Delta Networks, Inc.

達創科技股份有限公司*

(incorporated in the Cayman Islands with limited liability)

Stock Code: 722

* For identification purpose only

2007 Interim Report

CONTENTS

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Liang Ker Uon, Sam
Mr. Cheng An, Victor

NON-EXECUTIVE DIRECTORS

Mr. Cheng Chung Hua, Bruce
Mr. Hai Ing-Jiunn, Yancey

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Zue Wai To, Victor
Mr. Liu Chung Laung
Mr. Shen Bing

COMPANY SECRETARY

Mr. Ngai Wai Fung *FCS, FCIS*

QUALIFIED ACCOUNTANT

Mr. Leung Sai Cheong *CPA, FCCA*

AUDIT COMMITTEE

Mr. Shen Bing (Chairman)
Mr. Zue Wai To, Victor
Mr. Liu Chung Laung

REMUNERATION COMMITTEE

Mr. Liang Ker Uon, Sam (Chairman)
Mr. Shen Bing
Mr. Zue Wai To, Victor

NOMINATION COMMITTEE

Mr. Hai Ing-Jiunn, Yancey (Chairman)
Mr. Liu Chung Laung
Mr. Zue Wai To, Victor

AUTHORISED REPRESENTATIVES

Mr. Ngai Wai Fung
Mr. Cheng An, Victor

COMPLIANCE ADVISER

Anglo Chinese Corporate Finance, Limited
40th Floor, Two Exchange Square
8 Connaught Place, Central
Hong Kong

LEGAL ADVISERS

Chiu & Partners
41st Floor
Jardine House
1 Connaught Place
Central
Hong Kong

INDEPENDENT AUDITOR

PricewaterhouseCoopers
22nd Floor
Prince's Building
Central, Hong Kong

PRINCIPAL BANKERS

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Jen Ai Road
Taipei 106, Taiwan

Bank of Overseas Chinese
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Rueiguang Road
Neihu
Taipei 114, Taiwan

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
Grand Cayman KY1-1107
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

REGISTERED OFFICE

Offshore Incorporations (Cayman) Limited
PO Box 2804
Scotia Centre, 4th Floor
George Town, Grand Cayman
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN TAIWAN

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Neihu
Taipei 11491, Taiwan

PLACE OF BUSINESS IN HONG KONG

8th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Central, Hong Kong

STOCK CODE

722

WEBSITE

http://www.dninetworks.com

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

We are a fast-growing original design manufacturer of networking products, in terms of annual revenue growth. We believe we have established a reputation in the networking industry as a quality manufacturer with strong in-house product design, development and customization capabilities. We design and manufacture a wide range of networking products, including Ethernet switches, broadband access products, wireless adaptors and routers. In terms of marketing position, we are particularly strong in the sale of Ethernet switches. Many of our broadband access products can be used by our customers to provide "triple play" services, a phrase that is used in our industry to mean the provision of high speed Internet, television and telephone service over a single broadband connection. We also provide contract manufacturing and ancillary services to our customers, including product design, manufacturing design and test engineering services. We have developed a strong relationship with our customers, which includes leading telecommunication equipment providers, major enterprise solution providers and brand name vendors of small and home office networking products or, as they are sometimes called in our industry, SOHO products providers, and we provide our customers with total solutions for the design, manufacture and distribution of their products. Our customers are located principally in the Americas, Europe and Asia.

For further information about our business and products, please refer to the prospectus of the Company dated 22 June 2007 (the "Prospectus").

OPERATIONAL REVIEW

Operating results

The Group attained double-digit percentage organic growth in total revenue when compared to the corresponding period in last year. During the six months ended 30 June 2007, the Group recorded turnover of approximately US$210,086,000, representing a growth rate of 13.3% as compared to that of six months ended 30 June 2006. Gross profit ratio was also increased to 17.1% as compared to 16.6% for the six months ended 30 June 2006. This was mainly due to the fact that a majority of the Group's revenue came from Ethernet switch products which had higher profit margins. Sales for the six months ended 30 June 2007 in Ethernet switch products amounted to approximately US$172,423,000 showing a growth rate of 22.3% as compared to that of six months ended 30 June 2006.

An analysis of the performance of the geographic segments and business segments of the Group is disclosed in note 5 to the audited consolidated financial statements of the Group for the six months ended 30 June 2007 in this report.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

OPERATIONAL REVIEW *(Continued)*

Operating results *(Continued)*

During the six months ending 30 June 2007, the Group's earnings before taxation (EBT) decreased slightly by 1.3% to approximately US$13,075,000, with EBIT margin dropping modestly by 0.9% to 6.2% as compared to that of the six months ended 30 June 2006. This was mainly due to the increase in total operating expenses by approximately US$8,444,000 of which approximately US$4,999,000 was related to research and development expenses.

As disclosed in the paragraph headed "Forecast for the six months ending 30 June 2007" in the section headed "Financial Information" of the Prospectus, the forecast consolidated profit attributable to equity holders of the Company for the six months ended 30 June 2007 was expected to be not less than approximately US$8.2 million. The audited consolidated profit attributable to equity holders of the Company for the six months ended 30 June 2007 was approximately US$12.41 million. The difference of approximately US$4.21 million between the profit forecast disclosed in the Prospectus and the net income shown in the audited financial statements was mainly due to the increase in our gross margin as a result of the increase in shipments to Ethernet switches customers and better cost structure deriving from higher efficiencies in our production scale in May and June 2007.

The decrease in net profit to approximately US$12,464,000 for the six months ended 30 June 2007 from approximately US$14,290,000 for the same period in last year was primarily due to the increase in the share-based compensations, as a result of which the percentage of operating expenses (including selling expenses, general and administration expenses and research and development expenses) to revenue increased from 11.3% for the six months ended 30 June 2006 to 14.0% for the six months ended 30 June 2007.

As shown in the following table, without taking into account the share-based compensations, the gross profit margin and the percentage of profit from operations to revenue would improve from 17.3% and 11.1% for the six months ended 30 June 2006 to 18.3% and 12.8% for the six months ended 30 June 2007, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

OPERATIONAL REVIEW *(Continued)*

Operating results *(Continued)*

Financial impact of share-based compensations

	Six months ended 30 June 2007		Six months ended 30 June 2006	
	With share-based compensations	Without share-based compensations	With share-based compensations	Without share-based compensations
Gross profit margin	*17.1%*	*18.3%*	*16.6%*	*17.3%*
% of profit from operations to revenue	*5.3%*	*12.8%*	*6.7%*	*11.1%*
% of operating expenses to revenue	*14.0%*	*7.7%*	*11.3%*	*7.6%*

Details of our share-based compensation scheme are set out in the "Financial Information" section of the Prospectus. Please also refer to note 15(c) to the audited consolidated financial statements of the Group for the six months ended 30 June 2007 in this report for further details about the share-based compensations for the six months ended 30 June 2007.

Basic earnings per share for the current period was US1.48 cents (six months ended 30 June 2006: US1.70 cents).

OUTLOOK

As disclosed in the Prospectus, we aim to continue to grow and expand the Company into a leading provider of networking products and services globally. We seek to continuously work to expand our customer base and intend to leverage our strong reputation and extensive experience to attract additional customers.

We will continue to enhance shareholder value by maintaining and enhancing our position in the design, development, manufacture and distribution of networking products. We will also strive to combine high-quality and cost-effective manufacturing processes with high-end technology to maintain our position as larger original design manufacturer of networking products.

The successful listing of the Company on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange") on 6 July 2007 is an important milestone for the Company. We will implement our future plans and use the proceeds from the listing of our shares in accordance with the disclosure in the Prospectus.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

LIQUIDITY AND FINANCIAL RESOURCES

At 30 June 2007, the Group's cash and cash equivalents (excluding restricted cash amounting to approximately US$224,684,000 from share subscription monies received through global offering of the Company's shares) amounted to approximately US$95,367,000, representing an increase by 15% from the balance of approximately US$82,707,000 as at 31 December 2006. Current ratio, measured as total current assets divided by total current liabilities, was 1.39 as at 30 June 2007, as compared to 2.27 as at 31 December 2006. Short term unsecured borrowing was nil as at 30 June 2007 as compared to US$6,000,000 as at 31 December 2006. Gearing ratio measured by dividing the borrowings by total equity was nil as at 30 June 2007 (31 December 2006 : 5.7%).

FOREIGN EXCHANGE RISK MANAGEMENT

Revenues of the Group are mainly denominated in US dollars while costs are basically in New Taiwan dollar ("NTD") and Renminbi ("RMB"). In order to reduce the foreign exchange exposure, the Group entered into foreign currency option contracts and foreign currency forward contracts. Details of these derivative financial instruments are set out in note 32 of the financial statements for the six months ended 30 June 2007.

CAPITAL EXPENDITURE

During the six month ended 30 June 2007, the Group incurred capital expenditure amounting to approximately US$5,512,000 which was mainly for enhancing and upgrading its production capacity. Such capital expenditure were primarily financed by the internal funding generated from operations.

CHARGES ON ASSETS

There were no assets of the Group being pledged as security for any banking facilities and borrowings as at 30 June 2007 and 31 December 2006.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 June 2007 and 31 December 2006.

CAPITAL COMMITMENTS

The Group had no material capital commitments as at 30 June 2007 and 31 December 2006.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

SUBSEQUENT EVENTS

On 6 July 2007, the Company completed its global offering of 235,200,000 shares and listing of its shares on the Main Board of the Stock Exchange. The gross proceeds from the Company's global offering amounted to approximately US$136 million and the total share premium resulted from the global offering amounted to approximately US$120 million after deduction of the underwriting fees and other relevant expenses of approximately US$4 million.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2007, the Group had a total of 2,325 employees. Total staff costs incurred during the period of six months ended 30 June 2007 amounted to approximately US$26,235,000 (six months ended 30 June 2006: US$17,682,000). We offer a comprehensive remuneration policy which is reviewed by the management on a regular basis.

The company has adopted an employee incentive scheme, a share option scheme and a management share subscription scheme respectively. The purposes of these schemes are to incentivize eligible participants who contribute to the Group´s operations. The employee incentive scheme and management share subscription scheme are not subject to the provisions of Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The employee incentive scheme was first approved and adopted by the Board on 21 August 2006. It was modified and approved by the Board on 13 June 2007. Under such scheme, the shares of the Company have been allotted and issued to a trustee to hold such shares on trust for satisfying awards that may be made to eligible employees as part of their remuneration package for the services rendered by them in the previous year.

The management share subscription scheme was adopted by the Board on 21 August 2006. It is a one-off plan and is close-ended, and therefore, apart from the beneficiaries who have been awarded and have agreed to subscribe for the Company's shares, no further awards will be made and no one is entitled to subscribe for any shares under the scheme.

The share option scheme was approved at a meeting of the Board on 13 June 2007. The options granted under the scheme do not give immediate ownership of the underlying shares as they require payment of subscription price based on then prevailing market price of the Company's shares. Such scheme is governed by Chapter 17 of the Listing Rules. No options has been granted under the share option scheme since it came into effect on 6 July 2007 up to (and including) the date of this report.

OTHER INFORMATION

INDEPENDENCE OF INFORMATION TECHNOLOGY SYSTEMS FROM DELTA ELECTRONICS, INC.

As disclosed on page 89 of the Prospectus, the Company will update its shareholders of the progress of achieving independence of our information technology systems from Delta Electronics, Inc., the ultimate controlling shareholder of the Company, and its subsidiaries (other than the Group) on a bi-annual basis. Up to the date of this report, no significant progress has been made in this regard.

INTERIM DIVIDENDS

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2007 (30 June 2006: Nil).

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The shares of the Company were listed on the Stock Exchange on 6 July 2007 and accordingly neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company during the six months ended 30 June 2007.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules ("Model Code"). The Company has made specific enquiry of all the directors of the Company and all the Directors have confirmed that they have complied with the Model Code since the listing of the shares of the Company on the Stock Exchange on 6 July 2007.

CORPORATE GOVERNANCE

During the six months ended 30 June 2007, the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Listing Rules was not applicable to the Company as the shares of the Company were only listed on the Stock Exchange on 6 July 2007. However, the Company is committed to achieving high level of corporate governance practices in the interest of the shareholders of the Company.

OTHER INFORMATION *(Continued)*

CORPORATE GOVERNANCE *(Continued)*

The Company has complied with the code provisions set out in the Code since the listing of the shares of the Company on the Stock Exchange on 6 July 2007 except for A.2.1 of the Code which states that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual and the division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. Mr. LIANG Ker Uon, Sam, is the chairman of the Board and the chief executive officer of the Company. Accordingly, such dual role constitutes a deviation from A.2.1 of the Code. However, the Board is of the view that the Company has sufficient internal controls to maintain checks and balances on the functions of the chairman and chief executive officer. Mr. LIANG Ker Uon, Sam as both the chairman and chief executive officer of the Company is responsible for ensuring that all directors of the Company act in the best interests of the shareholders of the Company. Besides, Mr. LIANG is also fully accountable to the shareholders of the Company and he contributes to the Board and the Group on all top-level and strategic decisions. This structure will therefore not impair the balance of power and authority between the Board and the management of the Company.

AUDIT COMMITTEE

Pursuant to the requirements of the Code and Rule 3.21 of the Listing Rules, the Company has established an audit committee (the “Audit Committee”) comprising all three existing independent non-executive directors, namely Mr. SHEN Bing (Chairman), Mr. ZUE Wai To, Victor and Mr. LIU Chung Laung. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group, review and approve connected transactions and provide advice and comments to the Board.

The financial results for the six months ended 30 June 2007 have been reviewed by the Audit Committee.

OTHER INFORMATION *(Continued)*

REMUNERATION COMMITTEE

The Company has also set up a remuneration committee ("Remuneration Committee") which consists of three members, Mr. LIANG Ker Uon, Sam (Chairman) and two independent non-executive Directors, Mr. ZUE Wai To, Victor and Mr. SHEN Bing. The primary duties of the Remuneration Committee are to review and determine the terms of remuneration packages, bonuses and other compensation payable to our directors and other senior management.

NOMINATION COMMITTEE

The Company has established a nomination committee ("Nomination Committee") in compliance with the Code. The primary duties of the Nomination Committee are to make recommendations to our Board on the appointment of our directors and management of Board succession. The Nomination Committee consists of three members, Mr. HAI Ing-Jiunn, Yancey (Chairman), Mr. ZUE Wai To, Victor and Mr. LIU Chung Laung, of whom Mr. ZUE Wai To, Victor and Mr. LIU Chung Laung are independent non-executive directors of the Company.

OTHER INFORMATION *(Continued)*

DISCLOSURE OF INTERESTS IN SECURITIES

Interests and Short Position of Directors or Chief Executive of the Company in the Shares or Underlying Shares or Debentures of the Company and its Associated Corporations

As at 19 August 2007 (being the date of this report), interests or short positions of the Directors or chief executive of the Company in any shares or underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO) or which are required pursuant to section 352 of the SFO to be entered in the register referred to therein, or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Name of Directors	The Company/ name of associated corporation	Capacity/ nature of interest	Number and class of securities *(Note 1)*	Approximate percentage of issued share capital *(%)*
LIANG Ker Uon, Sam	The Company	Beneficial owner	12,000,000 ordinary shares of US$0.05 each (each a "Share") (L) *(Note 2)*	1.00
	Delta Electronics, Inc. ("DEI")	Beneficial owner	1,957,457 common stocks (each a "Stock") (L)	0.09
CHENG An, Victor	The Company	Beneficial owner	8,000,000 Shares (L) *(Note 3)*	0.67
	DEI	Beneficial owner	3,367,204 Stocks (L)	0.16
	DEI	Interest of spouse	506,314 Stocks (L) *(Note 4)*	0.02
CHENG Chung Hua, Bruce	The Company	Beneficial owner	4,000,000 Shares (L) *(Note 5)*	0.33
	DEI	Beneficial owner	134,333,102 Stocks (L)	6.38
	DEI	Interest of spouse	42,862,821 Stocks (L) *(Note 6)*	2.03

OTHER INFORMATION *(Continued)*

DISCLOSURE OF INTERESTS IN SECURITIES *(Continued)*

Interests and Short Position of Directors or Chief Executive of the Company in the Shares or Underlying Shares or Debentures of the Company and its Associated Corporations *(Continued)*

Name of Directors	The Company/ name of associated corporation	Capacity/ nature of interest	Number and class of securities *(Note 1)*	Approximate percentage of issued share capital *(%)*
HAI Ing-Jiunn, Yancey	The Company	Beneficial owner	4,000,000 Shares (L) *(Note 7)*	0.33
	DEI	Beneficial owner	727,196 Stocks (L)	0.03
ZUE Wai To, Victor	The Company	Beneficial owner	4,000,000 Shares (L) *(Note 8)*	0.33
SHEN Bing	DEI	Beneficial owner	9,058 Stocks (L)	0.0004
	DEI	Beneficial owner and interest of spouse	17,820 Stocks (L) *(Note 9)*	0.0008
LIU Chung Laung	The Company	Beneficial owner	4,000,000 Shares (L) *(Note 10)*	0.33

Notes:

1. The letter "L" represents the Director's long position in the shares or underlying shares of the Company or its associated corporations.

2. LIANG Ker Uon, Sam, was awarded 12,000,000 Shares pursuant to the MSSS. Pursuant to the rules of the MSSS, these Shares will be allotted and issued to him subject to the vesting schedule as set out in "Appendix VI – Statutory and General Information – Employee Incentive Scheme" of the Prospectus.

3. CHENG An, Victor, was awarded 8,000,000 Shares pursuant to the MSSS. Pursuant to the rules of the MSSS, these Shares will be allotted and issued to him subject to the vesting schedule as set out in "Appendix VI – Statutory and General Information – Employee Incentive Scheme" of the Prospectus.

4. CHENG An, Victor is deemed or taken to be interested, for the purpose of the SFO, these Stocks which are beneficially owned by Jen, Hsiao-Yuan, Mr. Cheng's spouse.

5. CHENG Chung Hua, Bruce, was awarded 4,000,000 Shares pursuant to the MSSS. Pursuant to the rules of the MSSS, these Shares will be allotted and issued to him subject to the vesting schedule as set out in "Appendix VI – Statutory and General Information – Employee Incentive Scheme" of the Prospectus.

OTHER INFORMATION *(Continued)*

DISCLOSURE OF INTERESTS IN SECURITIES *(Continued)*

Interests and Short Position of Directors or Chief Executive of the Company in the Shares or Underlying Shares or Debentures of the Company and its Associated Corporations *(Continued)*

6. CHENG Chung Hua, Bruce is deemed or taken to be interested, for the purpose of the SFO, these Stocks which are beneficially owned by HSIEH Yih Ying, Mr. Cheng's spouse.

7. HAI Ing-Jiunn, Yancey, was awarded 4,000,000 Shares pursuant to the MSSS. Pursuant to the rules of the MSSS, these Shares will be allotted and issued to him subject to the vesting schedule as set out in "Appendix VI – Statutory and General Information – Employee Incentive Scheme" of the Prospectus.

8. ZUE Wai To, Victor was awarded 4,000,000 Shares pursuant to the MSSS. Pursuant to the rules of the MSSS, these Shares will be allotted and issued to him subject to the vesting schedule as set out in "Appendix VI – Statutory and General Information – Employee Incentive Scheme" of the Prospectus.

9. SHEN Bing is deemed or taken to be interested, for the purpose of the SFO, these Stocks which are beneficially owned by Mr. Shen and his spouse jointly.

10. LIU Chung Laung, was awarded 4,000,000 Shares pursuant to the MSSS. Pursuant to the rules of the MSSS, these Shares will be allotted and issued to him subject to the vesting schedule as set out in "Appendix VI – Statutory and General Information – Employee Incentive Scheme" of the Prospectus.

Saved as disclosed above, as at 19 August 2007 (being the date of this report), none of the Directors or the chief executives of the Company has any interests or short positions in the shares and underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO) or which are required pursuant to section 352 of the SFO to be entered in the register referred to therein, or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

OTHER INFORMATION *(Continued)*

DISCLOSURE OF INTERESTS IN SECURITIES *(Continued)*

Interest and Short Position of Substantial Shareholders and Other Interest Discloseable under Part XV of the SFO

As at 19 August 2007 (being the date of this report), the following entities, other than a Director or chief executive of the Company, have an interest or a short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of entities	Capacity/ Nature of Interest	Number of Shares *(Note 1)*	Approximate percentage of issued share capital of the Company *(%)*
Delta Networks Holding Limited *(Note 2)*	Beneficial owner	759,200,000	63.44
DE I *(Note 2)*	Interest of controlled corporation	759,200,000	63.44
HSBC International Trustee Limited *(Note 3)*	Trustee	124,000,000	10.36
Grand Networks Assets Limited *(Note 3)*	Interest of controlled corporation	124,000,000	10.36

Notes:

1. Delta Networks Holding Limited ("DNHL") is a direct wholly owned subsidiary of DEI and therefore, DEI is deemed or taken to be interested in the Shares which are beneficially owned by DNHL.

2. These Shares were allotted and issued pursuant to the EIS, and such Shares are held by Grand Networks Assets Limited, a company wholly-owned by HSBC International Trustee Limited as trustee of the trust known as Delta Network, Inc. Employee Incentive Scheme, which has been created for the purpose of holding these Shares for the employees of the Group under the EIS. As at the date of this report, none of these Shares has been awarded to the employees.

OTHER INFORMATION *(Continued)*

DISCLOSURE OF INTERESTS IN SECURITIES *(Continued)*

Interest and Short Position of Substantial Shareholders and Other Interest Discloseable under Part XV of the SFO *(Continued)*

Save as disclosed above and so far as the Directors are aware of, as at 19 August 2007 (being the date of this report), there is no other person, other than the Directors or the chief executives of the Company, who has interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO .

By the Order of the Board
Liang Ker Uon, Sam
Chairman

Taipei, Taiwan
19 August 2007

INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF DIRECTORS OF DELTA NETWORKS, INC.

(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Delta Networks, Inc. (the "Company") and its subsidiaries (together, the "Group") set out on pages 21 to 94, which comprise the consolidated balance sheet as at 30 June 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Although the directors of the Company issued the interim financial information for the six months ended 30 June 2006, this financial information was not audited.

DIRECTORS' RESPONSIBILITY FOR THE 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 International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

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

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 30 June 2007 and of the Group's financial performance and cash flows for the six-month period then ended in accordance with International Financial Reporting Standards .

OTHER MATTERS

This report, including the opinion, has been prepared for and only for 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.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 19 August 2007

CONSOLIDATED BALANCE SHEET

As at 30 June 2007

	Note	As at 30 June 2007 (audited) US$'000	As at 31 December 2006 (audited) US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	*6*	**16,149**	12,950
Land use rights	*7*	**289**	292
Available-for-sale financial assets	*8*	**724**	774
Deferred income tax assets	*21*	**3,149**	2,591
		20,311	16,607
Current assets			
Inventories	*9*	**23,408**	28,042
Trade receivables	*10, 31*	**74,354**	59,421
Prepayments and other assets	*11*	**3,814**	2,443
Available-for-sale financial assets	*8*	**—**	214
Derivative financial instruments	*32*	**2,862**	814
Restricted cash – share subscription monies received	*12*	**224,684**	—
Cash and cash equivalents	*13*	**95,367**	82,707
		424,489	173,641
Total assets		**444,800**	190,248
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	*14*	**41,880**	41,880
Other reserves	*15*	**40,239**	26,355
Retained earnings		**47,983**	36,754
		130,102	104,989
Minority interest		**240**	190
Total equity		**130,342**	105,179

	Note	As at 30 June 2007 (audited) US$'000	As at 31 December 2006 (audited) US$'000
LIABILITIES			
Non-current liabilities			
Provisions and other liabilities	*16*	**5,166**	4,802
Retirement benefit obligations	*17*	**3,884**	3,795
		9,050	8,597
Current liabilities			
Trade and other payables	*18, 31*	**76,209**	66,593
Income tax payables		**1,184**	828
Borrowings, unsecured	*19*	**—**	6,000
Derivative financial instruments	*32*	**883**	1,069
Provisions and other liabilities	*16*	**2,448**	1,982
Share subscription monies received	*12*	**224,684**	—
		305,408	76,472
Total liabilities		**314,458**	85,069
Total equity and liabilities		**444,800**	190,248
Net current assets		**119,081**	97,169
Total assets less current liabilities		**139,392**	113,776

LIANG Ker Uon, Sam
梁克勇
Director

CHENG An, Victor
鄭安
Director

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2007

	Note	**Six months ended 30 June** **2007** **(audited)** **US$'000**	2006 (unaudited) US$'000
Revenue	*5*	**210,086**	185,401
Cost of sales	*23*	**(174,227)**	(154,637)
Gross profit		**35,859**	30,764
Other gains, net	*22*	**4,660**	2,681
Selling expenses	*23*	**(7,746)**	(5,913)
General and administration expenses	*23*	**(6,408)**	(4,796)
Research and development expenses	*23*	**(15,237)**	(10,238)
Profit from operations		**11,128**	12,498
Finance income	*25*	**1,954**	779
Finance cost	*25*	**(7)**	(31)
		1,947	748
Profit before income tax		**13,075**	13,246
Income tax (expense)/benefit	*20*	**(611)**	1,044
Profit for the period		**12,464**	14,290
Attributable to:			
Equity holders of the Company		**12,414**	14,263
Minority interest		**50**	27
		12,464	14,290
Earnings per share for profit attributable to the equity holders of the Company during the period (in US cents per share)			
– Basic	*26*	**1.48**	1.70
– Diluted	*26*	**1.41**	1.69

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2007

		Attributable to equity holders of the Group (audited)					
	Note	Share capital US$'000	Other reserves US$'000	Retained earnings US$'000	Subtotal US$'000	Minority interest US$'000	Total equity US$'000
Balance at 1 January 2007		41,880	26,355	36,754	104,989	190	105,179
Profit for the period		—	—	12,414	12,414	50	12,464
Share-based payment settled by ultimate holding company's shares without recharge	*15*	—	9,361	—	9,361	—	9,361
Management share subscription scheme reward	*15*	—	1,734	—	1,734	—	1,734
Employee incentive scheme reward	*15*	—	4,764	—	4,764	—	4,764
Transfer from retained earnings	*15*	—	1,185	(1,185)	—	—	—
Share issuance cost	*15*	—	(3,160)	—	(3,160)	—	(3,160)
Balance at 30 June 2007		41,880	40,239	47,983	130,102	240	130,342

	Note	Attributable to equity holders of the Group (unaudited)					
		Share capital US$'000	Other reserves US$'000	Retained earnings US$'000	Subtotal US$'000	Minority interest US$'000	Total equity US$'000
Balance at 1 January 2006		41,880	14,314	12,044	68,238	95	68,333
Fair value gain, net of tax: – available-for-sale financial assets		—	60	—	60	—	60
Net gain recognised directly in equity		—	60	—	60	—	60
Profit for the period		—	—	14,263	14,263	27	14,290
Total recognised income		—	60	14,263	14,323	27	14,350
Share-based payment settled by ultimate holding company's shares without recharge	*15*	—	6,042	—	6,042	—	6,042
Employee incentive scheme reward	*15*	—	2,031	—	2,031	—	2,031
Balance at 30 June 2006		41,880	22,447	26,307	90,634	122	90,756

	Note	Attributable to equity holders of the Group (audited)					
		Share capital	Other reserves	Retained earnings	Subtotal	Minority interest	Total equity
		US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Balance at 1 January 2006		41,880	14,314	12,044	68,238	95	68,333
Fair value gain, net of tax:							
– available-for-sale financial assets		—	60	—	60	—	60
Net gain recognised directly in equity		—	60	—	60	—	60
Profit for the year		—	—	25,475	25,475	95	25,570
Total recognised income		—	60	25,475	25,535	95	25,630
Share-based payment settled by ultimate holding company's shares without recharge	*15*	—	6,042	—	6,042	—	6,042
Management share subscription scheme reward	*15*	—	1,112	—	1,112	—	1,112
Employee incentive scheme reward	*15*	—	4,062	—	4,062	—	4,062
Transfer from retained earnings	*15*	—	765	(765)	—	—	—
Balance at 31 December 2006		41,880	26,355	36,754	104,989	190	105,179

CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2007

	Note	Six months ended 30 June 2007 (audited) US$'000	2006 (unaudited) US$'000
Cash flows from operating activities			
Cash generated from operations	*28*	**22,361**	25,171
Interest paid		**(7)**	(76)
Income tax paid		**(523)**	(162)
Net cash generated from operating activities		**21,831**	24,933
Cash flows from investing activities			
Acquisition of property, plant and equipment		**(5,512)**	(3,537)
Proceeds from sale of available-for-sale financial assets		**212**	—
Interest received		**1,774**	775
Net cash used in investing activities		**(3,526)**	(2,762)
Cash flows from financing activities			
(Repayment of)/new borrowings		**(6,000)**	2,000
Net cash (used in)/generated from financing activities		**(6,000)**	2,000
Foreign exchange difference		**355**	269
Net increase in cash and cash equivalents		**12,660**	24,440
Cash and cash equivalents at beginning of period		**82,707**	31,507
Cash and cash equivalents at end of period		**95,367**	55,947

NOTES TO THE FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Delta Networks, Inc. ("the Company" or "DNI") was incorporated in the Cayman Islands on 25 November 2002 as an exempted company with limited liability under the Company Law, Cap 22, (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The Company and its subsidiaries (together "the Group") is engaged in the manufacturing and selling of networking system and peripherals. Its production bases are primarily located in Mainland China and Taiwan.

The address of its registered office is Scotia Centre, 4th Floor P.O. Box 2804, George Town, Grand Cayman, Cayman Islands. Its immediate holding company is Delta Networks Holding Ltd. ("DNHL") which is incorporated in the Cayman Islands, and its ultimate holding company is Delta Electronics, Inc. ("DEI"), which is incorporated in Taiwan and listed on Taiwan Stock Exchange Corporation.

The Company's shares were listed on The Stock Exchange of Hong Kong Limited on 6 July 2007.

These consolidated financial statements have been approved for issue by the Board of Directors on 19 August 2007.

Although the directors of the Company issued the interim financial information for the six months ended 30 June 2006, this financial information was not audited.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

During the period, the Group has adopted the following new standards, amendments and interpretations.

Standards, amendments and interpretations that have become effective in 2007

- IFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to IAS 1, Presentation of Financial Statements - Capital Disclosures (effective for annual periods beginning on or after 1 January 2007). IFRS 7 introduces new disclosure to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under IFRS. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. This standard does not have any impact on the classification and valuation of the Group's financial instruments. For the Group's financial statements, main additional disclosures are sensitivity analysis to market risk and the capital disclosures;

- IFRIC 8, Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006). IFRIC 8 requires consideration of transactions involving the issuance of equity instruments - where the identifiable consideration received is less than the fair value of the equity instruments issued - to establish whether or not they fall within the scope of IFRS 2. The adoption of this interpretation does not have any material impact on the Group's financial statements;

- IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006). IFRIC 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. As none of the group entities have changed the terms of their contracts, and the Group already assesses if embedded derivative should be separated using principles consistent with IFRIC 9, the adoption of this interpretation does not have a significant impact on the Group's financial statements; and

- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). IFRIC 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The adoption of this interpretation does not have any material impact on the Group's financial statements;

Standards, amendments and interpretations that have become effective in 2007 but not relevant to the Group's operations

- IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies;

The following new standards, amendments to standards and interpretations have been issued but are not yet effective and have not been early adopted:

- IAS 23 (Amendment), Borrowing Costs (effective for annual periods beginning on or after 1 January 2009). The main change from the previous version is the removal of the option of immediate recognition as an expense of borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. Management does not expect the interpretation to have significant impact on the Group's financial statements;

- IFRIC 11, IFRS 2 - Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007). IFRIC 11 provides guidance on whether share-based transactions involving treasury shares or involving group entities (for instance, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions. Management does not expect the interpretation to have significant impact on the Group's existing accounting policies;

- IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008). IFRIC 12 sets out general principles on recognising and measuring the obligation and related rights in service concession arrangements. The Group has no service concession arrangements and management considers the interpretation is not relevant to the Group's operations; and

- IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). IFRS 8 replaces IAS 14. The new standard uses a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The adoption of this standard impacts the format and extent of segment reporting disclosures presented in the financial statements.

2.2 Consolidation

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions among group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred.

2.3 Segment reporting

A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments. A business segment is a group of assets and operations engaged in providing products or services that are subject to risk and returns that are different from those of other business segments. Jointly used assets are allocated to segments if, and only if, their related revenues and expenses are also allocated to those segments.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the group entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in US dollars, which is the Company's functional and presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Changes in the fair value of monetary securities denominated in foreign currencies classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in the income statement, and other changes in carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in the income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the fair value reserve in equity.

(c) *Group companies*

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses (if any). Historical cost includes expenditures that are directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other maintenance and repairs are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the cost of property, plant and equipment to their residual values over their estimated useful life, as follows:

Buildings	20 years
Machinery and factory equipment	2-8 years
Office equipment and fixtures	2-5 years
Leasehold improvements	Over lease term of 2 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other gain/(loss) - net in the income statement.

2.6 Land use rights

Land use rights are stated at historical cost less accumulated amortisation and accumulated impairment losses (if any). Cost represents consideration paid for the rights to use the land on which various plants and buildings are situated. Amortisation of land use rights is calculated on a straight-line basis over the period of the leases.

2.7 Impairment of non-financial assets

Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet.

(c) *Held-to-maturity financial assets*

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the balance sheet date; these are classified as current assets.

(d) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of financial assets are recognised on the trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity financial assets are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within other gains/(losses) - net, in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other gains/(losses), net when the Group's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in equity. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of other gains/(losses), net. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other gains/(losses), net when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

2.9 Derivative financial instruments

The Group has no derivative financial instrument designated as a hedging instrument. Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Changes in the fair value are recognised immediately in the income statement within other gains/(losses), net.

2.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.11 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. When a receivable is uncollectible, it is written off against the allowance account for the receivable. Subsequent recoveries of amounts previously written off are credited to the income statement.

2.12 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash at banks, short-term bank deposits and other short-term highly liquid investments with original maturities of three months or less.

2.13 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.14 Employee benefit

(a) Pension obligations

The Group operates various pension schemes, including defined benefit and defined contribution plans.

A defined contribution plan is a pension plan under which a company pays fixed contributions into separately administered funds. A company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all qualified employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds or treasury bond that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to the income statement over the employees' expected average remaining working lives. Past-service costs are recognised immediately in the income statement, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

(b) Share-based compensation

(i) DEI incentive scheme

Certain eligible employees of the Group receive equity-settled share-based compensation granted by DEI, the Group's ultimate holding company, in the form of the shares of DEI ("DEI Shares") as part of the distribution of employee bonuses to compensate their services to the Group. The Group estimates and recognises compensation expense at the end of each reporting period based on the estimated fair value of the DEI Shares expected to be granted in the following year, with a corresponding credit to equity through "contributed reserve" as the Group has no obligation to reimburse DEI for value of such shares. The difference between the amount so recorded and the actual fair value of the DEI Shares granted at the grant date is recognised in the following period. The fair value of the DEI Shares granted is determined based on the quoted market price at the grant date.

(ii) Employee incentive scheme

Employee incentive scheme ("EIS") is a profit-sharing scheme with distribution in the form of the shares of DNI ("DNI Shares") as a replacement for DEI incentive scheme. The Group estimates and recognises compensation expense at the end of each reporting period based on the estimated fair value of the DNI Shares expected to be granted in the following year, with a corresponding credit to equity through "share-based payment reserve". The difference between the amount so recorded and the actual fair value of the DNI Shares granted at the grant date is recognised in the following period. The fair value of the DNI Shares granted is determined based on the discounted cash flow method or quoted market price, where applicable, at the grant date.

(iii) Management share subscription scheme

Management share subscription scheme ("MSSS") contemplates the grant of an award to eligible employees of DNI to subscribe for DNI Shares at a discounted price. Shares subscribed will vest and be issued over four years in equal instalments. Upon joining the MSSS, the subscribers are required to pay in advance the subscription price which is refundable under certain circumstances before shares subscribed are vested. The receipts are recognised as liability within "Provisions and other liabilities" (Note 16). When the shares subscribed are vested and issued, the corresponding receipts will be treated as the proceeds for the issuance of shares and be transferred to equity. The fair value of the award is recognised as employees' compensation expense over the vesting period with a corresponding credit to equity through "share-based payment reserve". Fair value of the award is determined based on the fair value of DNI Shares less the received payment at the grant date. The fair value of the DNI Shares is determined based on the discounted cash flow method or quoted market price, where applicable.

2.15 Deferred income taxes

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.16 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.17 Operating leases (as the lessee)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating lease. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

2.18 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Revenue from the sale of goods is recognised upon shipment when significant risks and rewards of ownership of the goods are transferred to the buyer and collectibility of related receivables is reasonably assured.

(b) Revenue from the rendering of services is recognised in the accounting period in which the services are rendered.

(c) Interest income is recognised on a time proportion basis using the effective interest method.

(d) Dividends are recognised when the right to receive payment is established.

2.19 Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

(a) it is technically feasible to complete the intangible asset so that it will be available for use or sale;

(b) management intends to complete the intangible asset and use or sell it;

(c) there is an ability to use or sell the intangible asset;

(d) it can be demonstrated how the intangible asset will generate probable future economic benefits;

(e) adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and

(f) the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

2.20 Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

2.21 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group and can also be a present obligation arising from past events that is not recognised because it is not probable that outflow economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

2.22 Dividend distribution

Dividend distribution to the Company's equity holders is recognised as a liability in the Group's consolidated financial statements in the period in which the dividends are approved by the Company's equity holders or directors, where applicable.

2.23 Share subscription monies

The share subscription monies are recognised as "restricted cash – share subscription monies received" within current assets with a corresponding credit to current liabilities. The liability is initially recognised at fair value and carried at amortised cost using the effective interest method. Upon the completion of share issuance, the balance relating to over-subscription of share will be repaid to the respective applicants and the remaining balance will be credited to share capital and share premium.

3 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from foreign currency exchange, primarily with respect to the US dollar. The Group mainly operates in Taiwan and in Mainland China where the primary currencies are New Taiwan dollar ("NTD") and Renminbi ("RMB"), respectively, but revenues are mainly denominated in US dollar.

Exposure to foreign exchange risk is monitored on an ongoing basis and management endeavours to keep the net exposure at an acceptable level through foreign currency option contract and foreign currency forward contract.

If US dollar had gained (lost) 2 percent against NTD and RMB at 30 June 2007, the other gains would have been approximately US$378,000 lower (higher) (unaudited) at 30 June 2007; if US dollar had gained (lost) 2 percent against NTD and RMB at 30 June 2006, the other gains would have been approximately US$265,000 lower (higher) (unaudited) at 30 June 2006.

(ii) *Cash flow and fair value interest rate risk*

The Group is subject to interest rate risk in relation to borrowings and bank balances. Borrowings and bank balances carried at floating rates expose the Group to cash flow interest rate risk whereas those carried at fixed rates expose the Group to fair value interest rate risk. The Group has not entered into any interest rate swaps to hedge its exposure to interest rate risks.

If the market interest rates had been 100 basis points higher (lower) at 30 June 2007, profit or loss would have been approximately US$445,000 higher (lower)(unaudited); If the market interest rates had been 100 basis points higher (lower) at 30 June 2006, profit or loss would have been approximately US$218,000 higher (lower)(unaudited).

(iii) *Credit risk*

Credit risk with respect to trade receivables are limited because the Group regularly reviews the credit standing, credit terms and credit limits granted to individual customers. There are policies in place to ensure that sales are made to customers with satisfactory credit record. In addition, the Group enters into credit insurance which generally covers substantially all of the outstanding balance with certain customers to minimise its credit risks. Counterparties for derivative and cash transactions and the bank deposits are limited to financial institutions with high credit ratings.

(iv) *Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group aims at maintaining flexibility in funding by keeping committed credit lines available.

(b) Fair value estimation

The fair value of publicly traded derivatives and trading and available-for-sale securities is based on market quoted bid prices at the balance sheet date. In assessing the fair value of non-traded derivatives and other financial instruments, management uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for the specific or similar instruments are used for forward exchange contracts. Other techniques, such as estimated discounted value of future cash flows, are used to determine fair value for the remaining financial instruments.

The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair value. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

(c) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

As at 30 June 2007, total equity of the Group amounted to US$130,342,000 (31 December 2006: US$105,179,000) and the gearing ratio was zero (31 December 2006: 5.7%), calculated by dividing borrowings to total equity.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Depreciation and impairment of non-financial assets

The Group's management determines the estimated useful lives, residual values and related depreciation charges for the property, plant and equipment with reference to the estimated periods that the Group intends to derive future economic benefits from the use of these assets. Management will revise the depreciation charge where useful lives are different from previous estimate.

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount of an asset or a cash-generating unit and a suitable discount rate in order to calculate present value, which has been prepared on the basis of management's assumptions and estimate. Detailed analyses have been performed and management is confident that the carrying amount of the relevant assets will be recovered in full.

(b) Impairment of trade and other receivables

Provision for impairment of trade and other receivables is determined based on the evaluation of collectibility of trade and other receivables. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current market condition.

(c) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. Management reassesses the estimation on a product-by-product basis at each balance sheet date.

(d) Income tax

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(e) Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date.

(f) Pension obligations

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost for pensions include the discount rate, expected return rate on plan assets and the average rate of salary increase. Any changes in these assumptions will impact the carrying amount of pension obligations. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of long-term government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for pension obligations are based in part on current market conditions.

(g) Share-based compensation

In relation to the EIS and MSSS awards, the Group estimates and recognises the compensation expense based on management's estimate of number of shares and fair value of the awards at the grant date. Please also see Note 15.

5 SEGMENT FINANCIAL INFORMATION

The primary format, geographical segments, is based on the Group's management and internal reporting structure. Inter-segment pricing is based on results of negotiations between segments. The Group is organised, based on location of production, into two main geographical segments:

(i) Manufacturing and selling of newly-developed networking system and peripherals in Taiwan; and

(ii) Manufacturing and selling of matured networking system and peripherals in Mainland China.

(a) Primary reporting format- geographical segments

(i) The Group operates in two main geographical areas. The geographic information based on location of production was as follows:

	Six months ended 30 June 2007				
	Mainland China US$'000	Taiwan US$'000	Elimination US$'000	Unallocated US$'000	Consolidated US$'000
External sales and service:					
Sales revenue	176,004	33,587	—	—	209,591
Service revenue	310	185	—	—	495
	176,314	33,772	—	—	210,086
Inter-segment sales and services:					
Sales revenue	19,551	2,707	(22,258)	—	—
Service revenue	70	7,854	(7,924)	—	—
	19,621	10,561	(30,182)	—	—
Total operating revenue	195,935	44,333	(30,182)	—	210,086
Segment result/profit from operations	17,658	(8,323)	1,793	—	11,128
Finance income					1,954
Finance cost					(7)
					1,947
Profit before income tax					13,075
Income tax expense					(611)
Profit for the period					12,464
Attributable to:					
Equity holders of the Company					12,414
Minority interest					50
Other information					
Depreciation	1,445	750	—	—	2,195
Amortisation	3	—	—	—	3
Inventory write-down	34	99	—	—	133
Segment assets	118,511	44,725	—	281,564	444,800
Segment liabilities	55,192	21,437	—	237,829	314,458
Capital expenditure	4,539	973	—	—	5,512

	Six months ended 30 June 2006				
	Mainland China US$'000	Taiwan US$'000	Elimination US$'000	Unallocated US$'000	Consolidated US$'000
External sales and service:					
Sales revenue	147,936	36,816	—	—	184,752
Service revenue	154	495	—	—	649
	148,090	37,311	—	—	185,401
Inter-segment sales and services:					
Sales revenue	23,301	2,876	(26,177)	—	—
Service revenue	67	5,646	(5,713)	—	—
	23,368	8,522	(31,890)	—	—
Total operating revenue	171,458	45,833	(31,890)	—	185,401
Segment result/profit from operations	13,371	(3,579)	2,706	—	12,498
Finance income					779
Finance cost					(31)
					748
Profit before income tax					13,246
Income tax benefit					1,044
Profit for the period					14,290
Attributable to:					
Equity holders of the Company					14,263
Minority interest					27
Other information					
Depreciation	1,290	662	—	—	1,952
Amortisation	3	—	—	—	3
Inventory write-down	186	353	—	—	539
Segment assets, at 31 December 2006	111,131	27,935	—	51,182	190,248
Segment liabilities, at 31 December 2006	61,879	15,867	—	7,323	85,069
Capital expenditure, for the year ended 31 December 2006	3,391	2,041	—	—	5,432

Segment assets comprise operating assets. Unallocated assets comprise assets of non-production sites, restricted cash – share subscription monies received and deferred tax assets. Segment liabilities comprise operating liabilities. Unallocated liabilities comprise share subscription monies received and income tax payables. Capital expenditure comprises mainly additions to property, plant and equipment as set out in Note 6.

(ii) The amounts of revenue from sales to external customers for each customer-based geographical segment whose revenue from sales to external customers is 10% or more of total revenue are as follows:

	Six months ended 30 June			
	2007		2006	
	Amounts US$'000	**%**	Amounts US$'000	%
Asia	**45,451**	**21.6%**	41,579	22.4%
Americas	**81,545**	**38.8%**	56,108	30.3%
Europe	**83,018**	**39.5%**	87,164	47.0%
Others	**72**	**0.1%**	550	0.3%
	210,086	**100%**	185,401	100%

(b) Secondary reporting format - business segment

The Group manufactures and sells two main different categories of networking system related products, switches for separate connection within a network ("Ethernet switch") and devices for networking through broadband or wireless network ("Broadband and wireless").

The segment information for the sales and services of the two categories of products and for the others are as follows:

	Six months ended 30 June 2007			
	Ethernet switch US$'000	**Broadband and wireless US$'000**	**Others US$'000**	**Total US$'000**
External sales	**172,002**	**32,492**	**5,097**	**209,591**
External services	**421**	**61**	**13**	**495**
	172,423	**32,553**	**5,110**	**210,086**

	Six months ended 30 June 2006			
	Ethernet switch US$'000	Broadband and wireless US$'000	Others US$'000	Total US$'000
External sales	140,752	36,590	7,410	184,752
External services	217	179	253	649
	140,969	36,769	7,663	185,401

The Group's assets are jointly used for all types of products and services and cannot be allocated without causing concerns of arbitrary allocation.

6 PROPERTY, PLANT AND EQUIPMENT

	Buildings US$'000	Machinery and factory equipment US$'000	Office equipment, fixtures and leasehold improvements US$'000	Total US$'000
As at 1 January 2006				
Cost	7,462	26,900	2,786	37,148
Accumulated depreciation	(2,286)	(21,035)	(2,018)	(25,339)
Net book amount	5,176	5,865	768	11,809
Year ended 31 December 2006				
Opening net book amount	5,176	5,865	768	11,809
Additions	—	4,520	912	5,432
Disposals	—	(75)	(2)	(77)
Depreciation charge	(376)	(3,103)	(735)	(4,214)
Closing net book amount	4,800	7,207	943	12,950
As at 31 December 2006				
Cost	7,462	31,203	3,574	42,239
Accumulated depreciation	(2,662)	(23,996)	(2,631)	(29,289)
Net book amount	4,800	7,207	943	12,950
Six months ended 30 June 2007				
Opening net book amount	**4,800**	**7,207**	**943**	**12,950**
Additions	**339**	**4,678**	**495**	**5,512**
Disposals	**—**	**(115)**	**(3)**	**(118)**
Depreciation charge	**(189)**	**(1,637)**	**(369)**	**(2,195)**
Closing net book amount	**4,950**	**10,133**	**1,066**	**16,149**
As at 30 June 2007				
Cost	**7,802**	**34,224**	**3,176**	**45,202**
Accumulated depreciation	**(2,852)**	**(24,091)**	**(2,110)**	**(29,053)**
Net book amount	**4,950**	**10,133**	**1,066**	**16,149**

The amounts of depreciation expenses recognised in the consolidated income statement are as follows:

	Six months ended 30 June	
	2007	2006
	US$'000	US$'000
Cost of sales	**1,704**	1,576
Selling expenses	**4**	2
General and administration expenses	**63**	52
Research and development expenses	**424**	322
	2,195	1,952

Rental expense amounting to US$552,000 for the lease of buildings have been included in the consolidated income statement for the six months ended 30 June 2007 (six months ended 30 June 2006: US$456,000).

7 LAND USE RIGHTS

The Group's interest in land use rights represents prepaid operating lease payments and the net book value is analysed as follows:

	As at 30 June 2007	As at 31 December 2006
	US$'000	US$'000
In Mainland China held on:		
Leases of between 10 and 50 years	**289**	292
Beginning of the period/year	**292**	299
Amortisation	**(3)**	(7)
End of the period/year	**289**	292
Cost	**341**	341
Accumulated amortisation	**(52)**	(49)
Closing net book amount	**289**	292

8 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	As at 30 June 2007 US$'000	As at 31 December 2006 US$'000
Beginning of the period/year	**988**	714
Additions	**—**	214
Disposal	**(214)**	—
Impairment loss	**(50)**	—
Revaluation adjustment included in equity	**—**	60
End of the period/year	**724**	988

Available-for-sale financial assets include the following:

	As at 30 June 2007 US$'000	As at 31 December 2006 US$'000
Current:		
Listed equity securities	**—**	214
Non-current:		
Listed equity securities	**21**	68
Unlisted equity securities	**703**	706
	724	774
	724	988

Available-for-sale financial assets are denominated in the following currencies:

	As at 30 June 2007 US$'000	As at 31 December 2006 US$'000
US dollar	724	988

9 INVENTORIES

	As at 30 June 2007 US$'000	As at 31 December 2006 US$'000
Finished goods	**10,901**	10,273
Work-in-progress	**1,940**	2,481
Raw materials	**10,567**	15,288
	23,408	28,042

The cost of inventory recognised as expense and included in cost of sales in the consolidated income statement for the six months ended 30 June 2007 amounted to US$173,630,000 (six months ended 30 June 2006: US$154,505,000).

Allowance for decline in market value and inventory obsolescence amounted to US$133,000 for the six months ended 30 June 2007 (six months ended 30 June 2006: US$539,000).

10 TRADE RECEIVABLES

	As at 30 June 2007 US$'000	As at 31 December 2006 US$'000
Trade receivables	**74,215**	61,017
Trade receivables from related parties (Note 31)	**145**	210
	74,360	61,227
Less: Provision for impairment of trade receivables	**(6)**	(1,806)
Trade receivables - net	**74,354**	59,421

The details of provision for impairment of receivables are as follows:

	As at 30 June 2007 US$'000	As at 31 December 2006 US$'000
Beginning of the period/year	**1,806**	1,711
Additional provision	**—**	82
Write-off	**(1,758)**	—
Reversal of provisions	**(42)**	—
Exchange difference	**—**	13
End of the period/year	**6**	1,806

The carrying amounts of trade receivables approximate their fair values.

Majority of the Group's sales are with credit terms of 30 to 60 days. The ageing analysis of trade receivables is as follows:

	As at 30 June 2007 US$'000	As at 31 December 2006 US$'000
Days outstanding		
0 - 30 days	**34,640**	26,958
31 - 60 days	**27,691**	23,305
61 - 90 days	**11,735**	8,423
91 - 180 days	**294**	783
Over 180 days	**—**	1,758
Total	**74,360**	61,227

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

	As at 30 June 2007 US$'000	As at 31 December 2006 US$'000
US dollar	**53,925**	56,660
Chinese Renminbi	**1,328**	3,412
New Taiwan dollar	**19,086**	1,100
Others	**21**	55
	74,360	61,227

11 PREPAYMENTS AND OTHER ASSETS

	As at 30 June 2007 US$'000	As at 31 December 2006 US$'000
VAT recoverable	**2,487**	1,645
Others	**1,327**	798
	3,814	2,443

12 RESTRICTED CASH – SHARE SUBSCRIPTION MONIES RECEIVED

Share subscription monies received in connection with the global offering of the Company's shares were deposited with effective interest rates of 3.525% per annum as at 30 June 2007.

Upon the completion of global offering, share subscription monies received of approximately US$206million representing the over-subscribed portion were repaid to the applicants on 5 July 2007. The remaining balance was credited to share capital and share premium for issuing 31,360,000 shares of US$0.05 each.

13 CASH AND CASH EQUIVALENTS

	As at 30 June 2007 US$'000	As at 31 December 2006 US$'000
Cash at bank and on hand	**59,177**	21,055
Bank deposits	**34,580**	59,144
Other investments	**1,610**	2,508
	95,367	82,707

Cash at banks are with effective interest rates of between 0.2% to 3.25% per annum as at 30 June 2007 (31 December 2006: 0.01% to 4.8%).

Bank deposits are time deposits with effective interest rates of 1.62 % to 5.12 % per annum as at 30 June 2007 (31 December 2006: 2.55 % to 5.12 %). These bank deposits have original maturities of less than three months.

Other investments are treasury bonds with effective interest rate of 1.7 % per annum as at 30 June 2007 (31 December 2006: 1.5% to 1.55%). These bond investments have original maturities of less than three months.

Cash and cash equivalents are denominated in the following currencies:

	As at 30 June 2007 US$'000	As at 31 December 2006 US$'000
US dollar	**69,781**	60,465
New Taiwan dollar	**2,653**	1,995
Chinese Renminbi	**20,945**	17,383
Others	**1,988**	2,864
	95,367	82,707

The Group's cash and cash equivalents denominated in Chinese Renminbi are deposited with banks in Mainland China. The conversion of Chinese Renminbi denominated balances into foreign currencies and the remittance of funds out of these bank accounts are subject to the rules and regulations promulgated by the Mainland China government.

14 SHARE CAPITAL

	As at 30 June 2007 Number of shares	As at 30 June 2007 US$'000	As at 31 December 2006 Number of shares	As at 31 December 2006 US$'000
Authorised:				
Beginning of the period/year	**50,000,000**	**50,000**	50,000,000	50,000
Increase in authorised share capital (note (a))	**30,000,000**	**30,000**	—	—
	80,000,000	**80,000**	50,000,000	50,000
Additions due to (1 to 20) share sub-division (note (b))	**1,520,000,000**	**—**	—	—
End of the period/year	**1,600,000,000**	**80,000**	50,000,000	50,000
Issued and fully paid:				
Beginning of the period/year	**41,880,000**	**41,880**	41,880,000	41,880
Additions due to (1 to 20) share sub-division (note (b))	**795,720,000**	**—**	—	—
End of the period/year	**837,600,000**	**41,880**	41,880,000	41,880

Notes:

(a) Pursuant to a resolution passed by the equity holders of the Company on 8 June 2007, the authorised share capital of the Company was increased from US$50,000,000 divided into 50,000,000 shares of US$1 each to US$80,000,000 by the creation of an additional 30,000,000 shares of a par value of US$1 each to rank pari passu in all respect with the shares then in issue.

(b) Pursuant to another resolution passed on 8 June 2007, each issued and unissued share capital of the Company of a par value of US$1 each was sub-divided into 20 shares of a par value of US$0.05 each. As a result of the share sub-division, the authorised share capital and issued share capital of the Company amounted to US$80,000,000 divided into 1,600,000,000 shares of US$ 0.05 each, and US$41,880,000 divided into 837,600,000 shares of US$0.05 each, respectively.

(c) On 5 July 2007, 124,000,000 shares of US$0.05 each were allotted and issued to the trustee of EIS at nil consideration as the treasury shares which will be granted to the participants of EIS in the coming years.

(d) Pursuant to the global offering, on 5 July 2007, 235,200,000 shares of US$0.05 each were allotted and issued for cash at a price of HK$4.5 (equivalent to US$0.58) per share.

15 OTHER RESERVES

	Contributed reserve (note (a)) US$'000	Statutory reserves (note (b)) US$'000	Share-based payment reserve (note (c)) US$'000	Fair value reserve US$'000	Share issuance cost (note(d)) US$'000	Total US$'000
Balance at 1 January 2007	**17,274**	**3,907**	**5,174**	**—**	**—**	**26,355**
Share-based payment settled by ultimate holding company's shares without recharge	**9,361**	**—**	**—**	**—**	**—**	**9,361**
Management share subscription scheme reward	**—**	**—**	**1,734**	**—**	**—**	**1,734**
Employee incentive scheme reward	**—**	**—**	**4,764**	**—**	**—**	**4,764**
Transfer from retained earnings	**—**	**1,185**	**—**	**—**	**—**	**1,185**
Replacement of employee incentive scheme award with ultimate holding company's shares	**4,062**	**—**	**(4,062)**	**—**	**—**	**—**
Share issuance cost	**—**	**—**	**—**	**—**	**(3,160)**	**(3,160)**
Balance at 30 June 2007	**30,697**	**5,092**	**7,610**	**—**	**(3,160)**	**40,239**
Balance at 1 January 2006	11,232	3,142	—	(60)	—	14,314
Fair value gain, net of tax:					—	
- available-for-sale financial assets	—	—	—	60	—	60
Share-based payment settled by ultimate holding company's shares without recharge	6,042	—	—	—	—	6,042
Employee incentive scheme reward	—	—	2,031	—	—	2,031
Balance at 30 June 2006	17,274	3,142	2,031	—	—	22,447
Balance at 1 January 2006	11,232	3,142	—	(60)	—	14,314
Fair value gain, net of tax: - available-for-sale financial assets	—	—	—	60	—	60
Share-based payment settled by ultimate holding company's shares without recharge	6,042	—	—	—	—	6,042
Management share subscription scheme reward	—	—	1,112	—	—	1,112
Employee incentive scheme reward	—	—	4,062	—	—	4,062
Transfer from retained earnings	—	765	—	—	—	765
Balance at 31 December 2006	17,274	3,907	5,174	—	—	26,355

(a) Contributed reserve

Contributed reserve mainly represents capital reserve arising from DEI incentive scheme (see Note 2.14(b)(i)). Prior to 2006, DEI granted its own shares to the employees of the Group as the compensation of the services rendered by these employees.

In 2006, management set up an employee incentive scheme ("EIS") (see Note 15(c)(i)) to replace DEI incentive scheme as a part of employees' remuneration. Compensation expense of US$4,062,000 relating to EIS was recognised for the year ended 31 December 2006. However, in March 2007, management decided to defer the implementation of EIS, and the Group's employees would receive DEI Shares pursuant to the DEI incentive scheme instead. In connection with such change, share-based reserve of US$4,062,000 were therefore transferred to contributed reserve.

On 18 June 2007, 3,982,000 DEI Shares of fair value of US$13,423,000 were granted to the employees of the Group. Consequently, US$9,361,000, representing the difference between the total fair value of DEI Shares granted and US$4,062,000, were recognised as compensation expense with a corresponding credit to contributed reserve.

The amounts of total compensation expenses in respect of DEI incentive scheme recognised in the consolidated income statement are as follows:

	Six months ended 30 June	
	2007	2006
	US$'000	US$'000
Cost of sales	**1,680**	965
Selling expenses	**1,464**	818
General and administrative expenses	**1,153**	1,330
Research and development expenses	**5,064**	2,929
	9,361	6,042

(b) Statutory reserve

As stipulated by regulations in Mainland China and Taiwan, the Company's subsidiaries established and operated in Mainland China and Taiwan have to appropriate 10% of after-tax profit (after offsetting prior year losses) to the general reserve. Subject to certain conditions, the general reserve can be utilised to offset prior year losses or be utilised for the issuance of share dividend.

(c) Share-based payment reserve

(i) Employee incentive scheme ("EIS")

EIS was first approved and adopted by resolutions of the Board of Directors on 21 August 2006. It was modified and approved by the Board of Directors on 13 June 2007. In 2007, management estimated EIS expense under the assumption that the total fair value of the Company's ordinary shares ("DNI Shares") to be granted to the employees for their services rendered during the vesting period from January 2007 to the grant date in 2008 would amount to US$13,500,000, estimating based on the total fair value of DEI Shares granted on 18 June 2007. The number of DNI Shares to be granted is estimated to be 23,275,862 based on the estimated fair value of US$0.58 per DNI Share. On a pro-rated basis of the vesting period, US$4,764,000 was recognised as compensation expense for the six months ended 30 June 2007(six months ended 30 June 2006: US$ 2,031,000).

The amounts of total compensation expenses in respect of EIS recognised in the consolidated income statement are as follows:

	Six months ended 30 June	
	2007	2006
	US$'000	US$'000
Cost of sales	**852**	305
Selling expenses	**744**	406
General and administrative expenses	**588**	305
Research and development expenses	**2,580**	1,015
	4,764	2,031

(ii) Management share subscription scheme ("MSSS")

MSSS was adopted by the Board of Directors on 21 August 2006. Pursuant to MSSS, 56,924,000 MSSS awards (after share sub-division) were granted to certain eligible employees of the Group for subscribing the same number of DNI Shares at a subscription price of US$0.121 (after share sub-division) per share. According to the original rules of MSSS, these awards would be vested and issued in four instalments up to September 2010. In March 2007, it was decided that the vesting period of shares subscribed would be extended for an additional seven months up to April 2011. Since the extension of vesting period would not be beneficial to employees, the Group takes no account of the modified service condition when recognising service received. Accordingly, on a pro-rated basis of the original vesting period, US$1,734,000 was recognised as compensation expense for the six months ended 30 June 2007(six months ended 30 June 2006: Nil). As at 30 June 2007, subscription proceeds of US$6,888,000 (31 December 2006: US$6,403,000) were received from the subscribers. The subscription proceeds are refundable at principal amount plus interest of 5% per annum subject to certain conditions and are included in "Provisions and other liabilities" in the consolidated balance sheet.

The amounts of total compensation expenses in respect of MSSS recognised in the consolidated income statement are as follows:

	Six months ended 30 June	
	2007	2006
	US$'000	US$'000
Cost of sales	**156**	—
Selling expenses	**96**	—
General and administrative expenses	**1,194**	—
Research and development expenses	**288**	—
	1,734	—

Principal assumptions used to estimate the fair value are as follows:

Expected economic growth rate	2.9%
Discount rates	14.4% to 17.3%

All DNI Shares subscribed under MSSS were not vested to the eligible employees as at 30 June 2007.

(d) Share issuance costs

The balance represents the professional and other related costs as incurred up to 30 June 2007 in connection with the global offering of the Company's shares.

16 PROVISIONS AND OTHER LIABILITIES

	As at 30 June 2007 US$'000	As at 31 December 2006 US$'000
Current		
Receipts in advance from customers	**726**	381
Receipts under MSSS plan	**1,722**	1,601
	2,448	1,982
Non-current		
Receipts under MSSS plan	**5,166**	4,802
	7,614	6,784

17 RETIREMENT BENEFIT OBLIGATIONS

The Group has various employee retirement plans offering pension benefits for each subsidiary in accordance with laws and regulations of the countries where the subsidiaries are operating.

(a) The Group has defined benefit plans for the benefits of certain employees working in Taiwan and Mainland China. The plan for employees in Taiwan ("Old Plan") is only available for the employees who joined the Group before 1 July 2005. Effective from 1 July 2005, the employees who joined the Old Plan can choose to switch to a new defined contribution plan in Taiwan ("New Plan"). Those employees who have switched to the New Plan are still entitled to the Old Plan benefits earned with their service years under the Old Plan provided all the criteria for the Old Plan benefits entitlements are met upon retirement. The Old Plan benefits of the employees switched to the New Plan are assessed annually together with the pension benefits of the employees staying with Old Plan as a whole. The details of the New Plan have been set out in Note 17(b).

As at 30 June 2007, benefit obligations under these defined benefit plans and recognised in the consolidated balance sheet are as follows:

	As at 30 June 2007 US$'000	As at 31 December 2006 US$'000
Present value of funded obligation	**5,645**	5,334
Fair value of plan assets	**(1,615)**	(1,526)
	4,030	3,808
Present value of unfunded obligation	**215**	169
Unrecognised actuarial gains	**(361)**	(182)
Liability in the balance sheet	**3,884**	3,795

The plans are valued by ClientView Management Consulting Co., Ltd, independent actuaries, using the projected unit credit method.

The principal actuarial assumptions used are as follows:

	As at 30 June 2007 US$'000	As at 31 December 2006 US$'000
Discount rate of funded obligation	**2.50%**	2.50%
Discount rate of unfunded obligation	**2.50%**	2.50%
Expected return rate on plan assets	**2.00%**	2.00%
The average rate of salary increase	**3.00%**	3.00%

The amounts recognised in the consolidated income statement are as follows:

	Six months ended 30 June	
	2007	2006
	US$'000	US$'000
Current service cost	**131**	130
Interest cost	**68**	63
Expected return on plan assets	**(16)**	(10)
Net pension cost	**183**	183

The actual return of funded obligation on plan assets was US$10,600 for the six months ended 30 June 2007 (six months ended 30 June 2006: US$9,300).

The movements in pension benefit obligation are as follows:

	As at 30 June 2007	As at 31 December 2006
	US$'000	US$'000
Beginning of period/year	**5,503**	4,876
Current service cost	**131**	258
Interest cost	**68**	124
Actuarial losses	**74**	205
Benefits paid	**(6)**	(2)
Exchange difference	**(18)**	42
End of period/year	**5,752**	5,503

The movements in the fair value of plan assets are as follows:

	As at 30 June 2007 US$'000	As at 31 December 2006 US$'000
Beginning of period/year	**1,526**	1,308
Employer contributions	**85**	174
Expected return on plan assets	**16**	20
Actuarial (gains)/losses	**(5)**	15
Exchange difference	**(7)**	9
End of period/year	**1,615**	1,526

Expected contributions to the plan assets were estimated to be US$80,000 (unaudited) for the year ending June 30, 2008.

Current and historical defined benefit retirement plans information are summarised as follows:

	As at 30 June 2007 US$'000	As at 31 December 2006 US$'000
Present value of defined benefit obligation	**5,752**	5,503
Fair value of plan assets	**(1,615)**	(1,526)
Deficit	**4,137**	3,977
Experience adjustments on plan liabilities	**53**	75
Experience adjustments on plan assets	**5**	(15)

(b) The Group has defined contribution plans covering employees in Mainland China,Taiwan and the United States of America.

As stipulated by rules and regulations in Mainland China, the Group contributes to a state-sponsored retirement plan for its employees in Mainland China, which is a defined contribution plan. The Group and its employees contribute approximately 10% and 8%, respectively, of the employee's salary as specified by the local government, and the Group has no further obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions. The state-sponsored retirement plan is responsible for the entire pension obligations payable to retired employees.

New employees in Taiwan recruited on and subsequent to 1 July 2005 can only join a defined contribution plan, namely the New Plan. The Company contributes monthly 6% of salaries and wages to an individual and portable account of each participating employee administered by the Bureau of Labor Insurance. The Company has no further legal or constructive obligations of additional payments in addition to the contributions made.

The defined contribution plan in the United States of America is covering pension and other employee benefits in accordance with the local regulations. Participating employees may contribute up to US$15,000 of their salaries. The Group matches the employees' contributions under a defined formula as stipulated by relevant local regulations.

The employee retirement benefit expense recognised in the consolidated income statements for these defined contribution plans was US$306,000 for the six months ended June 30, 2007 (six months ended June 30, 2006: US$280,000).

For all plans, there was no significant forfeited contribution available for offsetting the Group's contribution obligations for each of the six-month periods ended June 30, 2007 and 2006.

(c) The amounts of total employee retirement benefit expenses recognised in the consolidated income statement are as follows:

	Six months ended June 30,	
	2007	2006
	US$'000	US$'000
Cost of sales	**180**	166
Selling expenses	**51**	67
General and administrative expenses	**56**	43
Research and development expenses	**202**	187
	489	463

18 TRADE AND OTHER PAYABLES

	As at 30 June 2007 US$'000	As at 31 December 2006 US$'000
Trade payables	**50,404**	45,135
Trade payables due to related parties (Note 31)	**8,096**	5,755
	58,500	50,890
Accruals and other payables:		
Accrued payrolls and bonuses	**2,557**	3,603
Accrued customs duties and VAT	**3,659**	4,105
Other accrued expenses	**8,708**	3,069
Other payables	**2,031**	4,397
Other payables due to related parties (Note 31)	**754**	529
	17,709	15,703
	76,209	66,593

The carrying amounts of trade and other payables approximate their fair values.

The ageing analysis of the trade payables of the Group is as follows:

	As at 30 June 2007 US$'000	As at 31 December 2006 US$'000
0 - 30 days	**16,882**	14,820
31 - 60 days	**15,988**	19,077
61 - 90 days	**16,594**	10,407
Over 90 days	**9,036**	6,586
	58,500	50,890

19 BORROWINGS, UNSECURED

	As at 30 June 2007 US$'000	As at 31 December 2006 US$'000
Short-term borrowings denominated in US dollar	**—**	6,000

20 INCOME TAX EXPENSE

The amounts of taxation charged to the consolidated income statement represent:

	Six months ended 30 June	
	2007 US$'000	2006 US$'000
Current taxation		
Hong Kong taxation	**—**	—
Overseas taxation	**1,535**	205
(Over)/under – provision in prior years – net	**(366)**	98
Deferred taxation	**(558)**	(1,347)
	611	(1,044)

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the group entities as follows:

	Six months ended 30 June	
	2007	2006
	US$'000	US$'000
Profit before income tax	**13,075**	13,246
Tax calculated at domestic tax rates applicable to profits in the respective countries	**2,240**	1,039
Expenses not deductible for tax purposes	**693**	119
Utilisation of previously unrecognised tax losses	**—**	(938)
(Over)/under provision of income tax in prior years	**(366)**	98
	2,567	318
Utilisation of investment tax credits	**(1,398)**	(15)
Tax benefit for which deferred income tax asset was recognised (Note 21)	**(558)**	(1,347)
Tax expense/(benefit)	**611**	(1,044)

The weighted average applicable tax rate for the six months ended 30 June 2007 was 17% (six months ended 30 June 2006: 8%). The increase is caused by a change in the distribution of profit of the Group's subsidiaries in different countries.

The Company is an exempted company incorporated in the Cayman Islands and, as such, is not liable for taxation in the Cayman Islands on its non-Cayman Islands income.

DNI Dongguan is a foreign investment enterprise in Mainland China and is subject to the Mainland China enterprise income tax rate of 15% under the tax regulations of Mainland China. It has been subject to a reduced tax rate of 10% in 2007 (2006: 7.5%).

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "new CIT Law"). The new CIT Law standardises the corporate income tax rate to 25% with effect from 1 January 2008. The new CIT Law provides that further detailed measures and regulations on the determination of taxable profit, tax incentives and grandfathering provisions will be issued by the State Council in due course. As and when the State Council announces the additional regulations, the Group will assess their impact, if any, and account for any change in accounting estimate.

DNI Taiwan is incorporated in Taiwan and is subject to a corporate income tax rate of 25%. However, it is entitled to certain tax incentives under the Statute for Upgrading Industries in Taiwan. Pursuant to such regulation, 30% of the expenditure incurred for research and development and training activities can be credited against the corporate income tax in Taiwan in each year within a period of five years from the year for which such expenditure is incurred. If such expenditure of that year exceeds the average expenditure of the previous two years, 50% of the excess amount can be credited against the corporate income tax payable. In addition, subject to certain conditions, DNI Taiwan may credit 5% to 7% of the cost spent on qualifying machinery and equipment against the corporate income tax payable in each year within a period of five years from the year for which such cost is incurred. The utilisation of the available tax credits in each year is limited to 50% of the corporate income tax payable in that year, except that any not fully utilised tax credit which is due to expire at the end of the five-year period can be offset against 90% of the corporate income tax of the last year of the five-year period.

21 DEFERRED TAXATION

The gross movements on the deferred income tax account are as follows:

	As at 30 June 2007 US$'000	As at 31 December 2006 US$'000
Beginning of the period/year	**2,591**	—
Credited to consolidated income statement	**558**	2,591
End of the period/year	**3,149**	2,591

The details of deferred tax assets as at 30 June 2007 are as follows:

	Unrealised foreign exchange loss-net	Decelerated depreciation allowance	Provision	Others	Tax credit	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
At 1 January 2006	—	—	—	—	—	—
Credited to consolidated income statement	111	280	—	85	2,115	2,591
At 31 December 2006	111	280	—	85	2,115	2,591
At 1 January 2007	**111**	**280**	**—**	**85**	**2,115**	**2,591**
Credited/(debited) to consolidated income statement (Note 20)	**(77)**	**(280)**	**180**	**(85)**	**820**	**558**
At 30 June 2007	**34**	**—**	**180**	**—**	**2,935**	**3,149**

Deferred income tax assets are recognised for tax loss carry forward and investment tax credits to the extent that the realisation of the related tax benefit through the future taxable profit is probable. The Group did not recognise deferred income tax assets in respect of tax losses amounting to US$3,091,000 that can be carried forward against future taxable income at 30 June 2007 (31 December 2006: US$3,091,000). These tax losses will expire in 2 years. The Group also did not recognise deferred income tax assets in respect of investment tax credits amounting to US$8,047,500 that can be carried forward against future tax liability at 30 June 2007 (31 December 2006: US$8,498,000). These investment tax credits will expire in between one and four years.

The Group determined that there were no deferred income tax liabilities at 30 June 2007 and 31 December 2006 to be recognised for the withholding tax and other taxes that would be payable on remitted earnings of subsidiaries. Unremitted earnings totalled US$11,987,000 as at 30 June 2007 (31 December 2006: US$8,118,000). The Group has no plan to distribute the amount at 30 June 2007 and the amount is more likely to be reinvested.

22 OTHER GAINS, NET

	Six months ended 30 June	
	2007	2006
	US$'000	US$'000
Other income and expense		
– Commision income	**588**	194
– Penalty income	**503**	224
– Tax refund in respect of reinvestment	**390**	—
– Others	**96**	548
	1,577	966
Derivative instruments		
– forward contracts	**2,683**	1,207
Losses on disposal of property, plant and equipment	**(118)**	(85)
Net foreign exchange gains	**518**	593
Other gains, net	**4,660**	2,681

Other income primarily consists of the Group's various activities above, transactions and events, which differ in frequency, potential for gains or loss and predictability, from sales and service revenue.

23 EXPENSES BY NATURE

The Group's profit from operations is arrived at after charging the following main items:

	Six months ended 30 June	
	2007	2006
	US$'000	US$'000
Amortisation of land use rights	**3**	3
Auditor's remuneration	**210**	165
Depreciation of property, plant and equipment (Note 6)	**2,195**	1,952
Changes in inventories of finished goods and work in progress	**—**	(2)
Raw materials and consumables used	**156,042**	118,220
Operating lease rental – buildings	**552**	456
Employee benefit expense (Note 24)	**26,235**	17,682
Other expenses	**18,381**	37,108
Total cost of sales, selling expenses, general and administration expenses and research and development expenses	**203,618**	175,584

24 EMPLOYEE BENEFIT EXPENSE

	Six months ended 30 June	
	2007	2006
	US$'000	US$'000
Basic salary and allowance	**8,008**	7,406
Bonus	**1,360**	1,251
Social security costs	**519**	489
Share-based payment		
– DEI's incentive scheme	**9,361**	6,042
– Employee incentive scheme	**4,764**	2,031
– Management share subscription scheme	**1,734**	—
Pension cost – defined contribution plans	**306**	280
Pension cost – defined benefit plans	**183**	183
	26,235	17,682

(a) Directors' emoluments

The remuneration of each director of the Company for the six months ended 30 June 2007 is set out below:

Name of Director	Fees	Salaries	Discretionary bonuses	MSSS	Housing allowances	Employer's contribution to retirement schemes	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Executive Directors							
LIANG Ker Uon, Sam	–	37	–	378	–	1	416
CHENG An, Victor	–	53	–	252	–	2	307
Non-executive Directors							
CHENG Chung Hua, Bruce	–	–	–	126	–	–	126
HAI Ing-Jiunn, Yancey	–	–	–	126	–	–	126
Independent Non-executive Directors							
ZUE Wai To, Victor	–	–	–	126	–	–	126
LIU Chung Laung	–	–	–	126	–	–	126
SHEN Bing	–	–	–	–	–	–	–
	–	90	–	1,134	–	3	1,227

The remuneration of each director of the Company for the six months ended 30 June 2006 is set out below:

Name of Director	Fees	Salaries	Discretionary bonuses	MSSS	Housing allowances	Employer's contribution to retirement schemes	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Executive Directors							
LIANG Ker Uon, Sam	–	37	793	–	–	1	831
CHENG An, Victor	–	31	222	–	–	2	255
Non-executive Directors							
CHENG Chung Hua, Bruce	–	–	–	–	–	–	–
HAI Ing-Jiunn, Yancey	–	–	–	–	–	–	–
	–	68	1,015	–	–	3	1,086

No director waived any emoluments during the six-month periods ended 30 June 2007 and 2006.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include two directors for each of the six-month periods ended 30 June 2007 and 2006 whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three individuals for each of the six-month periods ended 30 June 2007 and 2006 are as follows:

	Six months ended 30 June	
	2007	2006
	US$'000	US$'000
Basic salaries, housing allowances and other allowances	**99**	90
Discretionary bonuses	**701**	306
MSSS	**34**	—
Retirement schemes	**3**	2
	837	398

The emoluments fell within the following bands:

	Six months ended 30 June	
	2007	2006
US$Nil – US$128,041 (equivalent to approximately HK$1,000,000)	**—**	1
US$128,042 – US$192,061 (equivalent to approximately HK$1,000,001 - HK$1,500,000)	**—**	2
US$192,062 – US$256,410 (equivalent to approximately HK$1,500,001 - HK$2,000,000)	**1**	—
US$256,411 – US$320,510 (equivalent to approximately HK$2,000,001 – HK$2,500,000)	**2**	—
	3	3

(c) During the six-month periods ended 30 June 2007 and 2006, no emoluments were paid by the Company to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

25 FINANCE INCOME AND FINANCE COST

	Six months ended 30 June	
	2007	2006
	US$'000	US$'000
Bank interest income	**1,869**	779
Interest income of share subscription monies received	**85**	—
	1,954	779
Interest on bank borrowing and overdrafts wholly repayable within five years	**(7)**	(31)
	1,947	748

26 EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period. The weighted average number of ordinary shares in issue is adjusted for the share sub-division of 1 to 20.

	Six months ended 30 June	
	2007	2006
Profit attributable to equity holders of the Company (US$'000)	**12,414**	14,263
Weighted average number of ordinary shares in issue after share sub-division of 1 to 20 (Note 14) (thousands)	**837,600**	837,600
Basic earnings per share (US cents per share)	**1.48**	1.70

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

The weighted average number of ordinary shares for the purpose of calculating diluted earning per share is adjusted for outstanding shares of share-based payments under EIS of 7,759,000 shares (six months ended 30 June 2006: 8,376,000 shares) and MSSS of 35,634,000 shares (six months ended 30 June 2006: Nil). A calculation is made for MSSS and EIS in order to determine the number of shares that could have been acquired at fair value based on the subscription price attached to outstanding share. The number of shares calculated above is based on the estimated number of shares that would have been issued assuming vesting of all outstanding shares.

	Six months ended 30 June	
	2007	2006
Profit attributable to equity holders of the Group (US$'000)	**12,414**	14,263
Weighted average number of ordinary shares in issue after share sub-division of 1 to 20 (thousands)	**837,600**	837,600
Adjustments for – MSSS and EIS after share sub-division of 1 to 20 (thousands)	**43,393**	8,376
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**880,993**	845,976
Diluted earnings per share (US cents per share)	**1.41**	1.69

27 DIVIDEND

No dividend was declared by the Company during the six-month periods ended 30 June 2007 and 2006.

28 CONSOLIDATED CASH FLOW STATEMENT

Cash generated from operations

	Six months ended 30 June	
	2007	2006
	US$'000	US$'000
Profit before income tax	**13,075**	13,246
Adjustments for:		
(Reversal of impairment provision)/ impairment provision of receivables	**(42)**	100
Depreciation	**2,195**	1,952
Inventory write-down	**133**	539
Amortisation of land use rights	**3**	3
Impairment loss on available-for-sale financial assets	**50**	—
Gains from derivative instruments	**(2,683)**	(1,207)
Share-based payment compensation	**15,859**	8,073
Losses on sale of property, plant and equipment	**118**	85
Interest income	**(1,954)**	(779)
Interest expense	**7**	31
Others	**(14)**	—
Changes in working capital:		
Inventories	**4,501**	(2,793)
Prepayments and other assets	**(2,542)**	725
Trade receivables	**(14,891)**	(8,115)
Trade and other payables	**7,611**	14,114
Retirement benefit obligation	**88**	144
Provisions and other liabilities	**847**	(947)
	22,361	25,171

29 CONTINGENT LIABILITIES

As at 30 June 2007 and 2006, the Group did not have material contingent liabilities.

30 COMMITMENTS

(a) Capital commitments

As at 30 June 2007 and 2006, the Group did not have significant capital commitments.

(b) Operating lease commitments

As at 30 June 2007, the Group had future aggregate minimum lease payments under non-cancellable operating leases of land and buildings as follows:

	As at 30 June 2007 US$'000	As at 31 December 2006 US$'000
Not later than one year	**1,102**	10
Later than one year and not later than five years	**1,648**	—
	2,750	10

31 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

(a) For the six months ended 30 June 2007, the Group's management are of the view that the following companies are related parties of the Group:

Names of related parties	Relationship with the Group
Delta Electronics, Inc. ("DEI")	The ultimate holding company
Delta International Holding Ltd. ("DIH")	A subsidiary of the ultimate holding company
Delta Electronics (Japan) Inc.	A subsidiary of DIH
Delta Electronics (Dongguan) Co., Ltd.	A subsidiary of DIH
Delta Electronics Power (Dongguan) Co.	A subsidiary of DIH
Delta Electronics Component (Dongguan) Co., Ltd.	A subsidiary of DIH
Delta Electronics (Jiangsu) Ltd.	A subsidiary of DIH
Delta Electronics Components (Wujiang) Ltd.	A subsidiary of DIH
Delta Electro-optics (Wujiang) Ltd.	A subsidiary of DIH
Delta Video Display System (Wujiang) Ltd.	A subsidiary of DIH
Delta Power Sharp Limited	A subsidiary of DIH
Delta Electronics International Ltd.	A subsidiary of DIH
Delta Electronics International Ltd. (Labuan)	A subsidiary of DIH

The Group had the following significant related party transactions for the six months ended 30 June 2007:

(b) Purchase of goods

Continuing transactions

	Six months ended 30 June	
	2007	2006
	US$'000	US$'000
Ultimate holding company	**71**	961
Fellow subsidiaries	**15,152**	9,082
	15,223	10,043

The purchase terms, including prices and credit terms, were negotiated based on cost, market, competitors and other factors.

(c) Selling expense-commission

Continuing transactions

	Six months ended 30 June	
	2007	2006
	US$'000	US$'000
Fellow subsidiaries	**300**	300

The commission expenses were calculated based on a certain percentage of the transaction value arranged by the follow subsidiaries.

(d) Expenses recharged from related parties

Continuing transactions

	Six months ended 30 June	
	2007	2006
	US$'000	US$'000
Fellow subsidiaries	**547**	589

Expenses recharged from related parties related to provision of production capacity and labour force and was charged in accordance with the terms of agreement made between the parties.

(e) Support expense to related parties

Continuing transactions

	Six months ended 30 June	
	2007	2006
	US$'000	US$'000
Ultimate holding company	**10,064**	11,069

Support expense to related parties related to provision of utilities and management services and was charged in accordance with the terms of agreement made between the parties.

(f) DEI incentives scheme

Discontinuing transactions

	Six months ended 30 June	
	2007	2006
	US$'000	US$'000
Ultimate holding company (Note 15(a))	**9,361**	6,042

(g) Rental expenses

Continuing transactions

	Six months ended 30 June	
	2007	2006
	US$'000	US$'000
Ultimate holding company	**545**	450

Properties leased by ultimate holding company to the Group for production and office use were charged in accordance with the terms of agreement made between the parties.

(h) Key management compensation

	Six months ended 30 June	
	2007	2006
	US$'000	US$'000
Basic salary and allowance	**285**	227
Share-based payments		
- DEI's incentive scheme	**579**	730
- Employee incentive scheme	**446**	755
- Management share subscription scheme	**1,219**	—
Pension cost-defined contribution plans	**4**	2
Pension cost-defined benefit plans	**3**	3
	2,536	1,717

(i) Trade receivables due from related parties

	As at 30 June 2007	As at 31 December 2006
	US$'000	US$'000
Ultimate holding company	**102**	89
Fellow subsidiaries	**43**	121
	145	210

The trade receivables from related parties arose mainly from sales transactions and payment terms were negotiated with related parties. The receivables were unsecured and borne no interest.

(j) Trade payables due to related parties

	As at 30 June 2007 US$'000	As at 31 December 2006 US$'000
Ultimate holding company	**22**	42
Fellow subsidiaries	**8,074**	5,713
	8,096	5,755

The trade payables arose mainly from purchase transactions and payment terms were negotiated with related parties. The payables were unsecured and borne no interest.

(k) Other payables due to related parties

	As at 30 June 2007 US$'000	As at 31 December 2006 US$'000
Ultimate holding company	**65**	85
Fellow subsidiaries	**689**	444
	754	529

Other payables were payments made by related parties on behalf of the Group for purchase of equipment and other miscellaneous expenses. The payment terms of other payables were determined based on negotiation. The payables borne no interest.

32 DERIVATIVE FINANCIAL INSTRUMENTS

(a) The net fair value of derivative financial instruments at 30 June 2007 is as follows:

	As at 30 June 2007		As at 31 December 2006	
	Asset	**Liability**	Asset	Liability
	US$'000	**US$'000**	US$'000	US$'000
Foreign currency option contracts	**—**	**8**	—	14
Foreign currency forward contracts	**2,862**	**875**	814	1,055
	2,862	**883**	814	1,069

The fair value of the foreign currency option contracts was determined by the valuation reports on the balance sheet dates provided by financial institutions with references to option pricing models.

The fair value of the Foreign currency forward contracts represented the unrealised gain or loss on revaluation of the contracts at the period-end forward exchange rates.

(b) The notional principal amounts and exercise prices or rates of the outstanding derivative financial instruments at 30 June 2007 are as follows:

	As at 30 June 2007	As at 31 December 2006
Foreign currency option contracts		
- notional principal amounts (US$'000)	**1,490**	3,990
- exercise prices		
US dollar vs New Taiwan dollar	**33.05 - 33.5**	32.25 - 32.75
Foreign currency forward contracts		
- notional principal amounts (US$'000)	**220,000**	240,000
- exercise prices		
Chinese Renminbi vs US dollar	**7.33- 7.76**	7.63- 7.81

33 SUBSEQUENT EVENTS

Except as disclosed in Note 12, Note 14 and the information below, there were no significant events subsequent to 30 June 2007.

On 6 July 2007, the Company completed its global offering of 235,200,000 shares and listing of its shares on the Main Board of The Stock Exchange of Hong Kong Limited. The gross proceeds from the Company's global offering amounted to approximately US$136million and the total share premium resulted from the global offering amounted to approximately US$120million after deduction of the underwriting fees and other relevant expenses of approximately US$4million.

34 PARTICULARS OF SUBSIDIARIES

As at 30 June 2007, the Company had direct and indirect interests in the following subsidiaries:

Name	Place of incorporation/ establishment	Kind of legal entity	Issued and fully paid up share capital/ registered capital	Attributable equity interests		Principal activities and place of operations
				Direct	Indirect	
Delta Electronics Industrial (Dong Guan) Co., Ltd. ("DNI Dongguan")	Mainland China	Wholly-owned foreign investments enterprise	Paid up capital of US$27,000,000	100%	—	Manufacturing of networking system and peripherals in Mainland China
Delta Networks, Inc. ("DNI Taiwan")	Taiwan	Limited liability company	50,000,000 Ordinary shares of NT$10 each	99.20%	—	Manufacturing of networking system and peripherals in Taiwan
DNI Logistics (USA) Corp. ("DNI US")	United States of America	Limited liability company	500,000 Ordinary shares of US$1 each	100%	—	Trading of networking system and peripherals in USA
Delta Networks International Ltd. - Labuan ("DNI Labuan")	Malaysia	Limited liability company	1,000,000 Ordinary shares of US$1 each	100%	—	Trading of networking system and peripherals in Macau