



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

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

Interim Report 2007



Sunlink, your link to mWorld

Contents

Corporate Information	2
Condensed Consolidated Income Statement	3
Condensed Consolidated Balance Sheet	4
Condensed Consolidated Statement of Changes in Equity	5
Condensed Consolidated Cash Flow Statement	7
Notes to the Condensed Consolidated Financial Statements	8
Management Discussion and Analysis	16

Corporate Information

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Yeung Ming Tai
Wong Lai Ying, Cecilia
Sun Hanxu

COMPANY SECRETARY

Lee Chak To

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Bank of Communications Company Limited,
Hong Kong Branch
Citic Ka Wah Bank Limited
DBS Bank (Hong Kong) Limited
Hang Seng Bank Limited
Shanghai Commercial Bank Limited
The Hongkong and Shanghai Banking
Corporation Limited
Wing Hang Bank Limited

AUDITORS

Deloitte Touche Tohmatsu

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1905-07 Tower III
Enterprise Square
9 Sheung Yuet Road
Kowloon Bay
Kowloon
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield House
68 Fort Street
Grand Cayman
Cayman Islands
P.O. Box 705
Grand Cayman KY1-1107
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Standard Limited
26th Floor Tesbury Centre
28 Queen's Road East
Hong Kong

WEBSITE

<http://www.sunlink.biz>

Condensed Consolidated Income Statement

For the six months ended 30 June 2007

	NOTES	Six months ended 30.6.2007 HK\$'000 (unaudited)	30.6.2006 HK\$'000 (unaudited)
Revenue		483,286	349,376
Cost of sales		(417,437)	(311,536)
Gross profit		65,849	37,840
Other income	4	1,554	1,633
Selling and distribution costs		(6,538)	(4,643)
General and administrative expenses		(22,527)	(18,122)
Finance costs	5	(3,966)	(4,265)
Share of results of an associate		(5)	–
Profit before taxation	6	34,367	12,443
Income tax expenses	7	(6,964)	(2,405)
Profit for the period		27,403	10,038
Attributable to:			
Equity holders of the Company		27,354	10,010
Minority interests		49	28
		27,403	10,038
		HK cents	HK cents
Earnings per share	9		
Basic		1.7	0.8
Diluted		1.7	0.8

Condensed Consolidated Balance Sheet

At 30 June 2007

	NOTES	30.6.2007 HK\$'000 (unaudited)	31.12.2006 HK\$'000 (audited)
Non-current assets			
Interest in an associate		–	–
Property, plant and equipment		4,030	3,579
Available-for-sale investments	10	–	2,238
Club debenture		636	–
		4,666	5,817
Current assets			
Investments held for trading		143	38
Inventories		65,242	34,959
Debtors, deposits and prepayments	11	231,790	206,041
Amount due from an associate		273	–
Tax recoverable		–	902
Pledged bank deposits		2,000	39,656
Bank balances and cash		88,649	29,698
		388,097	311,294
Current liabilities			
Creditors and accrued charges	12	40,182	49,706
Bills payables	13	1,423	–
Taxation		11,655	5,009
Trust receipt loans		98,595	112,369
Short term borrowings – secured		7,500	28,576
Short term borrowing – unsecured		7,200	–
Bank overdrafts		–	997
		166,555	196,657
Net current assets		221,542	114,637
Total assets less current liabilities		226,208	120,454
Non-current liability			
Deferred taxation		243	312
		225,965	120,142
Capital and reserves			
Share capital	14	186,368	47,300
Reserves		38,713	72,004
Equity attributable to equity holders of the Company		225,081	119,304
Minority interests		884	838
		225,965	120,142

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2007

	Attributable to equity holders of the Company							Minority interests	Total equity	
	Share capital	Share premium	Special reserve	Share option reserve	Investment revaluation reserve	Exchange reserve	Retained profits			
	HK\$'000	HK\$'000	HK\$'000 (Note)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2006	47,300	53,529	(64,907)	-	180	52	55,514	91,668	768	92,436
Gain arising from fair value changes of available-for-sale investments	-	-	-	-	10	-	-	10	-	10
Exchange differences arising on translation of foreign operations	-	-	-	-	-	(17)	-	(17)	-	(17)
Net income and expense recognised directly in equity	-	-	-	-	10	(17)	-	(7)	-	(7)
Release the amount previously adjusted to investment revaluation reserve and retained profits upon disposal of an available-for-sale investment	-	-	-	-	23	-	158	181	-	181
Profit for the period	-	-	-	-	-	-	10,010	10,010	28	10,038
Total recognised income and expense for the period	-	-	-	-	33	(17)	10,168	10,184	28	10,212
At 30 June 2006	47,300	53,529	(64,907)	-	213	35	65,682	101,852	796	102,648
Gain arising from fair value changes of available-for-sale investments	-	-	-	-	153	-	-	153	2	155
Exchange differences arising on translation of foreign operations	-	-	-	-	-	259	-	259	-	259
Net income recognised directly in equity	-	-	-	-	153	259	-	412	2	414
Profit for the period	-	-	-	-	-	-	15,258	15,258	40	15,298
Total recognised income and expense for the period	-	-	-	-	153	259	15,258	15,670	42	15,712
Recognition of equity-settled share based payment	-	-	-	1,782	-	-	-	1,782	-	1,782
At 31 December 2006	47,300	53,529	(64,907)	1,782	366	294	80,940	119,304	838	120,142

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2007

	Attributable to equity holders of the Company							Minority interests	Total equity	
	Share capital	Share premium	Special reserve	Share option reserve	Investment revaluation reserve	Exchange reserve	Retained profits			Total
	HK\$'000	HK\$'000	HK\$'000 (Note)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Release the amount previously adjusted to investment revaluation reserve and retained profits upon disposal of an available-for-sale investment	-	-	-	-	(366)	-	82	(284)	(3)	(287)
Profit for the period	-	-	-	-	-	-	27,354	27,354	49	27,403
Total recognised income and expense for the period	-	-	-	-	(366)	-	27,436	27,070	46	27,116
Offer shares issued on open offer (note 14(a))	10,240	8,192	-	-	-	-	-	18,432	-	18,432
Bonus shares issued on open offer (note 14(a))	81,920	(62,147)	-	-	-	-	(19,773)	-	-	-
Shares issued on subscription and placing (note 14(b) & (c))	43,008	12,042	-	-	-	-	-	55,050	-	55,050
Recognition of equity-settled share based payment	-	-	-	4,500	-	-	-	4,500	-	4,500
Shares issued upon exercise of share options	3,900	2,358	-	(1,737)	-	-	-	4,521	-	4,521
Expenses relating to issue of new shares	-	(3,796)	-	-	-	-	-	(3,796)	-	(3,796)
At 30 June 2007	186,368	10,178	(64,907)	4,545	-	294	88,603	225,081	884	225,965

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

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2007

	Six months ended	
	30.6.2007 HK\$'000 (unaudited)	30.6.2006 HK\$'000 (unaudited)
Operating activities:		
Profit before taxation	34,367	12,443
Adjustment for:		
Gain on disposal of property, plant and equipment	–	(172)
Gain on disposal of an available-for-sale investment	(422)	(39)
Decrease in fair value of investment property	–	110
Share based payment	4,500	–
Operating cash flows before movement in working capital	38,445	12,342
Increase in inventories	(30,283)	(15,025)
Increase in debtors, deposits and prepayments	(25,749)	(1,678)
(Decrease) increase in creditors and accrued charges	(9,524)	6,554
Increase in bills payables	1,423	2,347
Others	550	189
Net cash (used in) from operating activities	(25,138)	4,729
Investing activities:		
Decrease (increase) in pledge bank deposits	37,656	(7,762)
Proceeds on disposal of property, plant and equipment	–	550
Proceeds on disposal of investment properties	–	2,720
Proceeds on disposal of an available-for-sale investment	2,373	2,043
Purchase of property, plant and equipment	(1,295)	(16)
Others	(205)	584
Net cash from (used in) investing activities	38,529	(1,881)
Financing activities:		
New bank loans raised	20,301	23,773
Repayment of bank loans	(26,211)	(21,717)
Repayment of obligations under finance leases	–	(29)
(Decrease) increase in trust receipt loans	(13,774)	1,439
Decrease in discounting advances drawn on trade debtors	(7,966)	(158)
Increase in discounted bills receivables with full recourse	–	6,278
Proceeds from issue of ordinary shares options	4,521	–
Proceeds from issuance of shares on open offer	18,432	–
Proceeds from subscription and placing agreement	55,050	–
Expenses paid relating to issue of new shares	(3,796)	–
Net cash from financing activities	46,557	9,586
Net increase in cash and cash equivalents	59,948	12,434
Cash and cash equivalents at 1 January	28,701	16,917
Effect of change in foreign exchange rate	–	(17)
Cash and cash equivalents at 30 June	88,649	29,334
Analysis of the balance of cash and cash equivalents		
Bank balances and cash	88,649	31,318
Bank overdrafts	–	(1,984)
	88,649	29,334

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2007

1. BASIS OF PREPARATION

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

The Company is an investment holding company.

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Main Board Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with Hong Kong Accounting Standard 34 (“HKAS 34”) “Interim Financial Reporting”.

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2006.

In the current interim period, the Group has applied, for the first time, a new standard, amendment and interpretations (“new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are effective for the Group’s financial year beginning 1 January 2007. The adoption of these new HKFRSs had no material effect on the results or financial position of the Group for the current or the prior accounting periods. Accordingly, no prior period adjustment has been recognised.

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

HKAS 23 (Revised)	Borrowing Costs ¹
HKFRS 8	Operating Segments ¹
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transaction ²
HK(IFRIC) – INT 12	Service Concession Arrangements ³

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

² Effective for annual periods beginning on or after 1 March 2007

³ Effective for annual periods beginning on or after 1 January 2008

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2007

3. REVENUE AND SEGMENT INFORMATION

Business segments

For management purposes, the Group was organised into two operating divisions – distribution of semiconductors and development and provision of electronic turnkey device solutions in prior period. Due to expansion of its business of the Group, the management of the Group identifies auto parts and devices business and wireless devices and solutions business, which were included in development and provision of electronic turnkey device solutions in prior period, as two reportable segments in current period. The distribution of semiconductors and the remaining business in development and provision of electronic turnkey device solutions in prior period are combined into a reportable segment of semiconductors and related business.

Segment information about those businesses is presented below:

For the six months ended 30 June 2007

	Semiconductor and related business <i>HK\$'000</i>	Auto parts and devices business <i>HK\$'000</i>	Wireless devices and solutions business <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue				
External sales	290,112	109,787	83,387	483,286
Segment results	10,243	21,290	5,847	37,380
Unallocated corporate income				958
Finance costs				(3,966)
Share of results of an associate				(5)
Profit before taxation				34,367
Income tax expenses				(6,964)
Profit for the period				27,403

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2007

3. REVENUE AND SEGMENT INFORMATION (continued)

For the six months ended 30 June 2006

	Semiconductor and related business HK\$'000	Auto parts and devices business HK\$'000	Wireless devices and solutions business HK\$'000	Consolidated HK\$'000
Revenue				
External sales	296,331	11,888	41,157	349,376
Segment results	11,185	2,095	2,736	16,016
Unallocated corporate expenses				(110)
Unallocated corporate income				802
Finance costs				(4,265)
Profit before taxation				12,443
Income tax expenses				(2,405)
Profit for the period				10,038

Note: No inter-segment sales is noted for both periods.

4. OTHER INCOME

	Six months ended	
	30.6.2007	30.6.2006
	HK\$'000	HK\$'000
Included in other income are:		
Exchange gain, net	–	107
Gain on disposal of available-for-sale investment	422	39
Gain on disposal of a leasehold property	–	172
Increase in fair value of investments held for trading	105	7
Interest income	431	584
Rental income	–	237

5. FINANCE COSTS

	Six months ended	
	30.6.2007	30.6.2006
	HK\$'000	HK\$'000
Interest on bank borrowings wholly repayable within five years	3,966	4,261
Finance lease charges	–	4
	3,966	4,265

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2007

6. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	Six months ended	
	30.6.2007	30.6.2006
	HK\$'000	HK\$'000
Depreciation and amortisation of property, plant and equipment	844	1,189
Exchange loss, net	477	–
Share based payment included in general and administrative expenses	4,500	–

7. INCOME TAX EXPENSES

	Six months ended	
	30.6.2007	30.6.2006
	HK\$'000	HK\$'000
The charge comprises:		
Hong Kong Profits Tax		
Current period	7,033	2,548
Deferred taxation		
Current period	(69)	(143)

Hong Kong Profits Tax is calculated at 17.5% (six months ended 30.6.2006: 17.5%) of the estimated assessable profit for the period.

8. DIVIDEND

The directors have resolved not to declare any interim dividend for the six months ended 30 June 2007 (six months ended 30.6.2006: nil).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2007

9. EARNINGS PER SHARE

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

	Six months ended	
	30.6.2007	30.6.2006
	HK\$'000	HK\$'000
Earnings for the purposes of basic and diluted earnings per share:		
Profit for the year attributable to equity holders of the Company	27,354	10,010
Number of shares:		
Weighted average number of shares for the purpose of basic earnings per share	1,590,837,804	1,235,447,761
Effect of dilutive potential shares share options	5,237,593	–
Weighted average number of shares for the purpose of diluted earnings per share	1,596,075,397	1,235,447,761

The computation of diluted earnings per share for the period ended 30 June 2006 does not assume the exercise of the outstanding share options as the exercise price of the Company's outstanding share option was higher than the average market price of shares for the period ended 30 June 2006.

The weighted average number of ordinary shares for the purpose of basic earnings per share in prior year has been adjusted for the bonus element in relation to open offer of new shares during the current period.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2007

10. AVAILABLE-FOR-SALE INVESTMENTS

In the current period, the Group disposed of units in an unlisted unit trust fund with a carrying amount of HK\$2,238,000 and received sale proceeds of HK\$2,373,000. A gain on disposal of HK\$422,000, after the reversal of cumulative gain of HK\$366,000 and loss of HK\$82,000 previously recognised in investment revaluation reserve and retained profits respectively and HK\$3,000 attributable to minority interests, has been recognised in condensed consolidated income statement for the current period.

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

11. DEBTORS, DEPOSITS AND PREPAYMENTS

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

An aged analysis of trade debtors is as follows:

	30.6.2007 HK\$'000	31.12.2006 HK\$'000
Within 30 days	99,520	97,514
Between 31 to 60 days	53,809	60,081
Over 60 days	58,672	29,869
	212,001	187,464
Other debtors, deposits and prepayments	19,789	18,577
	231,790	206,041

Included in trade debtors at 31 December 2006 were amounts of HK\$9,919,000 which have been pledged to certain banks to secure the receivable discounting advance facilities.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2007

12. CREDITORS AND ACCRUED CHARGES

An aged analysis of the trade creditors is as follows:

	30.6.2007 HK\$'000	31.12.2006 <i>HK\$'000</i>
Within 30 days	10,593	20,808
Between 31 to 60 days	4,478	8,335
Over 60 days	5,547	3,603
	20,618	32,746
Other creditors and accrued charges	19,564	16,960
	40,182	49,706

13. BILLS PAYABLES

Included in bills payable are amounts of HK\$1,423,000 (31.12.2006: nil) aged within 30 days.

14. SHARE CAPITAL

	Number of shares	Amount <i>HK\$'000</i>
Ordinary shares of HK\$0.1 each		
Authorised		
At 1 January 2006 and 31 December 2006	1,000,000,000	100,000
Increase in authorised share capital (<i>note a</i>)	2,000,000,000	200,000
At 30 June 2007	3,000,000,000	300,000
Issued and fully paid:		
At 1 January 2006 and 31 December 2006	473,000,000	47,300
Shares issued on open offer (<i>note a</i>)	921,600,000	92,160
Shares issued on subscription agreement (<i>note b</i>)	315,392,000	31,539
Shares issued on placing agreement (<i>note c</i>)	114,688,000	11,469
Shares issued upon exercise of share options	39,000,000	3,900
At 30 June 2007	1,863,680,000	186,368

Notes:

(a) Pursuant to the resolutions passed in the Company's extraordinary general meeting on 22 January 2007:

- (i) the open offer of new ordinary shares of HK\$0.10 each in the share capital of the Company on the basis of one offer share at HK\$0.18 each for every five existing shares with bonus shares to be issued on the basis of eight bonus shares for every fully paid offer share. A total number of 102,400,000 offer shares and 819,200,000 bonus shares, with an aggregate number of 921,600,000 shares were issued.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2007

14. SHARE CAPITAL (continued)

- (ii) the authorised share capital of the Company was increased from HK\$100,000,000 to HK\$300,000,000 by the creation of an additional 2,000,000,000 new ordinary shares of HK\$0.10 each.
- (b) On 15 February 2007, the Company entered into a subscription agreement with a subscriber in relation to the subscription of 315,392,000 subscription shares at the subscription price of HK\$0.128 per share, representing 22.0% of the existing issued share capital of the Company as at 15 February 2007. Completion of the subscription agreement took place on 16 April 2007 and the Company had issued 315,392,000 shares of HK\$0.128 per share for a total consideration of HK\$40,370,000.
- (c) On 15 February 2007, the Company also entered into a placing agreement with an independent third party, Kingsway Financial Services Group Limited (“Kingsway”) pursuant to which Kingsway would procure the placing to subscribe for a maximum of 114,688,000 placing shares at the placing price of HK\$0.128 per share, representing in aggregate 8.0% of the existing issued share capital of the Company as at 15 February 2007. Completion of the placing agreement took place on 13 April 2007 and the Company had issued 114,688,000 shares of HK\$0.128 per share for a total consideration of HK\$14,680,000.

The new shares rank pari passu in all respects with the existing shares.

15. PLEDGE OF ASSETS

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

	30.6.2007 HK\$'000	31.12.2006 HK\$'000
Available-for-sale investments	–	2,238
Bank deposits	2,000	39,656
Trade debtors	–	9,919
	2,000	51,813

16. RELATED PARTY TRANSACTION

Compensation of key management personnel

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

	Six months ended 30.6.2007 HK\$'000	30.6.2006 HK\$'000
Salaries and other short-term benefits	3,508	3,334
Retirement benefits scheme contributions	48	64
Share based payment	4,053	–
	7,609	3,398

Management Discussion and Analysis

FINANCIAL REVIEW

Overall review

For the first half of 2007, the Group recorded a significant increase of approximately 173.0% in net profit compared to the first half of 2006. The turnover and net profit of the Group for the period ended 30 June 2007 amounted to approximately HK\$483.3 million and HK\$27.4 million respectively. The notable accomplishment for the period under review was mainly attributable to the Group's continuing effort in (i) implementing business strategies to improve the profit margin for the Semiconductor & Related Business; and (ii) capturing the rising demand for the products under the Auto Parts & Devices Business and Wireless Devices & Solutions Business.

For the first half of 2007, the Group recorded a significant increase of approximately 823.5% and 102.6% in the turnover of Auto Parts & Devices Business and Wireless Devices & Solutions Business respectively compared to the same period of 2006. The turnover for Auto Parts & Devices Business is approximately HK\$109.8 million (30.6.2006: HK\$11.9 million); that for Wireless Devices & Solutions Business is approximately HK\$83.4 million (30.6.2006: HK\$41.2 million); that for Semiconductor & Related Business is approximately HK\$290.1 million (30.6.2006: HK\$296.3 million). The total turnover of the Group was approximately HK\$483.3 million (30.6.2006: HK\$349.4 million), an increase of approximately 38.3% compared to the same period of 2006. Gross profit margin as a whole was approximately 13.6%, an increase of approximately 2.8%. Profit for the period of the Group was approximately HK\$27.4 million (30.6.2006: HK\$10.0 million).

Financial Resources and Liquidity

As at 30 June 2007, the Group had bank balances and cash of approximately HK\$90.6 million, (31.12.2006: HK\$69.4 million). The Group had total assets of approximately HK\$392.8 million (31.12.2006: HK\$317.1 million) which was financed by current liabilities of approximately HK\$166.6 million (31.12.2006: HK\$196.7 million), minority interests of approximately HK\$0.9 million (31.12.2006: HK\$0.8 million) and shareholders' equity of approximately HK\$225.1 million (31.12.2006: HK\$ 119.3 million). The current ratio was approximately 2.3 (31.12.2006: 1.6) and the gearing ratio of the Group was approximately 33.4% (31.12.2006: 54.2%). The gearing ratio was calculated on the total borrowings to the sum of total shareholders' equity and total borrowings of the Group.

The total facilities available to the Group from its bankers amounted to approximately HK\$220.4 million (31.12.2006: HK\$163.0 million). The management believes the Group has adequate financial resources to meet its business requirement for the coming year.

Management Discussion and Analysis

Treasury Policies

The Group generally finances its operations with internally generated resources and banking facilities provided by the banks in Hong Kong. The banking facilities are mainly trust receipt loans and invoice finance tenor up to 120 days from the invoice date. The bank interest rates are mainly fixed by reference to either in the Hong Kong Prime Rate or the Hong Kong Interbank Borrowing Rate for Hong Kong dollars loans.

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

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

Charges on Asset

One of the Group's bank deposits was pledged to its banker to secure certain banking facilities granted to the Group.

BUSINESS REVIEW

During the period under review, the Group recorded a growth of 173.0% in net profit as a result of proper implementation of business strategies. The Group enjoyed a double-digit growth in total turnover comparing with the same period of 2006 even though the turnover of Semiconductor and Related Business remained at nearly the same level comparing with that of the same period of 2006. The turnover of Auto Parts & Devices Business and Wireless Devices & Solutions Business recorded a significant growth at 823.5% and 102.6% respectively. Compounded by the high profit margin of the products of Auto Parts & Devices Business, the Group has enjoyed the best profit since it has been listed on the Hong Kong Stock Exchange Market in 2003.

Auto Parts & Devices Business

During the period under review, the Group is pleased to announce that the Auto Parts & Devices Business achieved a significant result. Its turnover increased from approximately HK\$11.8 million to approximately HK\$109.8 million, representing an increase of nearly 8.2 times from the same period of 2006.

After successful completion of trials on KENJI mCar Terminals ("Blackbox") by world renowned security and logistics companies, it is now confirmed that our Blackbox is one of the most reliable and cost-effective AVL devices in the market. More and more small to medium size logistics companies in China have selected our KENJI Blackbox as well as our online vehicle tracking platform – VTRACK4U during the period under review. The terminal is not only helping those logistics companies to reduce its idle time by promoting more effective and efficient fleet management practice, it is also increasing the general level of vehicle safety and security. These improvements will ultimately help those logistics companies to meet the increasingly stringent requirements of the Chinese government to control on-road commercial vehicles.

Management Discussion and Analysis

Wireless Devices and Solutions Business

During the period under review, the turnover of Wireless Devices & Solutions Business was increased from approximately HK\$41.2 million to approximately HK\$83.4 million, representing an increase of approximately 102.6% from the same period of 2006.

The increase in turnover was mainly attributable to the increase in sales of Wavecom's GPRS modules embedded with our Group's application software applied in different wireless application areas such as Data Terminal Units or Data Collection Terminals used in power metering industry and other utilities companies.

Semiconductor and Related Business

During the period under review, the Group managed to maintain its level of turnover and profit margin amid fierce competition in semiconductor distribution industry compared to the same period of 2006. Because of the rapid growth of Auto Parts & Devices Business as well as Wireless Devices & Solutions Business, the turnover of Semiconductor & Related Business contributed to approximately 60.0% of the Group's turnover, which dropped from nearly 84.8% in the same period of 2006. As the Auto Parts & Devices Business and Wireless Devices & Solutions Business have become more and more mature, the Group expects that the synergies among the Group's Semiconductor & Related Business and Auto Parts & Devices Business as well as Wireless Devices & Solutions Business would impose greater influence on the Group's overall profit.

PROSPECT

As mentioned before, Auto Parts & Devices Business as well as Wireless Devices & Solutions Business become the major source of profit for the Group. The management believes the potential of the two businesses segment is enormous. They will become the major driving force behind the Group's high-growth strategies for the next few years.

The management believes that the Auto Parts & Devices Division holds the most important key to the Group's business expansion for the coming few years. The Group is focused to rapidly roll out its products and solutions for logistics industry and to promote greater vehicle safety and passenger security. Apart from the logistics companies who are obvious clients of this business division, more enterprises in public transportation as well as provincial government officials have become increasingly aware of the benefits of better logistics practice and management as a means to reduce wastage in time and other precious resources with the aid of latest information technology and devices. In order to capture these demands, the Group will strengthen its sales networks by forming partnerships and strategic alliance in different provinces in China. We will continue to listen closely to our customers' feedback and continue to strive to provide more value-added solutions to our valuable clients so as to differentiate ourselves from other market players which will eventually facilitate faster deployment of our products and solutions to our targeted geographical areas and transport markets.

Management Discussion and Analysis

For Wireless Devices & Solutions Business, the Group will continue to expand its sales and marketing network to cover more provinces in China, hopefully to increase the Group's market share in the country's fast growing power metering device market. Moreover, with the formation of a company named Sunlink Wavecom Limited with Wavecom S.A., the Group and Wavecom will base on Wavecom's technologies to develop more and more application software for different products in different areas.

For Semiconductor & Related Business, the Management will continue the proven strategy in the past year to maintain the segment's revenue and profit margin. In addition, the management will pay special attention to boost the synergies between different segments.

The management is optimistic about the Group's outlook in the remaining period of 2007, the Group will actively explore and pursue different expansion possibilities.

EMPLOYEES

As at 30 June 2007, the Group had approximately 135 employees (30.6.2006: 132). The Group considers the experience, responsibility, workload and the time devoted by the Directors and employees of the Group to determine their respective remuneration packages. The Company has set up a remuneration committee to review and determine the terms of remuneration policy, package, bonuses and other compensation payable to the Directors and senior management on a periodical basis. In addition to basic remuneration packages and discretionary bonuses for Directors and employees, share options may also be granted to Directors and eligible employees based on the performance of individuals. These are drives and encouragement for personal performance.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

At 30 June 2007, the issued share capital of the Company consisted of ordinary shares and the interests and short positions of the Directors and the Chief Executives of the Company in the shares, underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") as recorded in the Company's register kept under Section 352 of the SFO were as follows:

Interest in the Company's Shares

Name	Capacity, nature of interest	Number of shares held		Percentage of the issued share capital of the Company
		Long Position	Short Position	
Wong Shu Wing	Corporate	571,200,000 (Note 1)	–	30.7%
Wong Shu Wing	Personal	583,400,000	–	31.4%
Choi Tat Kai	Personal	11,200,000	–	0.6%
Lau Kit Hung	Personal	8,400,000	–	0.5%

Management Discussion and Analysis

(Note 1): These shares are held by Best Eagle International Limited, a company incorporated in the British Virgin Islands ("BVI"). The entire issued share capital of Best Eagle International Limited is beneficially owned by Dr. Wong Shu Wing. Therefore both Best Eagle International Limited and Dr. Wong Shu Wing are deemed to have the duplicate interests in the share capital of the Company under the SFO.

Other than as disclosed above, none of the Directors or Chief Executives, nor their associates, had any interests or short positions in any shares of the Company or any of its associated corporations as at 30 June 2007.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company, its holding company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at 30 June 2007 or at any time during the six months ended 30 June 2007.

SUBSTANTIAL SHAREHOLDERS

At 30 June 2007, in accordance with the register of substantial shareholders kept by the Company pursuant to Section 336 of the SFO and so far as is known to the Directors, the following persons (other than a Director or Chief Executive of the Company) were interested in the issued capital (including short positions) representing 5% or more of the issued share capital:

Name	Capacity, nature of interest	Number of shares held		Percentage of the issued share capital of the Company
		Long Position	Short Position	
Best Eagle International Limited (Note 1)	Corporate	571,200,000	–	30.7%
Wong Shu Wing (Note 1)	Personal	583,400,000	–	31.4%
D & M International Limited (Note 2)	Corporate	168,000,000	–	9.0%
Leung Yu Ming, Steven (Note 2)	Personal	168,000,000	–	9.0%
Fu Guang Limited	Corporate	279,349,600	–	15.0%
Lee Yin Yee (Note 3)	Personal	279,349,600	–	15.0%
Baring Asset Management Limited	Corporate	100,000,000	–	5.4%

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

Management Discussion and Analysis

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

(Notes 3): The entire issued share capital of Fu Guang Limited is beneficially owned by Mr. Lee Yin Yee. Therefore both Fu Guang Limited and Mr. Lee Yin Yee are deemed to have the duplicate interests in the share capital of the Company under the SFO.

Save as disclosed herein, as at 30 June 2007, no other person was recorded in the Company's register maintained by the Company pursuant to Section 336 of the SFO as having an interest in the issued share capital of the Company representing 5% or more of the issued share capital.

Save as disclosed herein, the Directors are not aware of any person other than the persons (including his personal, family and corporate interests) as aforementioned, who had, directly or indirectly, an interest in the issued share capital (including short positions) representing 5% or more of the issued share capital as at 30 June 2007.

SHARE OPTION SCHEME

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

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

Management Discussion and Analysis

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

Options in respect of shares in the Company

Details of the share options granted under the share option scheme approved on 12 February 2003 (the "Scheme") remain outstanding as at 30 June 2007 are as follows:

	Options held at 1 January 2007	Options granted during the period	Options exercised during the period	Options held at 30 June 2007	Exercise price HK\$	Closing price before the date of grant	Date of grant	Exercise period
Directors:								
Wong Shu Wing	4,000,000	-	4,000,000	-	0.100	0.06	11/10/2004	11/10/2004 to 10/10/2014
	-	13,100,000	-	13,100,000	0.694	0.68	25/06/2007	25/06/2007 to 24/06/2017
Choi Tat Kai	4,000,000	-	4,000,000	-	0.100	0.06	11/10/2004	11/10/2004 to 10/10/2014
	-	10,800,000	-	10,800,000	0.694	0.68	25/06/2007	25/06/2007 to 24/06/2017
Lau Kit Hung	3,000,000	-	3,000,000	-	0.130	0.06	11/10/2004	11/10/2004 to 10/10/2014
	-	3,000,000	-	3,000,000	0.694	0.68	25/06/2007	25/06/2007 to 24/06/2017
Other employee								
	5,000,000	-	4,000,000	1,000,000	0.100	0.06	11/10/2004	11/10/2004 to 10/10/2014
	5,104,000	-	5,104,000	-	0.130	0.06	11/10/2004	11/10/2004 to 10/10/2014
	18,896,000	-	18,896,000	-	0.120	0.12	02/11/2006	02/11/2006 to 01/11/2016
	-	20,400,000	-	20,400,000	0.694	0.68	25/06/2007	25/06/2007 to 24/06/2017
	<u>40,000,000</u>	<u>47,300,000</u>	<u>39,000,000</u>	<u>48,300,000</u>				

The share options to subscribe 48,300,000 shares in the Company outstanding at 30 June 2007 were granted to the Directors and other employees of the Group. Consideration paid for each grant of option was HK\$1.

Management Discussion and Analysis

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

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

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2007.

EXPOSURE TO FOREIGN EXCHANGE RISK

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

CORPORATE GOVERNANCE

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

The Directors consider that the Company has fully complied with the requirements under the CG Code for the six months ended 30 June 2007.

INVESTORS RELATION STRATEGY

The Group understands that the nature of its business is not easily understood by the investment community in Asia and believes we should establish a more proactive channel of communication to explain our business model and the market potential for our M2M devices and solutions and the roles they can play in establishing a more intelligent transportation system (ITS).

The Group will continue with its efforts to enhance investor relations and the Group has established various means of communication channels in order that the Company's management philosophy, operations and future investment and development strategies are communicated to existing shareholders and the investment community.

Management Discussion and Analysis

During the first half of 2007, representatives from the Group had met with the investors and relevant parties including fund managers, analysts, bankers, and the media.

The Group will continue to organize road shows and will seek to participate in corporate briefings to financial institutions organized by various international securities houses in Hong Kong, Singapore, Korea and Japan.

The Board believes that an effective practice in corporate governance and a disciplined approach to build a platform of communication with the investment community would enhance better value for the Group in the long term and achieve better shareholders' value.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding directors' securities transactions. All Directors of the Company have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2007.

AUDIT COMMITTEE

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

The audit committee has reviewed the unaudited interim results and condensed consolidated financial statements of the Company for the six months ended 30 June 2007 and was satisfied that such statements have complied with the applicable accounting standards, the Listing Rules and other legal requirements, and that adequate disclosures have been made.

The interim financial results, which are prepared in accordance with HKAS 34 "Interim Financial Reporting", have been reviewed by the Company's independent auditors, Deloitte Touche Tohmatsu, in accordance with the Hong Kong Standard on Review Engagement 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

By Order of the Board

WONG SHU WING

Chairman

Hong Kong, 24 September 2007