



Sunlink International Holdings Limited
科浪國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2336)

2006 INTERIM REPORT





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EXECUTIVE DIRECTORS

Wong Shu Wing (*Chairman*)
Choi Tat Kai
Lau Kit Hung

INDEPENDENT NON-EXECUTIVE DIRECTORS

Yeung Ming Tai
Chang Kin Man
Wong Lai Ying, Cecilia

COMPANY SECRETARY

Lau Kit Hung

PRINCIPAL BANKERS

Shanghai Commercial Bank Limited
DBS Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited
Standard Chartered Bank (Hong Kong) Limited
Bank of China (Hong Kong) Limited
Bank of Communications Company Limited (Hong Kong Branch)

AUDITORS

Deloitte Touche Tohmatsu

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

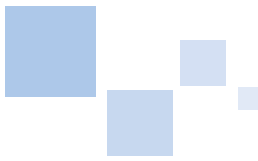
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M2M

“M2M is where any electronically controlled machine “talks” and imparts essential information faster, more accurately and more cost effectively than any other means between people, devices and systems.” (Sony Ericsson, M2M Division)

M2M technology can be applied in various telemetry and telematics applications such as metering & monitoring, security & surveillance, automotive systems and fleet & freight management.

KENJI mCAR TERMINAL

KENJI mCar Terminal is an automatic vehicle location device that integrates both GPS and GSM/GPRS communication technologies together primarily for real time location determination applications. The terminal can be used for various applications such as transport logistics, asset tracking, fleet management, vehicle safety and security.

VTRACK4U

VTRACK4U is an online vehicle tracking platform that integrates GPS, mapping system and GSM/GPRS technologies together to provide accurate location and vehicle information, dynamic traffic information and rich mobile contents in real time to both drivers and vehicle owners via Internet and mobile network.

Condensed Consolidated Income Statement

For the six months ended 30 June 2006

		Six months ended	
		30.6.2006	30.6.2005
		HK\$'000	HK\$'000
		(unaudited)	(unaudited)
	Notes		
Revenue	3	349,376	293,110
Cost of sales		(311,536)	(267,520)
Gross profit		37,840	25,590
Other income	4	1,633	3,591
Selling and distribution costs		(4,643)	(6,902)
General and administrative expenses		(18,122)	(15,469)
Amortisation of technology know-how		–	(1,365)
Finance costs	5	(4,265)	(2,430)
Profit before taxation	6	12,443	3,015
Income tax expenses	7	(2,405)	(1,396)
Profit for the period		10,038	1,619
Attributable to:			
Equity holders of the Company		10,010	1,606
Minority interests		28	13
		10,038	1,619
		HK cents	HK cents
Earnings per share	9		
Basic and diluted		2.1	0.3

Condensed Consolidated Balance Sheet

At 30 June 2006

	Notes	30.6.2006 HK\$'000 (unaudited)	31.12.2005 HK\$'000 (audited)
Non-current assets			
Investment properties	10	–	2,830
Property, plant and equipment	10	4,585	8,520
Available-for-sale investments	11	2,083	3,896
		6,668	15,246
Current assets			
Investment held for trading		28	21
Inventories		37,878	22,853
Debtors, deposits and prepayments	12	162,566	160,888
Tax recoverable		1,356	1,553
Pledged bank deposits		42,860	35,098
Bank balances and cash		31,318	18,719
		276,006	239,132
Asset classified as held for sale	10	2,384	–
		278,390	239,132
Current liabilities			
Creditors and accrued charges	13	48,807	42,253
Bills payables	14	7,875	5,528
Taxation		4,174	2,232
Obligations under a finance lease		46	47
Trust receipt loans		101,932	100,493
Bank overdrafts		1,984	1,802
Short term borrowings – secured		17,203	9,027
		182,021	161,382
Net current assets		96,369	77,750
Total assets less current liabilities		103,037	92,996
Non-current liabilities			
Obligations under a finance lease		3	31
Deferred taxation	15	386	529
		389	560
		102,648	92,436
Capital and reserves			
Share capital	16	47,300	47,300
Reserves		54,552	44,368
Equity attributable to equity holders of the Company		101,852	91,668
Minority interests		796	768
		102,648	92,436

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2006

	Attributable to equity holders of the Company							Minority interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000 (Note)	Investment revaluation reserve HK\$'000	Exchange reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000		
At 1 January 2005	47,300	53,529	(64,907)	–	9	45,965	81,896	774	82,670
Gain arising from fair value changes of available-for-sale investments	–	–	–	34	–	–	34	–	34
Exchange differences arising on translation of foreign operations	–	–	–	–	2	–	2	–	2
Net income recognised directly in equity	–	–	–	34	2	–	36	–	36
Release the amount previously adjusted to the retained profits on initial application of Hong Kong Accounting Standard ("HKAS") 39 upon disposal of an available-for-sale investment	–	–	–	–	–	(59)	(59)	–	(59)
Profit for the period	–	–	–	–	–	1,606	1,606	13	1,619
Total recognised income and expense for the period	–	–	–	34	2	1,547	1,583	13	1,596
At 30 June 2005	47,300	53,529	(64,907)	34	11	47,512	83,479	787	84,266
Gain arising from fair value changes of available-for-sale investments	–	–	–	146	–	–	146	2	148
Exchange differences arising on translation of foreign operations	–	–	–	–	41	–	41	–	41
Net income recognised directly in equity	–	–	–	146	41	–	187	2	189
Profit for the period	–	–	–	–	–	8,002	8,002	(21)	7,981
Total recognised income and expense for the period	–	–	–	146	41	8,002	8,189	(19)	8,170
At 31 December 2005	47,300	53,529	(64,907)	180	52	55,514	91,668	768	92,436

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2006

	Attributable to equity holders of the Company								
	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000 (Note)	Investment revaluation reserve HK\$'000	Exchange reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
Gain arising from fair value changes of available-for-sale investments	-	-	-	10	-	-	10	-	10
Exchange differences arising on translation of foreign operations	-	-	-	-	(17)	-	(17)	-	(17)
Net income and expense recognised directly in equity	-	-	-	10	(17)	-	(7)	-	(7)
Release the amount previously adjusted to investment revaluation reserve and retained profits upon disposal of an available-for-sale investment	-	-	-	23	-	158	181	-	181
Profit for the period	-	-	-	-	-	10,010	10,010	28	10,038
Total recognised income and expense for the period	-	-	-	33	(17)	10,168	10,184	28	10,212
At 30 June 2006	47,300	53,529	(64,907)	213	35	65,682	101,852	796	102,648

Note: Special reserve represents the difference between the paid up capital of the then holding companies of the subsidiaries acquired as a result of the group reorganisation which had been completed on 20 December 2002 and the costs of investments in subsidiaries of the Company.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2006

	Six months ended	
	30.6.2006 <i>HK\$'000</i> (unaudited)	30.6.2005 <i>HK\$'000</i> (unaudited)
Net cash from (used in) operating activities:		
Profit before taxation	12,443	3,015
Gain on disposal of property, plant and equipment	(172)	–
Gain on derecognition of an available-for-sale investment	(39)	–
Decrease in fair value of investment properties	110	–
Increase in inventories	(15,025)	(16,191)
Increase in debtors, deposits and prepayments	(1,678)	(23,981)
Increase in creditors and accrued charges	6,554	7,923
Increase in bills payables	2,347	6,435
Others	189	(592)
	4,729	(23,391)
Net cash used in investing activities:		
Increase in pledge bank deposits	(7,762)	(1,206)
Proceeds on disposal of property, plant and equipment	550	–
Proceeds on disposal of investment properties	2,720	–
Proceeds on disposal of an available-for-sale investment	2,043	–
Others	568	180
	(1,881)	(1,026)

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2006

	Six months ended	
	30.6.2006 HK\$'000 (unaudited)	30.6.2005 HK\$'000 (unaudited)
Net cash from financing activities:		
Repayment of bank loans	(21,717)	(14,712)
Decrease in discounting advances drawn on trade debtors	(158)	(232)
Repayment of obligations under finance leases	(29)	(24)
Decrease in other borrowings	–	(1,907)
New bank loans raised	23,773	26,963
Increase in discounted bills receivables with full recourse	6,278	4,542
Increase in trust receipt loans	1,439	15,505
	9,586	30,135
Net increase in cash and cash equivalents	12,434	5,718
Cash and cash equivalents at 1 January	16,917	34,019
Effect of change in foreign exchange rate	(17)	2
Cash and cash equivalents at 30 June	29,334	39,739
Analysis of the balance of cash and cash equivalents		
Bank balances and cash	31,318	42,137
Bank overdrafts	(1,984)	(2,398)
	29,334	39,739

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2006

1. BASIS OF PREPARATION

The Company is an exempted company with limited liability incorporated in the Cayman Islands under the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company.

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard 34 ("HKAS 34") "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments, which are measured at fair values.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005.

In the current period, the Group has applied, for the first time, a number of new standards, amendments and interpretations (new "HKFRSs") issued by the HKICPA that are either effective for accounting periods beginning on 1 December 2005 or after 1 January 2006. The adoption of these new HKFRSs has had no material effect on how the results of operations and financial position of the Group for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

The Group has not early applied the following new standard, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new standard, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures ¹
HKFRS 7	Financial Instruments: Disclosures ¹
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ²
HK(IFRIC)-Int 8	Scope of HKFRS 2 ³
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives ⁴

¹ Effective for annual periods beginning on or after 1 January 2007

² Effective for annual periods beginning on or after 1 March 2006

³ Effective for annual periods beginning on or after 1 May 2006

⁴ Effective for annual periods beginning on or after 1 June 2006

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2006

3. REVENUE AND SEGMENT INFORMATION

The Group's primary format for reporting segment information is business segment:

For the six months ended 30 June 2006

	Distribution of semiconductors <i>HK\$'000</i>	Development and provision of electronic turnkey device solutions <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue				
External sales	245,134	104,242	-	349,376
Inter-segment sales	-	23	(23)	-
Total revenue	245,134	104,265	(23)	349,376
Segment results	11,275	5,378	-	16,653
Unallocated corporate income				55
Finance costs				(4,265)
Profit before taxation				12,443
Income tax expenses				(2,405)
Profit for the period				10,038

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2006

3. REVENUE AND SEGMENT INFORMATION (CONT'D)

For the six months ended 30 June 2005

	Distribution of semiconductors HK\$'000	Development and provision of electronic turnkey device solutions HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
Revenue				
External sales	245,046	48,064	–	293,110
Inter-segment sales	108	46	(154)	–
Total revenue	245,154	48,110	(154)	293,110
Segment results	4,573	684	–	5,257
Unallocated corporate income				188
Finance costs				(2,430)
Profit before taxation				3,015
Income tax expenses				(1,396)
Profit for the period				1,619

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2006

4. OTHER INCOME

	Six months ended	
	30.6.2006	30.6.2005
	HK\$'000	HK\$'000
Included in other income are:		
Gain arising from fair value changes of forward contracts financial assets	–	2,308
Gain on derecognition of an available-for-sale investment	39	–
Gain on disposal of a leasehold property	172	–
Increase in fair value of investment held for trading	7	–
Interest income	584	188
Rental income	237	116

5. FINANCE COSTS

	Six months ended	
	30.6.2006	30.6.2005
	HK\$'000	HK\$'000
Interest on bank borrowings wholly repayable within five years	4,261	1,986
Finance lease charges	4	4
Interest on other borrowings	–	440
	4,265	2,430

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2006

6. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	Six months ended	
	30.6.2006	30.6.2005
	HK\$'000	HK\$'000
Depreciation of property, plant and equipment	<u>1,189</u>	<u>598</u>

7. INCOME TAX EXPENSES

	Six months ended	
	30.6.2006	30.6.2005
	HK\$'000	HK\$'000
The charge comprises:		
Hong Kong Profits Tax		
Current period	2,548	922
Deferred taxation		
Current period (Note 15)	<u>(143)</u>	<u>474</u>
	<u>2,405</u>	<u>1,396</u>

Hong Kong Profits Tax is calculated at 17.5% (six months ended 30.6.2005: 17.5%) of the estimated assessable profit for the period.

8. DIVIDEND

The Directors have resolved not to declare any interim dividend for the six months ended 30 June 2006 (six months ended 30.6.2005: Nil).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2006

9. EARNINGS PER SHARE

The calculations of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company for the six months ended 30 June 2006 and 30 June 2005 are based on the profit for the period attributable to the ordinary equity holders of the Company of HK\$10,010,000 (six months ended 30.6.2005: HK\$1,606,000) and on 473,000,000 shares in issue (six months ended 30.6.2005: 473,000,000 shares in issue).

The computation of diluted earnings per share for the six months ended 30 June 2006 and six months ended 30 June 2005 does not assume the exercise of the Company's outstanding share options as the exercise prices of those options are higher than the average market prices of the Company's shares for that period.

10. INVESTMENT PROPERTIES, PROPERTY, PLANT AND EQUIPMENT AND ASSET CLASSIFIED AS HELD FOR SALE

During the period, the Group derecognised its investment properties for considerations of HK\$2,720,000 upon disposals, resulting in a decrease in fair value of HK\$110,000 recognised upon disposals.

The Group also derecognised its leasehold property with a carrying amount of HK\$378,000 for a consideration of HK\$550,000 upon disposal, resulting in a gain on disposal of HK\$172,000.

In April 2006, the Group entered into a sale and purchase agreement with an outsider to dispose of a leasehold property with a carrying amount of HK\$2,384,000 at a consideration of HK\$6,350,000. The transaction was completed in August 2006. Accordingly, the leasehold property has been reclassified as an asset held for sale and is presented separately on the condensed consolidated balance sheet. No impairment loss has been recognised.

11. AVAILABLE-FOR-SALE INVESTMENTS

In the current period, the Group derecognised an unlisted unit trust fund with a carrying amount of HK\$1,823,000 for a consideration of HK\$2,043,000 upon disposal. A gain on derecognition of HK\$39,000, after the reversal of cumulative losses of HK\$23,000 and HK\$158,000 previously recognised in investment revaluation reserve and retained profits respectively, has been recognised in condensed consolidated income statement for the current period.

12. DEBTORS, DEPOSITS AND PREPAYMENTS

The Group has a policy of allowing average credit period of 30 to 90 days to its trade customers. For certain customers with long-established relationship and good past settlement histories, a longer credit period may be granted.

An aged analysis of trade debtors is as follows:

	30.6.2006	31.12.2005
	HK\$'000	HK\$'000
Within 30 days	44,549	57,339
Between 31 to 60 days	30,378	42,078
Over 60 days	67,398	36,882
	142,325	136,299
Other debtors, deposits and prepayments	20,241	24,589
	162,566	160,888

Included in trade debtors are amounts of HK\$229,000 (31.12.2005: HK\$1,163,000) which have been pledged to certain banks to secure the receivable discounting advance facilities.

Included in trade debtors is discounted bills receivables with full recourse of HK\$7,136,000 (31.12.2005: HK\$858,000) which is aged between 30 days.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2006

13. CREDITORS AND ACCRUED CHARGES

An aged analysis of the trade creditors is as follows:

	30.6.2006	31.12.2005
	HK\$'000	HK\$'000
Within 30 days	12,398	12,297
Between 31 to 60 days	7,925	8,841
Over 60 days	10,497	6,875
	30,820	28,013
Other creditors and accrued charges	17,987	14,240
	48,807	42,253

14. BILLS PAYABLES

Included in bills payables are amount of HK\$6,115,000 (31.12.2005: HK\$3,656,000) aged within 30 days and the remaining balance of HK\$1,760,000 (31.12.2005: HK\$1,872,000) aged between 31 to 60 days.

15. DEFERRED TAXATION

The following are the major deferred tax liabilities (assets) recognised by the Group and movements thereon from 1 January 2006 to 30 June 2006 and previous periods:

	Accelerated tax depreciation	Tax losses	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2005	108	(108)	–
Charge (credit) to the condensed consolidated income statement	558	(84)	474
At 30 June 2005	666	(192)	474
(Credit) charge to the condensed consolidated income statement	(134)	189	55
At 31 December 2005	532	(3)	529
Credit to the condensed consolidated income statement	(143)	–	(143)
At 30 June 2006	389	(3)	386

At the balance sheet date, the Group has unused tax losses of HK\$2,332,000 (31.12.2005: HK\$8,502,000) available for offset against future profits. A deferred tax asset of HK\$3,000 (31.12.2005: HK\$3,000) has been recognised in respect of HK\$17,000 (31.12.2005: HK\$17,000) of such losses. No deferred tax assets has been recognised in respect of the remaining HK\$2,315,000 (31.12.2005: HK\$8,485,000) due to the unpredictability of future profit streams.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2006

16. SHARE CAPITAL

	Number of shares	Amount <i>HK\$'000</i>
Ordinary shares of HK\$0.1 each:		
Authorised		
At 1 January 2005, 31 December 2005 and 30 June 2006	1,000,000,000	100,000
Issued and fully paid:		
At 1 January 2005, 31 December 2005 and 30 June 2006	473,000,000	47,300

17. PLEDGE OF ASSETS

The Group pledged the following assets to secure general banking facilities at the balance sheet date:

	30.6.2006 HK\$'000	31.12.2005 <i>HK\$'000</i>
Available-for-sale investments	2,083	3,896
Bank deposits	42,860	35,098
Asset classified as held for sale	2,384	–
Trade debtors	229	1,163
Investment properties	–	2,830
Leasehold properties	–	2,799
	47,556	45,786

18. RELATED PARTY TRANSACTION

Compensation of key management personnel

The remuneration of directors and other members of key management during the period was as follows:

	Six months ended	
	30.6.2006	30.6.2005
	HK\$'000	<i>HK\$'000</i>
Salaries and other short-term benefits	3,334	3,099
Retirement benefits scheme contributions	124	108
	3,458	3,207



FINANCIAL REVIEW

Overall Review

In the first half of 2006, the Group recorded a significant increase of approximately 6.2 times in profit comparing with the same period of the previous year. The turnover and profit of the Group for the period ended 30 June 2006 amounted to approximately HK\$349.4 million and HK\$10.0 million respectively. The notable accomplishment for the period under review was mainly attributable to the Group's continuing effort in (i) implementing business strategies to improve the profit margin for the semiconductors distribution business; and (ii) capturing the rising demands for the products and solutions for the M2M integrated businesses.

In the first half of 2006, the Group recorded a marginal increase in turnover of semiconductors distribution business and a significant increase of approximately 116.9% in turnover in the electronic turnkey device solutions business. The turnovers for the semiconductors distribution business and electronic turnkey device solutions business were approximately HK\$245.1 million (30.6.2005: HK\$245.0 million) and HK\$104.2 million (30.6.2005: HK\$48.1 million) respectively. The total turnover of the Group was approximately HK\$349.4 million (30.6.2005: HK\$293.1 million), an increase of approximately 19.2% comparing with the same period of 2005. Gross profit margin as a whole was approximately 10.8%, an increase of approximately 2.1%. Profit for the period of the Group was approximately HK\$10.0 million (30.6.2005: HK\$1.6 million).

Financial Resources and Liquidity

As at 30 June 2006, the Group had bank balances and cash of approximately HK\$31.3 million (31.12.2005: HK\$18.7 million). The Group had total assets of approximately HK\$285.1 million (31.12.2005: HK\$254.4 million) which was financed by current liabilities of approximately HK\$182.0 million (31.12.2005: HK\$161.4 million), minority interests of approximately HK\$0.8 million (31.12.2005: HK\$0.8 million) and shareholders' equity of approximately HK\$101.9 million (31.12.2005: HK\$91.7 million). The current ratio was approximately 1.5 (31.12.2005: 1.5) and the gearing ratio of the Group was approximately 54.3%



Management Discussion and Analysis

(31.12.2005: 54.8%). The gearing ratio has been calculated based on the total borrowings to the sum of total shareholders' equity and total borrowings of the Group.

The total facilities available to the Group from its bankers amounted approximately HK\$167.0 million (31.12.2005: HK\$158.0 million). The management believes the Group has adequate financial resources for its business requirement for the remaining year as well as its forecast requirement for the coming year.

Treasury Policies

The Group generally finances its operations with internally generated resources and banking facilities provided by the banks in Hong Kong. The banking facilities are mainly trust receipt loans and invoice finance tenor up to 60 days from the invoice date. The bank interest rates are mainly fixed by reference to either in the Hong Kong Prime rate or the Hong Kong Interbank Borrowing rate for Hong Kong dollars loans.

Bank deposits of the Group are in Hong Kong dollars, United States dollars or Renminbi.

Transactions of the Group are mainly denominated either in Hong Kong or United States dollars.

Charges on Assets

The Group's certain bank deposits, available-for-sale investments, leasehold land buildings and asset classified as held for sale were pledged to its bankers to secure certain banking facilities granted to the Group.



BUSINESS REVIEW

During the period under review, the Group continued to have a steady growth in business as a result of the worldwide economic growth and proper implementation of business strategies. The Group enjoyed a double-digit growth in total turnover comparing with the same period of 2005. Though the turnover of semiconductors distribution business only had a marginal increase, the turnover of the electronic turnkey device solutions business attributed to nearly 29.8% of the Group's turnover. Compounded by the high profit margin of the electronic turnkey device solutions business and successful restructuring of the semiconductors distribution business, the Group has enjoyed the best profit return since the Group listed on Hong Kong Stock Exchange Market in 2003.

Distribution of Semiconductors

The turnover of semiconductors distribution was nearly the same comparing with that of the same period of 2005. In general, the worldwide semiconductors distribution business still enjoyed a steady growth in the market due to the increase in demands for multimedia products such as MP3 players, PMP (Portable Media Player) and PND (Portable Navigation Device). As a result of the implementation of strategies for the improvement in the shrinking profit margin of the semiconductors distribution business, its turnover was unavoidably affected. These strategies included the reassessing of the cluster of customers with different profit margins and re-focusing on customers with relatively higher profit margins. More resources were also allocated on developing new and innovative solutions with higher demand such as multimedia products and getting more distributorship of semiconductors used for production of M2M products. These strategies, in spite of the short implementation period, had helped to maintain the profit margin.



Management Discussion and Analysis

The outcome after the implementation of the above mentioned strategies is apparent. The Group will continue to execute these strategies to further strengthen the competitive edge of the semiconductors distribution business in the highly competitive market, as well as contribute to the Group's profit continually. As the M2M integrated businesses have become more and more mature, the Group expects that synergies between the Group's semiconductors distribution business and the electronic turnkey device solutions business would impose greater influence on the Group's overall profit.

Development and Provision of Electronic Turnkey Device Solutions

During the period under review, the Group is proud to announce that the electronic turnkey device solutions business achieved a significant result. Its turnover was increased approximately by 116.9% to HK\$104.2 million from HK\$48.1 million of the same period in 2005. The semi-annual turnover of the above mentioned business was nearly the annual turnover of its business for the year 2005. Attributing approximately 32.3% to the overall Group's segment results, the electronic turnkey device solutions business has become the key profit channel with significant contribution to the Group. The increases in turnover and profit of the M2M integrated businesses were primarily contributed by the following factors:

- (1) Increase in sales of automatic vehicle location ("AVL") devices and modules. The worldwide demand for vehicle tracking devices is rising and is expected to escalate in the coming years. The Group was able to capture this business opportunity by providing our clients with our KENJI mCar Terminal and/or key components such as GPS modules and GPRS modules to fulfill specific demands of our clients. The KENJI mCar Terminal integrates various advanced technologies, such as GPRS communication, GPS, RFID and Interactive Voice Response System ("IVRS"), into a single box. With efforts in the two-year research and development and long hours of laboratory and road tests, KENJI mCar Terminal have become one of the most reliable and cost effective AVL devices in the world.



- (2) Adoption of Sony Ericsson's GPRS modules as one of the approved wireless communication modules for the Tender of Large Customers Power Load Management System Phase II (大客戶電力負荷管理系統第二期工程現場終端技術招標書) issued by Guangdong Power Grid Corporation (廣東電網公司). This remarkable achievement has imposed significant effects on the sales of wireless communication modules with satisfied profit margin. The adoption of Sony Ericsson's GPRS modules by the Guangdong Power Grid Corporation has also imposed noticeable influence on the tenders issued by other power grid corporations for other provinces.

During the period under review, the Group had put significant efforts in the marketing and promotion of our electronic turnkey device solutions and wireless modules in Asia Pacific region and in mainland China. Partnerships and strategic alliances have been established in countries including Australia, China, Singapore and Thailand to market our KENJI mCar Terminal and VTRACK4U Online Vehicle Tracking platform in the regions. Test conducted by world leading players in worldwide logistics industry and security systems and services industry re-confirmed that KENJI mCar Terminal is one of the most reliable and cost effective AVL devices in the market. The Group anticipates that businesses in the regions will continue to grow steadily with the sales efforts by our partners and strategic alliances.

Wavecom, a NASDAQ-listed company with turnover of approximately €129.2 million last year and the market capitalization of approximately US\$196.9 million (21.09.2006), as well as one of the world leading M2M wireless CPU providers, has acquired Sony Ericsson's M2M business during the period under review. Wavecom is planning to expand their business in China via Sony Ericsson's existing business network. The Group, as the most successful business partner of Sony Ericsson's M2M business in China, has confirmed our long-term business relationship with Wavecom. Furthermore, the Group has the opportunity to work directly with Wavecom's existing M2M clients with their acquisition. Riding on this opportunity, additional resources have been allocated to further expand the clients' network and to promote the latest products available from Wavecom.



Management Discussion and Analysis

PROSPECT

M2M integrated businesses have become one of the major sources of profit for the Group as previously anticipated. The Group will continue to put effort and resources to market and promote our M2M solutions in the region. With the established partnership and strategic alliance networks in the region, the turnover and profit stimulated from the business of KENJI mCar Terminal and VTRACK4U Online Vehicle Tracking Platform will be observable for the second half of 2006. Referring to the feedback and comments from our clients and partners, the Group will continue to invest in the development of peripheral devices such as Mobile Data Terminal (“MDT”), as well as anti-collision vehicle sensors for transport logistics and vehicle safety applications. The peripheral devices, when connected to the KENJI mCar Terminal, could provide additional information to drivers and vehicle owners for better management of mobile resources. These value-added devices will further differentiate our products and services from other competitors. As a result, the Group will be able to deploy our products and services to transport logistics and public transport markets.

Since the issue of the document named “State Grid Sales [2005] No. 406” by State Grid Corporation of China (國家電網公司文件國家電網營銷 [2005] 406號) in 2005, more and more provincial grid corporations have planned or started to install Power Load Management System to collect real-time data and monitor electricity consumption. As the problem of power shortage in China is yet to be resolved within a short period, the Group believes that the demand for the Power Load Management System, relevant application software and the core components for Wireless Power Load Management Terminal, i.e. wireless communication modules, will increase continually throughout this financial year. Apart from the Group's effort in developing business network for various provinces in China, the Group is actively exploring opportunities to develop more businesses in this vertical market.



Distribution of semiconductors business will remain as one of the major sources of revenue. The strategies which have been implemented to maintain the profit margin for the business will remain as the key management focus. Nevertheless, the recent fluctuation of cruel oil prices and material costs may create uncertainty as a result of cost control measures implemented by the customers. In addition, the management will pay special attention to boost the synergies with M2M integrated businesses to further strengthen the semiconductors business.

Looking forward to the second half of 2006, the management remains optimistic about the Group's outlook. Riding on the success of both the distribution of semiconductors and M2M integrated businesses for the period under review, the management anticipates a profitable year in 2006. However, additional resources are required to expand its global business network and to promote Sunlink's technology know-how, products and services. This investment is worthy of fostering Sunlink as a renowned M2M technology provider worldwide.

EMPLOYEES

As at 30 June 2006, the Group had approximately 132 employees (30.6.2005: 160). The Group considers the experience, responsibility, workload and the time devoted by the Directors and employees of the Group to determine their respective remuneration packages. The Company has set up a remuneration committee to review and determine the terms of remuneration policy, package, bonuses and other compensation payable to the Directors and senior management on a periodical basis. In addition to basic remuneration packages and discretionary bonuses for Directors and employees, share options may also be granted to Directors and eligible employees based on the performance of individuals. These are drives and encouragement for personal performance.



Management Discussion and Analysis

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

At 30 June 2006, the issued share capital of the Company consisted of ordinary shares and the interests and short positions of the Directors and the Chief Executives of the Company in the shares, underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") as recorded in the Company's register kept under Section 352 of the SFO were as follows:

Interest in the Company's Shares

Name	Capacity, Nature of interest	Number of shares held		Percentage of the issued share capital of the Company
		Long Position	Short Position	
Wong Shu Wing	Corporate	204,000,000 (Note 1)	–	43%

(Note 1): These shares are held by Best Eagle International Limited, a company incorporated in the British Virgin Islands ("BVI") and wholly owned by Mr. Wong Shu Wing.

Other than as disclosed above, none of the Directors or Chief Executives, nor their associates, had any interests or short positions in any shares of the Company or any of its associated corporations as at 30 June 2006.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company, its holding company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at 30 June 2006 or at any time during the six months ended 30 June 2006.



SUBSTANTIAL SHAREHOLDERS

At 30 June 2006, in accordance with the register of substantial shareholders kept by the Company pursuant to Section 336 of the SFO and so far as is known to the Directors, the following persons (other than a Director or Chief Executive of the Company) were interested in the issued capital (including short positions) representing 5% or more of the issued share capital:

Name	Capacity, Nature of interest	Number of shares held		Percentage of the issued share capital of the Company
		Long Position	Short Position	
Best Eagle International Limited (Note 1)	Corporate	204,000,000	–	43%
Wong Shu Wing (Note 1)	Personal	204,000,000	–	43%
D & M International Limited (Note 2)	Corporate	60,000,000	–	13%
Leung Yu Ming, Steven (Note 2)	Personal	60,000,000	–	13%
Kwan Kim Fai, Stanley	Personal	36,000,000	–	8%

(Notes 1): The entire issued share capital of Best Eagle International Limited is beneficially owned by Mr. Wong Shu Wing. Therefore both Best Eagle International Limited and Mr. Wong Shu Wing are deemed to have the duplicate interests in the share capital of the Company under the SFO.

(Notes 2): The entire issued share capital of D & M International Limited is beneficially owned by Mr. Leung Yu Ming, Steven. Therefore both D & M International Limited and Mr. Leung Yu Ming, Steven are deemed to have the duplicate interests in the share capital of the Company under the SFO.



Management Discussion and Analysis

Save as disclosed herein, as at 30 June 2006, no other person was recorded in the Company's register maintained by the Company pursuant to Section 336 of the SFO as having an interest in the issued share capital of the Company representing 5% or more of the issued share capital.

Save as disclosed herein, the Directors are not aware of any person other than the persons (including his personal, family and corporate interests) as aforementioned, who had, directly or indirectly, an interest in the issued share capital (including short positions) representing 5% or more of the issued share capital as at 30 June 2006.

SHARE OPTION SCHEME

A share option scheme was adopted at a special general meeting of the Company held on 12 February 2003 and will expire in February 2013. Under the scheme, the Board of Directors of the Company may, at their discretion, grant options to employees, including executive directors of the Company or any of its subsidiaries to subscribe for shares in the Company at a price not less than the highest of (i) the nominal value of a share; (ii) the closing price of a share as stated in the daily quotation sheets issued by the Stock Exchange on the date of grant of the relevant option, which must be a business day; and (iii) the average closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant of the relevant option.

The maximum number of shares in respect of which options may be granted under the share option scheme shall not exceed 10 per cent. of the issued share capital of the Company from time to time and the maximum number of shares in respect of which options may be granted to any one employee shall not exceed 30 per cent. of the maximum number of shares in respect of which options may be granted under the share option scheme.

Management Discussion and Analysis



The following tables disclose details of the Company's share options.

Date of grant	Exercisable period	Subscription price per share (HK\$)	Balance as at 30.06.2006
Directors			
11 October 2004	11 October 2004 to 10 October 2014	0.10	8,000,000
11 October 2004	11 October 2004 to 10 October 2014	0.13	3,000,000
			<hr/>
			11,000,000
Other employees			
11 October 2004	11 October 2004 to 10 October 2014	0.10	5,000,000
11 October 2004	11 October 2004 to 10 October 2014	0.13	6,408,000
			<hr/>
			11,408,000
			<hr/>
			22,408,000

The share options to subscribe 22,408,000 shares in the Company outstanding at 30 June 2006 were granted to the Directors and other employees of the Group. Consideration paid for each grant of option was HK\$1. No options were granted, exercised, lapsed and cancelled during the period under review.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the paragraphs headed "Directors' and Chief Executives' Interests in Shares" and "Share Option Scheme" mentioned above, at no time during the review period there were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company 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 holding companies, or subsidiaries, a party to any arrangements to enable the Directors or their respective spouse or children under 18 years of age to acquire such rights in any other body corporate.



Management Discussion and Analysis

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2006.

EXPOSURE TO FOREIGN EXCHANGE RISK

During the period, the Group conducted its business transactions principally in Hong Kong dollars and United States dollars. The Group had not experienced any material difficulties or negative effects on its operations as a result of fluctuations in currency exchange rates. The Board believed it was not necessary to hedge the exchange risk. Nevertheless, the management will continue to monitor the foreign exchange exposure and will take prudent measure as deemed appropriate.

CORPORATE GOVERNANCE

The Company has adopted the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as its own code of corporate governance.

The Directors consider that the Company has fully complied with the requirements under the CG Code for the six months ended 30 June 2006.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding directors' securities transactions. All Directors of the Company have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2006.



AUDIT COMMITTEE

The audit committee is comprised of three independent non-executive directors who have experience in fields of auditing, legal matters, business, accounting, corporate internal control and regulatory affairs.

The audit committee has reviewed the unaudited interim results and condensed consolidated financial statements of the Company for the six months ended 30 June 2006 and was satisfied that such statements have complied with the applicable accounting standards, the Listing Rules and other legal requirements, and that adequate disclosures have been made.

By Order of the Board

Lau Kit Hung

Director

Hong Kong, 25 September 2006