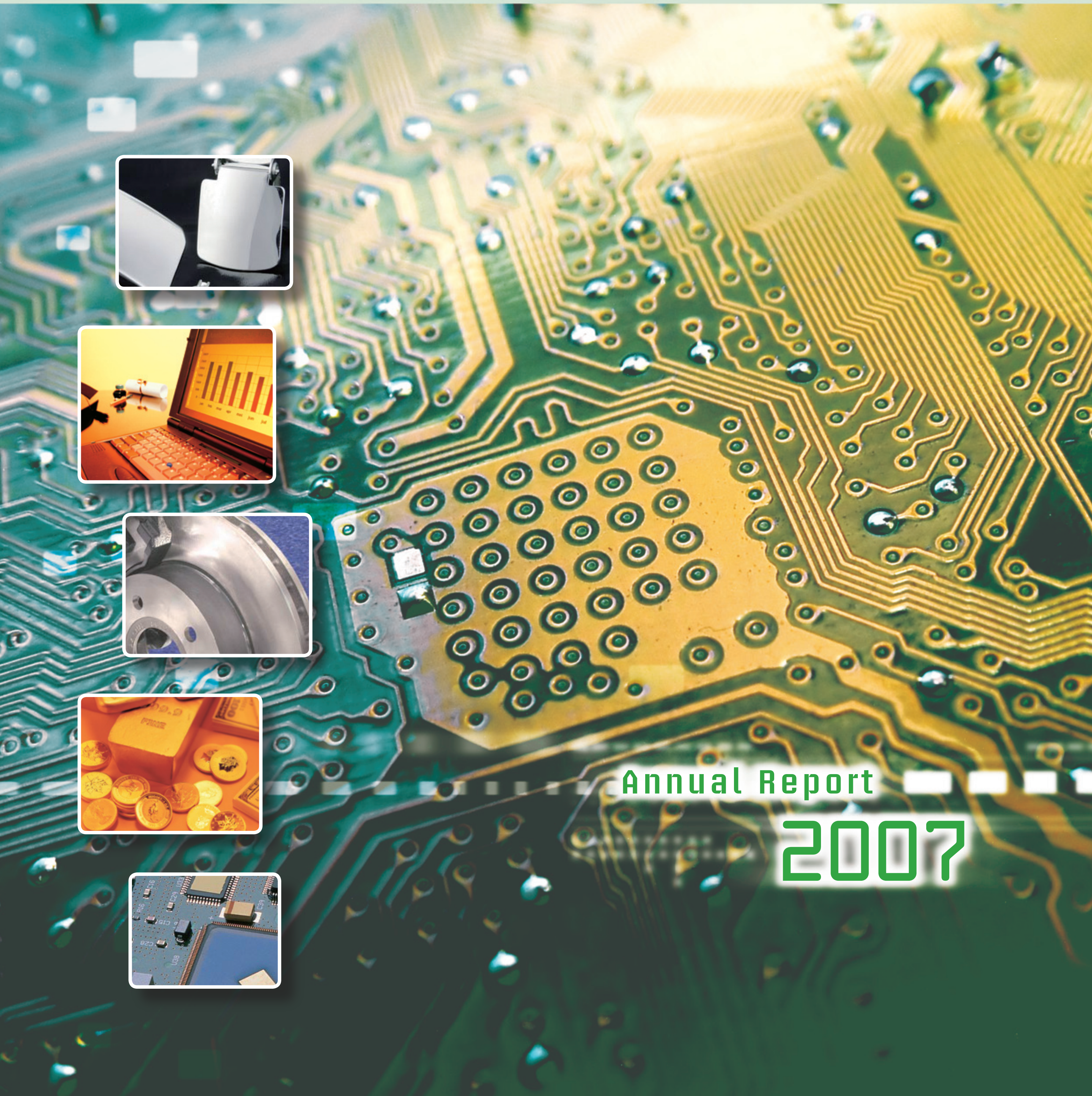
亞洲聯網科技有限公司

# Asia Tele-Net and Technology Corporation Limited

(Incorporated in Bermuda with limited liability)

*Stock code: 0679*



# Annual Report 2007

# Contents

# Corporate Information

## BOARD OF DIRECTORS

Lam Kwok Hing *(Chairman & Managing Director)*
Nam Kwok Lun *(Deputy Chairman)*
Kwan Wang Wai Alan
*(Independent Non-executive Director)*
Ng Chi Kin David
*(Independent Non-executive Director)*
Cheung Kin Wai *(Independent Non-executive Director)*

## COMPANY SECRETARY

Cheng Yuen Han

## AUDITORS

Deloitte Touche Tohmatsu

## REGISTERED OFFICE

Clarendon House
Church Street
Hamilton HM11
Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

11 Dai Hei Street
Tai Po Industrial Estate
Tai Po, New Territories
Hong Kong
Tel: (852) 2666 2288
Fax: (852) 2664 0717

## PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Ltd
Taishin International Bank
Citibank, N.A

## SHARE REGISTRARS AND TRANSFER OFFICES

### PRINCIPAL REGISTRARS AND TRANSFER OFFICE:

Butterfield Corporate Service Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM08
Bermuda

### HONG KONG BRANCH REGISTRARS AND TRANSFER OFFICE:

Secretaries Limited
26/F, Tesburg Centre
28 Queen's Road East
Hong Kong

## CORPORATE WEBSITE

www.atnt.biz

# Chairman's Statement

## RESULTS

The turnover of the Group was HK$521,658,000 (2006: HK$632,501,000 representing a decrease of 17.5% as compared with last year. The profit attributable to shareholders was HK$15,233,000 (2006 HK$20,079,000). The basic earnings per share was HK3.57 cents (2006: HK4.71 cents).

## CAPITAL STURCTURE, LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December, 2007, the Group had net assets of HK$293,595,000 (2006: HK$268,155,000). The gearing ratio was 48.5% (2006: 53.1%). This gearing ratio is calculated by dividing total liabilities of HK$282,779,000 (2006: HK$311,022,000) over total assets of HK$583,121,000 (2006: HK$585,247,000).

As at 31st December, 2007, the Group had HK$79,757,000 of cash on hand, including both pledged bank deposits and unpledged bank balances (2006: HK$70,144,000), net current assets value being HK$152,946,000 (2006: HK$128,901,000) and short-term bank loan amounted to HK$42,134,000 (2006: HK$37,291,000).

As at 31st December, 2007, the Group has pledged bank deposits of approximately HK$7,000,000 (2006: HK$7,000,000) to secure banking facilities of approximately HK$117,550,000 (2006: HK$96,800,000) to the Group. Out of the secured facilities available, the Group has utilized approximately HK$42,134,000 as at 31st December, 2007.

Most of the bank borrowing is charged at prevailing prime rate in the countries where the Company's subsidiaries are operating in.

Most of the assets and liabilities in the Group were mainly dominated in US dollars and HK dollars. Since HK dollars are pegged to the US dollars, the Group is subject to low risk of foreign exchange exposure. The Group adopts the policy to use Euro dollars receivable from customers to pay off European suppliers. As such, the exchange exposure over Euro dollars is greatly minimized.

## CONTINGENT LIABILITES

As at 31st December, 2007, the Group has guarantee of approximately HK$124,050,000 (2006: HK$90,500,000) to banks in respect of banking facilities granted to a subsidiary of the Company. The amount utilized by the subsidiary was approximately HK$42,134,000 (2006: HK$37,291,000). The Company has also guaranteed approximately HK$8,296,000 to a finance lease company in respect of finance lease granted to a subsidiary of the Company.

# Chairman's Statement

## DIVIDEND

No interim dividend (2006: nil) was recommended during the year. The Board does not recommend a final dividend for this year (2006: nil).

## EMPLOYEE AND REMUNERATION POLICIES

As at 31st December, 2007, the Group has approximately 970 employees. Employees are remunerated based on performance, experience and industry practice. Performance related bonus granted on discretionary basis. Other employee benefits included pension fund, insurance and medical cover.

## APPRECIATION

On behalf of the Board, I would like to thank our customers, bankers, suppliers and friends for their continued confidence in and support for the Company. In particular, I would like to extend our warmest thank to our staff at all levels for working with our management teams over the year.

By Order of the Board
**Lam Kwok Hing**
*Chairman and Managing Director*

Hong Kong, 25th April, 2008

# Management Discussions and Analysis

## (A) BUSINESS REVIEW ON ELECTROPLATING EQUIPMENT (UNDER THE TRADE NAME OF "PAL")

### Electroplating equipment – Printed Circuit Boards ("PCB") sector

As discussed in the latest interim report, after a hectic and booming year of 2006 in which the Company's revenue was 46.7% more than the revenue recorded in 2005, the Company inevitably experienced a slow down in orders in 2007. The revenue for the Period Under Review is approximately HK$522 million which is 17.5% less than the year 2006. 34% of the orders (2006: 50%) were from Taiwan, then Japan and Philippines 18% (2006: 8%) and followed by Hong Kong and China 17% (2006: 25%).

It is noted with interest that firstly there were quite a number of Japanese PCB manufacturers set up production facilities outside Japan and secondly, after several quiet years, the sales in US has increased by more than 252% compared to last year. The growth mainly came from a US customer who makes solar cell panels. As the demand for solar cell panels has increased by at least a double, our customer has to expand quickly its production capacity to meet the market demand. We have also seen a rebound in production requirements from US PCB shops which plate small quantity but high-end PCBs. These PCB shops make profit by providing innovative products with quick turn-around cycle to the market. The machine size they ordered is normally small but with flexibility of different panel sizes.

The gross margin for the Period Under Review was decreased from 31% to 27%. The erosion in profit was caused mainly by the increased material cost. Amongst all major materials, metal parts contributed the most to the profit erosion. It is noted that metal parts such as stainless steel parts and mild steel parts have on average increased by more than 25% since early 2007. Metal parts has accounted for roughly 21% of our total purchases.

As far as currency risk is concerned, the group has used a fairly large volume of plastic sheets to build tanks. The plastic sheets were imported from Europe and were paid in Euro dollars. Nevertheless, the Group has minimized the cost effect of the currency appreciation of Euro by maintaining enough Euro revenue to pay off the Euro cost. This direct hedging has proved to be successful. As the production bases of the Group are in China, even after exercising tight cost control in the factories, the manufacturing overhead was still increased due to the appreciation of RMB. The local sales in China were not high enough to pay off the RMB cost. The appreciation of RMB has driven up both our manufacturing overhead as well as materials purchased locally.

### Electroplating equipment – Surface Finishing ("SF") sector

In 2007, sales to SF sector accounts for 17% of gross sales. Despite facing a gradually increasing operating cost as well as tighter government controls over environmental issues, we still sold quite a number of machines to foreign direct investments (the "FDI") who set up new plants in China.

Facing the same problems as in PCB sector, the increased material cost has eroded the gross margin of SF orders. As the chemical used in SF is in general more toxic than PCB, comparatively speaking more metal tanks were used in SF orders than PCB orders. Given the high metal price, the cost of sales has increased fairly substantially during the Period Under Review. Another factor which contributed to the erosion of profit was the freight cost. SF machines tend to be bigger and bulky, the freight cost on average is higher than that of PCB. Due to the high oil price and appreciation of Euro, the freight cost for shipments to USA and Europe has increased by over 50% during 2007.

### Electroplating equipment – R&D

While it is an on-going exercise to reduce the cost of sales through engineering and design, it is always our belief that innovative products which provide better technologies than our competitors are the key to our future success. As disclosed in last interim report, we have launched the Desmear/PTH Continuous Vertical Equipment. The first machine was shipped in 2007 and has successfully accepted by the customer. This shall encourages PCB shops who are presently using horizontal equipment to replace it with continuous vertical plater for improved quality and more economic operating cost.

## (B) BUSINESS OPERATED BY MAJOR ASSOCIATED COMPANIES

The contribution of the associated companies towards the operating net profit for the Period Under Review was approximately HK$9.6 million. The contribution mainly came from Intech Machine Company Ltd ("IML") which the Group held 27.2% at year end.

### Disposal occurred after year end

On 25 January 2008 the Company entered into a share purchase agreement pursuant to which the Company has conditionally agreed to participate in a tender offer to sell its shareholding in IML at NT$37 per share (equivalent to approximately HK$8.82) at a total consideration of NT$618,952,391 (equivalent to approximately HK$147,510,103) (assuming all its shares in IML will be disposed through the Tender Offer). The purchaser, Manz Automation AG, through its subsidiary has launched a tender offer on 28 January 2008 to acquire at least 35% but not more than 70% shareholding in IML ("Tender Offer"). The Tender Offer was closed on 1st April 2008. As the acceptance under the Tender Offer was over 70%, the Company has only sold 15,944,630 shares on 7th April 2008 and has retained 783,813 shares in IML (represents approximately 1.3% of total number of shares in issue). The net consideration received after payment of local expenses is approximately NT$588.2 million.

The Directors consider that the shares sale represents a good opportunity for the Company to realize its investment at a price which is reasonable. The Tender Offer price NT$37 per share represents 39.1% premium to the closing price of IML shares of NT$26.6 on the last trading date prior to the date of the share purchase agreement. The proceeds received will also enhance the working capital and liquidity of the Group.

# Management Discussions and Analysis

## (C) OUTLOOK

With the prolongation of the U.S. subprime loan crisis and the rapid rise in crude oil price, the world economy is thus expected, by large, to enter a period of adjustment in coming year(s). This expectation of darkening clouds will more or less drag the incentive of any further investment. Judging from our current orders on hands, it seems that the revenue of 2008 will be more or less the same as the Period Under Review if the world economy will indeed go through an adjustment rather than a recession as some people think may happen. The Company is conservatively confident over the outlook of the first half of 2008 and will keep close eyes over the market movements. The big challenge this year will be on cost control, both direct and indirect costs!

# Directors & Senior Management Profile

## EXECUTIVE DIRECTORS

**Mr. Lam Kwok Hing**, aged 44, is the Chairman and Managing Director of Asia Tele-Net and Technology Corporation Limited ("ATNT") and joined the Group in 1995. He is also the Chairman of Karl Thomson Holdings Ltd ("KTH"), a company whose shares are listed on the Stock Exchange. Mr. Lam has over 22 years experience in securities, financial investment and property business. He is a member of the Hong Kong Securities Institute. Mr. Lam is the brother of Mr. Nam Kwok Lun, the Deputy Chairman and Executive Director of the Company.

**Mr. Nam Kwok Lun**, aged 49, is the Deputy Chairman of ATNT and joined in the Group in February 2005. Mr. Nam is also the Deputy Chairman and Executive Director of KTH and is responsible for overall strategic planning, day to day operations, execution and further development. He is a member of the Hong Kong Securities Institute. Karl Thomson is the ultimate holding company of Karfun Investment Ltd ("Karfun") which is the controlling shareholder of the Company. Mr. Nam is the brother of Mr. Lam Kwok Hing, the Chairman, Executive Director and Managing Director of the Company.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Kwan Wang Wai** Alan, aged 45, joined the Group in 1996 as Non-executive Director of ATNT. He was redesignated as Independent Non-executive Director of ATNT in April 2005. He holds a Bachelor degree and a Master degree in Engineering Science from the University of Oxford and has over 17 years of experience in the consumer electronics field.

**Mr. Ng Chi Kin David**, aged 46, is an Independent Non-executive Director of ATNT and joined the Group in 1995. He is a professional accountant, fellow member of the Hong Kong Society of Accountants and member of CPA Australia, the Hong Kong Institute of Company Secretaries & the Institute of Chartered Secretaries and Administrators in the United Kingdom.

**Mr. Cheung Kin Wai**, aged 52, is an Independent Non-executive Director of ATNT and joined the Group in 1998. He holds a Bachelor of Social Science degree from the Chinese University of Hong Kong and a MBA degree from the University of California, Riverside. Mr. Cheung has worked for over 19 years with various international banking and brokerage firms. He has extensive securities and financial investment experience.

# Directors & Senior Management Profile

## SENIOR MANAGEMENT

### HOLDINGS COMPANY

**Ms. Yung Wai Ching Ada**, aged 42, is the Deputy General Manager of ATNT and has joined the Group since 1998. She holds a Bachelor degree in Accountancy from the City University of Hong Kong. She is a member of ACCA and the Hong Kong Institute of Company Secretaries. Before joining the Group, she has over 10 years of finance experience in various industries including telecommunication, trading, manufacturing and system integration.

### ELECTROPLATING EQUIPMENT BUSINESS

**Mr. Geoffrey F. Paterson**, aged 61, is the Managing Director of Process Automation International Limited ("PAL") and joined the Group in 1987. He holds a degree in Chemistry from the University of Aberdeen and prior to joining the Group, he had over 10 years of experience in the PCB manufacturing industry in the United Kingdom.

**Mr. Wong Kwok Wai**, aged 43, is the Deputy Managing Director of PAL and has worked with the Group since 1985. Mr. Wong holds a degree in Chemical Technology from Hong Kong Polytechnic University and has over 18 years of experience in the electroplating industry.

**Mr. Wong Chi Wing**, aged 51, is the Director of PAL and joined the Group in 1980. He holds a degree in Mechanical Engineering from National Taiwan University and has over 22 years of experience in the electroplating industry.

**Mr. Chan Chi Wai**, aged 51, is the Director of PAL and joined the Group in 1981. He has over 20 years of experience in the electroplating industry.

## COMPANY SECRETARY

**Ms. Cheng Yuen Han**, aged 39, is the Company Secretary of ATNT and joined the Group in 1996. She graduated from the University of Hong Kong with a Bachelor degree in Arts. She is a member of the Hong Kong Institute of Company Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom.

# Directors' Report

The directors present their annual report and the audited consolidated financial statements for the year ended 31st December, 2007.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries and associates are set out in notes 41 and 19 respectively to the consolidated financial statements.

## RESULTS

The results of the Group for the year ended 31st December, 2007 are set out in the consolidated income statement on page 25.

The directors do not recommend the payment of a dividend and propose that the profit for the year be retained.

## SHARE CAPITAL

Details of the share capital of the Company are set out in note 32 to the consolidated financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers of the Group together accounted for approximately 34% of the Group's turnover, with the largest customer accounted for approximately 12.4%. The aggregate purchases attributable to the Group's five largest suppliers were less than 30% of the Group's purchases.

At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest customers and suppliers.

## RESERVES

Under The Companies Act 1981 of Bermuda, the Company's contributed surplus account is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

# Directors' Report

In the opinion of the directors, the Company's reserves available for distribution to its shareholders as at 31st December, 2007 are approximately HK$89,292,000 being the contributed surplus of approximately HK$78,447,000 and retained profits of approximately HK$10,845,000.

## PROPERTY, PLANT AND EQUIPMENT

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

## DIRECTORS

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

### Executive directors:

Mr. Lam Kwok Hing *(Chairman and Managing Director)*
Mr. Nam Kwok Lun *(Deputy Chairman)*

### Independent non-executive directors:

Mr. Ng Chi Kin David
Mr. Cheung Kin Wai
Mr. Kwan Wang Wai Alan

In accordance with Clause 87(2) of the Company's Bye-laws, Mr. Kwan Wang Wai Alan retires and, being eligible, offers himself for re-election.

The terms of office of each independent non-executive director are the period up to their retirement by rotation in accordance with the above clause.

The director being proposed for re-election at the forthcoming annual general meeting does not have a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

The Company has received from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company considers all of the independent non-executive directors are independent.

## DIRECTORS' SERVICE CONTRACTS

Each of the executive directors had a service contract with the Company. These service contracts continued unless and until terminated by either the Company or the directors giving to the other party 6 months' notice in writing.

# Directors' Report

## DIRECTORS' INTERESTS IN SHARES

As at 31st December, 2007, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

### Long position

Ordinary shares of HK$0.01 each of the Company

| | Number of issued ordinary shares held | | | Percentage of the issued share |
|---|---|---|---|---|
| Name of director | Personal interest | Corporate interest | Total | capital of the Company |
| Mr. Lam Kwok Hing | 3,474,667 | 250,516,500*(Note)* | 253,991,167 | 59.56% |

*Note:* The amount composed of 48,520,666 and 201,995,834 shares of the Company that were held by Medusa Group Limited ("Medusa") and Karfun Investments Limited ("Karfun") respectively. Medusa is a company wholly owned by Mr. Lam Kwok Hing. Karfun is a wholly-owned subsidiary of Karl Thomson Holdings Limited, a company in which Mr. Lam Kwok Hing is a major shareholder.

Save as disclosed above, except for nominee shares in certain subsidiaries held in trust for the Company by certain directors, none of the directors, the chief executive or their associates had any interests or short positions in any shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executive were deemed or taken to have under provisions of the SFO), or which were required to be and are recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code as at 31st December, 2007.

## CONNECTED TRANSACTIONS

(1) During the year, the Group has paid approximately HK$144,066 as brokerage commission to Karl Thomson Securities Company Limited, which is a wholly owned subsidiary of Karl Thomson Holdings Limited in which Mr. Lam Kwok Hing is a controlling shareholder

(2) During the year, the Group has paid approximately HK$15,000 as tickets distribution charges to Mr. Nam Kwok Wai, a brother of Messrs. Lam Kwok Hing and Nam Kwok Lun.

## DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Other than as disclosed under the heading "connected transactions" above, no contract of significance 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, subsisted at the end of the year or at any time during the year.

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed above, at no time during the year was the Company or any of its subsidiaries, a party to any arrangement to enable the directors of the Company or their respective spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2007, the following persons (other than the Directors of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

### Long position

Ordinary shares of HK$0.01 each of the Company

| Name of shareholder | Capacity | Number of issued ordinary shares held | Percentage of Company's issued share capital |
|---|---|---|---|
| Karfun | Interest of controlled corporation | 201,995,834 | 47.37 |
| Medusa | Interest of controlled corporation | 48,520,666 | 11.38 |

Please refer to the note under the section heading "Director's Interests in Shares" above.

Save as disclosed above, as at 31st December, 2007, no person (other than the Directors of the Company whose interests are set out under the heading "Directors' Interests in Shares" above) had an interest or a short position in the shares and underlying shares of the Company that was required to be recorded under Section 336 of SFO.

# Directors' Report

## SHARE OPTIONS

A summary of the Share Option Scheme (the "Scheme") which came into effect from 13th June, 2005, disclosed in accordance with the Listing Rules is as follows:

### (1) Purpose of the Scheme

The purpose of the Scheme is to enable the Company to grant option to the eligible participants as incentives and rewards for their contributions to the Company or such subsidiaries.

### (2) Participants of the Scheme

The Board may, at its discretion, to grant options to any employees (whether full time or part time), executives or officers of the Company or any of the subsidiaries (including executive and non-executive Directors) and any business consultants, agents, financial or legal advisers who will contribute or have contributed to the Company or any of the subsidiaries.

### (3) Total number of shares available for issue under the Scheme and% of issued share capital at 31st December, 2007

The number of shares available for issue under the Scheme was 42,646,340 shares representing 10% of the issued share capital at 31st December, 2007.

### (4) Maximum entitlement of each participant under the Scheme

The maximum number of shares issuable under the Scheme to each participant in any 12-month period up to the date of grant shall not exceed 1% of the shares unless it is approved by shareholders in a general meeting of the Company. Any share options granted a substantial shareholder or an independent non-executive director of the Company or to any of their associates, in excess of 0.1% of the shares in issue and with an aggregate value (based on the closing price of the shares at the date of the grant) in excess of HK$5 million, in any 12– month period, are subject to shareholders' approval in general meeting of the Company.

### (5) The period within which the shares must be taken up under an option

The period during which an option may be exercised will be determined by the Board at its absolute discretion, save that no option may be exercised more than 10 years after it has been granted.

### (6) The minimum period for which an option must be held before it can be exercised

There is no general requirement that an option must be held for any minimum period before it can be exercised but the Board is empowered to impose as its discretion any such minimum period at the time of grant of any particular option.

### (7) The amount payable upon acceptance of option

HK$1.00 is payable by each eligible participant to the Company on acceptance of the options on or before the 30th day after the option is offered.

### (8) The basis of determining the exercise price

The exercise price must be at least the higher of:

(i) the closing price of the share as stated in the Stock Exchange's daily quotations sheet on the date of grant which must be a business day;

(ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of grant; and

(iii) the nominal value of a share.

### (9) The remaining life of the Scheme

The Scheme will expiry at the close of business of 12th June, 2015.

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

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

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws, or the law of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance practices. Information on the corporate governance practices of the Company is set out in the "Corporate Governance Report" on page 17 to 22.

# Directors' Report

## SUFFICIENCY OF PUBLIC FLOAT

At the latest practicable date prior to the issue of this report, based on the information that is publicly available to the Company and within the knowledge of its directors, the Company has maintained sufficient public floats as required under the Listing Rules throughout the year ended 31st December, 2007.

## POST BALANCE SHEET EVENT

Details of the significant event after the balance sheet date are set out in note 42 to the consolidated financial statements.

## AUDITOR

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

**LAM KWOK HING**
*CHAIRMAN AND MANAGING DIRECTOR*

Hong Kong
25th April, 2008

# Corporate Governance Report

The Company recognizes that good corporate governance is vital to the success of the Group and sustains development of the Group. The Company aims at complying with, where appropriate, all code provisions set out in Appendix 14 Code on Corporate Governance Practices (the "CG Code") of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

The Company's corporate governance practices are based on the principles and the code provisions ("Code Provisions") as set out in the CG Code of the Listing Rules. The Company has, throughout the year ended 31st December, 2007 and up to the date of publication of the annual report, applied and complied with most of the Code Provisions save for the code provisions on internal controls which are to be implemented for accounting periods commencing on or after 1 July 2005 pursuant to the CG Code and certain deviations from the Code Provisions in respect of code provisions A.2.1, 4.1 and A.4.2, details of which are explained below.

## SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code during the year under review and they have all confirmed that they had fully complied with the required standard set out in the Model Code.

## BOARD OF DIRECTORS

The Board comprises of two Executive Directors, being Mr. Lam Kwok Hing (Chairman and Managing Director) and Mr. Nam Kwok Lun (Deputy Chairman); three Independent Non-executive Directors, being Mr. Cheung Kin Wai, Mr. Kwan Wang Wai Alan and Mr. Ng Chi Kin David. Biographical details, which include relationships among members of the Board, are provided in the "Directors and Senior Management Profile" section of the Annual Report.

There is a clear division of responsibilities between the Board and the management. The Board is responsible for providing high-level guidance and effective oversight of management while day-to-day management of the Group is delegated to the management team of each respective subsidiary. Generally speaking the Board is responsible for:

- Formulating the Group's long term strategy and monitoring the implementation thereof
- Approval of interim and year end dividend
- Reviewing and approving the annual and interim reports
- Ensuring good corporate governance and compliance
- Monitoring the performance of the management
- Reviewing and approving any material acquisition and assets disposal

The Board authorizes the management to carry out the strategies that have been approved.

# Corporate Governance Report

The Board meets regularly at least four times a year and additional meetings or telephone conference are convened as and when the Board considers necessary. In 2007, four board meetings were held. Details of the Directors' attendance record in the year are as follows:

| **Directors** | **Attendance** |
|---|---|
| Mr. Lam Kwok Hing | 4/4 |
| Mr. Nam Kwok Lun | 4/4 |
| Mr. Cheung Kin Wai | 4/4 |
| Mr. Kwan Wang Wai Alan | 3/4 |
| Mr. Ng Chi Kin David | 4/4 |

The Board complied with the Rules 3.10(1) and (2) of the Listing Rules relating to the appointment of at least three independent non-executive directors and one of the independent non-executive directors has appropriate professional qualifications or accounting or related finance management expertise. Each of the independent non-executive director has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all Independent Non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

The Company does not at present have any officer with the title of "Chief Executive Officer" ("CEO") but instead the duties of a CEO are performed by the Managing Director ("MD"). The positions of both Chairman and MD are currently held by Mr. Lam Kwok Hing. The Board believes that vesting the roles of both Chairman and MD in the same person provides the Group with strong and consistent leadership and allows for more effective planning and execution of long-term business strategies. In addition, through the supervision of the Board which comprised of three independent non-executive directors, representing more than half of the Board, the interests of the shareholders are adequately and fairly represented.

## APPOINTMENT AND RE-ELECTION OF DIRECTORS

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to reelection.

None of the existing non-executive directors (including independent non-executive directors) of the Company is appointed for a specific term. This constitutes a deviation from the GC Code. In accordance with the provisions of the Bye-laws of the Company, any director appointed by the Board during the year shall retire and submit themselves for re-election at the next following annaul general meeting immediately following his/her appointment. Further, at each annual general meeting, one-third of the directors for the time being, or if their number is not three or multiple of three, then the number nearest to but not exceeding one-third, shall retire from office. The directors to retire by rotation shall be those who have been longest in office since their last re-election or appointment. At such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are similar to those in the GC Code. Nevertheless, the Company is planning to change the appointment of independent non-executive directors with a specific term with effect from 1st January, 2008.

Code Provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the next following annual general meeting after their appointment, and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

According to the Bye-laws of the Company, the Chairman or Managing Director is not subject to retirement by rotation or taken into account on determining the number of Directors to retire. This constitutes a deviation from the GC Code. As continuation is a key factor to the successful implementation of any long-term business plans, the Board believes that, together with the reasons for deviation from Code Provision A.2.1, that the present arrangement is most beneficial to the Company and the shareholders as a whole.

## REMUNERATION OF DIRECTORS

The Company established the Remuneration Committee in February 2005 with terms of reference substantially the same as those contained in paragraph B.1.3 of the CG Code. A majority of the members of the Remuneration Committee is Independent Non-executive Directors and members of the Committee are listed as below.

The Remuneration Committee is primarily responsible for the following duties:

- to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing the policy on such remuneration;

- to have the delegated responsibilities to determine the specific remuneration packages of all Executive Directors and senior management;

- to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

- to review and approve the compensation payable to Executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;

- to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate; and

- to ensure that no Director or any of his/her associates is involved in deciding his/her own remuneration. Corporate Governance Report

The overriding objective of the remuneration policy is to ensure that the Company is able to attract, retain, and motivate a high-calibre team which is essential to the success of the Company.

The Remuneration Committee will meet at least once each year. During the year under review, one meeting was held to consider and approve the remuneration of all Directors and senior management.

| **Committee member** | | **Attendance** |
|---|---|---|
| Mr. Ng Chi Kin David | (Independent Non-executive Director & chairman of the Remuneration Committee) | 1/1 |
| Mr. Cheung Kin Wai | (Independent Non-executive Director) | 1/1 |
| Mr. Kwan Wang Wai Alan | (Independent Non-executive Director) | 1/1 |
| Mr. Lam Kwok Hing | (Executive Director) | 1/1 |
| Mr. Nam Kwok Lun | (Executive Director) | 1/1 |

## NOMINATION OF DIRECTORS

Currently, the Company does not have a nomination committee, and the Board will identify individuals suitably qualified to become board members when necessary. The Board will give due consideration to the suitability of a candidate for directorship after taking into account of his/her experience, qualification and other relevant factors. All candidates must also meet the standards as set forth in Rules 3.08 and 3.09 of the Listing Rules. A candidate who is to be appointed as an Independent Non-executive Director should also meet the independence criteria set out in Rule 3.13 of the Listing Rules.

## AUDITORS' REMUNERATION

During the year, the auditors of the Company, Messrs. Deloitte Touche Tohmatsu received approximately HK$1,033,000 for statutory audit services. Payments made by the Company for non-audit services to the auditors were made during the year were:

- HK$150,000 for review of the unaudited financial statements for the six months ended 30th June, 2006

- HK$5,000 for audit of provident scheme fund

## AUDIT COMMITTEE

The Audit Committee was established in 1999 and comprises three Board members, all of whom are Independent Non-executive Directors. The Audit Committee has adopted his same term of reference, which describes the authority and duties of the Committee, as quoted under code provision C.3.3 of the GC Code.

The Audit Committee will meet at least twice each year. In 2007, the Audit Committee met twice considering the annual results of the Group for the financial year ended 31st December, 2007 and the interim results of the Group for the 6 months ended 30th June, 2007, assessing any changes in accounting policies and practices, major judgmental areas and compliance with applicable legal and accounting requirements and standards, discussing with the auditors of the Company on internal control. Details of Committee members and their attendance records are listed as below:

| **Committee member** | | **Attendance** |
|---|---|---|
| Mr. Cheung Kin Wai | (Independent Non-executive Director & chairman of the Audit Committee) | 1/1 |
| Mr. Ng Chi Kin David | (Independent Non-executive Director) | 1/1 |
| Mr. Kwan Wang Wai Alan | (Independent Non-executive Director) | 1/1 |

# Corporate Governance Report

## DIRECTOR'S RESPONSIBILITIES FOR THE FIANNCIAL STATEMENT

The Board acknowledges that it is their responsibility for:

(i) overseeing the preparation of the financial statements of the Group with a view to ensuring such financial statements give a true and fair view of the state of affairs of the Group, and

(ii) selecting suitable accounting policies and applying the selected accounting policies consistently with the support of reasonable and prudent judgement and estimates.

A statement by the auditors about their reporting responsibilities is set out on pages 23 to 24 of this Annual Report.

## INTERNAL CONTROLS

A sound and effective internal control system is important to safeguard the shareholders' investment and the Company's assets. During the year, the Board reviewed the effectiveness of the internal control system of the Group. The review covers all material controls, including financial, operational and compliance controls and risk management functions of the Group.

Deloitte.
德勤

**TO THE MEMBERS OF**
**ASIA TELE-NET AND TECHNOLOGY CORPORATION LIMITED**
*(incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of Asia Tele-Net And Technology Corporation Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 25 to 87, which comprise the consolidated balance sheet as at 31st December, 2007, and the consolidated income statement, the consolidated statement of recognised income and expense 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 CONSOLIDATED FINANCIAL STATEMENTS

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

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

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

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

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st December, 2007 and of the Group's profit 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.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
25th April, 2008

# Consolidated Income Statement

*For the year ended 31st December, 2007*

| | NOTES | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| Revenue | 7 | **521,658** | 632,501 |
| Direct costs | | **(381,263)** | (435,549) |
| Gross profit | | **140,395** | 196,952 |
| Bad debts recovered | | **127** | 240 |
| Other income | | **5,047** | 4,354 |
| Selling and distribution costs | | **(50,047)** | (84,570) |
| Administrative expenses | | **(107,916)** | (107,382) |
| Other expenses | | **(2,032)** | (1,820) |
| Allowance for bad and doubtful debts | | **(5,387)** | (2,185) |
| Net change in fair value of held-for-trading investments | | **31,061** | 9,169 |
| Finance costs | 9 | **(2,378)** | (853) |
| Impairment loss recognised in respect of goodwill | 18 | **(2,488)** | – |
| Loss on deemed disposal of an associate | 10 | **(2,358)** | (313) |
| Impairment loss recognised in respect of investment in an associate | | **–** | (696) |
| Share of results of associates | | **12,007** | 9,016 |
| Profit before taxation | | **16,031** | 21,912 |
| Taxation | 11 | **(725)** | (2,105) |
| Profit for the year | 12 | **15,306** | 19,807 |
| Attributable to: | | | |
| Equity holders of the parent | | **15,233** | 20,079 |
| Minority interests | | **73** | (272) |
| | | **15,306** | 19,807 |
| Earnings per share - Basic | 15 | **HK3.57 cents** | HK4.71 cents |

# Consolidated Balance Sheet

*At 31st December, 2007*

| | NOTES | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 16 | **89,442** | 84,705 |
| Prepaid lease payments | 17 | **12,646** | 12,890 |
| Goodwill | 18 | **–** | 2,488 |
| Interests in associates | 19 | **56,979** | 47,375 |
| Available-for-sale investments | 20 | **515** | 515 |
| Loans receivable | 21 | **44** | 1,219 |
| | | **159,626** | 149,192 |
| Current assets | | | |
| Inventories | 22 | **57,233** | 45,833 |
| Retirement benefit assets | 40 | **264** | 13 |
| Amounts due from customers for contract work | 23 | **23,634** | 30,503 |
| Loans receivable | 21 | **4,741** | 4,554 |
| Debtors, deposits and prepayments | 24 | **206,595** | 256,925 |
| Prepaid lease payments | 17 | **244** | 244 |
| Held-for-trading investments | 25 | **44,428** | 20,251 |
| Amounts due from associates | 26 | **2,844** | 4,274 |
| Taxation recoverable | | **3,755** | 3,314 |
| Pledged bank deposits | 27 | **7,000** | 7,000 |
| Bank balances and cash | 27 | **72,757** | 63,144 |
| | | **423,495** | 436,055 |
| Current liabilities | | | |
| Creditors, bills payable and accrued charges | 28 | **208,011** | 238,339 |
| Warranty provision | 29 | **12,764** | 20,938 |
| Amounts due to customers for contract work | 23 | **5,305** | 8,480 |
| Amounts due to associates | 26 | **20** | 37 |
| Taxation payable | | **43** | 2,061 |
| Borrowings due within one year | 30 | **42,134** | 37,291 |
| Obligations under finance leases due within one year | 31 | **2,272** | 8 |
| | | **270,549** | 307,154 |

# Consolidated Balance Sheet

*At 31st December, 2007*

| | NOTES | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| Net current assets | | **152,946** | 128,901 |
| | | **312,572** | 278,093 |
| Capital and reserves | | | |
| Share capital | 32 | **4,265** | 4,265 |
| Reserves | 33 | **289,330** | 263,890 |
| Equity attributable to equity holders of the parent | | **293,595** | 268,155 |
| Minority interests | 33 | **6,747** | 6,070 |
| | | **300,342** | 274,225 |
| Non-current liabilities | | | |
| Warranty provision | 29 | **7,175** | – |
| Obligations under finance leases due after one year | 31 | **732** | – |
| Deferred taxation | 34 | **4,323** | 3,868 |
| | | **12,230** | 3,868 |
| | | **312,572** | 278,093 |

The financial statements on pages 25 to 87 were approved and authorised for issue by the Board of Directors on 25th April, 2008 and are signed on its behalf by:

**LAM KWOK HING**
*CHAIRMAN AND MANAGING DIRECTOR*

**NAM KWOK LUN**
*DEPUTY CHAIRMAN*

# Consolidated Statement Of Recognised Income And Expense

*For the year ended 31st December, 2007*

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Exchange differences arising on translation of operations of foreign subsidiaries and associate | **10,737** | 4,428 |
| Recognition of actuarial gain (loss) on defined benefit plans | **74** | (13) |
| Net income recognised directly in equity | **10,811** | 4,415 |
| Profit for the year | **15,306** | 19,807 |
| Total recognised income for the year | **26,117** | 24,222 |
| Attributable to: | | |
| Equity holders of the parent | **25,440** | 24,511 |
| Minority interests | **677** | (289) |
| | **26,117** | 24,222 |

# Consolidated Cash Flow Statement

*For the year ended 31st December, 2007*

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Profit before taxation | **16,031** | 21,912 |
| Adjustments for: | | |
| Share of results of associates | **(12,007)** | (9,016) |
| Interest income, other than interest income from money lending | **(1,666)** | (1,711) |
| Finance costs | **2,378** | 853 |
| Dividend income | **(362)** | (239) |
| Depreciation | **7,887** | 6,014 |
| Release of prepaid lease payments | **244** | 244 |
| Allowance for slow moving inventories | **962** | 924 |
| Allowance for bad and doubtful debts | **5,387** | 2,185 |
| Gain on disposal of property, plant and equipment | **(1,265)** | (7) |
| Net change in fair value of held-for-trading investments | **(31,061)** | (9,169) |
| Impairment loss recognised in respect of goodwill | **2,488** | – |
| Loss on deemed disposal of an associate | **2,358** | 313 |
| Impairment loss recognised in respect of investment in an associate | **–** | 696 |
| Increase in warranty provision | **6,472** | 18,715 |
| Operating cash flows before movements in working capital | **(2,154)** | 31,714 |
| Decrease in held-for-trading investments | **6,884** | 7,446 |
| Increase in inventories | **(12,362)** | (11,798) |
| Decrease (increase) in amounts due from customers for contract work | **9,258** | (7,161) |
| Decrease (increase) in loans receivable | **988** | (811) |
| Decrease (increase) in debtors, deposits and prepayments | **50,069** | (78,285) |
| (Decrease) increase in creditors, bills payable and accrued charges | **(31,868)** | 79,763 |
| Decrease in warranty provision | **(7,471)** | (6,817) |
| Decrease in amounts due to customers for contract work | **(3,175)** | (2,888) |
| Decrease in retirement benefits obligations | **(177)** | (181) |
| Cash generated from operations | **9,992** | 10,982 |
| Hong Kong and overseas profits tax paid | **(2,903)** | (4,507) |
| Hong Kong and overseas profits tax refunded | **31** | 30 |
| NET CASH FROM OPERATING ACTIVITIES | **7,120** | 6,505 |

# Consolidated Cash Flow Statement

*For the year ended 31st December, 2007*

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| INVESTING ACTIVITIES | | |
| Increase in pledged bank deposits | – | (1,000) |
| Proceeds on disposal of property, plant and equipment | 1,465 | 178 |
| Dividend received from associates | 2,444 | 930 |
| Dividend received from listed and unlisted investments | 362 | 239 |
| Interest received, other than interest from money lending | 1,666 | 1,711 |
| Purchase of property, plant and equipment | (3,471) | (7,950) |
| Advance to associates | (555) | (2,623) |
| Acquisition of additional equity investment in a subsidiary | – | (2) |
| NET CASH FROM (USED IN) INVESTING ACTIVITIES | 1,911 | (8,517) |
| FINANCING ACTIVITIES | | |
| New borrowings raised, other than bank overdrafts | 27,905 | 22,802 |
| Repayment of borrowings | (37,291) | (28,289) |
| Increase in trust receipt loans | 13,493 | 14,604 |
| Interest paid | (2,378) | (853) |
| Repayment to associates | (17) | (153) |
| Repayment of obligations under finance leases | (2,616) | (207) |
| Dividend paid to minority shareholders | – | (612) |
| NET CASH (USED IN) FROM FINANCING ACTIVITIES | (904) | 7,292 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 8,127 | 5,280 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | 63,144 | 57,352 |
| EFFECT ON FOREIGN EXCHANGE RATE CHANGES | 750 | 512 |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR | 72,021 | 63,144 |
| ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS | | |
| Bank balances and cash | 72,757 | 63,144 |
| Bank overdrafts | (736) | – |
| | 72,021 | 63,144 |

## 1. GENERAL

The Company is incorporated in Bermuda under The Companies Act 1981 of Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office and principal place of business of the Company are disclosed in the "Corporation Information" section of the annual report.

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

The Company is an investment holding company and its principal subsidiaries are mainly engaged in electroplating equipment business. The details of principal activities of its principal subsidiaries are set out in note 41.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)")

In the current year, the Group has applied, for the first time, the following new standards, amendments and interpretations ("New HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1st January, 2007.

| | |
|---|---|
| HKAS 1 (Amendment) | Capital disclosures |
| HKFRS 7 | Financial instruments: Disclosures |
| HK(IFRIC) – INT 7 | Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies |
| HK(IFRIC) – INT 8 | Scope of HKFRS 2 |
| HK(IFRIC) – INT 9 | Reassessment of embedded derivatives |
| HK(IFRIC) – INT 10 | Interim financial reporting and impairment |

The adoption of these New HKFRSs had no material effect on how the results and financial position of the Group for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

The Group has not early applied the following new and revised standards, amendments and interpretations that have been issued but are not yet effective.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") *(Continued)*

| | |
|---|---|
| HKAS 1 (Revised) | Presentation of financial statements [1] |
| HKAS 23 (Revised) | Borrowing costs [1] |
| HKAS 27 (Revised) | Consolidated and separate financial statements [2] |
| HKFRS 2 (Amendment) | Vesting conditions and cancellations [1] |
| HKFRS 3 (Revised) | Business combinations [2] |
| HKFRS 8 | Operating segments [1] |
| HK(IFRIC) – INT 11 | HKFRS 2: Group and treasury share transactions [3] |
| HK(IFRIC) – INT 12 | Service concession arranagements [4] |
| HK(IFRIC) – INT 13 | Customer loyalty programmes [5] |
| HK(IFRIC) – INT 14 | HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction [4] |

[1] Effective for annual periods beginning on or after 1st January, 2009.

[2] Effective for annual periods beginning on or after 1st July, 2009.

[3] Effective for annual periods beginning on or after 1st March, 2007.

[4] Effective for annual periods beginning on or after 1st January, 2008.

[5] Effective for annual periods beginning on or after 1st July, 2008.

The directors of the Company anticipate that the application of these standards, amendments and interpretations will have no material impact on the results and the financial position of the Group.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for buildings and certain financial instruments, which are measured at revalued amounts or fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange and by the Hong Kong Companies Ordinance.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Basis of consolidation *(Continued)*

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

### Goodwill

***Goodwill arising on acquisitions prior to 1st January, 2005***

Goodwill arising on acquisition of net assets and operations of entity for which the agreement date is before 1st January, 2005, representing the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant acquiree at the date of acquisition, was capitalised and is presented separately in the balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

# Notes To The Consolidated Financial Statements

*For the year ended 31st December, 2007*

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Interests in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in joint venture.

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

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

### Revenue recognition

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

When the outcome of a construction contract can be estimated reliably, revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the proportion that costs incurred to date bear to estimated total costs for each contract. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customers. When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

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

Revenue from services rendered is recognised when the services are rendered, the revenue can be reliably estimated and it is probable that the economic benefits associated with the provision of services will flow to the Group.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rates applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to the asset's net carrying amount.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Revenue recognition *(Continued)*

Rental income under operating leases is recognised in the income statement on a straight-line basis over the terms of the relevant lease.

Dividend income from investments is recognised when the Group's right to receive payment has been established.

### Construction contracts

When the outcome of a construction contract can be estimated reliably, revenue and costs are recognised to by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that contract costs incurred for work performed to date bear to estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as an amount due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as an amount due to customers for contract work. Amounts received before the related work is performed are included in the balance sheet, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated balance sheet under trade and other receivables.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Property, plant and equipment

Property, plant and equipment includes buildings held for use on the production or supply of goods and services, or for administrative purposes are stated at cost or valuation less subsequent accumulated depreciation and accumulated impairment losses.

Advantage has been taken of the transitional relief provided by paragraph 80A of HKAS 16 "Property, Plant and Equipment" from the requirement to make regular revaluations of the Group's buildings which had been revalued prior to 30th September, 1995. Prior to 30th September, 1995, the revaluation increase arising on the revaluation of these assets was credited to the revaluation reserve. Any future decreases in value of these assets will be dealt with as an expense to the extent that they exceed the balance, if any, on the revaluation reserve relating to a previous revaluation of the same asset. On the subsequent sale or retirement of a revalued asset, the corresponding revaluation surplus is transferred to retained profits.

The cost or valuation of buildings is depreciated over their estimated useful lives using the straight-line method.

Depreciation is provided to write off the cost of other plant and equipment over their estimated useful lives and after taking into account their estimated residual values, using straight-line method.

Assets held under finance leases are depreciated over their estimated useful lives on the same basis as owned assets of the Group or, where shorter, the term of the relevant leases.

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

### Leasing

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

***The Group as lessor***

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Leasing *(Continued)*

***The Group as lessee***

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

***Leasehold land and building***

Interest in leasehold land is accounted for as operating leases and amortised over the lease term on a straight-line basis.

### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in 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.

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. 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Foreign currencies *(Continued)*

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

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the balance sheet date.

### Taxation

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

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

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Retirement benefit costs

Payments to defined contribution retirement benefits scheme/state-managed retirement benefits schemes/ the Mandatory Provident Fund Scheme ("MPF Scheme") are charged as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefits scheme, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. All actuarial gains and losses of defined benefit plans are recognised immediately in retained profits in the period in which they occur. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the amended benefits become vested.

The amount recognised in the consolidated balance sheet represents the present value of the defined benefits obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to unrecognised past service cost, plus the present value of available refunds and reductions in future contributions.

### Financial instruments

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

#### *Financial assets*

The Group's financial assets are classified into one of three categories, including held-for-trading investments, loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

***Financial assets*** *(Continued)*

*Held-for-trading investments*

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not a designated and effective hedging instrument.

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

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including loans receivable and debtors, amounts due from associates, pledged deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses.

*Effective interest method*

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

***Financial assets*** *(Continued)*

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated as available for sale or not classified as financial assets at fair value through profit or loss ("FVTPL"), loans and receivables or held-to-maturity investments. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition.

***Impairment of financial assets***

Financial assets, other than held-for-trading investments, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment includes:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as loans and receivables, each receivable that is individually significant is assessed for indication of impairment at each balance sheet date. Loans and receivables that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. In determining whether there is any impairment for a portfolio of receivables, the Group considers past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days and other observable changes in national or local economic conditions that correlate with default on receivables.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

***Impairment of financial assets*** *(Continued)*

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of debtors, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

***Financial liabilities and equity***

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of a group entity after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

***Financial liabilities and equity*** *(Continued)*

*Financial liabilities*

Financial liabilities including creditors, bills payables, amounts due to associates, borrowings and obligations under finance leases are subsequently measured at amortised cost, using the effective interest method.

*Effective interest method*

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

Interest expense is recognisied on an effective interest basis.

*Equity instruments*

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

***Derecognition***

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

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

### Impairment losses

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets, other than goodwill and available-for-sale investment as stated above, to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet dates, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities with the next financial year, are discussed below.

### Allowances for bad and doubtful debts

When there is objective evidence that loans and receivables may be impaired, the Group estimates the future cash flows of the loans and receivables. The amount of the impairment loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial assets original effective interest rate (i.e. the effective interest rate computed on initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

### Provision for warranties

The provision of warranties of the Group is determined based on the management's best estimate of the Group's liabilities under a 1-2 year warranty period granted for the electroplating products based on its past experience. The actual settlement may differ from the estimation made by the management. If the amounts are settled for an amount greater than management's estimation, a future charge to income statement will be recognised in profit or loss when the amounts are settled. Likewise, if the amounts are settled for an amount that is less than management's estimation, a future credit to income statement will be recognised in profit or loss when the amounts are settled.

## 5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the equity balance. The Group's overall strategy remains unchanged for both years.

The capital structure of the Group consists of net debt, which includes the borrowings disclosed in note 30, net of cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital and reserves. The directors of the Company review the capital structure on a continuous basis. As part of this review, the directors consider the cost of capital and the risks associates with capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends and issuance of new shares as well as the addition of new borrowings and the repayment of existing borrowings.

## 6. FINANCIAL INSTRUMENTS

### Categories of financial instruments

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Financial assets | | |
| Loans and receivables (including cash and cash equivalents) | **267,311** | 310,602 |
| Available-for-sale investments | **515** | 515 |
| Held-for-trading investments | **44,428** | 20,251 |
| Financial liabilities | | |
| Amortised cost | **184,333** | 170,400 |

### Financial risk management objectives and policies

The Group's major financial instruments include loans receivables, debtors, held-for-trading investments, amounts due from associates, pledged deposits and bank balances, creditors, bills payable, amounts due to associates and borrowings and obligations under finance leases. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

***Currency risk***

Several subsidiaries of the Group have foreign currency sales and purchases. The Group is therefore exposed to foreign currency risk. In addition, certain debtors, bank deposits, bank balances, creditors, bills payable and bank borrowings are denominated in currencies other than the functional currency of the respective group entities. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

***Currency risk*** *(Continued)*

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Australian Dollar ("AUR") | **1,154** | 1 | **1,153** | – |
| Euro ("EUR") | **53,904** | 38,846 | **9,474** | 15,750 |
| Sterling Pound ("GBP") | **12,043** | 1,278 | **11,749** | 7,691 |
| Taiwan Dollars ("NTD") | **3,012** | 2,980 | **1,570** | 6,705 |
| Sweden Kronor ("SEK") | **–** | – | **954** | 252 |
| United States Dollars ("USD") | **180,138** | 209,879 | **77,949** | 109,446 |

The directors of the Company expect the foreign exchange exposure on USD against Hong Kong dollars to be minimal because Hong Kong dollars are pegged to the USD.

*Sensitivity analysis*

The following table details the Group's sensitivity to a 5% increase and decrease in EUR, GBP, NTD and SEK against the functional currency of the relevant group entity. 5% is the sensitivity rate used that represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates an increase in profit for the year where HKD strengthen 5% against relevant currencies. For a 5% weakening of HKD against relevant currencies, there would be an equal and opposite impact on the profit and the balances below would be negative.

| | Profit and loss | |
|---|---|---|
| | **2007** | 2006 |
| | **HK$'000** | HK$'000 |
| EUR | **2,221** | 1,115 |
| GBP | **15** | 321 |
| NTD | **72** | 186 |
| SEK | **48** | 13 |

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

***Interest rate risk***

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see note 30 for details) and variable-rate loan receivable (see note 21 for details). It is the Group's policy to keep its borrowings and loan receivable at floating rate of interests so as to minimise the fair value interest rate risk.

The Group is also exposed to fair value interest rate risk in relation to fixed-rate pledged bank deposits placed with financial institutions (see note 27 for details). The Group has not used any derivative contracts to hedge this exposure to interest rate risk. The directors of the Company consider that the Group's exposure to fair value interest rate risk is not significant as the fixed-rate pledged bank deposits placed with financial institutions are within short maturity period.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group cash flow interest rate risk is mainly concentrated on the fluctuation of Hong Kong prime rate or London Interbank Offered Rate arising from the Group's Hong Kong Dollars, EUR or USD denominated borrowings.

The Group currently does not have interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

*Sensitivity analysis*

The sensitivity analyses below have been determined based on the exposure to interest rates for the variable-rate bank borrowings and variable-rate loan receivable at the reporting date. For variable-rate bank borrowings and variable-rate loan receivable, the analysis is prepared assuming the amount of asset and liability outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31st December, 2007 would decrease/increase by HK$211,000 (2006: decrease/increase by HK$186,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings and variable-rate loan receivable.

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

***Equity price risk***

The Group is exposed to potential loss in market value resulting from an adverse change in prices through its held-for-trading investments. The management would manage this exposure by closely monitoring the performance of the investments and market conditions. The management will consider diversifying the portfolio of investments as they consider appropriate.

*Sensitivity analysis*

The sensitivity analyses below have been determined based on the exposure to equity price risks for held-for-trading investments at the reporting date.

If the prices of the respective equity instruments had been 5% higher/lower, the Group's profit for the year ended 31st December, 2007 would increase/decrease by HK$2,221,000 (2006: increase/decrease by HK$1,013,000) as a result of the changes in fair value of held-for-trading investments.

In management's opinion, the above sensitivity analysis is unrepresentative of the inherent risk as the year end exposure does not reflect the exposure during the year.

***Credit risk***

The Group's credit risk are primarily attributable to loans receivables, debtors, deposits and prepayments, amounts due from associates, pledged bank deposits and bank balances.

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December, 2007 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The management closely monitors the subsequent settlement of the debts and does not grant long credit period to customers. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

***Credit risk*** *(Continued)*

The Group's bank balances and cash are deposited with banks in Hong Kong and the People's Republic of China (excluding Hong Kong) ("PRC") and the Group has limited the exposure to any single financial institution. The credit risk on liquid funds is limited because the counterparties are banks with good credit-rating.

The Group does not have any other significant concentration of credit risk on loans receivable and trade debtors, with exposure spread over a number of counterparties and customers.

***Liquidity risk***

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. As at 31st December, 2007, the Group has available unutilised short-term bank loan facilities of approximately HK$75,402,000 (2006: HK$17,709,000). Details of the Group's borrowings at 31st December, 2007 are set out in note 30.

The following table details the Group's remaining contractual maturity for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

***Liquidity risk*** *(Continued)*

*Liquidity risk tables*

| | Weighted average effective interest rate | Less than 1 month | 1 – 3 months | 3 months to 1 year | 1 – 5 years | 5 + years | Total undiscounted cash flows | Carrying amount at 31.12.2007 |
|---|---|---|---|---|---|---|---|---|
| | % | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **2007** | | | | | | | | |
| **Non interest bearing** | | | | | | | | |
| Creditors, bills payable and other creditors | **N/A** | **8,123** | **31,792** | **98,462** | **798** | **–** | **139,175** | **139,175** |
| Amounts due to associates | **N/A** | **–** | **–** | **20** | **–** | **–** | **20** | **20** |
| | | **8,123** | **31,792** | **98,482** | **798** | **–** | **139,195** | **139,195** |
| **Interest bearing** | | | | | | | | |
| Bank loans – variable rate | **4.24%** | **20,823** | **20,445** | **1,032** | **–** | **–** | **42,300** | **42,134** |
| Obligations under finance lease | **3.78%** | **250** | **500** | **2,248** | **485** | **–** | **3,483** | **3,004** |
| | | **21,073** | **20,945** | **3,280** | **485** | **–** | **45,783** | **45,138** |
| **2006** | | | | | | | | |
| **Non interest bearing** | | | | | | | | |
| Creditors, bills payable and other creditors | N/A | 11,848 | 28,339 | 92,360 | 517 | – | 133,064 | 133,064 |
| Amounts due to associates | N/A | – | – | 37 | – | – | 37 | 37 |
| | | 11,848 | 28,339 | 92,397 | 517 | – | 133,101 | 133,101 |
| **Interest bearing** | | | | | | | | |
| Bank loans – variable rate | 4.18% | 20,390 | 8,918 | 8,139 | – | – | 37,447 | 37,291 |
| Obligations under finance lease | 3% | – | 10 | – | – | – | 10 | 8 |
| | | 20,390 | 8,928 | 8,139 | – | – | 37,457 | 37,299 |

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and

- the fair value of held-for-trading investments (listed in Hong Kong) is determined based on the quoted market bid prices available on the relevant exchange.

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

## 7. REVENUE

The Group's revenue for the year ended 31st December, 2007 analysed by principal activity is as follows:

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Revenue from electroplating machinery business: | | |
| Construction contracts in respect of design, manufacture and sale of custom-built electroplating machinery and other industrial machinery | **469,921** | 581,818 |
| Sale of spare parts of electroplating machinery | **17,463** | 28,639 |
| Provision of services – repairs and maintenance | **33,127** | 20,513 |
| Rental income from leasing equipment | **640** | 960 |
| Interest income from money lending | **507** | 571 |
| | **521,658** | 632,501 |

## 8. BUSINESS AND GEOGRAPHICAL SEGMENTS

### Business segments

The Group is mainly engaged in electroplating equipment business which includes the design, manufacturing and sale of custom-built electroplating equipment, sales of spare parts of electroplating machinery and provision of repairs and maintenance services. This business is the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

***INCOME STATEMENT***

*FOR THE YEAR ENDED 31ST DECEMBER, 2007*

| | Electroplating equipment HK$'000 | Other operations HK$'000 | Elimination HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|
| REVENUE | | | | |
| External sales | **520,511** | **1,147** | **–** | **521,658** |
| RESULTS | | | | |
| Segment results | **(6,343)** | **(1,143)** | **2,176** | **(5,310)** |
| Unallocated corporate income | | | | **4,275** |
| Unallocated corporate expenses | | | | **(21,266)** |
| Net change in fair value of held-for-trading investments | | | | **31,061** |
| Loss on deemed disposal of an associate | | | | **(2,358)** |
| Finance costs | | | | **(2,378)** |
| Share of results of associates | | | | **12,007** |
| Profit before taxation | | | | **16,031** |
| Taxation | | | | **(725)** |
| Profit for the year | | | | **15,306** |

## 8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

### Business segments *(Continued)*

***OTHER INFORMATION***

*FOR THE YEAR ENDED 31ST DECEMBER, 2007*

| | Electroplating equipment HK$'000 | Other operations HK$'000 | Consolidated HK$'000 |
|---|---|---|---|
| Allowance for bad and doubtful debts | | | |
| – segments | **3,277** | **125** | **3,402** |
| – unallocated | | | **1,985** |
| Allowance for slow moving inventories | **962** | **–** | **962** |
| Bad debts recovered | **127** | **–** | **127** |
| Capital additions | **8,418** | **665** | **9,083** |
| Depreciation | **7,538** | **349** | **7,887** |
| Release of prepaid lease payments | **244** | **–** | **244** |

***ASSETS AND LIABILITIES***

*AT 31ST DECEMBER, 2007*

| | Electroplating equipment HK$'000 | Other operations HK$'000 | Consolidated HK$'000 |
|---|---|---|---|
| ASSETS | | | |
| Segment assets | **378,135** | **16,707** | **394,842** |
| Interests in associates | | | **56,979** |
| Unallocated corporate assets | | | **131,300** |
| Consolidated total assets | | | **583,121** |
| LIABILITIES | | | |
| Segment liabilities | **230,561** | **2,695** | **233,256** |
| Unallocated corporate liabilities | | | **49,523** |
| Consolidated total liabilities | | | **282,779** |

## 8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

### Business segments *(Continued)*

***INCOME STATEMENT***

*FOR THE YEAR ENDED 31ST DECEMBER, 2006*

| | Electroplating equipment HK$'000 | Other operations HK$'000 | Elimination HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|
| REVENUE | | | | |
| External sales | 630,970 | 1,531 | – | 632,501 |
| RESULTS | | | | |
| Segment results | 19,266 | (1,142) | 4,678 | 22,802 |
| Unallocated corporate income | | | | 1,957 |
| Unallocated corporate expenses | | | | (19,170) |
| Net change in fair value of held-for-trading investments | | | | 9,169 |
| Loss on deemed disposal of an associate | | | | (313) |
| Impairment loss recognised in respect of investment in an associate | | | | (696) |
| Finance costs | | | | (853) |
| Share of results of associates | | | | 9,016 |
| Profit before taxation | | | | 21,912 |
| Taxation | | | | (2,105) |
| Profit for the year | | | | 19,807 |

## 8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

### Business segments *(Continued)*

***OTHER INFORMATION***

*FOR THE YEAR ENDED 31ST DECEMBER, 2006*

| | Electroplating equipment HK$'000 | Other operations HK$'000 | Consolidated HK$'000 |
|---|---|---|---|
| Allowance for bad and doubtful debts | 2,185 | – | 2,185 |
| Allowance for slow moving inventories | 924 | – | 924 |
| Bad debts recovered | 240 | – | 240 |
| Capital additions | 7,665 | 285 | 7,950 |
| Depreciation | 5,794 | 220 | 6,014 |
| Release of prepaid lease payments | 244 | – | 244 |

***ASSETS AND LIABILITES***

*AT 31ST DECEMBER, 2006*

| | Electroplating equipment HK$'000 | Other operations HK$'000 | Consolidated HK$'000 |
|---|---|---|---|
| ASSETS | | | |
| Segment assets | 418,491 | 16,503 | 434,994 |
| Interests in associates | | | 47,375 |
| Unallocated corporate assets | | | 102,878 |
| Consolidated total assets | | | 585,247 |
| LIABILITIES | | | |
| Segment liabilities | 264,330 | 3,427 | 267,757 |
| Unallocated corporate liabilities | | | 43,265 |
| Consolidated total liabilities | | | 311,022 |

## 8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

### Geographical segments

The Group's operations are mainly located in Hong Kong, the PRC, Taiwan, Europe, North America and other Asia countries.

The following table provides an analysis of the Group's revenue by geographical market.

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Hong Kong | **26,006** | 67,117 |
| PRC | **200,469** | 205,633 |
| Taiwan | **101,215** | 197,235 |
| Europe | **47,027** | 66,548 |
| North America | **40,307** | 15,774 |
| Japan and Korea | **27,861** | 39,089 |
| South East Asia (other than Korea) | **77,886** | 35,418 |
| Others | **887** | 5,687 |
| | **521,658** | 632,501 |

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

| | **Carrying amount of segment assets** | | **Additions to property, plant and equipment** | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Hong Kong | **235,421** | 280,552 | **6,803** | 4,101 |
| PRC | **154,646** | 150,435 | **2,269** | 3,614 |
| Others | **4,775** | 4,007 | **11** | 235 |
| | **394,842** | 434,994 | **9,083** | 7,950 |

## 9. FINANCE COSTS

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Interest on: | | |
| Bank borrowings wholly repayable within five years | **2,159** | 846 |
| Finance leases | **219** | 7 |
| | **2,378** | 853 |

## 10. LOSS ON DEEMED DISPOSAL OF AN ASSOCIATE

During the year, an associate of the Group, Intech Machines Company, Limited ("IML"), issued shares to its employees as performance bonus. In this circumstances, the Group's interest in the associate was diluted by 1.23% (2006: 0.19%) and resulted in a loss of HK$2,358,000 (2006: HK$313,000) due to a reduction in the share of net assets in the associate.

## 11. TAXATION

The taxation charge comprises:

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Hong Kong Profits Tax | | |
| Under(over)provision in prior years | **332** | (710) |
| Overseas taxation | | |
| Charge for the year | **893** | 2,023 |
| Overprovision in prior years | **(955)** | – |
| Deferred taxation (note 34) | **455** | 792 |
| Taxation attributable to the Company and its subsidiaries | **725** | 2,105 |

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group has no assessable profit for the year.

## 11. TAXATION *(Continued)*

Overseas taxation (including PRC enterprise income tax) is calculated at the rates prevailing in the relevant jurisdiction.

Pursuant to the relevant laws and regulations in the PRC, a PRC subsidiary of the Group is exempted from PRC enterprise income tax for the first two years commencing from its first profit-making year of operation and thereafter, that PRC subsidiary will be entitled to a 50% relief for PRC enterprise income tax for the following three years. The reduced tax rate for the relief period is 7.5%. The charge of PRC enterprise income tax for the years has been provided for after taking these tax incentives into account.

On 16th March, 2007, the PRC promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No.63 of the President of the PRC. On 6th December, 2007, the state Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations changes the PRC Enterprise Income Tax rate to 25% and will affect the PRC subsidiaries of the Group from 1st January, 2008. The directors consider that the effect on the deferred tax balance is insignificant. The New Law will have no effect on the PRC tax exemption obtained by a PRC subsidiary. A PRC subsidiary will continues to have the same PRC tax exemption at the same tax rate as above.

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

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Profit before taxation | **16,031** | 21,912 |
| Tax at the income tax rate of 17.5% | **2,805** | 3,835 |
| Tax effect of share of results of associates | **(2,101)** | (1,578) |
| Tax effect of expenses not deductible for tax purpose | **979** | 332 |
| Tax effect of income not taxable for tax purpose | **(576)** | (407) |
| Overprovision in respect of prior years | **(623)** | (710) |
| Tax effect of tax losses not recognised | **6,964** | 2,538 |
| Tax effect of deductible temporary difference not recognised | **168** | 544 |
| Utilisation of tax losses previously not recognised | **(5,404)** | (2,669) |
| Effect of tax exemption grant to a PRC subsidiary | **(2,481)** | – |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | **974** | 234 |
| Others | **20** | (14) |
| Taxation for the year | **725** | 2,105 |

## 12. PROFIT FOR THE YEAR

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Profit for the year has been arrived at after charging (crediting): | | |
| Auditor's remuneration | **1,401** | 1,406 |
| Depreciation of property, plant and equipment | **7,887** | 6,014 |
| Release of prepaid lease payments | **244** | 244 |
| Operating lease payments in respect of rented premises | **2,638** | 1,989 |
| Net exchange loss | **3,538** | 3,856 |
| Staff costs: | | |
| Directors' fee (note 13) | **180** | 180 |
| Directors' salaries and other benefits (note 13) | **7,200** | 8,190 |
| Salaries and allowances | **93,380** | 91,933 |
| Retirement benefits schemes expenses | **67** | 70 |
| Contributions to retirement contributions schemes | **2,066** | 2,142 |
| | **102,893** | 102,515 |
| Allowance for slow moving inventories | **962** | 924 |
| Share of tax of an associate (included in share of results of associates) | **1,792** | 913 |
| Investment income | | |
| Interest earned on bank deposits | **(1,343)** | (1,325) |
| Other interest income from overdue trade debtors | **(323)** | (386) |
| Dividend income from | | |
| – Held-for-trading investments (listed equity securities) | **(236)** | (156) |
| – Available-for-sales investments (unlisted equity securities) | **(126)** | (83) |
| | **(2,028)** | (1,950) |
| Gain on disposal of property, plant and equipment | **(1,265)** | (7) |
| Bad debts recovered | **(127)** | (240) |

## 13. DIRECTORS' EMOLUMENTS

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

| | **Lam Kwok Hing HK$'000** | **Nam Kwok Lun HK$'000** | **Kwan Wang Wai, Alan HK$'000** | **Ng Chi Kin, David HK$'000** | **Cheung Kin Wai HK$'000** | **Total 2007 HK$'000** |
|---|---|---|---|---|---|---|
| **Executive directors** | | | | | | |
| Other emoluments | | | | | | |
| Salaries and other benefits | **3,600** | **3,600** | **–** | **–** | **–** | **7,200** |
| Contributions to retirement benefits schemes | **12** | **12** | **–** | **–** | **–** | **24** |
| **Independent non-executive directors** | | | | | | |
| Fees | **–** | **–** | **60** | **60** | **60** | **180** |
| Total emoluments | **3,612** | **3,612** | **60** | **60** | **60** | **7,404** |

| | Lam Kwok Hing HK$'000 | Nam Kwok Lun HK$'000 | Kwan Wang Wai, Alan HK$'000 | Ng Chi Kin, David HK$'000 | Cheung Kin Wai HK$'000 | Total 2006 HK$'000 |
|---|---|---|---|---|---|---|
| **Executive directors** | | | | | | |
| Other emoluments | | | | | | |
| Salaries and other benefits | 4,095 | 4,095 | – | – | – | 8,190 |
| Contributions to retirement benefits schemes | 12 | 12 | – | – | – | 24 |
| **Independent non-executive directors** | | | | | | |
| Fees | – | – | 60 | 60 | 60 | 180 |
| Total emoluments | 4,107 | 4,107 | 60 | 60 | 60 | 8,394 |

No compensation was paid to any directors of the Company during the year for the loss of office as director of the Company. None of the directors of the Company has waived any emoluments during the year.

## 14. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2006: two) were directors of the Company whose emoluments are included in note 13. The emoluments of the remaining three (2006: three) individuals were as follows:

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Salaries and other benefits | **4,784** | 6,406 |
| Contributions to retirement benefits schemes | **36** | 36 |
| | **4,820** | 6,442 |

Their emoluments were within the following bands:

| | Number of employees | |
|---|---|---|
| | **2007** | 2006 |
| HK$1,500,001 – HK$2,000,000 | **3** | 1 |
| HK$2,000,001 – HK$2,500,000 | **–** | 2 |

## 15. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the following data:

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Earnings for the purposes of basic earnings per share (profit for the year attributable to equity holders of the parent) | **15,233** | 20,079 |
| | **'000** | '000 |
| Number of ordinary shares for the purpose of basic earnings per share | **426,463** | 426,463 |

## 16. PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Furniture and fixtures | Leasehold improvements | Plant, machinery and equipment | Motor vehicles | Audio equipment | Lighting equipment | Antenna and antenna control equipment | Total |
|---|---|---|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| COST OR VALUATION | | | | | | | | | |
| At 1st January, 2006 | 86,645 | 7,877 | 5,568 | 53,035 | 10,217 | 7,767 | 5,931 | 8,247 | 185,287 |
| Currency realignment | 2,085 | 183 | 77 | 791 | 131 | – | – | – | 3,267 |
| Additions | 289 | 423 | – | 3,902 | 3,336 | – | – | – | 7,950 |
| Disposals | – | (1) | – | (2,253) | (2,350) | – | – | – | (4,604) |
| At 1st January, 2007 | 89,019 | 8,482 | 5,645 | 55,475 | 11,334 | 7,767 | 5,931 | 8,247 | 191,900 |
| Currency realignment | 4,175 | 425 | 167 | 183 | 432 | – | – | – | 5,382 |
| Additions | – | 175 | 2,115 | 6,031 | 762 | – | – | – | 9,083 |
| Disposals | – | (46) | – | (695) | (875) | (7,767) | (5,931) | – | (15,314) |
| At 31st December, 2007 | 93,194 | 9,036 | 7,927 | 60,994 | 11,653 | – | – | 8,247 | 191,051 |
| COMPRISING | | | | | | | | | |
| At cost | 15,982 | 9,036 | 7,927 | 60,994 | 11,653 | – | – | 8,247 | 113,839 |
| At valuation | | | | | | | | | |
| – 31st March, 1992 | 35,712 | – | – | – | – | – | – | – | 35,712 |
| – 31st March, 1994 | 41,500 | – | – | – | – | – | – | – | 41,500 |
| | 93,194 | 9,036 | 7,927 | 60,994 | 11,653 | – | – | 8,247 | 191,051 |

## 16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

| | Buildings | Furniture and fixtures | Leasehold improvements | Plant, machinery and equipment | Motor vehicles | Audio equipment | Lighting equipment | Antenna and antenna control equipment | Total |
|---|---|---|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| DEPRECIATION, AMORTISATION AND IMPAIRMENT | | | | | | | | | |
| At 1st January, 2006 | 20,300 | 6,663 | 3,830 | 42,667 | 9,088 | 7,767 | 5,931 | 8,247 | 104,493 |
| Currency realignment | 428 | 141 | 18 | 479 | 55 | – | – | – | 1,121 |
| Provided for the year | 1,892 | 305 | 468 | 2,764 | 585 | – | – | – | 6,014 |
| Eliminated on disposals | – | (1) | – | (2,091) | (2,341) | – | – | – | (4,433) |
| At 1st January, 2007 | 22,620 | 7,108 | 4,316 | 43,819 | 7,387 | 7,767 | 5,931 | 8,247 | 107,195 |
| Currency realignment | 1,021 | 317 | 71 | 7 | 225 | – | – | – | 1,641 |
| Provided for the year | 1,746 | 331 | 765 | 3,843 | 1,202 | – | – | – | 7,887 |
| Eliminated on disposals | – | (41) | – | (556) | (819) | (7,767) | (5,931) | – | (15,114) |
| At 31st December, 2007 | 25,387 | 7,715 | 5,152 | 47,113 | 7,995 | – | – | 8,247 | 101,609 |
| CARRYING AMOUNTS | | | | | | | | | |
| At 31st December, 2007 | 67,807 | 1,321 | 2,775 | 13,881 | 3,658 | – | – | – | 89,442 |
| At 31st December, 2006 | 66,399 | 1,374 | 1,329 | 11,656 | 3,947 | – | – | – | 84,705 |

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

| | |
|---|---|
| Buildings | 20 – 50 years |
| Furniture and fixtures | 25% |
| Leasehold improvements | over the shorter of 25% or the term of the lease |
| Plant, machinery and equipment | $12^1/_2$% to $33^1/_3$% |
| Motor vehicles | $33^1/_3$% |
| Audio equipment | $12^1/_2$% |
| Lighting equipment | $12^1/_2$% |
| Antenna and antenna control equipment | 10% to $12^1/_2$% |

The net book value of property, plant and equipment in respect of assets held under finance leases is HK$4,498,000 (2006: nil).

Had the buildings been carried at cost less accumulated depreciation, the carrying value of the buildings would have been stated at approximately HK$42,878,000 (2006: HK$43,335,000).

## 17. PREPAID LEASE PAYMENTS

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| The Group's prepaid lease payments comprise: | | |
| Medium-term leasehold land in Hong Kong | **7,123** | 7,194 |
| Medium-term leasehold land in the PRC | **5,767** | 5,940 |
| | **12,890** | 13,134 |
| Analysed for reporting purposes as: | | |
| Current asset | **244** | 244 |
| Non-current asset | **12,646** | 12,890 |
| | **12,890** | 13,134 |

## 18. GOODWILL

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| COST | | |
| At 1st January and 31st December | **2,488** | 2,488 |
| IMPAIRMENT | | |
| At 1st January | **–** | – |
| Impairment loss recognised in the year | **2,488** | – |
| At 31st December | **2,488** | – |
| CARRYING AMOUNTS | | |
| At 31st December | **–** | 2,488 |

Goodwill has been allocated to the electroplating equipment segment.

During the year ended 31st December 2007, management of the Group determines that there is impairments of its cash generating unit containing goodwill. An impairment loss of HK$2,488,000 was recognised for the year.

## 19. INTERESTS IN ASSOCIATES

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Cost of investment in associates | | |
| Unlisted | **2,254** | 2,254 |
| Quoted shares in Taiwan | **20,192** | 20,192 |
| Impairment loss made | **(696)** | (696) |
| | **21,750** | 21,750 |
| Share of post-acquisition profits | **31,634** | 24,429 |
| Share of currency translation reserve | **3,595** | 1,196 |
| Share of net assets | **56,979** | 47,375 |
| Market value of quoted shares | **107,898** | 113,153 |

Details of the Group's significant associates as at 31st December, 2007 are as follows:

| Name of associate | Form of business structure | Place of incorporation | Proportion of nominal value of issued capital held by the Group | Principal activities |
|---|---|---|---|---|
| IML | Incorporated | Taiwan | 27.15% | Design, manufacture and sale of wet processing equipment |
| Asia Vigour (Holdings) Limited | Incorporated | British Virgin Islands | 42.00% | Investment holding |
| Qmem Technology Holdings Limited | Incorporated | British Virgin Islands | 31.84% | Inactive |

## 19. INTERESTS IN ASSOCIATES *(Continued)*

The summarised financial information in respect of the Group's associates is set out below:

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Total assets | **577,612** | 510,848 |
| Total liabilities | **(357,413)** | (331,959) |
| Net assets | **220,199** | 178,889 |
| Group's share of net assets of associates | **56,979** | 47,375 |
| Turnover | **642,443** | 611,398 |
| Profit for the year | **39,693** | 45,172 |
| Group's shares of results of associates for the year | **12,007** | 9,016 |

During the year, the Group has discontinued recognition of its share of losses of certain associates. The unrecognised share of losses of those associates, extracted from the relevant audited accounts of associates for the year is HK$486,000 (2006: HK$1,064,000).

## 20. AVAILABLE-FOR-SALE INVESTMENTS

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Equity securities: | | |
| Unlisted shares | **515** | 515 |

The above unlisted investments represent investments in unlisted equity securities issued by private entities incorporated in Sweden and British Virgin Islands. They are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

## 21. LOANS RECEIVABLE

The following is the maturity profile of loans receivable at the balance sheet date:

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Repayable within 3 months | **2,621** | 4,248 |
| Repayable after 3 months but within 6 months | **1,972** | 101 |
| Repayable after 6 months but within 1 year | **148** | 205 |
| Total repayable within 1 year | **4,741** | 4,554 |
| Repayable after 1 year, but not exceeding 2 years | **44** | 25 |
| Repayable after 2 years but not more than 5 years | **–** | 211 |
| More than 5 years | **–** | 983 |
| Total | **4,785** | 5,773 |

The loans receivable are secured and interest-bearing. The range of effective interest rates, which are equal to contractual interest rates, on the Group's loan receivables is from Hong Kong prime rate to Hong Kong prime rate plus 3% (2006: Hong Kong prime rate to Hong Kong prime rate plus 3%).

As at 31st December, 2007, loans receivable of HK$1,718,000 (2006: HK$1,708,000) were past due over one year (2006: within one year) but not impaired as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group holds certain properties as collateral over these balances and the directors consider that the fair value of the properties is adequate to cover the past due amounts. Accordingly, the directors believe that there is no credit provision required.

## 22. INVENTORIES

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Raw materials | **57,151** | 45,716 |
| Finished goods | **82** | 117 |
| | **57,233** | 45,833 |

## 23. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Contracts in progress at the balance sheet date: | | |
| Contract costs incurred | **91,565** | 127,667 |
| Recognised profits less recognised losses | **14,026** | 32,233 |
| | **105,591** | 159,900 |
| Progress billings | **(87,262)** | (137,877) |
| | **18,329** | 22,023 |
| Represented by: | | |
| Due from customers included in current assets | **23,634** | 30,503 |
| Due to customers included in current liabilities | **(5,305)** | (8,480) |
| | **18,329** | 22,023 |

At the balance sheet date, there were no retention monies held by customers for contract work performed. At 31st December, 2007, advances received from customers for contract work performed amounted to HK$6,966,000 (2006: HK$31,271,000) which were included in creditors, bills payable and accrued charges.

## 24. DEBTORS, DEPOSITS AND PREPAYMENTS

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Trade debtors and bills receivable | **200,208** | 246,003 |
| Less: Allowance for bad and doubtful debts | **(21,304)** | (18,639) |
| | **178,904** | 227,364 |
| Other debtors and prepayments | **27,691** | 29,561 |
| | **206,595** | 256,925 |

## 24. DEBTORS, DEPOSITS AND PREPAYMENTS *(Continued)*

The following is an aged analysis of trade debtors and bills receivable net of allowance for bad and doubtful debts as at the balance sheet date:

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Current | **108,238** | 188,266 |
| Overdue by: | | |
| 1 – 60 days | **49,494** | 22,939 |
| 61 – 120 days | **4,622** | 12,280 |
| 121 – 180 days | **6,909** | 1,337 |
| Over 180 days | **9,641** | 2,542 |
| | **178,904** | 227,364 |

The Group allows a general credit period of one month to its trade customers except construction contracts where the Group allows stage payments. In general, credit will only be offered to customers in accordance with their financial credit abilities and established payment records.

As at 31st December, 2007, trade debtors of HK$70,666,000 (2006: HK$39,098,000) were past due but not impaired as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these trade receivables is 40 days and 51 days as at 31st December, 2007 and 2006, respectively.

Aging of trade debtors which are past due but not impaired as at the balance sheet date:

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| 1 – 60 days | **49,494** | 22,939 |
| 61 – 120 days | **4,622** | 12,280 |
| 121 – 180 days | **6,909** | 1,337 |
| Over 180 days | **9,641** | 2,542 |
| | **70,666** | 39,098 |

## 24. DEBTORS, DEPOSITS AND PREPAYMENTS *(Continued)*

### Movement in the allowance for bad and doubtful debts

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Balance at beginning of the year | **18,639** | 16,694 |
| Impairment losses recognised on trade debtors | **3,402** | 2,185 |
| Bad debts recovered | **(127)** | (240) |
| Written off as against trade debtors | **(610)** | – |
| Balance at end of the year | **21,304** | 18,639 |

Included in the allowance for doubtful debts are individually impaired trade debtors, which were in severe financial difficulties. The Group has provided fully for these.

In determining the recoverability of a trade debtor, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the report date. The trade debtors past due but not impaired for were either subsequently settled as at the date of this report or no historical default of payments by the respective customers. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

The trade debtors that are denominated in currencies other than the functional currency of the relevant group entities are set out below:

| | **NTD** | **GBP** | **USD** | **EUR** |
|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| As at 31st December, 2007 | 201 | 1,370 | 157,365 | 24,341 |
| As at 31st December, 2006 | 1,764 | 1,003 | 191,138 | 37,903 |

## 25. HELD-FOR-TRADING INVESTMENTS

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Equity securities listed in Hong Kong | **44,428** | 20,251 |

## 26. AMOUNTS DUE FROM (TO) ASSOCIATES

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Interest-bearing at Hong Kong prime rate plus 2% per annum | **2,714** | 4,235 |
| Non-interest – bearing | **130** | 39 |
| | **2,844** | 4,274 |

The above balances are unsecured and repayable on demand.

The amounts due to associates are unsecured, interest-free and repayable on demand.

## 27. PLEDGED BANK DEPOSITS AND BANK BALANCES

Bank balances carry interest at market rates. The pledged deposits carry fixed interest rate of 3.3% per annum (2006: 3.69%). The pledged bank deposits represents deposits pledged to banks to secure banking facilities granted to the Group, will be released upon the settlement of relevant bank borrowings.

The bank balances that are denominated in currencies other than the functional currency of the relevant group entities are set out below:

| | **USD** | **AUD** | **GBP** | **EUR** |
|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| As at 31st December, 2007 | 15,096 | 1,154 | 2,679 | 10,270 |
| As at 31st December, 2006 | 18,375 | – | 275 | 943 |

## 28. CREDITORS, BILLS PAYABLE AND ACCRUED CHARGES

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Trade creditors | **111,613** | 108,770 |
| Bills payable | **3,407** | – |
| Other creditors and accrued charges | **92,991** | 129,569 |
| | **208,011** | 238,339 |

As at balance sheet date, the trade creditors balance included an amount due to an associate of HK$1,309,000 (2006: nil) for trading purpose.

The following is an aged analysis of trade creditors and bills payable as at the balance sheet date in which is based on the invoice dates of the amounts due:

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| 0 – 60 days | **65,991** | 56,436 |
| 61 – 120 days | **24,591** | 38,875 |
| 121 – 180 days | **10,776** | 6,086 |
| Over 180 days | **13,662** | 7,373 |
| | **115,020** | 108,770 |

The trade creditors and bills payable that are denominated in currencies other than the functional currency of the relevant group entities are set out below:

| | **USD** | **NTD** | **GBP** | **EUR** | **SEK** |
|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| As at 31st December, 2007 | 23,166 | 1,570 | 303 | 7,170 | 954 |
| As at 31st December, 2006 | 24,711 | 6,705 | 582 | 10,918 | 252 |

## 29. WARRANTY PROVISION

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| At 1st January | **20,938** | 9,040 |
| Additional provision in the year | **6,472** | 18,715 |
| Utilisation of provision | **(7,471)** | (6,817) |
| At 31st December | **19,939** | 20,938 |
| Analysed for reporting purposes as: | | |
| Current | **12,764** | 20,938 |
| Non-current | **7,175** | – |
| | **19,939** | 20,938 |

The warranty provision represents management's best estimation of the Group's liability under 1-2 year warranty granted on electroplating products, based on prior experience and industry averages for defective products.

## 30. BORROWINGS

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| The secured borrowings comprise the following: | | |
| Bank overdrafts | **736** | – |
| Trust receipt loans | **32,412** | 18,919 |
| Bank loans | **–** | 2,998 |
| Other bank loans | **8,986** | 15,374 |
| | **42,134** | 37,291 |

## 30. BORROWINGS *(Continued)*

The above amounts are repayable within one year and classified as current liabilities.

All the above bank borrowings are variable-rate borrowings with effective interest rates ranging from 5.2% to 5.45% per annum (2006: 6.03% to 7.33%) denominated in HKD or USD. Interest is normally adjusted when Hong Kong prime rate or London Interbank Offered Rate is adjusted.

The borrowings that are denominated in currencies other than the functional currency of the relevant group entities are set out below:

| | **EUR** | **USD** |
|---|---|---|
| | HK$'000 | HK$'000 |
| As at 31st December, 2007 | 2,023 | 22,046 |
| As at 31st December, 2006 | 4,832 | 27,140 |

## 31. OBLIGATIONS UNDER FINANCE LEASES

| | **Minimum lease payments** | | **Present value of minimum lease payments** | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Amounts payable under finance leases: | | | | |
| Within one year | **2,998** | 10 | **2,272** | 8 |
| In the second to fifth year inclusive | **485** | – | **732** | – |
| | **3,483** | 10 | **3,004** | 8 |
| Less: Future finance charges | **(479)** | (2) | **–** | – |
| Present value of lease obligations | **3,004** | 8 | **3,004** | 8 |
| Less: Amount due for settlement within one year (shown under current liabilities) | | | **(2,272)** | (8) |
| Amount due for settlement after one year | | | **732** | – |

## 31. OBLIGATIONS UNDER FINANCE LEASES *(Continued)*

It is the Group's policy to lease certain of its plant and equipment under finance leases. The lease term is 3 years. For the current year, the effective borrowing rates ranged from 2.7% to 4.87% per annum (2006: 3% per annum). Interest rate is fixed at the contract date. All leases are on a fixed repayment basis and no arrangement has been entered into for contingent rental payments.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

## 32. SHARE CAPITAL

| | **Number of shares** | **Amount** |
|---|---|---|
| | | HK$'000 |
| Shares of HK$0.01 each | | |
| Authorised: | | |
| At 1st January, 2006, 31st December, 2006 and 31st December, 2007 | 20,000,000,000 | 200,000 |
| Issued and fully paid: | | |
| At 1st January, 2006, 31st December, 2006 and 31st December, 2007 | 426,463,400 | 4,265 |

# Notes To The Consolidated Financial Statements

*For the year ended 31st December, 2007*

## 33. RESERVES/MINORITY INTERESTS

| | Attributable to equity holders of the parent | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Share premium HK$'000 | Property revaluation reserve HK$'000 | Legal reserve HK$'000 (note a) | Currency translation reserve HK$'000 (note b) | Contributed surplus HK$'000 | Retained profits HK$'000 | Total HK$'000 | Minority interest HK$'000 |
| Balance at 1st January, 2006 | 28,500 | 32,383 | 11,450 | (2,651) | 48,937 | 120,760 | 239,379 | 6,973 |
| Exchange difference arising on translation of foreign operations | | | | | | | | |
| – subsidiaries | – | – | – | 4,394 | – | – | 4,394 | (17) |
| – associate | – | – | – | 51 | – | – | 51 | – |
| Recognition of actuarial loss on defined benefits plans | – | – | – | – | – | (13) | (13) | – |
| Net income (expense) recognised directly in equity | – | – | – | 4,445 | – | (13) | 4,432 | (17) |
| Profit for the year | – | – | – | – | – | 20,079 | 20,079 | (272) |
| Total recognised income (expense) for the year | – | – | – | 4,445 | – | 20,066 | 24,511 | (289) |
| Acquisition of additional equity interest in subsidiaries | – | – | – | – | – | – | – | (2) |
| Dividend paid to a minority shareholder of a subsidiary | – | – | – | – | – | – | – | (612) |
| Balance at 1st January, 2007 | 28,500 | 32,383 | 11,450 | 1,794 | 48,937 | 140,826 | 263,890 | 6,070 |
| Exchange difference arising on translation of foreign operations | | | | | | | | |
| – subsidiaries | – | – | – | 7,734 | – | – | 7,734 | 604 |
| – associate | – | – | – | 2,399 | – | – | 2,399 | – |
| Recognition of actuarial gain on defined benefits plans | – | – | – | – | – | 74 | 74 | – |
| Net income recognised directly in equity | – | – | – | 10,133 | – | 74 | 10,207 | 604 |
| Profit for the year | – | – | – | – | – | 15,233 | 15,233 | 73 |
| Total recognised income for the year | – | – | – | 10,133 | – | 15,307 | 25,440 | 677 |
| Balance at 31st December, 2007 | 28,500 | 32,383 | 11,450 | 11,927 | 48,937 | 156,133 | 289,330 | 6,747 |

## 33. RESERVES/MINORITY INTERESTS *(Continued)*

*Notes:*

(a) In accordance with statutory requirements in the PRC, a subsidiary registered in the PRC had transferred a certain percentage of its annual net income from retained profits to legal reserve. No such transfer is required for the year ended 31st December, 2007 and 2006 as the subsidiary incurred losses for both years. The legal reserve is not distributable.

(b) The contributed surplus arose as a result of the capital reorganisation on 23rd April, 2004.

## 34. DEFERRED TAXATION

The following is the deferred tax liabilities (assets) recognised and movements thereon during the current and prior reporting periods:

| | **Accelerated tax depreciation** | **Tax losses** | **Revaluation of properties** | **Total** |
|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 1st January, 2006 | 415 | (415) | 3,076 | 3,076 |
| Charge to income statement for the year (note 11) | 377 | 415 | – | 792 |
| At 31st December, 2006 | 792 | – | 3,076 | 3,868 |
| Charge to income statement for the year (note 11) | 455 | – | – | 455 |
| At 31st December, 2007 | 1,247 | – | 3,076 | 4,323 |

At 31st December, 2007, the Group has estimated unused tax losses of HK$175,173,000 (2006: HK$166,259,000) and other deductible temporary differences of HK$7,985,000 (2006: HK$7,023,000) available for offset against future profits. No deferred tax asset has been recognised due to the uncertainty of future profits streams. The tax losses may be carried forward indefinitely.

## 35. SHARE OPTION SCHEMES

Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 13th June, 2005, the Company adopted a share option scheme (the "Scheme") and which became effective on 13th June, 2005.

The purpose of the Scheme is to enable the Company to grant option to the eligible participants as incentives and rewards for their contribution to the Company or its subsidiaries.

The subscription price for a share in respect of any particular option granted under the Scheme (which shall be payable upon exercise of the option) shall be such prices as the directors in its absolute discretion shall determine, save that such price will not be less than the highest of (a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (b) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of grant; and (c) the nominal value of a share.

Upon acceptance of the option, the grantee shall pay HK$1 to the Company by way of consideration for the grant.

The maximum number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other option scheme(s) of the Company must not exceed 10% of the shares in issue, i.e. 42,646,340 shares on the date of approval and adoption of the Scheme by the shareholders.

The total number of shares issued and which may fall to be issued upon exercise of options granted under the Scheme and any other option scheme(s) of the Company (including exercised, cancelled and outstanding options) to each eligible participant in any 12-month period up the date of grant shall not exceed 1% of the shares in issue as at the date of grant.

The Scheme shall be valid and effective for a period of 10 years commencing from the date of its adoption.

No share options were granted or exercised under the Scheme since its adoption.

## 36. MAJOR NON-CASH TRANSACTION

During the year ended 31st December, 2007, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of lease of HK$5,612,000 (2006: nil).

## 37. OPERATING LEASE COMMITMENTS

### The Group as lessor

Rental income from leasing equipment earned during the year was HK$640,000 (2006: HK$960,000). The equipment held has committed tenants for the 2 years at inceptions.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within one year | **–** | 640 |

### The Group as lessee

At the balance sheet date, the Group had commitment for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within one year | **1,499** | 1,419 |
| In the second to fifth years inclusive | **847** | 1,303 |
| | **2,346** | 2,722 |

Operating lease payments represent rentals payable by the Group for its factory premises and staff quarters in the PRC. Leases are negotiated for five years and rentals are fixed for the leased period.

## 38. CAPITAL COMMITMENTS

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Capital expenditure in respect of the renovation of office premises contracted for but not provided in the consolidated financial statements | **2,684** | – |

## 39. PLEDGE OF ASSETS

As at 31st December, 2007 and 2006, the Group has pledged certain bank deposits of HK$7,000,000 to secure general banking facilities granted to the Group.

## 40. RETIREMENT BENEFITS SCHEMES

Since 1st December, 2000, the Group has operated pension schemes under the rules and regulations of the Mandatory Provident Fund Scheme Ordinance for all qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately in an independently managed fund. The Group has followed the minimum statutory contribution requirements of 5% of eligible employees' relevant aggregate income with a maximum monthly contribution of HK$1,000 per person. The contributions are charged to the consolidated income statement as incurred.

The relevant PRC subsidiaries are required to make contributions to the state-managed schemes in the PRC based on a certain percentage of the monthly salaries of their current employees to fund the benefits. The employees are entitled to retirement pension calculated with reference to their basic salaries on retirement and their length of service in accordance with the relevant government regulations. The PRC government is responsible for the pension liability to these retired staff.

In addition, a subsidiary operates funded defined benefits pension scheme (the "ORSO Scheme") for all its qualifying employees. The assets of the scheme are held separately from those of the Group in funds under the control of trustees.

## 40. RETIREMENT BENEFITS SCHEMES *(Continued)*

The most recent actuarial valuation of plan assets and liabilities of the ORSO Scheme was carried out at 31st December, 2007 by qualified staff of HSBC Life (International) Limited, who are members of the Society of Actuaries of the United States of America. The present value of the ORSO Scheme and the related current service cost were measured using the projected unit credit method. The main actuarial assumptions used were as follows:

| | **2007** | 2006 |
|---|---|---|
| Discount rate | **3.45% per annum** | 3.75% per annum |
| Expected return on ORSO Scheme assets | **5.50% per annum** | 5.50% per annum |
| Expected salary increase rate | **3.25% per annum** | 3.25% per annum |

The actuarial valuation showed that the market value of ORSO Scheme assets was HK$2,054,000 (2006: HK$1,608,000) and that the actuarial value of these assets represented 114.7% (2006: 100.8%) of the benefits that had accrued to members.

Amount recognised in the consolidated income statement in respect of the ORSO Scheme is as follows:

| | **2007**<br>**HK$'000** | 2006<br>HK$'000 |
|---|---|---|
| Current service cost | **92** | 84 |
| Interest cost | **60** | 58 |
| Expected return on plan assets | **(95)** | (82) |
| Administrative cost and group life premium deducted from contribution | **10** | 10 |
| Expense recognised in the consolidated income statement | **67** | 70 |

The charge for the year has been included in staff costs in the consolidated income statement.

## 40. RETIREMENT BENEFITS SCHEMES *(Continued)*

The amount included in the consolidated balance sheet arising from the Group's obligations in respect of the ORSO Scheme is as follows:

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Present value of funded defined benefit obligations | **1,790** | 1,595 |
| Surplus fair value of plan assets | **(2,054)** | (1,608) |
| Net asset arising from defined benefit obligation | **(264)** | (13) |

Movements in the present value of the defined benefit obligations in the current year were as follows:

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| At 1st January | **1,595** | 1,399 |
| Current service cost | **92** | 84 |
| Interest cost | **60** | 58 |
| Actuarial losses on obligation due to change in assumptions | **13** | 21 |
| Benefits paid | **–** | (85) |
| Actuarial losses on obligation due to experience adjustment | **30** | 118 |
| At 31st December | **1,790** | 1,595 |

Movements in the fair value of the plan assets in the current year were as follows:

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| At 1st January | **1,608** | 1,283 |
| Expected return on plan assets | **95** | 82 |
| Actuarial gains | **117** | 87 |
| Contributions from the employer | **234** | 241 |
| Benefits paid | **–** | (85) |
| At 31st December | **2,054** | 1,608 |

## 40. RETIREMENT BENEFITS SCHEMES *(Continued)*

The major categories of plan assets, and the expected rate of return at the balance sheet date for each category, is as follows:

| | **Expected return** | | **Fair value of plan assets** | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **%** | % | **HK$'000** | HK$'000 |
| Equity instruments | **2.57** | 2.22 | **961** | 650 |
| Debt instruments | **2.35** | 2.73 | **879** | 797 |
| Cash | **0.58** | 0.55 | **214** | 161 |
| Weighted average expected return | **5.50** | 5.50 | **2,054** | 1,608 |

The overall expected rate of return is a weighted average of the expected returns of the various categories of plan assets held. The directors' assessment of the expected returns is based on historical return trends and analysts' predictions of the market for the asset in the next twelve months.

The actual return on plan assets was HK$212,000 (2006: HK$169,000).

The plan assets do not include ordinary shares of the Company or any property occupied by the Company.

The history of experience adjustments is as follows:

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Experience adjustment on plan liabilities | **30** | 118 |

The Group expects to make a contribution of HK$259,000 (2006: HK$259,000) to the defined benefit plans during the next financial year.

The Group recognised actuarial gain amounted to HK$74,000 for the year ended 31st December, 2007 (2006: actuarial loss amounted to HK$13,000) directly in retainied earnings. The cumulative amount of actuarial gain recognised directly in statement of recognised income and expense amounted to HK$61,000 (2006: actuarial loss amounted to HK$13,000) as at 31st December, 2007.

## 41. PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries as at 31st December, 2007 are as follows:

| Name of subsidiary | Place/country of incorporation/ registration | Issued and fully paid up ordinary share capital/ registered capital | Proportion of nominal value of issued capital/ registered capital held by the Company Directly % | Indirectly % | Principal activities |
|---|---|---|---|---|---|
| ATNT Global Investments Company Limited | Hong Kong | HK$2 | – | 100 | Securities trading |
| ATNT Group Management Limited | Hong Kong | HK$2 | – | 100 | Management services |
| Beijing Golden PAL Plating Equipment Company Limited (Sino-foreign equity joint venture) | PRC | US$1,291,500 | – | 52 | Design, manufacture and sale of electroplating machines and other automated equipment |
| Dragon Will Investment Limited | British Virgin Islands* | US$1 | – | 100 | Investment holding |
| Fairway Int'l Limited | British Virgin Islands* | US$1 | – | 100 | Investment holding |
| Golden Rainbow Investments Limited | British Virgin Islands* | US$1 | – | 100 | Property investment |
| Happy Win Resources Limited | British Virgin Islands* | US$1 | 100 | – | Investment holding |
| Hovington Agents Limited | British Virgin Islands* | US$1 | – | 100 | Investment holding |
| Longfaith Holdings Limited | British Virgin Islands* | US$1 | – | 100 | Investment holding |
| Palcon International Limited | British Virgin Islands* | US$100 | – | 60 | Investment holding |

## 41. PRINCIPAL SUBSIDIARIES *(Continued)*

| Name of subsidiary | Place/country of incorporation/ registration | Issued and fully paid up ordinary share capital/ registered capital | Proportion of nominal value of issued capital/ registered capital held by the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Directly % | Indirectly % | |
| PAL Control Sdn. Bhd | Malaysia | MYR2 | – | 60 | Software development |
| PAL Europe Limited | Hong Kong | HK$2 | – | 100 | Sale of electroplating machines |
| PAL Finance Limited | Hong Kong | HK$2 | – | 100 | Money lending |
| PAL Properties Investment Limited | British Virgin Islands* | US$1 | – | 100 | Investment holding |
| PAL SEA Limited | British Virgin Islands* | US$100 | – | 100 | Investment holding |
| PAL (Sea) Sdn. Bhd. | Malaysia | MYR300,000 | – | 60 | Sale of electroplating machines |
| PAL Service Sdn. Bhd. | Malaysia | MYR50,002 | – | 60 | Sale of electroplating machines and spare parts |
| Process Automation (BVI) Limited | British Virgin Islands* | HK$110,000 | 100 | – | Investment holding |
| Process Automation (China) Limited (Wholly foreign-owned enterprise ("WFOE")) | PRC | HK$1,500,000 | – | 100 | Design, manufacture and sale of electroplating machines |
| Process Automation (Europe) Limited | The United Kingdom | GBP1 | – | 100 | Sale of electroplating machines |
| Process Automation International Limited ("PAIL") | Hong Kong | HK$2 (note) | – | 100 | Design, manufacture and sale of electroplating machines |

## 41. PRINCIPAL SUBSIDIARIES *(Continued)*

| Name of subsidiary | Place/country of incorporation/ registration | Issued and fully paid up ordinary share capital/ registered capital | Proportion of nominal value of issued capital/ registered capital held by the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Directly % | Indirectly % | |
| Process Automation (Shenzhen) Limited ("WFOE") | PRC | HK$18,000,000 | – | 100 | Design, manufacture and sale of electroplating machines |
| Rich Town Properties Limited | British Virgin Islands* | US$2 | – | 100 | Property investment |
| Strength Hope Limited | British Virgin Islands* | US$1 | 100 | – | Investment holding |

* The subsidiaries operate in Hong Kong. The remaining subsidiaries operate in their places of incorporation.

Note: At 31st December, 2007, PAIL had outstanding 11,000,000 non-voting deferred shares of HK$1 each which were held by Process Automation (BVI) Limited. The deferred shares carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of PAIL and practically carry no rights to participate in any distribution on winding up.

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year. There was no change on the proportion of nominal value of issued capital/registered capital held, both directly and indirectly, by the Company on the subsidiaries on both years.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

## 42. POST BALANCE SHEET EVENT

Subsequent to 31st December, 2007, the Group entered into an agreement with an independent third party and under which the Company has conditionally agreed to participate in the tender offer to sell the Company's entire interests in the shares of IML at a total consideration of NT$618,952,391 (equivalent to approximately HK$147,510,000). As the acceptance under the tender offer was over 70%, the Company has only sold 15,944,630 shares on 7th April, 2008 and has retained 783,813 shares in IML (represents approximately 1.3% of total number of shares in issue). The net consideration received after payment of local expenses is approximately NT$588,200,000 (equivalent to approximately HK$140,181,000). Details of the disposal were set out in the Company's circular dated 4th March, 2008.

## 43. RELATED PARTY TRANSACTION

The remuneration of directors and other members of key management of the Group during the year as follows:

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Salaries and other short-term employee benefits | **13,978** | 14,114 |
| Retirement benefits costs | **108** | 96 |
| | **14,086** | 14,210 |

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trend.

# Financial Summary

## RESULTS

| | Nine months ended 31st December, | Year ended 31st December, | | | |
|---|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 | **2007** |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | **HK$'000** |
| | (restated) | (restated) | | | |
| Turnover | 340,263 | 606,826 | 430,930 | 632,501 | **521,658** |
| (Loss) profit for the year/period attributable to equity holders of the parent | (29,020) | 58,766 | 13,413 | 20,079 | **15,233** |

## ASSETS AND LIABILITIES

| | At 31st December, | | | | |
|---|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 | **2007** |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | **HK$'000** |
| | (restated) | (restated) | | | |
| Total assets | 451,145 | 433,278 | 462,716 | 585,247 | **583,121** |
| Total liabilities | (274,423) | (197,191) | (212,099) | (311,022) | **(282,779)** |
| | 176,722 | 236,087 | 250,617 | 274,225 | **300,342** |
| Equity attributable to equity holders of the parent | 133,050 | 227,139 | 243,644 | 268,155 | **293,595** |
| Minority interests | 43,672 | 8,948 | 6,973 | 6,070 | **6,747** |
| | 176,722 | 236,087 | 250,617 | 274,225 | **300,342** |

Note: The Group's (loss) profit for the year/period attributable to equity holders of the parent for the nine months ended 31st December, 2003 and year ended 31st December, 2004 and total assets, total liabilities and equity attributable to equity holders of the parent at 31st December, 2003 and 31st December, 2004 are restated as a consequence of the adoption of HKAS 17 "Lease".