price risk

The Group is not exposed to any equity securities risk or commodity price risk.

### (f) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2008 and 2007.

## 30 COMMITMENTS

At 31 December 2008, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***$'000*** | *$'000* |
| Within 1 year | **1,352** | 1,450 |
| After 1 year but within 5 years | **74** | 1,216 |
| | **1,426** | 2,666 |

The Group is the lessee in respect of a number of properties held under operating leases. The leases typically run for an initial period of 3 months to 60 months, at the end of which period all terms are renegotiated. None of the leases includes contingent rentals.

## 31 CONTINGENT LIABILITIES

At 31 December 2008 and 2007, the Group and the Company had no significant contingent liabilities.

## 32 MAJOR NON-CASH TRANSACTIONS

During the year, the Group had unsecured loans with a carrying amount of approximately HK$5,418,000 capitalised into 19,143,439 ordinary shares of the Company with par value of HK$0.01 each.

## 33 MATERIAL RELATED PARTY TRANSACTIONS

### (a) Transactions with key management personnel

All key management personnel are directors of the Company, and their remuneration is disclosed in note 8.

### (b) Transactions with other related parties

(i) As reported in note 10(a), on 20 March 2008, Elipva International Limited (formerly known as "Inworld International Limited"), a wholly-owned subsidiary of the Company, entered into a Sale and Purchase Agreement with Mr. Lee Boon Kuey, the chief executive officer of Elipva Limited which was an indirect wholly-owned subsidiary of the Company, pursuant to which Mr. Lee Boon Kuey agreed to acquire 30% of the issued share capital of Elipva Limited, at a consideration of approximately HK$560,000. Upon completion of the Sale and Purchase Agreement on 9 April 2008, the Group retains 70% equity interest in Elipva Limited.

(ii) During the year, Elipva International Limited sold certain fixed assets to Standard Supplies Limited, a related company with Mr. Yu Shu Kuen being the common director, for a consideration of HK$477,000.

(iii) Balances with related parties are disclosed in note 24.

## 34 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 amount of assets and liabilities within the next financial year are discussed below.

### (i) Trade and other receivables

The aged debt profile of trade and other receivables is reviewed on a regular basis to ensure that the debtor balances are collectible and follow up actions are promptly carried out if the agreed credit periods have been exceeded. However, from time to time, the Group may experience delays in collection. Where recoverability of debtor balances are called into doubt, specific provisions for impairment losses are made based on credit status of the customers, the aged analysis of the trade and other receivable balances and their write-off history. Certain receivables may be initially identified as collectible, yet subsequently become uncollectible and result in a subsequent write-off of the related receivable to the income statement. Changes in the collectability of trade and other receivables for which provision are not made could affect the results of operations.

### (ii) Useful lives of fixed assets

In accordance with HKAS 16, the Group estimates the useful lives of fixed assets in order to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, as well as technical obsolescence arising from changes in market demand or service output of the assets. The Group also performs annual reviews on whether the assumptions made on useful lives continue to be valid.

(Expressed in Hong Kong dollars)

## 34 ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

### (iii) Income taxes

The Group is subject to income taxes in various jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognised liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.



## 35 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation of the financial statements.

## 36 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2008

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2008 and which have not been adopted in these financial statements:

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs [1] |
| HKAS 1 (Revised) | Presentation of financial statements [2] |
| HKAS 23 (Revised) | Borrowing costs [2] |
| HKAS 27 (Revised) | Consolidated and separate financial statements [3] |
| HKAS 32 & 1 (Amendments) | Puttable financial instruments and obligations arising on liquidation [2] |
| HKAS 39 (Amendment) | Eligible hedged items [3] |
| HKFRS 1 (Revised) | First-time adoption of Hong Kong Financial Reporting Standards [3] |
| HKFRS 1 & HKAS 27 (Amendments) | Cost of an investment in a subsidiary, jointly controlled entity or associate [2] |
| HKFRS 2 (Amendment) | Vesting conditions and cancellations [2] |
| HKFRS 3 (Revised) | Business combinations [3] |
| HKFRS 8 | Operating segments [2] |
| HK(IFRC)-Int 13 | Customer loyalty programmes [4] |
| HK(IFRC)-Int 15 | Agreements for the construction of real estate [2] |
| HK(IFRC)-Int 16 | Hedges of a net investment in a foreign operation [5] |
| HK(IFRC)-Int 17 | Distribution of non-cash assets to owners [3] |
| HK(IFRC)-Int 18 | Transfers of assets from customers [3] |

## 36 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2008 *(Continued)*

1 Effective for annual periods beginning on or after 1 January 2009 except for the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009

2 Effective for annual periods beginning on or after 1 January 2009

3 Effective for annual periods beginning on or after 1 July 2009

4 Effective for annual periods beginning on or after 1 July 2008

5 Effective for annual periods beginning on or after 1 October 2008

The Group is assessing the impact of these amendments and new standards and has so far concluded that they are not in a position to state whether their adoption will have a significant impact on the Group's results of operations and financial position.

## 37 SUBSEQUENT EVENTS

Subsequent to the balance sheet date, the Group's wholly owned subsidiary, 廣泰益昌（北京）科技有限公司("Guang Tai Yichang (Beijing) Technology Co., Ltd."), entered into a framework agreement with 鴻源控股有限公司("Greatsource Holding Co Ltd"), a PRC company which is controlled by Ms Li Fang Hong, an Executive Director and substantial shareholder of the Company, and her associate(s), to purchase display equipment and components and related technology, in an aggregate commercial value of, but not exceeding, HK$97 million, HK$126 million and HK$149 million in the calendar years of 2009, 2010 and 2011 respectively. The transaction has been approved in an extraordinary general meeting on 9 March 2009. Details of the transaction and the results of the extraordinary general meeting are set out in the Company's announcements dated 18 February and 9 March 2009 respectively.

# Five Years Financial Information

The following is a summary of the published results and of the assets and liabilities of the Group for the five years ended 31 December 2004, 2005, 2006, 2007 and 2008:

**Results**

| | Year ended | | | | |
|---|---|---|---|---|---|
| | **31 December 2008** | 31 December 2007 | 31 December 2006 | 31 December 2005 | 31 December 2004 |
| | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Turnover | **15,233** | 15,112 | 13,931 | 14,432 | 27,261 |
| (Loss)/profit from operations | **(8,047)** | 10,755 | 5,328 | (107,783) | (18,165) |
| Finance costs | **(40)** | (174) | (2,209) | (2,136) | (418) |
| (Loss)/profit before taxation | **(8,087)** | 10,581 | 3,119 | (109,919) | (18,583) |
| Taxation | **7** | (18) | – | – | – |
| (Loss)/profit after taxation from continuing operations | **(8,080)** | 10,563 | 3,119 | (109,919) | (18,583) |
| (Loss)/profit after taxation from discontinued operations | **–** | – | 12,402 | (27,977) | 1,586 |
| (Loss)/profit for the year | **(8,080)** | 10,563 | 15,521 | (137,896) | (16,997) |
| (Loss)/profit attributable to | | | | | |
| – Equity holders of the Company | **(8,358)** | 10,563 | 15,521 | (137,772) | (16,854) |
| – Minority interest | **278** | – | – | (124) | (143) |
| | **(8,080)** | 10,563 | 15,521 | (137,896) | (16,997) |

**Assets and liabilities**

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2008** | 2007 | 2006 | 2005 | 2004 |
| | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Total assets | **37,175** | 58,947 | 3,719 | 6,994 | 131,124 |
| Total liabilities | **(4,064)** | (24,129) | (37,197) | (54,866) | (40,821) |
| Minority interests | **(450)** | – | – | – | (124) |
| Shareholders' fund | **32,661** | 34,818 | (33,478) | (47,872) | 90,179 |