NEOLINK
优能科技

Neolink Cyber Technology (Holding) Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8116)

ANNUAL REPORT **2007**

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The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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

CONTENTS

DIRECTORS

Executive Directors

Mr. Cai Zuping *(Chairman & Chief Executive Officer)*
Mr. Stephen William Frostick

Independent Non-executive Directors

Mr. Lee Chi Hwa, Joshua
Mr. Tso Hon Sai, Bosco
Mr. Chang Jun

AUTHORISED REPRESENTATIVES

Mr. Cai Zuping
Mr. Ang Wing Fung *CPA (Aust), CPA*

AUDIT COMMITTEE MEMBERS

Mr. Lee Chi Hwa, Joshua *(Chairman)*
Mr. Tso Hon Sai, Bosco
Mr. Chang Jun

NOMINATION COMMITTEE MEMBERS

Mr. Chang Jun *(Chairman)*
Mr. Tso Hon Sai, Bosco
Mr. Lee Chi Hwa, Joshua

REMUNERATION COMMITTEE MEMBERS

Mr. Lee Chi Hwa, Joshua *(Chairman)*
Mr. Chang Jun
Mr. Tso Hon Sai, Bosco

COMPLIANCE OFFICER

Mr. Cai Zuping

COMPANY SECRETARY

Mr. Ang Wing Fung *CPA (Aust), CPA*

QUALIFIED ACCOUNTANT

Mr. Ang Wing Fung *CPA (Aust), CPA*

AUDITORS

HLM & Co.
Certified Public Accountants
Room 305,
3rd Floor,
Arion Commercial Centre
2-12 Queen's Road West
Hong Kong

PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited
Bank of Communications Co., Ltd – Hong Kong Branch

LEGAL ADVISORS

On Hong Kong Law:

Tang Tso & Lau Solicitors

On Cayman Islands Law:

Conyers Dill & Pearman, Cayman

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
British West Indies

PRINCIPAL PLACE OF BUSINESS

Unit D, 14/F
Two Chinachem Plaza
68 Connaught Road Central
Hong Kong

SHARE REGISTRARS AND TRANSFER OFFICE

Cayman Islands

Butterfield Bank (Cayman) Limited
Butterfield House
Port Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands
British West Indies

Hong Kong

Tricor Abacus Limited
26/F, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

Stock Code

8116

Website of the Company

www.neolink.cn

CHAIRMAN'S STATEMENT

I am pleased to announce the audited annual results of the Group for the year ended 31 December 2007 on behalf of the Board of Directors.

The total turnover of the Group for the year ended 31 December 2007 was HK$141,000,000, representing a significant increase of 278% as compared with HK$37,000,000 for the previous year. In 2007, the Group's investment in Chongqing automobile stamping and welding has brought HK$103,000,000 turnover to the Group. At the same time, the radio trunking system related business has brought HK$39,000,000 turnover to the Group, an increase of HK$2,000,000 as compared with the corresponding period last year.

In 2007, to increase shareholder's return, the Group investigated various project and looked for a right direction for the Group to develop. In 2007, since the Group felt that the demand for automobile parts and components would grow speedily which would have a positive effect on the initial stages of the Group diversifying its business, the Group invested and joined in the business of South Jinkang Automobile Parts and Components Company Ltd（南方金康汽車零部件有限公司）("the JV Company") and made use of the opportunity to participate in automobile stamping and welding business. The Group believes that grasping the growing momentum of the industry can bring to the Group power in its future growth.

Besides, the reason behind the growth of radio trunking system is because while the Group continues to solidify and exploit the government purchase and transportation market and actively expands the public safety business, the Group has mainly focused on the business of radio trunking system integration, which is relatively mature in terms of technology and market, thus exerting tremendous pressure on the Group's business growth and profitability. In future, the Group will continue adhering to its prudent development principle and further boost sales of its business of radio trunking system integration by exploring, researching and developing radio trunking products with self-owned intellectual property, so as to materialize long-term sustainable development of the Group.

Progress was made in the placement of new shares at the end of 2007. The Group completed the placement of 604,160,000 new shares in four phases in 2007 with approval. The proceeds were HK$246,224,800. Beside for extening the Group's business, the Group has invested HK$51 million into the JV Company. Other than that, no specific targets or projects has been identified.

Relying on the basis of resource integration and optimisation in 2007, the Group will fully utilise its current capital strength to obtain a more optimal profit growth in order to achieve long-term development of the Group while bringing greater returns for the shareholders.

On behalf of the board of Directors, I would like to express my heartfelt thanks to all levels of the staff and the Management for their efforts and contributions in 2007 and my deep gratitude to our clients, business partners and shareholders for their utmost support.

Cai Zuping
Chairman

BUSINESS REVIEW AND OUTLOOK

Radio trunking systems integration

In 2007, the radio trunking business of the Group realized a turnover of approximately HK$39 million, representing an increase of approximately HK$2 million and 5% as compared to the turnover in 2006 of HK$37 million. In general, the results showed an improvement as compared to previous year, which was mainly attributable to better performance of the software business segment, while the hardware business segment had been sluggish and shrinking.

During the year, the Group increased the input in mobile terminal software. We kept on launching products and made use of the good customer resources to increase market share. With our aim to open up big market practically in public safety and marine products, we paved a good way for software businesses to develop. It was a good stepping stone for stabilizing and raising the Group' s results in future years.

The Group has actively promoted its own digital trunking communication system based on the software technology FDMA system. This deepened the understanding of new, existing and potential users towards the features of this technical product, as well as prepared for future market development.

The major construction project of plant and office area on the land acquired by the Group in Hangzhou has commenced. It has finished the roof covering, fire facilities, sewage and interior and exterior decoration projection. Under the influence of the delay in decoration and design plan, other constructions will not commence until the end of the year.

Automobile stamping and welding

The JV Company was duly established in September 2007. Its principal business consists of developing , producing and selling products of stamping and welding parts for automobiles and other auxiliary products, designing, manufacturing and selling of grips and moulds.

During the period, the JV Company has produced 177,000 ancillary stamping and welding parts for automobiles, and recorded sales of HK$209 million (approximately RMB199 million). The Group has accounted for the sales on proportion and recorded turnover of HK$103 million (approximately RMB97 million). Its customers include ChangAn Auto Co Ltd, ChangAn Ford Mazda, ChangAn Suzuki Auto Corp, JiangLing Co Ltd and ChangAn Ford Nanjing Corp etc. The Group is reviewing the business of the JV Company and undergoing a negotiation of the business progress with the joint partner Chongqing Changan Jinling Automobile Parts Company Limited so as to underpin the growth development of the JV Company, as well as to bring drives for the growth of results in the long run.

The JV Company is now preparing for the third and fourth phases construction with the plans set out below:

1. ***Third Phase Construction***

   This acts as the carrying project in 2007, its major construction includes: a new high capacity stamping production line with 2,400 tonnes; a new welding plant with 7,800 square meters and offices built in Changan Industrial Park to meet the needs of welding workshops or other departments. The total investment for the Third Phase Construction project is approximately RMB129 million. It is expected that the investment will be completed in 2008.

2. ***Forth Phase Construction***

   In order to meet the requirement of large scale stamping parts, car door production and the replacement of plant capacity, it is intended to implement the Fourh Phase Construction, its major construction includes: a proposed plan to build two new stamping production lines in Changan Industrial Park, to build one new car door fastening welding production line in the original stamping plant, to introduce ancillary equipments such as scrap material delivery channel, truck trolley, hand pallet trucks etc. and to enlarge the power plant. The additional fixed asset investment on the Fourth Phase Construction is RMB79 million. When all construction works have completed, annual production volume will increase to 240,000 units of larger-sized casings, 220,000 stamping and welding parts to car main body and 100,000 units of door.

Development of the Group

The Group will develop into a diversify enterprise, so as to archive stable growth in revenue. As such, the Group will keep identifying and sought for other suitable investment opportunities and projects, and keep bringing returns for the shareholders.

Placing of New Shares

In order to broaden the equity transfer and capital base of the Company and to raise capital for the Group to increase available financial resources for future investment opportunities, the Group has finished placing of a total of 604,160,000 new shares in four periods which were in the year 2007, raising capital amounted HK$246,224,800. In order to explore the Group's business, the Group has allocated HK$51,000,000 as investment in the JV Company. Apart from this, the Group does not have any concrete investment targets or plans.

FINANCIAL REVIEW

For the year ended 31 December 2007, the consolidated turnover of the Group was approximately HK$141 million, representing an increase of approximately 278% as compared with the last year. The loss attributable to shareholders for the year ended 31 December 2007 amounted to approximately HK$47 million.

During the year, the group realized the business potential of the automobile parts industry in the PRC and the group invested RMB49 million (HK$51 million) to hold a 49% interest in the JV Company to establish automobile parts production and sales business in PRC.

Since the Group indirectly held 49% interest in JV Company, the JV Company would become a jointly controlled entity of the Group and its financial performance will be accounted for by using the proportionate consolidation method. JV Company commenced operation from 17 September 2007 and the Group accounted for approximately HK$103 million of turnover and of which, net profit amounted to HK$3.4 million during the period.

The business of radio trunking system integration recorded HK$39 million sales, the turnover was improved by HK$2 million and 5% increase as compared to last year. The improvement of business was mainly attributable to increase in delivery orders from government procurement bodies during the fourth quarter. This business generated approximately HK$30 million gross profit in this year and increased by HK$3 million and 11% as compared to last year.

This contribution of turnover and gross profit for both business of automobiles parts production and sales of radio trunking system integration together to the Group was HK$141 million and HK$35 million respectively.

During the year, the company obtained HK$13 million other income and it was mainly from interest income, sales of scrap materials and disposal of investment securities and refund of valued-added tax. In the last year, HK$5.9 million of other revenue was mainly represented government grant for special projects of radio trunking system.

Distribution costs increased by HK$5.6 million to HK$10.4 million, the reason for the increase was mainly due to increase in promotion activities and commission to agencies and delivery cost for production of automobile parts business.

Administration expenses increased by HK$61 million to HK$83 million and 270% as compared to last year and the increase mainly represented HK$33 million share base payments granted during the year and additionally incurred HK$18 million professional fee for placing activities and other financial activities. There was HK$6 million cost increase for additional business activities and additional depreciation in PRC. The group shared administration cost of the JV company of HK$4 million in this year.

Financial cost increased by HK$554,000 which was mainly due to increase in interest rate in PRC for trading loan utilities during the year.

As a result, the loss attributable to shareholders of HK$47 million in 2007 increased by HK$42 million as compared to last year.

Liquidity and financial resources

The Group generally financed its operations with its internally generated cash flow and banking facilities, the Group has established a long term relationship with financial institutions in the People's Republic of China ("PRC"). The borrowings of the Group as at 31 December 2007 amounted to approximately HK$5 million (2006: HK$8 million) which are repayable within one year and HK$1.7 million which is repayable over one year, are interest-bearing at prevailing market rates and are denominated in Renminbi ("RMB"). The banking facilities arranged by the Group reflected our strategy to fund the Group's operations in local trading currency. As a result, bank borrowing remains at low level as compared to previous years, the finance costs of the Group for the year under review were HK$1.1 million.

As at 31 December 2007, the Group has a low gearing ratio of 0.02 (2006: 0.22), calculated on the basis of the Group's borrowings over shareholders' funds. Total bank and cash balances were approximately HK$174 million (2006: HK$12 million). Taking into consideration the existing financial resources available to the Group, it is anticipated that the Group should have adequate financial resources to meet its ongoing operating and development requirements.

Charge on group assets

As at 31 December 2007, no land and buildings under long leases outside Hong Kong were pledged to a bank to secure banking facilities.

Foreign exchange exposure

Since the Group's sales, purchases and loans were substantially denominated in either Renminbi or Hong Kong Dollar, the Directors of the Company consider that the potential foreign exchange exposure of the Group is limited.

Contingent liabilities

As at 31 December 2007, the Board was not aware of any material contingent liabilities.

Staff and remuneration policies

As at 31 December 2007, the Group employed a workforce of approximately 707, the majority of whom were employed in the PRC. Staff costs, excluding Directors' emoluments, amounted to approximately HK$24 million. The Group's remuneration policy has been in line with the prevailing market practice including discretionary bonus and remunerates its employees based on their performance and contribution. Other benefits include contributions to pension scheme and medical insurance.

Acquisitions and disposals of subsidiaries and affiliated companies

Save as disclosed herein, the Group had no acquisitions or disposals of subsidiaries and affiliated companies during the year ended 31 December 2007.

Capital structure

During the year, the Group has placed a total of 604,160,000 new shares and there consists of 1,168,160,000 issued share capital as at 31 December 2007. Save as disclosed above, there was no change in the capital structure of the Group as at 31 December 2007 as compared with that as at 31 December 2006.

Future plans for material investments or capital assets

Save as disclosed herein, the Group did not have any details of future plan for material investments or capital assets as at 31 December 2007.

Significant Investment

On 6 July 2007, Hong Kong Chang Kang (Holdings) Limited, a wholly-owned subsidiary of the Company, entered into a joint venture agreement with Chongqing Changan Jinling Automobile Parts Co., Ltd. to establish the cooperative JV Company which will be principally engaged in the development, production and sales of automobile stamping and welding parts and related accessories in the PRC.

The JV Company was officially set up on 17 September 2007. During the period, the JV Company was given approval by Chongqing Changan Jinling shareholders and relevant Chinese government authorities.

The Group holds 49% of the equity interests in the JV Company. The registered capital of the JV Company is RMB100 million. The total investment of the JV Company, including the said registered capital, shall be RMB300 million.

The aim of setting up the JV Company is to introduce state-of-the-art production technology and scientific management method in a jointly-invested way to raise the quality, value and competitiveness of stamping and welding, so as to satisfy the car development requirement in the south. We have also taken initiative in opening up other car industry market in China and ancillary market overseas, so that both parties to the joint venture can reap satisfactory award.

Currently, the JV Company is undergoing planning and regulation for relevant affairs and production, and is beginning to produce part of the components and starting initial operation. As at 31 December 2007, the JV Company contributed approximately RMB97 million turnover to the Group.

The Group has invested approximately RMB49 million (HK$51 million) into the JV Company and is planning for further investment to raise productivity so that total investment from the Group will reach RMB147 million.

INTRODUCTION

The Code on Corporate Governance Practices (the "CG") contained in Appendix 15 of the GEM Listing Rules was introduced on 1 January 2005, which set out the principles of good corporate governance and the Company is required to comply with the code provisions of the CG. The Company is fully admitted that good corporate governance, as part of the Company's culture, can create values to the Group and our shareholders. The Board is committed to continue to enhance the standards of corporate governance within the Group and to ensure that the Group conducts its businesses in an honest and responsible manner. Except for disclosed in this report, the Group has adopted practices which meets the code provisions of the CG.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of the Directors of the Company, all Directors have complied with the required standard of dealings and code of conduct regarding securities transactions by Directors as set out in the code of conduct for the year 2007.

BOARD COMPOSITION

The Board of Directors ("Board") of the Company is entrusted with the overall responsibility for promoting the success of the Company by the direction and supervision of the Company's business and affairs and the ultimate responsibility for the day to day management of the Company which is delegated to the Chairman and Chief Executive and the management.

The Board comprises a total of 5 Directors, with 2 Executive Directors, namely, Mr. Cai Zuping (Chairman & Chief Executive Officer), Mr. Stephen William Frostick and three Independent Non-executive Directors, namely, Mr. Chang Jun, Mr. Tso Hon Sai, Bosco and Mr. Lee Chi Hwa, Joshua. One Independent Non-executive Director has appropriate professional qualifications, accounting and financial management expertise.

The posts of Chairman and Chief Executive Officer are separated to ensure a clear division between the Chairman's responsibility to manage the Board and the Chief Executive Officer's responsibility to manage the Company's business. The separation ensures a balance of power and authority so that power is not concentrated in any one individual. Since Mr. Zhang Zheng has resigned on 1 February 2007. Mr. Cai Zuping has been performing duties of both Chairman and Chief Executive Officer since Mr. Zhang's resignation. The Board considers that the current management structure ensures consistent leadership and optimal efficiency for operation of the Group. The Board comprises of 5 directors, the balance of power and authority between the Board and management will not be compromised.

Each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 5.09 of the Listing Rules. The Company is of the view that all Independent Non-executive Directors meet the independence guidelines set out in Rule 5.09 of the GEM Listing Rules and are independent in accordance with the terms of the guidelines.

BOARD OPERATION

The Board meets regularly over the Company's affairs and operations. In 2007, the Board held 8 meetings. The attendance record of each member of the Board is set out below:

Executive Directors		**Attendance**
Mr. Cai Zuping *(Chairman)*		8/8
Mr. Wu Yangang *(Vice Chairman)*	(removed on 18 June 2007)	4/8
Mr. Sun Guiping	(removed on 18 June 2007)	4/8
Mr. Stephen William Frostick	(appointed on 1 February 2007)	7/8
Mr. Gao Guo Long	(appointed on 21 May 2007) (resigned on 17 December 2007)	4/8
Mr. Zhang Zheng	(resigned on 1 February 2007)	1/8
Non-executive Director		
Mr. Chen Kang	(resigned on 21 May 2007)	3/8
Independent Non-executive Directors		
Mr. Jin Ge	(resigned on 16 November 2007)	6/8
Mr. Pan Boxin	(resigned on 21 May 2007)	3/8
Mr. Sik Siu Kwan	(resigned on 21 May 2007)	3/8
Mr. Chang Jun	(appointed on 16 November 2007)	2/8
Mr. Tso Hon Sai, Bosco	(appointed on 21 May 2007)	5/8
Mr. Lee Chi Hwa, Joshua	(appointed on 21 May 2007)	5/8

NON-EXECUTIVE DIRECTORS

The Non-executive Directors are subject to retirement by rotation in accordance with the articles of association of the Company.

All the existing Non-executive Directors are appointed for an initial term of three years and the term of office shall continue after the expiration of the initial term until at least 1 month's prior written notice is given by either party or the Company to terminate the same. Except that they are reimbursed for reasonable expenses incurred during the performance of their duties to the Company and are eligible to be granted share options under the Share Option Scheme.

REMUNERATION OF DIRECTORS

As mentioned above, a remuneration committee was formed on 30 October 2005 for, inter alia, the following purposes:–

(a) to make recommendations to the Board on policies and structure for remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;

(b) to determine the remuneration packages for Executive Directors and senior management and to make recommendations to the board on the remuneration of Non-executive Directors.

The Remuneration Committee is made up of all of the Company's Independent Non-executive Directors, namely, Mr. Chang Jun, Mr. Tso Hon Sai, Bosco and Mr. Lee Chi Hwa, Joshua and Mr. Lee Chi Hwa, Joshua is the Chairman of the remuneration committee.

Meeting has been held in 2008 to review the remuneration packages of Executive Directors, which are nominal by market standards, as the Company does not see a need to review them. The Directors' fees of the Company's Independent Non-executive Directors have not been changed during the year according to market levels and the additional work they are requested to take on, following the formation of the remuneration committee and the nomination committee. The Remuneration Committee held a meeting on 10 March 2008 to consider and approve (a) bonus payments to employees of the Group, (b) salary increases of senior management of the Group and (c) range of salary increase for employees of the Group. Mr. Chang Jun, Mr. Tso Hon Sai, Bosco and Mr. Lee Chi Hwa, Joshua attended this meeting.

The Remuneration Committee will meet and determine the emolument policy and long-term incentive schemes as well as the basis of determining the emolument payable to the Company's Directors in 2008.

NOMINATION OF DIRECTORS

As mentioned above, a Nomination Committee was formed on 31 October 2007 for, inter alia, the following purposes:–

(a) to review the structure, size and composition (including the skills, knowledge and experience) of the Board;

(b) to identify individuals suitably qualified to become Board members and make recommendations to the Board on the selection of individuals nominated for directorship; and

(c) to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors.

The Nomination Committee is made up of all of the Company's Independent Non-executive Directors, namely, Mr. Chang Jun (Chairman), Mr. Tso Hon Sai, Bosco and Mr. Lee Chi Hwa, Joshua . The Nomination Committee held meeting on 10 March, 2008 to review the structure, size and composition of the Company's Board of Directors. Mr. Chang Jun, Mr. Tso Hon Sai, Bosco and Mr. Lee Chi Hwa, Joshua attended this meeting. The Nomination Committee was satisfied with the existing composition of the Company's Board of Directors and recommended no change in the near term.

The Nomination Committee will meet and determine the nomination procedures and the process and criteria to select and recommend candidates for directorship in 2008.

AUDITORS' REMUNERATION

The remuneration in respect of audit provided by the auditors, HLM & Co., to the Company in the year 2007 amounted to HK$500,000. Non-audit services provided by HLM & Co. amounted to HK$430,000.

AUDIT COMMITTEE

The Company's Audit Committee was formed on 13 July 2000 and is currently composed of all three Independent Non-executive Directors of the Company, namely, Mr. Lee Chi Hwa, Joshua *(Chairman)*, Mr. Tso Hon Sai, Bosco and Mr. Chang Jun. The primary duties of the Audit Committee are (a) to review the Group's annual reports, financial statements, interim reports and quarterly reports, (b) to provide advice and comments thereon to the Board and (c) to review and supervise the financial reporting process and internal control procedures of the Group.

In 2007, the Audit Committee held 4 meetings. The attendance record of each member of the Committee is set out below:

		Attendance
Mr. Chang Jun	(appointed on 16 November 2007)	1/4
Mr. Tso Hon Sai, Bosco	(appointed on 21 May 2007)	2/4
Mr. Lee Chi Hwa, Joshua	(appointed on 21 May 2007)	2/4
Mr. Jin Ge *(Chairman)*	(resigned on 16 November 2007)	3/4
Mr. Pan Boxin	(resigned on 21 May 2007)	2/4
Mr. Sik Siu Kwan	(resigned on 21 May 2007)	2/4

The Audit Committee has carefully reviewed the Company's quarterly, half-yearly and annual results and its system of internal control and has made suggestions to improve them. The Committee also carried out and discharged its duties set out in CG Code. In the course of doing so, the Committee has met the company's management, qualified accountant and external auditors in 2008.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors are responsible for the preparation of the financial statements, which give a true and fair view. The Auditors are responsible to form an independent opinion, based on the audit, on the financial statements prepared by the Directors and report the opinion solely to the shareholders of the Company.

EXECUTIVE DIRECTORS

Mr. CAI Zuping, aged 50, is the chairman of the Company. Mr. Cai is one of the founders of the Group and is responsible for the overall strategic planning of the Group and the planning of the Group's business development in the PRC. Mr. Cai graduated from an electronic engineering college in Taiyuan, Shanxi, the PRC and since then, has worked in communication related government departments in the PRC for six years. Mr. Cai founded the Group in 1990 and has over 20 years of experience in the communications industry.

Mr. Stephen William Frostick, aged 59, obtained a Juris Doctorate in Old College School of Law, Nevada, Unites States in 1984, a Master of Public Administration and a Bachelor of Science in Business Administration in University of Nevada, Las Vegas, United States in 1976 and 1974 respectively. Currently the president and chief executive officer of the Compeer Group (Macau), Mr. Frostick has over 30 years of experience in leading capacities in the state government of Nevada, United States, large corporations and international consulting organizations. During his past employment in Kepner Tregoe Inc., Mr. Frostick was involved in the design, development and led the implementation of Team Concept in Chrysler Motors Inc. Mr. Frostick also participated in the negotiations in respect of the labour agreements between the United Auto Workers Union and Chrysler Motors Inc. Leverage on Mr. Frostick's automobile business experience, the Group will be in a better position to solicit the aforesaid automobile related investments opportunities and/or projects.

Mr. Frostick is well experienced in strategic planning, operational management and organisation development and has about 30 years of senior management experience. He joined the Group in 2007.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lee Chi Hwa, Joshua, aged 36, is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Lee has more than 8 years of experience in the fields of auditing, accounting and finance. He joined the Group in 2007.

Mr. Tso Hon Sai Bosco, aged 44, is currently a partner of Messrs. Tso Au Yim & Yeung, Solicitors and he has been a Hong Kong practising solicitor since 1990. Mr. Tso received his bachelor of laws degree from King's College, London. He joined the Group in 2007.

Mr. Chang Jun, aged 40, is currently a partner of Messrs, Allbright Law Office-Shenzhen and he has been a Chartered lawyer of Chinese Ministry of Law since 2000. Mr. Chang received his bachelor of laws degree from Southwest University of Polities & Law, Chongqing and master degree in Economic & Commercial Law in People's University of China, Beijing. Mr. Chang has more than 15 years experience in Chinese legal profession and extensive experience in legal advisory to public and multinational enterprise in PRC. He joined the Group in 2007.

SENIOR MANAGEMENT

Mr. LU Chunming, aged 51, is the vice president of the Company. Mr. Lu is also the general manager of Beijing Neolink Information Technology Company Limited and is responsible for the management of telemedia business of the Group. Mr. Lu graduated from Beijing Teacher's University in the PRC and joined the Group in 1995. Prior to joining the Group, Mr. Lu worked for the Post and Telecommunication Science Research Institute and Authorities Service Bureau of the former MPT. Mr. Lu has more than 20 years of experience in the communications industry.

Mr. CHEN Huanming, aged 43, is the vice president of the Company. Mr. Chen is also the general manager of both Hangzhou Neolink Communication Equipment Company Limited, Neolink Communications Technology (Hangzhou) Limited, Neolink Electronic Technology (Beijing) Company Limited and Hangzhou Neolink Software Technology Company Limited. Mr. Chen is responsible for the management of radio trunking systems integration business of the Group. Mr. Chen holds a bachelor degree in electronic engineering from Zhejiang University in the PRC and joined the Group in 1992. Mr. Chen has over 20 years of experience in the electronics and communications industries.

Mr. MI Lei, aged 44, is the head of the research centre of Hangzhou Neolink Communication Equipment Company Limited and is responsible for the research and development of new products for the Group. Mr. Mi graduated from Zhejiang University in the PRC with a bachelor degree in electronic engineering. Mr. Mi joined the Group in 1996 and has over 20 years of experience in the electronics and communications industries.

Mr. ANG Wing Fung, aged 35, is the Company secretary and financial controller of the Company, holds a Bachelor degree in Accounting and Finance from The University of New South Wales, Australia. He is an associate member of Hong Kong Institute of Certified Public Accountants and a qualified member in CPA Australia. He has over 10 years experience in financial management, auditing and accounting in an international accounting firm and a listed company in Hong Kong.

The Directors of the Company ("Directors") submit herewith their annual report together with the audited financial statements for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The Group is principally engaged in production and sales of automobile parts and accessories in PRC, radio trunking systems integration and provision of telemedia-related and other value-added telecommunication-related technical services.

SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to operating profit for the year by principal activities is set out in note 7 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2007 and the state of the affairs of the Group at that date are set out in the financial statements on pages 26 to 64.

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

PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Company as at 31 December 2007 are set out in note 18 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in statement of changes in equity on page 29 and page 57 respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2007, the Company has no reserves available for distribution to shareholders (2006: Nil) in accordance with the Companies Law of the Cayman Islands and the Company's Articles of Association.

BORROWINGS

Particulars of the borrowings of the Group as at 31 December 2007 are set out in note 25 to the financial statements.

DONATION

The Group did not make any charitable donation during the year.

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in share capital and share options of the Company during the year, together with reasons therefore, are set out in notes 26 and 28 to the financial statements.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five years is set out on page 65.

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases		
–	the largest supplier	51%
–	five largest suppliers combined	55%
Sales		
–	the largest customer	44%
–	five largest customers combined	87%

The third largest customer of the Group is Hangzhou Neolink Telecommunication System Company Limited, which 50% is indirectly held by the sister of Mr. Cai who is an executive director of the Company and 50% by Cai Qianping. Save as disclosed above, none of the Directors, their associates or any shareholders (which to the knowledge of the Directors own more than 5% of the Company's share capital) had an interest in the major customers or suppliers noted above.

The largest customer and supplier of the Group are Chongqing Changan Jinling Automobile Parts Liabilities Co., Ltd,, which is beneficially owned by China South Industries Automobile Corporation and Chongqing Changan Automobile Company Limited. Chongqing Changan Jinling Automobile Parts Co., Ltd is in proportion to hold 51% of South JinKang Automobile Parts and Components Company Limited.

DIRECTORS

The Directors of the Company during the year end up to the date of this report were:

Mr. Cai Zuping	
Mr. Wu Yangang	(removed on 18 June 2007)
Mr. Zhang Zheng	(resigned on 1 February 2007)
Mr. Sun Guiping	(removed on 18 June 2007)
Mr. Stephen William Frostick	(appointed on 1 February 2007)
Mr. Chen Kang #	(resigned on 21 May 2007)
Mr. Jin Ge*	(resigned on 16 November 2007)
Mr. Pan Boxin*	(resigned on 21 May 2007)
Mr. Sik Siu Kwan*	(resigned on 21 May 2007)
Mr. Gao Guo Long#	(appointed on 21 May 2007 and resigned on 17 December 2007)
Mr. Chang Jun*	(appointed on 16 November 2007)
Mr. Tso Hon Sai, Bosco*	(appointed on 21 May 2007)
Mr. Lee Chi Hwa, Joshua*	(appointed on 21 May 2007)

\# *Non-executive Director*
* *Independent Non-executive Director*

One third of the Directors shall retire at the forthcoming annual general meeting in accordance with Article 87 of the Company's Articles of Association and, being eligible, offer themselves for re-election.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2007, the interests of the Directors and the Chief Executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) and required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which were notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules relating to securities transactions by Directors, were as follows:

Long positions in ordinary shares of the Company

Name of Director	Type of interest	Number of shares	Approximate percentage of issued share capital
Mr. Cai Zuping *(Note 1)*	Corporate	363,040,296	31.08%

Notes:

1. Mr. Cai Zuping, an Executive Director and the chairman and Chief Executive Officer of the Company, holds his deemed interest in the Company through his shareholding of 23.82% in Infonet Group Co., Ltd. ("Infonet") which holds 31.08% of the total issued share capital of the Company.

Save as disclosed above, as at 31 December 2007, none of the Directors or Chief Executive of the Company or their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company or its associates corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which are required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange.

DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors has entered into a service contract with the Company for an initial term of three years and will continue thereafter until the contract is terminated by either party giving to the other party not less than one calendar months' notice in writing.

As at 31 December 2007, none of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 33 to the financial statements, no contracts of significance in relation to the Company's business to which the Company, its holding company, subsidiaries or fellow subsidiaries was a party and in which any Directors 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.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the Independent Non-executive Directors, an annual confirmation of his independence pursuant to Rule 5.09 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. The Company considers all of the Independent Non-executive Directors are independent.

EMOLUMENT POLICY

The emolument policy regarding the employees of the Group is set up by the Remuneration Committee and is based on their merit, qualifications and competence.

The emoluments of the Directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to Directors and eligible employees details of the scheme is set out in note 28 to the financial statements.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the paragraph headed "Directors' and Chief Executives' interests and short positions in shares, underlying shares and debentures" above and the "Share option scheme" below, at no time during the year have rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors, their spouse or children under 18 years of age to acquire such rights in any other body corporate.

SHARE OPTION

The old share option scheme adopted in 2003 was terminated on 14 January 2007. All outstanding options granted under the old share option scheme were cancelled upon termination thereof.

The Company adopted a new share option scheme on 30 July 2007 ("the Scheme"), which became effective for a period of 10 years commencing on 10 August 2007. Under the Scheme, the Directors of the Company may at their discretion grant options to any eligible person to subscribe for the shares of the Company ("Share") at the higher of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (ii) the average closing price of the Share as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a Share. The offer of a grant of option shall remain open for acceptance within 21 days from the date of offer. A nominal consideration of HK$1 is payable on acceptance of the grant of the option. The exercise period of the option must not be more than 10 years from the date of grant of the option.

The Company operates the Scheme for the purpose of advancing the interests of the Company and its shareholders by enabling the Company to grant options to attract, retain and reward any eligible persons which include any director of the Group, any employee of a Group, any consultant, adviser, agent, supplier, customer, business partner or shareholder of the Group for their contribution or potential contribution to the Group.

The total number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes in force from time to time must not in aggregate exceed 30% of the Shares in issue from time to time.

The total number of Shares which may be issued upon exercise of all options to be granted under the Scheme shall not in aggregate exceed 10% of the total number of Shares in issue as at the date of the passing of the relevant resolution adoption the Scheme.

Pursuant to the Scheme, as at 31 December 2007, the employees and consultants were granted share options to subscribe for shares of the Company, details of which were as follows:

Name of Category of participant	As at 1 January 2007	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	As at 31 December 2007	Date of granted of share options	Exercise period of share options	Exercise price of share options
Employees	–	38,960,000	–	–	–	38,960,000	10 August 2007	10 August 2007 – 9 August 2012	HK$0.38
Consultants	–	58,440,000	–	–	–	58,440,000	10 August 2007	10 August 2007 – 9 August 2012	HK$0.38
Total	–	97,400,000	–	–	–	97,400,000			

None of the employees and consultants of the Group had exercised their share options during the period ended 31 December 2007.

The total number of Shares available for issue under the Scheme as at the date hereof was 97,400,000 representing approximately 8.34% of the issued share capital of the Company.

SUBSTANTIAL SHAREHOLDERS OF THE COMPANY

As at 31 December 2007, so far as is known to the Directors of the Company, the following persons (other than a Director and the Chief Executive of the Company) had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name of the Shareholders	Type of interest	Number of shares	Approximate percentage of issued share capital
Infonet *(Note 1)*	Corporate	363,040,296	31.08%
Harbour Smart Development Limited („Harbour Smart”) *(Note 2)*	Corporate	363,040,296	31.08%
Mr. Wang Yuan *(Note 3)*	Corporate	363,040,296	31.08%

Notes:

1. Infonet is a company incorporated in the British Virgin Islands which is beneficially owned, among others, as to 26% by Harbour Smart, as to 23.82% by Mr. Cai Zuping, as to 19.93% by Mr. Wang Yuan.

2. Harbour Smart, a company incorporated in Hong Kong, has interest in the Company through its shareholding of 26% in Infonet. Mr. Shu Zhan and Mr. Zheng Xiaoyin are the executive director and shareholder of the Harbour Smart and hold the shares of Harbour Smart on trust for Hubei Qing Jiang, Hydro-electric Development Limited, a state-owned corporation in the PRC. Mr. Shu Zhan and Mr. Zheng Xiaoyin, are independent third parties not connected with the directors, chief executive or substantial shareholders of the Company, any of its subsidiaries or any of their respective associates. They are not involved in the management of the Company and its subsidiaries.

3. Mr. Wang Yuan is independent third parties not connected with the directors, chief executives or substantial shareholders of the Company, any of its subsidiaries or any of their respective associates. They are not involved in the management of the Company and its subsidiaries. Mr. Wang Yuan has interest in the Company through their shareholdings of 19.93% in Infonet.

Save as disclosed above, as at 31 December 2007, the Company had not been notified of any other person or company (other than a director or chief executive of the Company) who had registered an interest or short positions in the Shares and underlying Shares of the Company that was required to be recorded under section 336 of the SFO.

MANAGEMENT CONTRACTS

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

PENSION SCHEME ARRANGEMENT

Particulars of the pension scheme arrangements are set out in note 33 to the financial statements.

CONNECTED TRANSACTIONS

Significant related party transactions entered by the Group during the year, which do not constitute connected transactions under GEM Listing Rules, are disclosed in note 34 to the financial statements.

(1) Continuing connected transactions

1. Introduction

On 12 November 2007, Hangzhou Neolink Software Technology Company Limited ("Neolink Software") entered into the First Supply Agreement with Hangzhou Neolink Telecommunication System Company Limited ("HNTS") in relation to the sale of radio trunking system related software products by Neolink Software to HNTS and Neolink Communications Technology (Hangzhou) Limited ("Neolink Communications") entered into the Second Supply Agreement with HNTS in relation to the sale of the radio trunking system related hardware products by Neolink Communications to HNTS. Each of the First Supply Agreement and the Second Supply Agreement constitutes a non-exempt continuing connected transaction of the Company that is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

The main purpose of this circular is to provide you with (i) further particulars of the First Supply Agreement; the Second Supply Agreement and the Proposed Annual Caps; (ii) the letters from the Independent Board Committee and South China Capital regarding the First Supply Agreement; the Second Supply Agreement and the Proposed Annual Caps and (iii) a notice convening the EGM.

2. Proposed continuing connected transactions

First supply agreement

Background

On 12 November 2007, Neolink Software entered into the First Supply Agreement with HNTS in relation to the sale of radio trunking system related software by Neolink Software to HNTS. HNTS is owned as to 40% by Shenzhen Gocom Information Co. Ltd. ("Gocom Information") and 60% by Shenzhen Gocom Internet Co. Ltd. ("Gocom Internet"). Each of Gocom Information and Gocom Internet is owned as to 50% by Ms. Cai Qianping (蔡茜平), the sister of Mr. Cai who is an executive Director, and as to 50% by Shenzhen Jin Jiang Dao Property Development Company Limited ("Jin Jiang Dao"), a corporation wholly-owned by Hubei Qing Jiang Hydra-electric Development Company Limited ("Hubei Qing Jiang") which is the holding company of Harbour Smart Development Company Limited ("Harbour Smart") and a substantial Shareholder holding approximately 9.69% of deemed equity interest in the Company as at the Latest Practicable Date. Therefore, the First Supply Agreement constitutes a continuing connected transaction for the Company under the GEM Listing Rules.

The transactions contemplated under the First Supply Agreement involve the provision of goods which is carried out on a continuing or recurring basis in the ordinary and usual course of business of the Group, they constitute continuing connected transactions of the Company. There were no similar transactions which have been conducted between the Group and HNTS in the past. To comply with the GEM Listing Rules as currently in effect, Neolink Software and HNTS have entered into the First Supply Agreement in respect of these transactions for a fixed term commencing from 1 November 2007 to 31 December 2009. The total sales of radio trunking system software for the year 2007 amounted to approximately HK$6,716,000.

Second supply agreement

Background

On 12 November 2007, Neolink Communications entered into the Second Supply Agreement with HNTS in relation to the sale of the radio trunking system related hardware products by Neolink Communications to HNTS. HNTS is owned as to 40% by Gocom Information and 60% by Gocom Internet. Each of Gocom Information and Gocom Internet is owned as to 50% by Ms. Cai Qianping (蔡茜平), the sister of Mr. Cai who is an executive Director, and as to 50% by Jin Jiang Dao, a corporation wholly-owned by Hubei Qing Jiang which is the holding company of Harbour Smart and a substantial Shareholder holding approximately 9.69% of deemed equity interest in the Company. Therefore, the Second Supply Agreement constitutes a continuing connected transaction for the Company under the GEM Listing Rules.

The transactions contemplated under the Second Supply Agreement involve the provision of goods which is carried out on a continuing or recurring basis in the ordinary and usual course of business of the Group, they constitute continuing connected transactions of the Company. There were no similar transactions which have been conducted by the Group and HNTS in the past. To comply with the GEM Listing Rules as currently in effect, Neolink Communications and HNTS have entered into the Second Supply Agreement in respect of these transactions for a fixed term commencing from 1 November 2007 to 31 December 2009.

The Second Supply Agreement constitutes a continuing connected transaction of the Company that is subject to the reporting, announcement and independent shareholders' approval requirements under the GEM Listing Rules. Total sale of radio trunking system related hardware products in 2007 amounted to approximately HK$7,996,000.

(2) Other connected transactions

The following transactions are exempted from the reporting, announcement and Shareholders' approval requirements of Chapter 20 of the GEM Listing Rules:

(a) On 1 January 2003, the Company entered into a service agreement with Qing Jiang (Hong Kong) Holdings Limited ("Qing Jiang HK") and Harbour Smart regarding the provision of office administration services by the Company to Qing Jiang HK and Harbour Smart. The total service income earned by the Company amounted to HK$20,000 for the year ended 2007.

During the year the Group borrowed loan of approximately HK$3,706,000 (2006: HK$3,404,000) from Shenzhen Communication Technology Company Limited ("Shenzhen Communication") *(Note (ii))*. The loan is unsecured, interest-bearing from 6.13% to 6.51% (2006: 6.13%) per annum and is repayable within twelve months. The interest paid on payable to Shenzhen Communication for the year amounted to approximately HK$110,000.

(b) During the year, the Group's banking facilities amounted to RMB$15,000,000 were guaranteed by Mr. Cai Zuping, Mr. Zhang Zheng, Mr. Chen Huanming, Haoyuan Yingte and Shenzhen Communication.

Notes:

(i) Haoyuan Yingte are indirectly owned by a relative of Mr. Cai Zuping, a director of the Company.

(ii) Shenzhen Communication is directly owned by a relative of Mr. Cai Zuping, a director of the Company and Shenzhen Jin Jiang Dao Property Development Company, a wholly-owned company of Hubei Qing Jiang (Note (iii)).

(iii) Hubei Qing Jiang, a beneficial shareholder of the ultimate holding company of the Company, is a beneficiary shareholder of Qing Jiang HK and Harbour Smart.

(iv) Hangzhou Communication is indirectly owned by a relative of Mr. Cai Zuping, a director of the Company.

COMPETING INTERESTS

The Directors are not aware of, as at 31 December 2007, any business or interest of each Director, management shareholder and the respective associates of each that competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2007.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association and there is no restriction against such rights under the laws of the Cayman Islands.

AUDITORS

A resolution to reappoint Messrs. HLM & Co. as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the board

Cai Zuping
Chairman

Hong Kong, 12 March 2008

恒健會計師行
HLM & Co.
Certified Public Accountants

Room 305, Arion Commercial Centre
2-12 Queen's Road West, Hong Kong.
香港皇后大道西2-12號聯發商業中心305室
Tel 電話: (852) 3103 6980
Fax 傳真: (852) 3104 0170
E-mail 電郵: hlm@hlm.biz.com.hk

TO THE SHAREHOLDERS OF NEOLINK CYBER TECHNOLOGY (HOLDING) LIMITED

(Incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of Neolink Cyber Technology (Holding) Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 26 to 64, which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the 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.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the 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 auditors' 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 auditors consider 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 and the Company as at 31 December 2007 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLM & Co.
Certified Public Accountants

Hong Kong, 12 March 2008

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

	NOTES	**2007** **HK$'000**	2006 HK$'000
Continuing operations			
Turnover	6	**141,812**	37,542
Cost of sales and services		**(106,412)**	(10,610)
Gross profit		**35,400**	26,932
Other revenue	6	**13,689**	5,981
Distribution expenses		**(10,429)**	(4,807)
Administrative expenses		**(83,981)**	(22,495)
(Loss) profit from operations		**(45,321)**	5,611
Gain on disposal of subsidiaries		**–**	1,121
Finance costs	8	**(1,154)**	(600)
(Loss) profit before tax		**(46,475)**	6,132
Income tax expense	10	**(1,236)**	(1,320)
(Loss) profit for the year from continuing operations		**(47,711)**	4,812
Discontinued operations			
Loss before tax from discontinued operations		**–**	(17,451)
Income tax credit		**–**	–
Loss for the year from discontinued operations	5	**–**	(17,451)
Loss for the year	9	**(47,711)**	(12,639)
Loss attributable to			
Shareholders		**(47,570)**	(4,815)
Minority interest		**(141)**	(7,824)
		(47,711)	(12,639)
Dividends	12	**–**	–
		HK cents	*HK cents*
From continuing and discontinued operations			
Basic loss per Share	13	**(5.43)**	(0.85)
From continuing operations			
Basic (loss) earnings per Share	13	**(5.43)**	1.00

CONSOLIDATED BALANCE SHEET

At 31 December 2007

	NOTES	**2007** **HK$'000**	2006 HK$'000
Non-current assets			
Property, plant and equipment	16	**44,404**	4,656
Lease premium for land	17	**2,721**	2,640
		47,125	7,296
Current assets			
Inventories	20	**71,143**	8,057
Lease premium for land	17	**58**	56
Trade receivables	21	**33,227**	32,836
Other receivables, deposits and prepayments		**9,430**	7,938
Amount due from ultimate holding company	23	**50**	–
Amounts due from related companies		**25,312**	6,499
Financial assets at fair value through profit or loss		**19,999**	–
Cash and bank balances	24	**174,408**	12,215
		333,627	67,601
Current liabilities			
Trade payables	22	**40,338**	1,938
Bills payable		**10,526**	7,000
Accruals and other payables		**10,784**	7,461
Deposit received		**4,406**	249
Amount due to ultimate holding company	23	**47**	3,722
Amount due to related companies		**34,806**	9,033
Tax payable		**1,084**	968
Borrowings	25	**5,951**	8,000
		107,942	38,371
Net current assets		**225,685**	29,230
Total assets less current liabilities		**272,810**	36,526
Non-current liabilities			
Borrowings	25	**1,799**	–
Net assets		**271,011**	36,526
Capital and reserves			
Share capital	26	**116,816**	56,400
Reserves		**154,195**	(19,874)
		271,011	36,526

The financial statements on pages 26 to 64 were approved and authorised for issue by the board of directors on 12 March 2008 and are signed on its behalf by:

Mr. Cai Zuping
DIRECTOR

Mr. Stephen William Frostick
DIRECTOR

BALANCE SHEET

At 31 December 2007

	NOTES	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment	16	**89**	50
Interests in subsidiaries	18	**115,886**	11,998
		115,975	12,048
Current assets			
Other receivables, deposits and prepayments		**490**	156
Amount due from ultimate holding company	23	**50**	–
Amount due from a related company		**80**	2,049
Cash and bank balances		**119,665**	1,178
		120,285	3,383
Current liabilities			
Amount due to ultimate holding company	23	**–**	3,675
Amount due to a related company		**149**	175
Accruals and other payables		**646**	848
		795	4,698
Net current assets (liabilities)		**119,490**	(1,315)
Total assets less current liabilities		**235,465**	10,733
Capital and reserve			
Share capital	26	**116,816**	56,400
Reserves	27	**118,649**	(45,667)
		235,465	10,733

Mr. Cai Zuping
DIRECTOR

Mr. Stephen William Frostick
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

	Share capital HK$'000	Share premium HK$'000	Merger difference (Note(ii)) HK$'000	Revaluation reserve HK$'000	General reserve (Note (i)) HK$'000	Enterprise expansion fund (Note (i)) HK$'000	Exchange reserves HK$'000	Share-based compen-sation reserve HK$'000	Accu-mulated losses HK$'000	Minority interest HK$'000	Total HK$'000
At 1 January 2006, as restated	56,400	26,993	(46,815)	1,468	6,806	50	627	1,092	(7,944)	8,316	46,993
Employee share option benefits	–	–	–	–	–	–	–	729	–	–	729
Increase in fair value on revaluation of property, plant and equipment	–	–	–	378	–	–	–	–	–	–	378
Reallocation of staff welfare fund	–	–	–	–	40	–	–	–	–	–	40
Elimination upon disposal of subsidiaries	–	–	–	–	–	–	–	–	–	(802)	(802)
Exchange differences	–	–	–	–	–	–	1,827	–	–	–	1,827
Net loss for the year	–	–	–	–	–	–	–	–	(4,815)	(7,824)	(12,639)
At 31 December 2006	56,400	26,993	(46,815)	1,846	6,846	50	2,454	1,821	(12,759)	(310)	36,526
At 1 January 2007	56,400	26,993	(46,815)	1,846	6,846	50	2,454	1,821	(12,759)	(310)	36,526
Share-based compensation reserve transferred	–	–	–	–	–	–	–	(1,821)	–	–	(1,821)
Employee share option benefits	–	–	–	–	–	–	–	33,424	–	–	33,424
Share issued	60,416	185,809	–	–	–	–	–	–	–	–	246,225
Exchange differences	–	–	–	–	–	–	4,368	–	–	–	4,368
Net loss for the year	–	–	–	–	–	–	–	–	(47,570)	(141)	(47,711)
At 31 December 2007	**116,816**	**212,802**	**(46,815)**	**1,846**	**6,846**	**50**	**6,822**	**33,424**	**(60,329)**	**(451)**	**271,011**

(i) The general reserve and enterprise expansion fund are set up by subsidiaries established and operated in the People's Republic of China ("PRC") by way of appropriation from the profit after taxation in accordance with the relevant laws and regulations in the PRC. The rate of appropriation of the general reserve and enterprise expansion fund is subject to the decision of the board of directors of the PRC subsidiaries, but the minimum appropriation rate for the general reserve is 10% of the profit after taxation for each year, until when the accumulated balance reaches 50% of the total registered capital of the subsidiary. Pursuant to the relevant laws and regulations of the PRC, if approvals are obtained from the relevant government authorities, the general reserve can be used in setting off accumulated losses or to increase the capital, and the enterprise expansion fund can be used to increase the capital.

(ii) Merger reserve represents the difference between the nominal value of the shares of subsidiaries acquired and the nominal value of the shares issued by the Company as consideration thereof pursuant to the reorganization.

For the year ended 31 December 2007

	NOTE	2007 HK$'000	2006 HK$'000
Operating activities			
Loss for the year		**(47,711)**	(12,639)
Adjustment for:			
Income tax expenses		**1,236**	1,320
Interest income		**(2,828)**	(72)
Interest expenses		**1,154**	600
Depreciation		**2,618**	3,686
Amortisation of intangible assets		**–**	164
Amortisation of lease premium for land		**58**	56
Impairment loss on intangible assets		**–**	1,377
(Gain) loss on disposal of property, plant and equipment		**(383)**	402
Gain on disposal of financial assets at fair value through profit and loss		**(2,542)**	–
Unrealised gain on financial assets at fair value through profit or loss		**(855)**	–
Gain on disposal of subsidiaries		**–**	(1,121)
Written off upon termination of share option scheme		**(1,821)**	–
Share-based option expenses		**33,424**	729
Provision for bad and doubtful debts		**–**	409
Provision for slow-moving inventories		**–**	888
Operating cash flow before movements in working capital		**(17,650)**	(4,201)
Increase in inventories		**(63,086)**	(2,571)
Increase in trade receivables, prepayment, deposits and other receivables		**(1,883)**	(20,098)
Increase in amounts due from related companies		**(18,813)**	(781)
Increase in amount due from ultimate holding company		**(50)**	–
Increase in trade payables, bills payables, accruals and other payables and deposits received		**49,406**	5,366
(Decrease) increase in amounts due to ultimate holding company		**(3,675)**	1,261
Increase in amounts due to related companies		**25,773**	5,762
Cash used in operations		**(29,978)**	(15,262)
Interest paid		**(1,154)**	(600)
Tax paid		**(1,120)**	(627)
Net cash used in operating activities		**(32,252)**	(16,489)
Investing activities			
Purchases of property, plant and equipment		**(43,022)**	(4,216)
Purchases of financial assets at fair value through profit or loss		**(44,631)**	–
Sales proceeds from disposal of property, plant and equipment		**1,268**	5,723
Proceeds from disposal of financial assets at fair value through profit or loss		**28,029**	–
Interest received		**2,828**	72
Cash flow on disposal of subsidiaries	32	**–**	(303)
Net cash (used in) generated from investing activities		**(55,528)**	1,276
Financing activities			
Proceeds from issue of shares		**246,225**	–
New bank loans raised		**12,263**	8,000
Repayments of bank loans		**(15,000)**	(1,429)
Increase in other loan		**3,000**	–
Repayment of other loan		**(513)**	–
Net cash generated from financing activities		**245,975**	6,571
Net increase (decrease) in cash and cash equivalents		**158,195**	(8,642)
Effect of foreign exchanges rate changes		**3,998**	1,590
Cash and cash equivalents at beginning of year		**12,215**	19,267
Cash and cash equivalents at end of year		**174,408**	12,215
Analysis of cash and cash equivalents			
Pledged bank deposits and fixed deposits		**6,007**	–
Cash and bank balances		**168,401**	12,215
		174,408	12,215

1. GENERAL

The Company was incorporated in the Cayman Islands on 13 October 1999 as an exempted Company with limited liability under the Companies Law of the Cayman Islands. The Company's shares have been listed on the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 25 July 2000.

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

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 18 to the consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, a number of 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 1 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 the 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 the results of operations and financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognized.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

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

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKFRS 8	Operating Segments[1]
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions[2]
HK(IFRIC) – Int 12	Service Concession Arrangements[2]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[3]
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[2]

[1] *Effective for annual periods beginning on or after 1 January 2009.*
[2] *Effective for annual periods beginning on or after 1 March 2007.*
[3] *Effective for annual periods beginning on or after 1 January 2008.*
[4] *Effective for annual periods beginning on or after 1 July 2008.*

The directors of the Company anticipate that the application of these standards or 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 under the historical cost convention as modified by the revaluation of leasehold buildings.

The consolidated financial statements have been prepared in accordance with the HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of 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 its subsidiaries made up to 31 December each year.

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

All significant intercompany transactions and balances between group companies are eliminated on consolidation.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The Group recognised its interests in jointly controlled entities using proportionate consolidation. The Group's share of each of the assets, liabilities, income and expenses of the jointly controlled entities are combined with the Group's similar line items, line by line, in the consolidated financial statements.

Any goodwill arising on the acquisition of the Group's interest in a jointly controlled entity is accounted for in accordance with the Group's accounting policy for goodwill arising on the acquisition of a business or a jointly controlled entity.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

When a group entity transacts with a jointly controlled entity of the Group, profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity.

Property, plant and equipment

Property, plant and equipment other than land and buildings are stated at cost less depreciation and accumulated impairment losses.

Leasehold buildings are stated in the consolidated balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the consolidated income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Depreciation is provided to write off the cost or valuation of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Leasehold buildings	5%
Leasehold improvements	33% to 50%
Plant and machinery	3% to 20%
Furniture, fixtures and equipment	20%
Computer equipment	33%
Motor vehicles	10% to 33%

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 the derecognition of the asset (calculated as the difference between the sales proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Leasehold land and buildings under development for future owner-occupied purpose

When the leasehold land and buildings are in the course of development for production or for administrative purposes, the leasehold land component is classified as a prepaid lease payment and amortised over a straight-line basis over the lease term. During the construction period, the amortisation charge provided for the leasehold land is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use.

Lease premium for land

Lease premium for land are up-front payments to acquire long-term interests in lessee-occupied properties. The premium is stated at cost and is amortised over the period of the lease on a straight-line basis to the consolidated income statement.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is calculated using the weighted average method.

Foreign currency

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency (continued)

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group 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. Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Financial instruments

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

Financial assets at fair value through profit or loss

The Group's financial assets are classified into financial assets at fair value through profit or loss. All regular purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular 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. Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated as at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

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.

Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life when the asset is available for use.

The amount initially recognised for internally generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Subsequent to initial recognition, internally generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Impairment

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

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

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

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 years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base 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, and interests in joint ventures, 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 profits 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 realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Leases

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

The Group as lessee

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

(i) Retirement benefits

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme under the Mandatory Provident Fund Schemes Ordinance (the "MPF Scheme"), for all those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

(ii) Employees' share options

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Revenue recognition

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

Revenue from sales of automobile stamping and welding parts and related accessories are recognised when automobile stamping and welding parts and related accessories are delivered, used and confirmed by the customers.

Revenue from the provision of technical services is recognised when the services are rendered.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Refund of value added tax is recognised on receipt of government approval of refund.

Government grants

A government grant is recognised, when there is reasonable assurance that the Group will comply with the conditions attaching with it and that the grant will be received.

Grants relating to income are deferred and recognised in the income statement over the period necessary to match them with the costs they are intended to compensate.

Government grants relating to the purchase of fixed assets are included in non-current liabilities as deferred income and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

Cash and cash equivalents

Cash and cash equivalents represent cash at bank and on hand, time deposits with banks and other financial institutions, and short-term liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value, having been within three months of maturity at acquisition. For the purpose of the consolidated cash flow statement, bank overdrafts and bank loans, if any, which are repayable on demand and form an integral part of an enterprise's cash managements are also included as component of cash and cash equivalents.

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include equity investments, bank loans, cash and bank balances, trade receivables and trade payables. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies applied by the Group to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

Foreign currency risk

As the Group's sales and purchases and bank loans are denominated in Hong Kong dollar and Renminbi. The Group's assets and liabilities, and transactions arising from its operations that are exposed to foreign exchange risk are primarily with respect to Hong Kong dollar and Renminbi. Accordingly, the Group has no significant exposure to foreign exchange fluctuations.

Credit risk

The Group has no significant concentrations of credit risk. The Group regularly reviews the credit terms and credit limits granted to individual customer, and it has policies in place to ensure that sales are made to customers with an appropriate credit history.

Interest rate risk

The Group's income and operating cash flow are substantially independent of change in market interest rates and the Group has no significant interest-bearing assets except for the cash and cash equivalents. The Group's exposure to changes in interest rates is mainly attributable to its short-term loans. Short-term loans carry interest at floating rates expose the Group to cash flow interest rate risk.

Financial instruments price risk

The Group's financial instruments price risk is primarily attributable to financial assets at fair value through profit or loss. The Management manages this exposure by maintaining a portfolio of investments with different risk profiles.

5. DISCONTINUED OPERATIONS

In 2006, the Group disposed of its interests in China Gocom and its subsidiaries to Carbase Technology (Hong Kong) Limited, which is wholly-owned by Mr. Zhang Zheng who is an executive director of the Company, for a consideration of HK$3 million.

An analysis of the results of the discontinued operations is as follows:

	2007 ***HK$'000***	2006 *HK$'000*
Other revenue	**–**	273
Distribution expenses	**–**	(1,532)
Administrative expenses	**–**	(16,192)
Loss before tax	**–**	(17,451)
Income tax expense	**–**	–
Loss for the year	**–**	(17,451)

6. TURNOVER AND REVENUE

The Group is principally engaged in sales of automobile stamping and welding parts and related accessories, sales of radio trunking systems integration and provision of telemedia-related services and other value-added telecommunication-related technical services. Revenue recognised is as follows:

	Continuing operations		Discontinued operations		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Turnover						
Sales of automobile stamping and welding parts and related accessories	**102,615**	–	**–**	–	**102,615**	–
Sales of radio trunking systems integration	**39,197**	36,967	**–**	–	**39,197**	36,967
Provision of telemedia-related and other value-added telecommunication-related technical services	**–**	575	**–**	–	**–**	575
	141,812	37,542	**–**	–	**141,812**	37,542
Other revenue						
Interest income	**2,828**	72	**–**	66	**2,828**	138
Gain on disposal of financial assets at fair value through profit or loss	**2,542**	–	**–**	–	**2,542**	–
Unrealized gain on financial assets at fair value through profit or loss	**855**	–	**–**	–	**855**	–
Gain on disposal of properties, plant and equipment	**383**	–	**–**	–	**383**	–
Refund of value added tax	**1,343**	3,198	**–**	–	**1,343**	3,198
Written back upon termination of share option scheme	**1,821**	–	**–**	–	**1,821**	–
Scrap sales of raw materials	**3,071**	–	**–**	–	**3,071**	–
Forfeiture of deposit received	**–**	1,212	**–**	–	**–**	1,212
Others	**846**	1,499	**–**	206	**846**	1,705
	13,689	5,981	**–**	272	**13,689**	6,253
Gain on disposal of subsidiaries	**–**	1,121	**–**	–	**–**	1,121
Total revenue	**155,501**	44,644	**–**	272	**155,501**	44,916

7. SEGMENT INFORMATION

The Group's business segment comprises sales of automobile, stamping and welding part and related accessories, radio trunking systems integration and provision of telemedia-related services, sales of global positioning systems, and other value-added telecommunication services.

No geographical segment information is presented as secondary segment information as substantially all the Group's turnover and contribution to operating results were carried out in the PRC.

	Continuing								Discontinued		Total			
	Sales of radio trunking systems integration		Provision of telemedia-related and other value-added telecommunication-related technical services		Sales of automobile stamping and welding parts and related accessories		Others		Sales of global positioning system		Continuing		Discontinued	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
TURNOVER														
Revenue	**39,197**	36,967	**–**	575	**102,615**	–	**–**	–	**–**	–	**141,812**	37,542	**–**	–
RESULTS														
Segment results	**7,473**	8,539	**(7,398)**	(786)	**461**	–	**4,737**	118	**–**	(17,724)	**5,273**	7,871	**–**	(17,724)
Other revenue											**13,689**	5,981	**–**	273
Gain on disposal of subsidiaries											**–**	1,121	**–**	–
Unallocated corporate expenses											**(64,283)**	(8,241)	**–**	–
(Loss) profit from operations											**(45,321)**	6,732	**–**	(17,451)
Finance costs											**(1,154)**	(600)	**–**	–
(Loss) profit before tax											**(46,475)**	6,132	**–**	(17,451)
Income tax expense											**(1,236)**	(1,320)	**–**	–
Net (loss) profit for the year											**(47,711)**	4,812	**–**	(17,451)
Segment assets	**101,627**	69,177	**1,161**	998	**122,124**	–	**–**	–	**–**	–	**224,912**	70,175	**–**	–
Unallocated assets											**155,840**	4,722	**–**	–
Total assets											**380,752**	74,897	**–**	–
Segment liabilities	**39,150**	29,869	**21**	–	**67,069**	–	**–**	–	**–**	–	**106,240**	29,869	**–**	–
Unallocated liabilities											**3,501**	8,502	**–**	–
Total liabilities											**109,741**	38,371	**–**	–

8. FINANCE COSTS

	Continuing operations		Discontinued operations		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Interest on secured bank loan and other borrowings wholly repayable within five years	**1,042**	410	**–**	–	**1,042**	410
Interest on loan from a related company	**112**	190	**–**	–	**112**	190
	1,154	600	**–**	–	**1,154**	600

9. LOSS FOR THE YEAR

	Continuing operations		Discontinued operations		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Loss for the year has been arrived at after charging (crediting):						
Auditors' remuneration	**930**	513	**–**	15	**930**	528
Cost of goods sold	**106,412**	10,154	**–**	–	**106,412**	10,154
Depreciation of property, plant and equipment	**2,618**	2,440	**–**	1,246	**2,618**	3,686
Amortisation of lease premium for land	**58**	56	**–**	–	**58**	56
Amortisation of intangible assets	**–**	164	**–**	249	**–**	413
Written off of intangible assets	**–**	1,377	**–**	–	**–**	1,377
Loss on disposal of property, plant and equipment	**–**	403	**–**	–	**–**	403
Gain on disposal of property, plant and equipment	**383**	–	**–**	–	**383**	–
Exchange loss	**114**	131	**–**	–	**114**	131
Operating lease payments in respect of rented premises	**1,684**	1,520	**–**	1,032	**1,684**	2,552
Allowance for bad and doubtful debts	**–**	409	**–**	–	**–**	409
Provision for slow moving inventories	**–**	–	**–**	888	**–**	888
Research and development costs	**457**	1,964	**–**	932	**457**	2,896
Staff costs, including staff's share-based payment expense and excluding director's remuneration *(note 14)*	**24,078**	7,519	**–**	6,152	**24,078**	13,671
Share-based payment expense for consultants	**20,028**	–	**–**	–	**20,028**	–
Written back upon termination of share option scheme	**(1,821)**	–	**–**	–	**(1,821)**	–

10. INCOME TAX EXPENSE

	THE GROUP	
	2007	2006
	HK$'000	*HK$'000*
Continuing operations		
Hong Kong profits tax *(Note (i))*	**–**	–
Overseas tax:		
Current year *(Note (ii))*	**1,236**	1,320
	1,236	1,320
Discontinued operations		
Over – provision in previous year	**–**	–
	1,236	1,320

Note:

(i) No provision for Hong Kong profits tax is required as the Group has no assessable profit for the year (2006: HK$Nil)

(ii) Overseas tax represents tax charges on the assessable profits of certain subsidiaries in the PRC calculated at the applicable rates.

(a) The tax charge for the year can be reconciled to the (loss) profit per the consolidated income statement as follows:

	THE GROUP	
	2007	2006
	HK$'000	*HK$'000*
(Loss) profit before tax:		
Continuing operations	**(46,475)**	6,132
Discontinued operations	**–**	(17,451)
	(46,475)	(11,319)
Tax at the applicable tax rate of 17.5% (2006:17.5%)	**(8,133)**	(1,981)
Effect of different tax rates of subsidiaries operating in other jurisdiction	**334**	1,599
Income of subsidiaries under tax exemption and reduction	**(869)**	–
Tax effect of expenses that are not deductible in determining taxable profit	**10,557**	713
Tax effect on temporary differences not recognised	**(579)**	9
Tax effect of income that are not taxable in determining taxable profit	**(4,183)**	(2,008)
Utilisation of tax losses previously not recognised	**(96)**	–
Tax effect of unused tax losses not recorgnised	**4,205**	2,988
Tax charge for the year	**1,236**	1,320

10. INCOME TAX EXPENSE (continued)

(b) No provision for deferred tax liabilities has been made in the financial statements as the tax effect of the temporary difference is immaterial to the Group.

Deferred tax assets are not recognised for tax losses carry forward due to uncertainty of realisation of the related tax benefit through the future taxable profits. The Group has unrecognised tax losses of approximately HK$41,905,000 (2006: HK$31,430,000).

11. NET (LOSS) PROFIT FOR THE YEAR

The net loss for the year includes a loss of approximately HK$53,096,000 (2006: HK$982,000) which has been dealt with in the financial statements of the Company.

12. DIVIDENDS

No dividends have been paid or declared by the Company during the year (2006: HK$Nil).

13. (LOSS) EARNINGS PER SHARE

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

	2007	2006
	HK$'000	*HK$'000*
For continuing and discontinued operations		
Loss attributable to shareholders	**(47,570)**	(4,815)
For continuing operations		
(Loss) profit attributable to shareholders	**(47,570)**	5,656

	Number of shares	
	2007	2006
Weighted average number of ordinary shares in issue during the year	**875,549,589**	564,000,000

No diluted loss per share has been presented because the exercise prices of the Company's options were higher than the average market price of the Shares for the year 2006 and 2007.

14. STAFF COSTS EXCLUDING DIRECTORS' REMUNERATION

	Continuing operations		Discontinued operations		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Salaries and wages	**8,450**	6,339	**–**	5,425	**8,450**	11,764
Staff welfare benefits	**2,156**	1,043	**–**	727	**2,156**	1,770
Retirement benefits scheme contributions	**76**	137	**–**	–	**76**	137
Share-based payment expense	**13,396**	–	**–**	–	**13,396**	–
	24,078	7,519	**–**	6,152	**24,078**	13,671

15. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

(a) Directors' remuneration

The emoluments paid or payable to each of the 13 (2006: 9) directors were as follows:

The Group	Fees	Salaries, allowances, and other remuneration	Employer's contributions to pension schemes	2007 Total emoluments	2006 Total emoluments
	HK$'000	*HK$'000*	*HK$'000*	***HK$'000***	*HK$'000*
Executive Directors					
Mr. Cai Zuping *(Chairman)*	–	584	12	**596**	597
Mr. Wu Yangang *(Vice Chairman)*	–	–	–	**–**	–
Mr. Sun Guiping	–	–	–	**–**	–
Mr. Stephen William Frostick	–	60	–	**60**	–
Mr. Zhang Zheng	–	–	–	**–**	532
Mr. Gao Guo Long	–	30	–	**30**	–
Non-executive Director					
Mr. Chen Kang	–	–	–	**–**	–
Independent Non-executive Directors					
Mr. Jin Ge	–	55	–	**55**	60
Mr. Tso Hon Sai, Bosco	–	35	–	**35**	–
Mr. Lee Chi Hwa, Joshua	–	35	–	**35**	–
Mr. Chang Jun	–	10	–	**10**	–
Mr. Pan Boxin	–	25	–	**25**	60
Mr. Sik Siu Kwan	–	25	–	**25**	60
Total	–	859	12	**871**	1,309

15. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION (continued)

(a) Directors' remuneration (continued)

The number of directors whose remuneration fell within the following hand is as follows:

	2007	2006
HK$Nil to HK$1,000,000	**13**	9

During the year, no remuneration was paid by the Group to any of the directors as an inducement to join the Group or as compensation for loss of office.

No director waived or agreed to waive any of their emoluments in respect of two years ended 31 December 2007 and 2006.

(b) Five highest paid individuals

The five individuals whose remuneration were the highest in the Group for the year included two (2006: two) directors whose remuneration are reflected in the analysis presented above. The remuneration paid and payable to the remaining three (2006: three) individuals during the year are as follows:

	2007	2006
	HK$'000	*HK$'000*
Salaries, allowances and other benefits in kind	**1,401**	1,986
Retirement benefits scheme contributions	**28**	66
Share-based payment expenses	**13,396**	–
	14,825	2,052

The number of the highest paid individuals whose remuneration fell within the following band is as follows:

	2007	2006
HK$Nil to HK$1,000,000	**1**	3

During the year, no remuneration (2006: HK$Nil) was paid by the Group to any of the highest paid individuals as an inducement to join the Group or as compensation for loss of office.

16. PROPERTY, PLANT AND EQUIPMENT

	Property under development HK$'000	Land and buildings under medium leases outside Hong Kong HK$'000	Leasehold Improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Computer equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
THE GROUP								
COST OR VALUATION								
At 1 January 2006	139	2,009	2,061	1,461	5,399	7,104	2,301	20,474
Exchange rate adjustment	7	100	102	73	251	331	115	979
Reclassification	–	–	98	1,120	(1,324)	106	–	–
Additions	680	583	7	–	572	960	1,414	4,216
Surplus on revaluation	–	378	–	–	–	–	–	378
Disposals	–	(2,109)	(1,383)	(960)	(1,789)	(5,530)	(1,241)	(13,012)
Disposal of subsidiaries	–	–	–	–	(77)	(285)	(168)	(530)
At 31 December 2006 and 1 January 2007	826	961	885	1,694	3,032	2,686	2,421	12,505
Exchange rate adjustment	41	48	44	84	134	111	121	583
Reclassification	–	–	–	–	–	–	–	–
Additions	19,245	–	194	16,020	416	597	6,550	43,022
Disposals	–	–	(97)	(1,783)	(332)	(724)	(537)	(3,473)
At 31 December 2007	**20,112**	**1,009**	**1,026**	**16,015**	**3,250**	**2,670**	**8,555**	**52,637**
DEPRECIATION								
At 1 January 2006	–	199	806	1,049	4,068	3,587	941	10,650
Exchange rate adjustment	–	10	40	52	188	159	47	496
Reclassification	–	–	26	991	(1,159)	142	–	–
Charge for the year	–	178	618	284	550	1,038	1,018	3,686
Written off upon disposal	–	(315)	(919)	(933)	(1,310)	(2,639)	(771)	(6,887)
Disposal of subsidiaries	–	–	–	–	(39)	(27)	(30)	(96)
At 31 December 2006 and 1 January 2007	–	72	571	1,443	2,298	2,260	1,205	7,849
Exchange rate adjustment	–	4	27	72	100	91	60	354
Reclassification	–	–	–	–	–	–	–	–
Charge for the year	–	44	101	469	281	388	1,335	2,618
Written off upon disposal	–		(43)	(1,542)	(236)	(630)	(137)	(2,588)
Disposal of subsidiaries	–	–	–	–	–	–	–	–
At 31 December 2007	**–**	**120**	**656**	**442**	**2,443**	**2,109**	**2,463**	**8,233**
NET BOOK VALUE								
At 31 December 2007	**20,112**	**889**	**370**	**15,573**	**807**	**561**	**6,092**	**44,404**
At 31 December 2006	826	889	314	251	734	426	1,216	4,656

16. PROPERTY, PLANT AND EQUIPMENT (continued)

The analysis of the cost or valuation of the above assets at 31 December 2007 is as follows:

	Property under development	Land and buildings under medium leases outside Hong Kong	Leasehold Improvements	Plant and machinery	Furniture, fixtures and equipment	Computer equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At cost	20,112	–	1,026	16,015	3,250	2,670	8,555	51,628
At valuation	–	1,009	–	–	–	–	–	1,009
	20,112	1,009	1,026	16,015	3,250	2,670	8,555	52,637

THE COMPANY	**Leasehold improvement**	**Furniture, fixtures and equipment**	**Computer equipment**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
COST				
At 1 January 2006, 31 December 2006 and 1 January 2007	28	199	391	618
Additions	–	–	74	74
At 31 December 2007	**28**	**199**	**465**	**692**
DEPRECIATION				
At 1 January 2006	14	184	324	522
Charge for the year	14	3	29	46
At 31 December 2006 and 1 January 2007	28	187	353	568
Charge for the year	–	3	32	35
At 31 December 2007	**28**	**190**	**385**	**603**
NET BOOK VALUE				
At 31 December 2007	**–**	**9**	**80**	**89**
At 31 December 2006	–	12	38	50

16. PROPERTY, PLANT AND EQUIPMENT (continued)

(a) The Group's land and buildings under medium leases outside Hong Kong were revalued at 31 December 2003 on the basis of open market value in existing use by Sallmanns (Far East) Limited, an independent firm of professional valuers. The directors considered that the carrying amount of the Group's land and building did not differ significantly from those which would be determined using fair values at the balance sheet date. The surplus arising on revaluation has been credited to the revaluation reserve account.

(b) The carrying amount of the Group's land and buildings under medium leases outside Hong Kong would have been approximately HK$103,000 (2006: HK$116,000) had it been stated at cost less accumulated depreciation.

(c) The net book value of motor vehicle of HK$6,092,000 includes an amount of HK$4,800,000 (2006: Nil) which is used to secure the loan from other entity.

17. LEASE PREMIUM FOR LAND

THE GROUP	*HK$'000*
COST	
At 1 January 2006	2,670
Exchange adjustments	133
At 31 December 2006 and 1 January 2007	2,803
Exchange adjustments	148
At 31 December 2007	**2,951**
ACCUMULATED AMORTISATION	
At 1 January 2006	49
Exchange adjustments	2
Amortisation for the year	56
At 31 December 2006 and 1 January 2007	107
Exchange adjustments	7
Amortisation for the year	58
At 31 December 2007	**172**
NET BOOK VALUE	
At 31 December 2007	**2,779**
At 31 December 2006	2,696
Non-current portion	2,721
Current portion of lease premium for land	58
	2,779

The leasehold land is held under medium-term lease and situated in the PRC.

18. INVESTMENT IN SUBSIDIARIES

	THE COMPANY	
	2007	2006
	HK$'000	*HK$'000*
Unlisted shares, at cost *(Note (a))*	**31,783**	32,733
Impairment losses	**(9,133)**	(9,133)
Amounts due from subsidiaries *(Note (b))*	**100,315**	21
Amounts due to subsidiaries *(Note (b))*	**(7,079)**	(11,623)
	115,886	11,998

(a) Details of the Company's subsidiaries at 31 December 2007 are as follow:

Name	Place of incorporation and principal place of operation	Issued and fully paid up capital	The Company's equity interest	Principal activities
Directly held:				
Neolink Communications Technology (BVI) Limited	British Virgin Islands	Ordinary US$50,000	100%	Investment holding
China Gocom Information (BVI) Limited	British Virgin Islands	Ordinary US$50,000	100%	Investment holding
China Gocom (Holdings) Limited	Hong Kong	Ordinary HK$1,000.000	100%	Inactive
Probest Technology Limited	British Virgin Islands	Ordinary US$1	100%	Investment holding
Hong Kong Chang Kong (Holdings) Limited	British Virgin Islands	Ordinary US$100	100%	Investment holding
Golden Motor Worldwide Limited	British Virgin Islands	Ordinary US$1	100%	Trading of securities
Indirectly held:				
Neolink Wireless Technology Limited	Hong Kong	Ordinary HK$1,000,000	100%	Inactive
Neolink Communications Technology Limited	Hong Kong	Ordinary HK$10,000	100%	Investment holding and marketing of radio trunking system

18. INVESTMENT IN SUBSIDIARIES (continued)

Name	Place of incorporation and principal place of operation	Issued and fully paid up capital	The Company's equity interest	Principal activities
China Gocom Information Limited	Hong Kong	Ordinary HK$10,000	100%	Investment holding
Beijing Neolink Information Technology Company Limited	The PRC	Registered US$300,000	100%	Trading of products relating to telemedia system and provision of relevant and related technical services
Neolink Electronic Technology (Beijing) Company Limited	The PRC	Registered US$200,000	100%	Marketing of radio trunking systems
Neolink Huadian Electronic Technology (Shenzhen) Company Limited	The PRC	Registered US$500,000	100%	Sales of radio trunking systems, related hardware and software
Neolink Communications Technology (Hangzhou) Limited	The PRC	Registered HK$33,500,000 *(Note (i))*	100%	Development of telecommunication software and provision of related technical services
Neolink Broadway Intelligent Transportation Information Technology (Shanghai) Limited	The PRC	Registered US$600,000 *(Note (ii))*	67%	Development and sales of intelligent transportation related hardware and software
Hangzhou Neolink Software Technology Company Limited	The PRC	Registered RMB16,812,820	100%	Development and sales of radio trunking systems related software

(b) Amounts due from/to subsidiaries are unsecured, interest-free and are not repayable within the next twelve months.

19. JOINT VENTURES

As at 31 December 2007, the Group had interests in the following significant jointly controlled entities:

Name of entity	Form of business structure	Place of incorporation	Principal place of operation	Issued and fully paid up capital	Proportion of nominal value of issued capital held by the Group	Proportion of voting power held	Principal activities
South JinKang Automobile Parts and Components Company Limited	Incorporated	The PRC	The PRC	Registered RMB100,000,000	49%	49%	Manufacturing and sales of automobile stamping and welding parts and related accessories

The summarised financial information in respect of the Group's jointly controlled entities which are accounted for using proportionate consolidation with the line-by-line reporting format is set out below:

	2007
	HK$'000
Current assets	**103,891**
Non-current assets	**18,233**
Current liabilities	**67,069**
Income	**105,744**
Expenses	**102,267**

20. INVENTORIES

	THE GROUP	
	2007	2006
	HK$'000	*HK$'000*
Raw materials	**26,323**	2,568
Work in progress	**5,290**	3,846
Finished goods	**39,530**	1,643
	71,143	8,057

21. TRADE RECEIVABLES

The ageing analysis of trade receivables is as follows:

	THE GROUP	
	2007	2006
	HK$'000	*HK$'000*
0 to 30 days	**24,764**	16,144
31 to 60 days	**2,184**	6,312
61 to 90 days	**53**	180
91 to 120 days	**140**	1,048
Over 120 days	**6,086**	9,152
	33,227	32,836

The Group has a policy of allowing its trade customers with credit period normally ranging from 45 days to 60 days or according to the terms of the sales contracts.

22. TRADE PAYABLES

The ageing analysis of trade payables is as follows:

	THE GROUP	
	2007	2006
	HK$'000	*HK$'000*
0 to 30 days	**33,264**	–
31 to 60 days	**5,279**	65
61 to 90 days	**496**	–
91 to 120 days	**248**	–
Over 120 days	**1,051**	1,873
	40,338	1,938

23. AMOUNT DUE FROM/TO ULTIMATE HOLDING COMPANY

The amount due to ultimate holding company is unsecured, interest-free and has no fixed terms of repayment.

24. CASH AND BANK BALANCE

	THE GROUP	
	2007	2006
	HK$'000	*HK$'000*
Cash and bank balances	**168,401**	12,215
Pledged fixed deposits *(Note 25)*	**2,007**	–
Pledged bank deposits *(Note 29)*	**4,000**	–
	174,408	12,215

25. BORROWINGS

	THE GROUP	
	2007	2006
	HK$'000	*HK$'000*
Secured bank loans *(Note 1)*	**5,263**	8,000
Loan from other entity *(Note 2)*	**2,487**	–
	7,750	8,000
Carrying amount repayable:		
On demand or within one year	**5,951**	8,000
More than one year, but not exceeding two years	**724**	–
More than two years, but not more than five years	**1,075**	–
	7,750	8,000
Less: Amounts due within one year shown under current liabilities	**5,951**	8,000
	1,799	–

Notes:

(1) The bank loans are interest-bearing at 6.44% and 7.73% and are guaranteed by the corporate guarantee provided by a related company of the Company.

(2) Fixed rate loan with interest at 2.85% with a finance company amount to HK$3 million (2006: HK$Nil) with maturity periods not exceeding 4 years (2006: Nil). The loan is secured by its motor vehicle with net book value of HK$4,800,000 and a fixed deposit of HK$2,007,000.

26. SHARE CAPITAL

	2007		2006	
	Number of shares	**Nominal value** *HK$'000*	Number of shares	Nominal value *HK$'000*
Ordinary shares of HK$0.10 each				
Authorised:				
At beginning of year	**1,000,000,000**	**100,000**	1,000,000,000	100,000
Increase in authorized share capital *(note (a))*	**1,000,000,000**	**100,000**	–	–
At end of year	**2,000,000,000**	**200,000**	1,000,000,000	100,000
Issued and fully paid:				
At beginning of year	**564,000,000**	**56,400**	564,000,000	56,400
Placement of new shares *(note (b))*	**604,160,000**	**60,416**	–	–
At end of year	**1,168,160,000**	**116,816**	564,000,000	56,400

(a) Pursuant to the resolution passed in the Annual General Meeting of the Company held on 9 May 2007, the authorized share capital was increased from HK$100 million to HK$200 million by the creation of an additional 1,000,000,000 ordinary shares of HK$0.1 each.

(b) On 16 January 2007, 2 March 2007, 14 July 2007 and 27 November 2007, the substantial shareholder of the Company respectively entered into a placing agreement to place 112,800,000, 135,360,000, 162,000,000 and 194,000,000 existing shares of the Company to independent investors at a placing price of HK$0.123, HK$0.315, HK$0.91 and HK$0.218 per share. On the same dates, the Company and the substantial shareholder of the Company entered into a conditional subscription agreement to subscribe for 112,800,000, 135,360,000, 162,000,000 and 194,000,000 shares of the Company at HK$0.123, HK$0.315, HK$0.91 and HK$0.218 per share respectively.

27. RESERVES

The Company	Share premium *Note (i)* *HK$'000*	Share-based compensation reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 January 2006	26,993	1,092	(73,499)	(45,414)
Employee share option benefit	–	729	–	729
Net loss for the year	–	–	(982)	(982)
At 31 December 2006	26,993	1,821	(74,481)	(45,667)
At 1 January 2007	26,993	1,821	(74,481)	(45,667)
Written off upon termination of share option scheme	–	(1,821)	–	(1,821)
Employee share option benefit	–	33,424	–	33,424
Shares issued	185,809	–	–	185,809
Net loss for the year	–	–	(53,096)	(53,096)
At December 2007	**212,802**	**33,424**	**(127,577)**	**118,649**

(i) Under the Companies Law of the Cayman Islands, the share premium is available for distribution to shareholders subject to a solvency test on the Company and the provisions of the Articles of Association of the Company.

28. SHARE OPTIONS

(a) Pursuant to the share option scheme (the "old Share Option Scheme") adopted by the Company on 17 April 2003, the board of directors may, at their discretion, grant options to the directors, any employee, any consultant or adviser of or to any company, in the Group or any invested entity and any supplier of goods or services to any member of the Group or any invested entity, any person or entity that provides research, development or other technological support to the Group or any invested entity, and any company wholly-owned by one or more persons belonging to any of the above classes to which the options are granted (collectively referred as to "Eligible Persons") to subscribe for shares of the Company.

The subscription price will be determined by the board and will be no less than the highest of:

i. the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet on the date of grant of the option which must be a business day; and

ii. the average closing price of the shares of the Company, as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the option, and

iii. the nominal value of the shares.

28. SHARE OPTIONS (continued)

A nominal consideration at HK$1 should be paid by Eligible Persons for each offer of share option granted.

Unless approved by the shareholders of the Company in general meeting, the total number of shares issued and to be issued upon the exercise of the options granted and to be granted to any Eligible Person (including both exercised and outstanding options) in any 12-month period up to and including the date of grant of the option to such Eligible Person shall not exceed 1% of the issued share capital of the Company.

Subject to certain conditions, the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other scheme in force from time to time must not in aggregate exceed 30% of the shares in issue from time to time. No option may be granted under the old Share Option Scheme and any other scheme of the Company (or its subsidiaries) if such grant will result in the aforesaid 30% limit being exceeded.

Eligible Persons may exercise the options, in whole or in part, at any time during the period commencing from after the first anniversary of the date of grant of the option to the expiry date of the exercise period.

The Scheme becomes effective for a period of 10 years which were commenced from its date of adoption on 17 April 2003.

(b) The Company adopted a new share option scheme ("new Share Option Scheme") on 30 July 2007, which became effective for a period of 10 years commencing on 10 August 2007 and will expire on 9 August 2017. Under the Scheme, the Directors of the Company may at their discretion grant options to any eligible person to subscribe for the shares of the Company ("Share") at the higher of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (ii) the average closing price of the Share as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a Share. The offer of a grant of option shall remain open for acceptance within 21 days from the date of offer. A nominal consideration of HK$1 is payable on acceptance of the grant of the option. The exercise period of the option must not be more than 10 years from the date of grant of the option.

The Company operates the new Share Option Scheme for the purpose of advancing the interests of the Company and its shareholders by enabling the Company to grant options to attract, retain and reward any eligible persons which include any director of the Group, any employee of a Group, any consultant, adviser, agent, supplier, customer, business partner and shareholder of the Group for their contribution or potential contribution to the Group.

The total number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes in force from time to time must not in aggregate exceed 30% of the Share in issue from time to time.

The total number of Shares which may be issued upon exercise of all options to be granted under the Scheme shall not in aggregate exceed 10% of the total number of Shares in issue as at the date of the passing of the relevant resolution adopting the scheme.

28. SHARE OPTIONS (continued)

(c) During the year, the old Share Option Scheme was terminated on 14 January 2007. All outstanding options granted under the old Share Option Scheme were cancelled upon termination thereof.

Pursuant to the new Share Option Scheme as at 31 December 2007, the employees and consultants were granted share options to subscribe for shares of the Company.

Movements of share options during the year are as follows:

Date of grant	Exercise period	Exercise price per share	Closing price before the date of grant	Number of share options outstanding at 1 Jan 2007	Number of share options granted during the year	Number of share options exercised during the year	Number of share options lapsed during the year	Number of share options outstanding at 31 Dec 2007
Employees								
24 June 2005	24 June 2006 – 23 June 2008	0.20	0.17	27,150,000	–	–	(27,150,000)	–
10 August 2007	10 August 2007 – 9 August 2012	0.38	0.68	–	38,960,000	–	–	38,960,000
				27,150,000	38,960,000	–	(27,150,000)	38,960,000
Consultants								
10 August 2007	10 August 2007 – 9 August 2012	0.38	0.68	–	58,440,000	–	–	58,440,000
Total				27,150,000	97,400,000	–	(27,150,000)	97,400,000

29. BANKING FACILITIES

At 31 December 2007, the Group's banking facilities of approximately RMB15,000,000 are guaranteed by the corporate guarantee provided by Mr. Cai Zuping, Mr. Zhang Zheng, Mr. Chen Huanming and Beijing Haoyuan Yingte Development Limited ("Haoyuan Yingte"), a related company of the Company *(note 34(iii))*.

At the balance sheet date, the Group has other banking facility amounting to HK$4,448,000 (2006: HK$Nil) was secured by its bank deposit of HK$4,000,000 (2006: HK$Nil). The facility was not utilized as at the balance sheet date.

30. LEASE COMMITMENTS

At 31 December 2007, the capital commitment and minimum lease payments under non-cancellable operating leases for the land and buildings are payable as follows:

	2007	2006
	HK$'000	*HK$'000*
(a) Operating lease commitments in respect of land and buildings which fall due as follows:		
Within one year	**1,294**	997
In more than one year but not exceeding five years	**3,009**	980
	4,303	1,977

31. CAPITAL COMMITMENT

	2007	2006
	HK$'000	*HK$'000*
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**14,393**	–

In addition to the above, the Group shall contribute its share of the further investment in the joint venture company of RMB98 million (equivalent to approximately HK$103 million) in cash in order to commit the total investment thereof.

Furthermore, the Group's share of the capital commitments of its joint ventures are as follows:

Contracted for but not provided	**843**	–
Authorised but not contracted for	**106,448**	–

32. DISPOSAL OF SUBSIDIARIES

	2007	2006
	HK$'000	*HK$'000*
Net assets disposed of:		
Property, plant and equipment	–	434
Inventories	–	554
Amounts due from related companies	–	553
Trade receivables an other receivables	–	351
Cash and bank balances	–	1,303
Amounts due to related companies	–	(37)
Trade payables and other payables	–	(26)
	–	3,132
Minority interest	–	(1,253)
Gain on disposal of subsidiaries	–	1,121
	–	3,000
Satisfied by:		
Cash	–	1,000
Deferred consideration	–	2,000
	–	3,000
Net cash flow arising on disposal during the year		
Cash consideration	–	1,000
Cash and bank balances disposed of	–	(1,303)
	–	(303)

33. RETIREMENT BENEFIT COSTS

The Group operates a Mandatory Provident Fund scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated income statement as they become payable in accordance with the rules of the MPF Scheme (i.e. 5% of staff's relevant income with upper monthly limit of HK$1,000). The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with employees when contributed into the MPF Scheme.

In addition to the participation in the MPF Scheme, the Group is required to contribute to a defined contribution retirement scheme for its employees in the PRC based on the applicable basis and rates with the relevant government regulations. (i.e. 8% – 23% of the basic salary).

The only obligation of the Group in respect of the retirement benefit schemes is to make the required contributions under the respective schemes.

The total cost charged to the consolidated income statement of approximately HK$447,000 (2006: HK$342,000) represents contributions payable to the retirement benefit schemes in Hong Kong and the PRC by the Group for the year ended 31 December 2007 at rates specified in the rules of the relevant schemes at 31 December 2007, contributions due in respect of the current reporting year had not been paid over the relevant schemes was HK$Nil (2006: HK$Nil).

34. RELATED PARTY TRANSACTIONS

(a) In the normal course of business the Group entered into the following significant transactions with related parties during the year:

		THE GROUP	
		2007	2006
	NOTES	***HK$'000***	*HK$'000*
Sales of equipment, monitor systems and provision of technical services to			
– Haoyuan Yingte	(i)	**–**	574
– Hangzhou Neolink Communication System Company Limited ("Hangzhou Communication")	(ii)	**14,712**	–
– Beijing Carbase Technology Co. Ltd. ("Beijing Carbase")	(iii)	**750**	–
Purchase of raw material from Hangzhou Communication	(ii)	**1,797**	–
Sales of automobile stamping and welding parts and related accessories to Chongqing Changan Jinling Automobile Parts Co., Ltd. ("Chongqing Changan Jinling")	(iv)	**66,922**	–
Purchase of raw material from Chongqing Changan Jinling	(iv)	**77,864**	–
Loan interest paid to Shenzhen Communication	(v)	**112**	187
Office administrative services income received from			
– Qing Jiang HK	(vi)	**10**	10
– Harbour Smart	(vi)	**10**	10
Office administrative service expenses paid to			
– Qing Jiang HK		**60**	–
– CarBase Information Technology (Beijing) Company Limited	(vi)	**–**	139

(b) During the year the Group borrowed loan of approximately HK$3,706,000 (2006: HK$3,404,000) from Shenzhen Communication *(Note (v))*. The loan is unsecured, interest-bearing from 6.13% to 6.57% (2006: 6.13%) per annum and is repayable within twelve months.

(c) During the year, the Group borrowed loan of approximately HK$53,000 (2006: HK$5,000,000) from Hangzhou Communication *(Note (ii))*. The loan is unsecured, interest-free and has no fixed term of repayment.

34. RELATED PARTY TRANSACTIONS (continued)

Note:

(i) Haoyuan Yingte are indirectly owned by a relative of Mr. Cai Zuping, a director of the Company.

(ii) Hangzhou Communication is indirectly owned by a relative of Mr. Cai Zuping, a director of the Company.

(iii) Mr. Zhang Zheng was the Chief Executive officer and resigned during the year. Beijing CarBase is wholly-owned by Mr. Zhang Zheng.

(iv) Chongqing Changan Jinling holds 51% of South JinKang Automobile Parts and Components Company Limited.

(v) Shenzhen Communication is directly owned by a relative of Mr. Cai Zupnig, a director of the Company and Shenzhen Jin Jiang Dao Property Development Company, a wholly-owned company of Hubei Qing Jiang *(Note vi)*.

(vi) Hubei Qing Jiang, a beneficiary shareholder of the ultimate holding company of the Company, is a beneficiary shareholder of Qing Jiang HK and Harbour Smart.

Compensation of key management personnel

The remuneration of directors and other members of key management during the year can be referenced to note 15(a) and 15(b) to the financial statements. The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

35. ULTIMATE HOLDING COMPANY

The directors regard Infonet Group Co. Ltd., a company incorporated in the British Virgin Islands, as the ultimate holding company.

36. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current year's presentation.

FINANCIAL SUMMARY

For the year ended 31 December

	2007 HK$'000	2006 HK$'000	(Restated) 2005 HK$'000	(Restated) 2004 HK$'000	(Restated) 2003 HK$'000
Results					
Turnover	**141,812**	37,542	27,971	29,306	49,637
Profit (loss) from operations	**(45,321)**	5,611	1,475	(7,311)	10,472
Gain on deemed disposal of interest in a subsidiary	**–**	–	12,861	–	–
Gain on disposal of subsidiaries	**–**	1,121	–	–	–
Finance costs	**(1,154)**	(600)	(405)	(312)	(302)
Profit (loss) before tax	**(46,475)**	6,132	13,931	(7,623)	10,170
Income tax expense	**(1,236)**	(1,320)	(430)	(46)	(408)
Profit (loss) for the year from continuing operations	**(47,711)**	4,812	13,501	(7,669)	9,762
Loss before tax from discontinued operations	**(47,711)**	(17,451)	(6,933)	4,695	(847)
Income tax credit	**–**	–	102	–	–
Loss for the year from discontinued operations	**–**	(17,451)	(6,831)	4,695	(847)
	(47,711)	(12,639)	6,670	(2,974)	8,915
Profit (loss) attributable to shareholders	**(47,570)**	(4,815)	10,151	(3,065)	8,869
(Loss) profit attributable to minority interests	**(141)**	(7,824)	(3,481)	91	46
(Loss) profit for the year	**(47,711)**	(12,639)	6,670	(2,974)	8,915
Assets and liabilities					
Total assets	**380,752**	74,897	65,813	53,683	51,119
Total liabilities	**(109,741)**	(38,371)	(18,820)	(26,494)	(21,299)
Minority interests	**451**	310	(8,316)	(95)	(4)
Shareholders' funds	**271,462**	36,836	38,677	27,094	29,816