Delta Networks, Inc.
達創科技股份有限公司 *

(incorporated in the Cayman Islands with limited liability)

Stock Code: 722

2007 ANNUAL REPORT

* For identification purpose only

CONTENTS

In this annual report, unless the context otherwise requires, the following terms shall have the meanings set out below.

"Articles of Association" or "Articles"	the articles of association of our Company, adopted on 13 June 2007 and as amended from time to time
"associates"	has the meaning ascribed thereto under the Listing Rules
"Board of Directors" or "Board"	the board of directors of our Company
"Business Day"	any day (other than Saturday and Sunday) in Hong Kong on which banks in Hong Kong are open generally for normal banking business
"BVI"	the British Virgin Islands
"Code on CG Practices"	the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules
"Company" or "our Company" or "DNI"	Delta Networks, Inc., an exempted company incorporated in the Cayman Islands with limited liability on 25 November 2002
"Companies Law"	the Companies Law (2004 Revision) of the Cayman Islands
"Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) (as amended)
"connected person"	has the meaning ascribed to it under the Listing Rules
"controlling shareholder"	has the meaning ascribed to it under the Listing Rules and, in the context of the Company, means DNHL and DEI
"DEI"	台達電子工業股份有限公司 (Delta Electronics, Inc.), a company incorporated in Taiwan whose shares are listed on the Taiwan Stock Exchange
"DEI Group"	DEI and its subsidiaries (other than the DNI Group)
"DEI Share Awards"	share awards given by DEI to our employees, details of which are set out in the section headed "Financial Information — Critical Accounting Policies — Share-based compensation expenses"of the Prospectus
"Delta Group"	the DEI Group and the DNI Group
"Director(s)"	the director(s) of our Company
"DNHL"	Delta Networks Holding Limited, a company incorporated in the Cayman Islands on 22 November 2002 and a wholly-owned subsidiary of DEI
"DNI Dongguan"	達創科技(東莞)有限公司 (Delta Networks (Dongguan) Ltd.), a company incorporated in the PRC on 21 October 1998 and a subsidiary of our Company

"DNI Labuan"	Delta Networks International Limited, a company incorporated in Labuan, Malaysia on 27 December 2004 and a subsidiary of DNI
"DNIL Macau"	Delta Networks International Limited — Macao Commercial Offshore, a branch office of DNI Labuan duly registered in Macau
"DNI Taiwan"	達創科技股份有限公司, a company incorporated in Taiwan on 3 November 1998 and a subsidiary of our Company
"DNI US"	DNI Logistics (USA) Corporation, a company incorporated in California, the U.S. on 13 July 2001 and a subsidiary of our Company
"Employee Incentive Scheme"	employee incentive scheme, the details of which are set out in the section headed "Statutory and General Information — Continuing Schemes — Employee Incentive Scheme" in Appendix VI to the Prospectus
"Employee Incentive Scheme Trustee"	HSBC International Trustee Limited, being the trustee currently appointed by us for holding all of the Shares in trust for satisfying grants of awards by the Company to eligible participants of the Employee Incentive Scheme
"€" or "EUR"	Euros, the lawful currency of the European Union
"Global Offering"	the global offering of initially 313,600,000 Shares, details of which are set out in the Prospectus
"Group", "our Group", "DNI Group", "we" or "us"	our Company and its subsidiaries, taken together
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Companies Ordinance"	the Companies Ordinance of Hong Kong (Chapter 32 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"IFRS"	International Financial Reporting Standards
"Listing"	the listing of the Shares on the Main Board of the Stock Exchange
"Listing Date"	6 July 2007, being the date on which dealings in the Shares first commence on the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
"Macau"	the Macau Special Administrative Region of the PRC

"Management Share Subscription Scheme" or "MSSS"	management share subscription scheme, the details of which are set out in the section headed "Statutory and General Information — Continuing Schemes — Management Share Subscription Scheme" in Appendix VI to the Prospectus
"Memorandum of Association"or "Memorandum"	the memorandum of association of our Company adopted on 25 November 2002 and as amended from time to time
"NT$" or "N.T. dollars"	New Taiwan dollars, the lawful currency of Taiwan
"Prospectus"	the Prospectus of the Company dated 22 June 2007
"PRC" or "China"	the People's Republic of China and, except where the context requires and only for the purpose of this annual report, references in this annual report to the PRC or China do not include Taiwan, Hong Kong or Macau
"Reference Share Capital"	1,253,544,000 Shares, being the aggregate of (i) the total issued Share capital of the Company immediately after completion of the Global Offering and assuming the Shares to be issued to the Employee Incentive Scheme Trustee pursuant to the Employee Incentive Scheme have all been issued, and (ii) the total Shares granted and to be issued pursuant to the Management Share Subscription Scheme
"RMB" or "Renminbi"	Renminbi Yuan, the lawful currency of the PRC
"Securities and Futures Ordinance"or "SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary shares issued by the Company, with a nominal value of US$0.05 each
"Share Option Scheme"	the share option scheme adopted by the Company pursuant to a resolution passed by its shareholders on 13 June 2007, a summary of the principal terms of which is set out in "Statutory and General Information — Share Option Scheme" in Appendix VI to the Prospectus
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary" or "subsidiaries"	has the meaning ascribed to it in section 2 of the Companies Ordinance
"substantial shareholder"	a person who is entitled to exercise, or control the exercise of, 10% or more of the voting power at any of our general meetings

"Taiwan Stock Exchange"	the Taiwan Stock Exchange Corporation
"Track Record Period"	the period comprising the three years ended 31 December 2006
"United States" or "U.S."	the United States of America, including the District of Columbia, its territories and possessions
"US$" or "U.S. dollars"	United States dollars, the lawful currency of the United States

The English language names of certain entities referred to in this annual report are provided for your convenience only. Some of these entities do not have registered English language names.

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 *FCS, FCIS*
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

Citibank, N.A. Taiwan Branch
9th Floor, No. 169, Sec. 4
Jen Ai Road
Taipei 106, Taiwan

Bank of Overseas Chinese
No. 5, Alley 22, Lane 513
Rueiguang Road
Neihu
Taipei 11491, 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

186 Ruey Kuang Road
Neihu
Taipei 11491
Taiwan

PLACE OF BUSINESS IN HONG KONG

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

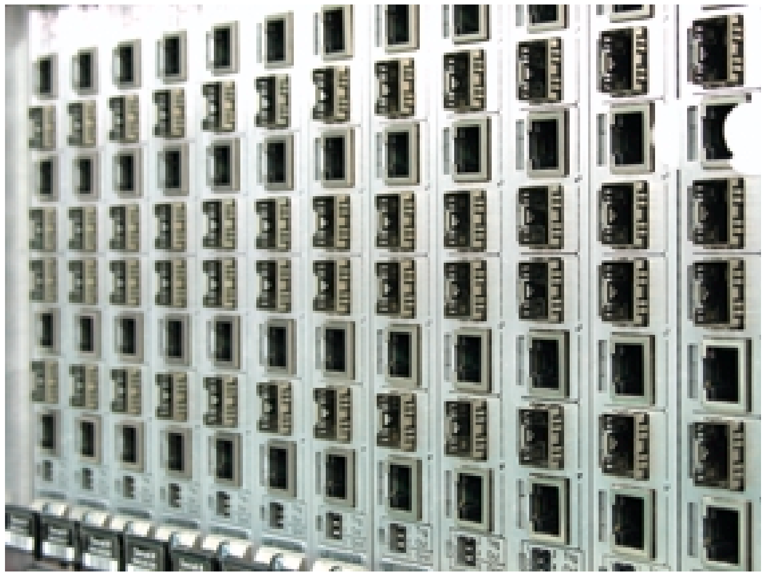
STOCK CODE

722

WEBSITE

http://www.dninetworks.com

BUSINESS OVERVIEW & OUTLOOK



In view of our strong commitment to developing the Ethernet networking business, we provide new communication ideas and services with a view to meeting the demands from our customers. With the rise of new communication technologies in the market, Ethernet, the network that is the platform for developing such services and technologies, has a growing significance in the telecommunication industry. Ethernet provides the scalability and affordability that are essential in today's networking industry, and the high-speed feature that is required for networking applications. Ethernet also provides a unique application of delivering electrical power to devices through Power Over Ethernet (PoE) technology. We believe the Ethernet market has tremendous potential and we will continue to make great efforts in new technology and application development.

Recently, we noticed the close relationship, or even the merger, between the Small Office Home Office (SOHO) market and the Small-Medium Business (SMB) market due to the similarity of needs and products in the two markets. As a long-time design and manufacturing provider of networking products to both markets, we believe the merging of these two markets gives us a greater opportunity to provide more value to our customers/partners. We believe that we are able to quickly offer expanded levels of design service to meet the new demands of our customers and also provide the necessary production quality level that is expected by the new markets.

There is large growth potential in our industry driven by the convergence of the two communication frontiers of, 'Datacom' and 'Telecom', and among voice, data, video, and wireless communication. Telecommunciation equipment suppliers are in the process of converging their technologies in order to achieve better cost-efficiency, and streamlined operations. People from all walks of life now have access to the new applications through new methods of communicating with friends and families; combined carrier of household services for the internet, telephone, and TV; lower phone bills contributed by IP telephony services and phone cards and similar applications. Due to the high awareness of cost, efficiency, and reliability, the consolidation to Ethernet based technology and former technologies becomes a necessary step in delivering new affordable services. In addition to possible merger and acquisition opportunities, we are also looking for possible joint venture arrangements that would help drive company to grow.

While we consider the future ahead of us to be promising, we also see some challenges ahead of us. We have to be well prepared ourselves in order to overcome such challenges. Global and local economic issues can become more complicated. Global warming, inflation, rise of raw material prices, and US sub-prime issue may result in economic growth slow-down, lowered capital expenditure, and a general economic slow-down which are the major challenges faced by us and we need to continue to work closely with our business partners in order to maintain our competitiveness. Local issues

arising from new economic laws and the new China labor regulations are also important matters that we will need to manage properly to make sure our competitive advantages. Looking forward, our US business might be impacted by the sub-prime issue that may affect business sentiment and curb IT consumption.

We have experienced revenue growth due to an increase in the number of products offered, an expansion of our customer base, and an increase in the number of design-wins. We will continue to expand our skill-level and overall competency to carry on this strategy. With a sufficient amount of cash at hand, we consider a good strategic merger and acquisition plan to be a way to promote further growth of our business, engineering expertise, and overall competency. Unquestionably, we will diligently prepare ourselves to capture the emerging opportunities of the 'Datacom' and 'Telecom' convergence.

OPERATIONAL REVIEW

The Group had a solid operating performance during the year ended 31 December 2007 and achieved consolidated revenue of US$419 million, representing a 17.1% increase from the year ended 31 December 2006. It was mainly attributable to a strong growth of OEM/ODM customers especially from the enterprise and telecommunication sectors. The Group recorded steady growth in the networking equipment manufacturing, with turnover from LAN-Carrier and LAN-Enterprise improving by 34.7% and 25.5%, respectively. The significant growth in revenue from 2006 to 2007 was due to new products with higher technology know-how, expanded customer base and continuous support of existing customers. The gross margin for the year ended 31 December 2007 was 17.4%, increasing by 1.4% compared with 16% of 2006. It was due to a continuously cost-cutting effort in the material handling and efficiency of supply chain management, partly offset by increase in raw material and labor cost. The operating expense was US$53.9 million, increased by US$14.9 million over US$39.0 million of 2006. It was mainly due to the increase in share-based payment in 2007.

The Group recorded steady growth in the networking equipment manufacturing, with turnover from LAN-Carrier and LAN-Enterprise brew by 34.6% and 25.5% respectively. The significant growth in revenue from 2006 to 2007 was due to new products with higher technology know-how, expanded customer base and continuous support of existing customers.

Total Turnover by Product Category

	2007		2006		y-o-y
	US$ millions	%	US$ millions	%	% change
LAN-Carrier	64.5	15.4	47.9	13.4	34.7
LAN-Enterprise	176.3	42.1	140.4	39.3	25.6
LAN-SOHO	99.7	23.8	92.2	25.8	8.1
Broadband and wireless	57.7	13.8	59.7	16.7	(3.4)
Others	20.4	4.9	17.2	4.8	18.6
Total Turnover	418.6	100.0	357.4	100.0	17.1

Steady growth in turnover was experienced in each geographical market, and distribution was evenly spread among Americas, Europe and Asia regions. The continent of Americas experienced higher turnover growth despite adverse economic environment.

Total Turnover by Geographical Market

	2007		2006		y-o-y
	US$ millions	%	US$ millions	%	% change
Asia	87.6	20.9	84.1	23.5	4.2
Americas	168.8	40.3	117.2	32.8	44.0
Europe	161.5	38.6	155.0	43.4	4.2
Others	0.7	0.2	1.1	0.3	(36.4)
Total Turnover	418.6	100.0	357.4	100.0	17.1

The Group was able to continuously improve revenue and profit margin by leveraging its economies of scale, improving production efficiency and development of sophisticated products. The Group was able to attract new customers and new orders with strong design capability, thus gaining market shares in all product categories. With diversified customer and product portfolio, the Group is better insulated from external market risks.

FINANCIAL REVIEW

Turnover

During the year ended 31 December 2007, the Group achieved a total turnover of US$419 million, an increase of 17.1% compared to last financial year. This was mainly attributable to the strong growth from enterprise and telecommunication sectors and higher port number of switch products shipment.

Margins and profitability

Earnings before interest and taxation (EBIT) for the year was US$27.6 million, an increase of 24.7% compared to last financial year. EBIT margin was 6.6%, an 0.4% up from a year ago. Improvement in both EBIT and EBIT margin was driven by increase in sales of products with higher profit margin as well as better cost control deriving from higher efficiencies in our production scale during the year.

Considering the impacts in the share-based compensations, the operating expense (including selling expenses, general and administration expenses and research and development expenses) to revenue increased from 10.9% for Yr 2006 to 12.9% for Yr 2007. The share-based compensation program was an incentive scheme to reward valuable employee, which is commonly adopted by high-tech companies. However, the Board realized that the share-based compensation would dilute shareholder's value, a 3% of outstanding shares used for share-based compensation each year was capped, and last for 4 years. The total share dilution would be capped at 10% of total outstanding shares. The economical value of share-based compensation will be fluctuated along with the trading price on stock market, therefore, the Board will monitor and adjust the % of share dilution each year to make sure the amount of share-based compensation is kept in a reasonable range.

Financial impact of share-based compensations was summarized as follows:-

	2007 With Share-based compensation	**2007 Without Share-based compensation**	2006 With Share-based compensation	2006 Without Share-based compensation
Gross profit margin	**17.4%**	**18.2%**	16.0%	16.5%
EBIT margin	**6.6%**	**12.3%**	6.2%	9.3%
% of operating expenses to revenue	**12.9%**	**8.1%**	10.9%	8.3%

As indicated in the above summary, both the gross profit margin and EBIT margin would increase from 16.5% and 9.3% for the year ended 31 December 2006 to 18.2% and 12.3% for the year ended 31 December 2007 respectively if share-based compensation had not been taken into account.

Details about the impact of share-based compensation on the consolidated income statement were disclosed in note 16 (a) and 16 (b) to the audited consolidated financial statements of the Group for the year ended 31 December 2007.

Despite the increase in operating expenses by US$14.8 million (of which US$7.5 million was relating to research and development expenses) to US$53.9 million, net profit for the year increased by US$5.9 million to US$31.5 million. Net profit margin increased from 7.2% to 7.5%. The improvement was due to increasing sales in products with higher profit margin as well as better cost control by means of higher efficiencies in production scale and supply chain management.

Profit attributable to the Shareholders for the year ended 31 December 2007 was US$31.4 million, an increase of 23.1% from the year ended 31 December 2006.

Earnings per share

The basic earnings per share for the year ended 31 December 2007 were US$0.0329, representing an increase of 8.2% from Yr 2006.

Liquidity and financial resources

As at 31 December 2007, the Group's cash and cash equivalents amounted to approximately US$252.0 million, representing an increase by 204.7% from a balance of approximately US$82.7 million as at 31 December 2006. This is mainly contributed by net proceeds from the share subscription through the Global Offering. Shares of the Company have been listed on the Main Board of the Stock Exchange since 6 July 2007.

Current ratio, defined as a total current assets divided by total current liabilities, was 3.55 as at 31 December 2007 as compared to 2.27 as at 31 December 2006. The Group has no short-term borrowing as at 31 December 2007 as compared to US$6 million as at 31 December 2006. Gearing ratio measured by dividing the borrowings by total equity was nil as at 31 December 2007 as compared to 5.7% as at 31 December 2006.

Use of Proceeds from Initial Public Offering

The Company issued 235,200,000 shares at US$0.58 (equivalent to HK$4.5) per share by way of Global Offering on 5 July 2007. The plan of use of proceeds remains unchanged as set out in the Prospectus. Approximately US$45.0 million is for the construction of new manufacturing sites, including a production facility in Wujiang, China. As at 31 December 2007, a total of US5.0 million had been invested on the Wujiang plant. The remaining proceeds will be used for future strategic acquisitions, for which we have not yet identified any specific targets, as well as working capital.

Foreign exchange risk management

Revenues of the Group are mainly denominated in US dollars while costs are principally in US dollars as well as New Taiwan dollars ("NTD") and Renminbi ("RMB"). Exposure to foreign exchange risk is monitored by management on an ongoing basis.

Capital expenditure

During the Yr 2007, the Group incurred capital expenditure amounting to approximately US$9.5 million, which was mainly to enhance and upgrade its production capacity in Dongguan plant.

Charges on assets

None of the assets of the Group were pledged as security for any banking facilities and borrowings as at 31 December 2007.

Contingent liabilities

The Group has no material contingent liabilities as at 31 December 2007.

Capital commitment

The Group has no material capital commitments as at 31 December 2007.

OTHER FINANCIAL INFORMATION

Working capital and financial resources

As at 31 December 2007, working capital, calculated by current assets minus current liabilities, was US$274,489,000. (2006: US$97,169,000). The increase in working capital was mainly due to proceeds raised from a global offering in 2007 and operating activities.

Gearing ratio

The gearing ratio was zero as at 31 December 2007 (2006: 5.7%), calculated by dividing borrowings to total equity.

Capital structure

As at 31 December 2007, our total equity was US$286,874,000 (2006: US$105,179,000). Debt ratio, calculated by total liabilities divided by total assets, was 28.9% as at 31 December 2007 (2006: 44.7%).

Pledge of assets

No assets had been pledged as at 31 December 2007.

Capital Expenditure

The Group had acquired a total of US$9.5 million of machinery and equipment for its DNI Taiwan and DNI Dongguan plant in 2007, compared to that of US$5.4 million in 2006.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2007, the Group had a total of 2,656 employees. Total staff costs incurred for the year ended 31 December 2007 amounted to approximately US$45.7 million (2006: US$31.0 million). We offer a comprehensive remuneration policy which is reviewed by the management on a regular basis.

FINAL DIVIDENDS

At a meeting held on 6 March 2008, the Board recommended a final dividend in respect of the year ended 31 December 2007 of 1.03 US cents per share, totalling US$12,581,000 (2006: Nil). This dividend is subject to the approval of shareholders at the annual general meeting to be held on 24 April 2008. These financial statements do not reflect this dividend payable.

CLOSURE OF REGISTER OF MEMBERS

The transfer books and register of members will be closed from Monday, 21 April 2008 to Thursday, 24 April 2008, both days inclusive, during which period no share transfers can be registered. In order to be entitled to the payment of dividend and eligible for attending and voting at the annual general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrars, Tricor Investor Services Ltd., 26/F, Tesbury Centre, 28 Queen´s Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 18 April 2008.

CORPORATE GOVERNANCE

The Board and the management of the Company are committed to the maintenance of good corporate governance practices and procedures. The Company believes that good corporate governance provides a framework that is essential for effective management, a healthy corporate culture, successful business growth and enhancing shareholders' value. The corporate governance principles of the Company emphasise a quality Board, sound internal controls, and transparency and accountability to all shareholders.

During the year, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the "Code") since the Listing Date 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 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 balance of power and authority between the Board and the management of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules. The Company made specific enquiry to all the Directors and all the Directors have confirmed that they have complied with the Model Code.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

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 of the Audit Committee), Mr. Zue Wai To, Victor and Mr. Liu Chung Laung. The Audit Committee has reviewed the consolidated financial statements for the year ended 31 December 2007.

INDEPENDENCE OF INFORMATION TECHNOLOGY SYSTEMS FROM DELTA ELECTRONICS, INC

Since the listing of the Company on the Stock Exchange, the Company has been working on the enhancement of the control environment and the infrastructure of its IT systems with a view to achieving independence of information technology systems from DEI, the ultimate controlling shareholder of the Company. However, as we are still in the process of integrating the IT systems of our two newly established PRC subsidiaries in Shanghai and Wujiang respectively and DEI will upgrade its ERP system in early 2009, the timetable for separation of our information technology systems will be changed. In consideration of potential technical issues and timing and cost of implementation, we will implement measures in respect of the separation of our client accounts from those of the DEI and its subsidiaries (other than the Group) after the completion of the upgrading of the ERP system by DEI, which is expected to be in or about the middle of 2009. We will continue to update our shareholders of our achieving independence of our information technology systems from DEI.

DISCLOSURE OF INFORMATION ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

The 2007 annual report of the Company containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and made available on the websites of the Stock Exchange and the Company at http://www.hkexnews.hk and http://www.dninetworks.com respectively.

During the financial year ended 31 December 2007, the Group entered into the following continuing connected transactions with DEI Group. DEI and the members of the DEI Group are connected persons of the Company within the meaning of the Listing Rules.

1. Lease from DEI (Note 1);
2. DEI Group's use of the Group's premises and sharing of services at the Group's Dongguan manufacturing facility (Note 2);
3. Use of research and development center operated by DEI Group in Shanghai (Note 3);
4. Supporting services by, or procured through, DEI in Taiwan (Note 4);
5. Sales and marketing services, and repair and maintenance services by DEI Group in Japan (Note 5);
6. Supporting services by DEI Group in Dongguan (Note 6);
7. Reciprocal arrangements in relation to payment for certain administrative items: (Note 7);
   The Group's payment of administrative items on behalf of the DEI Group
   DEI Group's payment of administrative items on behalf of the Group
8. Supporting services by DEI Group in Hong Kong (Note 8); and
9. Purchase of components from DEI Group (Note 9).

Notes:

1. This refers to the properties leased from DEI in Taiwan pursuant to a framework lease agreements dated 1 January 2007 in relation to the Taipei headquarters, Taoyuan plant facility and the Taoyuan dormitory, for a term expiring on 31 December, 2009.

   Total consideration for the year ended 31 December 2007 was US$1,098,000 (payable monthly), of which US$638,000 was for the lease of the Taipei headquarters, US$396,000 was for the lease of the Taoyuan plant facility and US$64,000 was for the lease of Taoyuan dormitory.

2. This refers to the DEI Group's use of premises and sharing of services at the Group's Dongguan manufacturing facility pursuant to a framework provision of premises and sharing of services agreement dated 18 June 2007.

   The total consideration for the year ended 31 December 2007 was US$1,161,000 (payable monthly), of which US$145,000 was received from DEI Dongguan as payment for the use of the third floor of the Group's Dongguan manufacturing facility and US$1,016,000 was received for the sharing of support services available at the facility including security services, logistics, and import and export functions. (Please refer to the announcement of the Company in relation to the revision of annual caps and the termination of the continuing connected transactions dated 21 November 2007.)

3. This refers to the provision of research and development services by the DEI Group in Shanghai to the Group pursuant to a research and development services agreement dated 18 June 2007.

   The total consideration for the year ended 31 December 2007 was US$1,266,000 (payable monthly), of which US$1,195,000 was relating to use of equipment and services provided by staff, and US$71,000 was rental payment. (Please refer to the announcement of the Company in relation to the revision of annual caps and the termination of the continning connected transaction dated 21 November, 2007.)

4. This refers to the procurement and provision of services by the DEI Group in Taiwan pursuant to a general services agreement dated 18 June 2007, for a term expiring on 31 December 2009.

   The total consideration for the year ended 31 December 2007 was US$614,000.

5. This refers to the sales and marketing, repair and maintenance services provided by the DEI Group in Japan pursuant to a framework supporting services agreement dated 18 June 2007.

   The total consideration for the year ended 31 December 2007 was US$656,000.

6. This refers to the supporting services by the DEI Group in Dongguan pursuant to a general services agreement dated 18 June 2007.

   The total consideration for the year ended 31 December 2007 was US$1,553,000. (This category of connected transaction was terminated on 31 December 2007.)

7. This refers to the reciprocal arrangements between the Group and the DEI Group in Dongguan pursuant to a reciprocal administrative services agreement dated 18 June 2007.

   For the year ended 31 December 2007, DEI paid the Group a total of US$686,000, as payment made by the Group on behalf of DEI; and the Group paid DEI a total of US$1,350,000, as payment made by DEI on behalf of the Group. (This category of connected transaction was terminated on 31 December 2007.)

8. This refers to the supporting services provided by the DEI Group in Hong Kong pursuant to a framework general services agreement dated 18 June 2007.

   The total consideration for the year ended 31 December 2007 was US$156,000. (This category of connected transaction was terminated on 31 December 2007.)

9. This refers to the supply of products and components by the DEI Group pursuant to a framework components purchase agreement dated 18 June 2007.

   The total consideration for the year ended 31 December 2007 was US$32,286,000.

Certain related party transactions as disclosed in note 33 to the consolidated financial statements also constituted continuing connected transactions within the meaning of the Listing Rules. Details of the above-mentioned continuing connected transactions were also disclosed in the Prospectus.

The Board engaged the auditors of the Company to perform certain agreed-upon procedures in respect of the continuing connected transactions of the Group to assist the Directors to evaluate whether the transactions:

1. have received the approval from the Board;
2. were in accordance with the pricing policies of the Group where the transactions involve provision of goods and services by the Group;
3. have been entered into in accordance with the relevant agreements governing the transactions; and
4. have not exceeded the caps disclosed in the Prospectus or the relevant announcements.

In respect of the above continuing connected transactions, the Stock Exchange has granted a waiver to the Company from strict compliance with the announcement and independent shareholders' approval requirements.

The auditors have reported their factual findings on these procedures to the Board. The independent non-executive Directors have reviewed the above continuing connected transactions and confirmed that the transactions have been entered into:

(1) in the ordinary and usual course of business of the Company;

(2) on normal commercial terms; and

(3) in accordance with the master agreement governing them on terms which are fair and reasonable and in the interests of the Shareholders as a whole.

The Board and the management of the Company are committed to the maintenance of good corporate governance practices and procedures. The Company believes that good corporate governance provides a framework that is essential for effective management, a healthy corporate culture, successful business growth and enhancing shareholders' value. The corporate governance principles of the Company emphasise a quality Board, sound internal controls, and transparency and accountability to all shareholders.

During the year, the Company has complied with code provisions and, where applicable, the recommended best practices of the Code on CG Practices since the Listing Date except for A.2.1 of the Code as mentioned below.

Key corporate governance principles and corporate governance practices of the Company are summarised below:

Code Ref.	Code Provisions	Compliance Status	Corporate Governance Practice
A. DIRECTORS			
A.1 The Board			
Corporate Governance Principle			
The Board should assume responsibility for leadership and control of the Company; and is collectively responsible for directing and supervising the Company's affairs.			
A.1.1	Regular board meetings at least four times a year involving active participation, either in person or through other electronic means of communication, of majority of directors	√	• The Board of the Company has held meetings in June, August, October and December in 2007 and will meet regularly in 2008. • Details of Directors' attendance records in 2007: **Members of the Board** — **Attendance** ***Executive Directors*** Mr. LIANG Ker Uon, Sam (Chairman and chief executive officer) — 4/4 Mr. CHENG An, Victor — 4/4 ***Non-executive Directors*** Mr. CHENG Chung Hua, Bruce — 4/4 Mr. HAI Ing-Jiunn, Yancey — 4/4 ***Independent Non-executive Directors*** Mr. ZUE Wai To, Victor — 4/4 Mr. LIU Chung Laung — 4/4 Mr. SHEN Bing — 4/4 • The Directors can attend meetings in person, by phone or through other means of electronic communication in accordance with the Company's Articles of Association.

Code Ref.	Code Provisions	Compliance Status	Corporate Governance Practice
A.1.2	All directors are given an opportunity to include matters in the agenda for regular board meetings.	√	• All Directors are consulted as to whether they may want to include any matter in the agenda before the agenda for each regular Board meeting is issued.
A.1.3	— At least 14 days' notice for regular board meetings. — Reasonable notice for other board meetings.	√ √	• Regular Board meetings of a particular year are usually scheduled towards the end of the preceding year to give all Directors adequate time to plan their schedules to attend. • At least 14 days' formal notice is given before each regular Board meeting.
A.1.4	All directors should have access to the advice and services of the company secretary with a view to ensuring that board procedures, and all applicable rules and regulations, are followed.	√	• Directors have access to the Company Secretary and key officers of the Company who are responsible to the Board for ensuring that Board procedures are followed. • Memos are issued to Directors from time to time on updating of legal and regulatory changes and matters of relevance to Directors in the discharge of their duties.
A.1.5	— Minutes of board meetings and meetings of board committees should be kept by a duly appointed secretary of the meeting. — Such minutes should be open for inspection at any reasonable time on reasonable notice by any director.	√ √	• The Company Secretary prepares written resolutions or minutes and keeps records of matters discussed and decisions resolved at all Board and Board Committee meetings. • Copies of the Board minutes/resolutions are sent to all Directors within a reasonable time (generally within 14 days) after each Board and Board committee meeting. • Original of the Board minutes/resolutions are available for inspection by Directors/members of the Board Committees.

Code Ref.	Code Provisions	Compliance Status	Corporate Governance Practice
A.1.6	— Minutes of board meetings and meetings of board committees should record in sufficient detail the matters considered by the board and decisions reached. — Draft and final versions of minutes are available for all directors to comment and to keep records within a reasonable time after the board meeting.	√ √	• Minutes record in sufficient detail the matters considered by the Board/Board Committees and decisions reached. • Directors are given an opportunity to comment on and keep records of the draft and final versions of Board minutes within a reasonable time after the Board meeting.
A.1.7	— A procedure agreed by the board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expense. — The board should resolve to provide separate independent professional advice to directors to assist the relevant director or directors to discharge his/their duties to the Company.	√ √	• Directors have been advised that (1) the Company Secretary; (2) the Compliance Adviser; and (3) the Company's retained Attorney can arrange independent professional advice at the expense of the Company should such advice be considered necessary by any Director.

Code Ref.	Code Provisions	Compliance Status	Corporate Governance Practice
A.1.8	— If a substantial shareholder or a director has a conflict of interest in a matter to be considered by the board which the board has determined to be material, the matter should not be dealt with by way of circulation or by a committee but a board meeting should be held. — Independent non-executive directors who, and whose associates, have no material interest in the transaction should be present at such board meeting.	√ √	• Important matters are usually dealt with by way of written resolutions so that all Directors (including Independent Non-executive Directors) can note and comment, as appropriate, the matters before approval is granted. • Director must declare his interest in the matters to be passed in the resolution, if applicable. • If a substantial shareholder or a Director has a conflict of interest in a matter to be considered material by the Board, an extraordinary Board meeting will be held and the matter will be dealt with in such Board meeting, and, if appropriate, an independent Board committee, including the independent non-executive directors and the executive directors will be set up to deal with the matter.

Code Ref.	Code Provisions	Compliance Status	Corporate Governance Practice
A.2 Chairman and Chief Executive Officer			
	Corporate Governance Principle		
	There should be a clear division of responsibilities at the board level to ensure a balance of power and anthority, so that power is not concentrate in any one individual.		
A.2.1	— Separate roles of chairman and chief executive officer and not be performed by the same individual. — Division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.	X √	• 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 on CG Practices. 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 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 balance of power and authority between the Board and the management of the Company.

Code Ref.	Code Provisions	Compliance Status	Corporate Governance Practice
A.2.2 A.2.3	— The chairman should ensure that all directors are properly briefed on issues arising at board meetings. — The chairman should be responsible for ensuring that directors receive adequate information, which must be complete and reliable, in a timely manner.	√ √	• With the support of the executive Directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information on a timely basis. • The Board papers including supporting analysis and related background information are normally sent to the Directors at least three days before Board meetings. • Communications between non-executive Directors (including independent non-executive Directors) on the one hand, and the Company Secretary as co-ordinator for the other business units of the Group on the other, is a dynamic and interactive process to ensure that queries raised and clarification sought by the Directors are dealt with and further supporting information and/or documentation is provided if appropriate.

Code Ref.	Code Provisions	Compliance Status	Corporate Governance Practice
A.3 Board composition			
	Corporate Governance Principle *The board should have a balance of skills and experience appropriate for the requirements of the business of the Company and should include a balanced composition of executive and non-executive Directors so that independent judgment can effectively be exercised.*		
A.3.1	— Independent non-executive directors should be expressly identified as such in all corporate communications that disclose the names of directors of the company.	√	• The composition of the Board, by category and position of Directors including names of Chairman, executive Directors, non-executive Directors and independent non-executive Directors, is disclosed in all corporate communications. • The Board consists of a total of seven Directors, comprising two executive Directors, two non-executive Directors and three independent non-executive Directors. More than one-third of the Board are independent non-executive Directors, of which one of them have appropriate professional qualifications, or accounting or related financial management expertise. • Details of the composition of the Board are set out on page 54. • The Directors' biographical information and the relationships among the Directors are set out on pages 54 to 56. • Review of the Board composition is made regularly to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company.

<table>
<tr><th>Code Ref.</th><th>Code Provisions</th><th>Compliance Status</th><th>Corporate Governance Practice</th></tr>
<tr><td colspan="4">A.4 Appointments, re-election and removal

Corporate Governance Principle
There should be a formal, considered and transparent procedure for the appointment of new Directors to the Board and plans in place for orderly succession for appointments to the Board. All Directors should be subject to re-election at regular intervals.</td></tr>
<tr><td>Recommended Best Practices</td><td>Nomination Committee</td><td>√ (where applicable)</td><td>• The Nomination Committee consists of three members, Mr. HAI Ing-Jiunn, Yancey (Chairman), Mr. ZUE Wai To, Victor, and Mr. LIU Chung Laung (both are independent non-executive Directors).
• The roles and functions of the Nomination Committee are to identify, screen and recommend to the Board appropriate candidates to serve as Directors, to oversee the process for evaluating the performance of the Board and to develop, recommend to the Board and monitor nomination guidelines for the Company. Its terms of reference are as follows:

(a) to review the structure, size and composition (including skills, knowledge and experience) of the Board on a regular basis and to make recommendations to the Board regarding any proposed change;
(b) to develop the criteria for identifying and assessing the qualifications of and for evaluating candidates for directorship;
(c) to identify individuals who are qualified/ suitable to become a Board member and to select or make recommendations to the Board on the selection of individuals nominated for directorships;
(d) to assess the independence of independent non-executive Directors to determine their eligibility;</td></tr>
</table>

Code Ref.	Code Provisions	Compliance Status	Corporate Governance Practice
			(Continued) (e) to make recommendations to the Board on matters relating to the appointment or re-appointment of Directors and succession planning for Directors, in particular, the Chairman and the chief executive officer; and (f) to review and assess the adequacy of the corporate governance guidelines of the Company and to recommend any proposed changes to the Board for approval. • The Nomination Committee shall meet at least once annually, or more frequently if circumstances require and shall act by unanimous written consent. Meeting of the Nomination Committee has not been held yet as the Company had just listed on Meeting of the Stock Exchange of Hong Kong for not more than a year. The detailed composition and the function of the Nomination Committee is posted on the Company's website. • The independence of the independent non-executive Directors is assessed according to the relevant rules and requirements under the Listing Rules. Each of the independent non-executive Directors makes an annual confirmation of independence pursuant to the requirements of the Listing Rules and the Company has received from each independent non-executive Director such confirmation for the year 2007. The Company is of the view that all independent non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of such guidelines. • The structure, size and composition of the Board are reviewed from time to time to ensure the Board has a balanced composition of skills and experience appropriate for the requirements of the businesses of the Company.

Code Ref.	Code Provisions	Compliance Status	Corporate Governance Practice
A.4.1	Non-executive directors should be appointed for a specific term, subject to re-election.	√	• In accordance with the Company's Articles of Association and the Code on CG Practices, at every annual general meeting one-third of the Directors shall retire from office by rotation, provided that every Director (including Non-executive Directors and those Directors appointed for a specific term) shall be subject to retirement by rotation at least once every three years. Further, new appointed Directors shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at that meeting. • Each of Mr. Cheng Chung Hua, Bruce and Mr. Hai Ing-Jiunn, Yancey, has been appointed as a non-executive Director for an initial term of two years commencing from 13 June 2007. • Each of Mr. Zue Wai To, Victor, Mr. Liu Chung Laung and Mr. Shen Bing has been appointed as an independent non-executive Director for an initial term of two years commencing from 13 June 2007. • Names of such Directors eligible for re-election will be stated in the notice of the upcoming annual general meeting accompanied by detailed biography. • A resolution will be proposed at the upcoming annual general meeting to amend the Articles of Association of the Company to the effect that every Director should be subject to rotation at least once every three years.
A.4.2	— All directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment.	√	
	— Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.	√	

<table>
<tr><th>Code Ref.</th><th colspan="2">Code Provisions</th><th>Compliance Status</th><th colspan="2">Corporate Governance Practice</th></tr>
<tr><td colspan="6">A.5 Responsibilities of directors

Corporate Governance Principle

Every Director is required to keep abreast of his responsibilities as a Director of the Company and of the conduct, business activities and development of the Company.</td></tr>
<tr><td>A.5.1</td><td>—</td><td>Every newly appointed director of the company should receive a comprehensive, formal and tailored induction on the first occasion of his appointment, and subsequently such briefing and professional development as is necessary.</td><td>√</td><td>•</td><td>A Compliance Manual has been circulated by the Compliance Adviser to the Company and Directors, also a training was provided by the Compliance Adviser and the Company Secretary to the Company in July 2007. The Company Secretary, the Compliance Adviser and the key officers of the Company have liaised closely with newly appointed Directors both immediately before and after their appointment to acquaint the newly appointed Directors with the duties and responsibilities as a Director and the business operation of the Company.</td></tr>
<tr><td></td><td>—</td><td>To ensure that newly appointed director has a proper understanding of the operations and business of the company and that he is fully aware of his responsibilities under statute and common law, the Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the company.</td><td>√</td><td>•</td><td>A package compiled and reviewed by the Company's legal advisers setting out such duties and responsibilities under the Listing Rules, Companies Ordinance and other related ordinances and relevant regulatory requirements of Hong Kong is provided to each newly appointed Director. A revised information package comprising the latest developments in laws, rules and regulations relating to the duties and responsibilities of directors was forwarded to each Director during the year for his information and ready reference.</td></tr>
<tr><td></td><td></td><td></td><td></td><td>•</td><td>Memos are issued from time to time to the Directors on updating of legal and regulatory changes and matters of relevance to the Directors in the discharge of their duties.</td></tr>
<tr><td></td><td></td><td></td><td></td><td>•</td><td>During the year, seminars were organised at which distinguished professionals were invited to present to the Directors on subjects such as duties and responsibilities of directors and its trends, corporate governance practices and its development and the way forward, etc.</td></tr>
</table>

Code Ref.	Code Provisions	Compliance Status	Corporate Governance Practice
A.5.2	The functions of non-executive directors should include but should not be limited to the following:		• The Non-executive Directors exercise their independent judgment and advise on the future business direction and strategic plans of the Company. • Non-executive Directors review the financial information and operational performance of the Company on a regular basis. • Independent Non-executive Directors are invited to serve on the Audit and Remuneration Committees of the Company.
	— independent judgment on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct at board meetings	√	
	— take the lead on potential conflicts of interests	√	
	— serve on the audit, remuneration, nomination and other governance committees, if invited	√	
	— scrutinise the company's performance in achieving agreed corporate goals and objectives, and monitoring the reporting of performance	√	

Code Ref.	Code Provisions	Compliance Status	Corporate Governance Practice
A.5.3	Every director should ensure that he can give sufficient time and attention to the affairs of the company and should not accept the appointment if he cannot do so.	√	• There is satisfactory attendance at Board meetings during the year. Please refer to A.1.1 for details of attendance records. • Every executive Director has hands-on knowledge and expertise in the areas and operation in which he is in charge of. Appropriate attention to the affairs of the Company is measured in terms of time as well as the quality of such attention and the ability of the Directors to contribute with reference to their necessary knowledge and expertise.
A.5.4	— Directors must comply with the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 of the Listing Rules. — The board should establish written guidelines on no less exacting terms than the Model Code for relevant employees.	√ √	• The Company has adopted the Model Code as its own code of conduct regarding Directors' securities transactions, effective from 13 June 2007. • Confirmation has been sought from all Directors that they have complied with the required standards set out in the Model Code for the year ended 31 December 2007. • The Company has already defined the relevant employees in the Compliance Manual and has informed such relevant employees the restrictions on dealings in the Company's securities subject to the Model Code and the Compliance Manual soon after the listing. In view of Company's expansion of the scope of "relevant employee" in 2008 and to further enhance the quality of corporate governance, an additional guideline for all the relevant employees has been issued on 21 February 2008 to remind these relevant employees again the importance of their continuous complying obligation of the Model Code and the Compliance Manual.

Code Ref.	Code Provisions	Compliance Status	Corporate Governance Practice
A.6 Supply of and access to information			
	Corporate Governance Principle		
	Directors should be provided in a timely manner with appropriate information in such form and of such quality as will enable them to make an informed decision and to discharge their duties and responsibilities as directors of the company.		
A.6.1	— Send agenda and full board papers to all directors at least 3 days before regular board or board committee meeting. — So far as practicable for other board or board committee meetings.	√ √	• Agenda for regular Board/Board committee meetings and Board papers are circulated not less than three days before such meetings to enable the Directors to make informed decisions on matters to be raised thereat.
A.6.2	— Management has an obligation to supply the board and its committees with adequate information in a timely manner to enable it to make informed decisions. — The board and each director should have separate and independent access to the company's senior management for making further enquiries where necessary.	√ √	• The Company Secretary, the Compliance Adviser and the Qualified Accountant attend the regular Board meetings, if necessary, to advise on corporate governance, statutory compliance, and accounting and financial matters. • Communications between the Directors on the one hand, and the Company Secretary, who acts as coordinator for the other business units of the Group on the other, is a dynamic and interactive process to ensure that queries raised and clarification sought by the Directors are dealt with and that further supporting information is provided if appropriate.

<table>
<tr><th>Code Ref.</th><th>Code Provisions</th><th>Compliance Status</th><th>Corporate Governance Practice</th></tr>
<tr><td>A.6.3</td><td>— All directors are entitled to have access to board papers and related materials.
— Steps must be taken to respond as promptly and fully as possible to queries raised by directors.</td><td>√
√</td><td>• Please see A.6.1 above.
• Please see A.6.2 above.</td></tr>
<tr><td colspan="4">

B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

B.1 The level and make-up of remuneration and disclosure

Corporate Governance Principle

There should be a formal and transparent procedure for setting policy on executive directors' remuneration and for fixing the remuneration packages for all directors.

</td></tr>
<tr><td>B.1.1</td><td>Establish a remuneration committee with specific written terms of reference and with members comprising a majority of independent non-executive directors.</td><td>√</td><td>• In accordance with the Code on CG Practices, the Company has set up the Remuneration Committee with a majority of the members being independent non-executive Directors.
• The Company established its Remuneration Committee on 13 June 2007.
• The existing Remuneration Committee comprises the Chairman of the Board, Mr. LIANG Ker Uon, Sam, as the chairman of the Remuneration Committee, and two independent non-executive Directors, namely, Mr. ZUE Wai To, Victor, and Mr. SHEN Bing.
• A meeting of the Remuneration Committee was held on 17 December 2007, during which the Remuneration Committee approved the numbers of Shares awarded to its senior management with</td></tr>
</table>

Code Ref.	Code Provisions	Compliance Status	Corporate Governance Practice
B.1.1 (Continued)			regard to the Employee Incentive Scheme. Details of the attendance records of the members of the Remuneration Committee are as follows: **Members of the Remuneration Committee** — **Attendance** Mr. LIANG Ker Uon, Sam — 1/1 Mr. SHEN Bing — 1/1 Mr. ZUE Wai To, Victor — 1/1 Note: The members of the Remuneration Committee can attend meetings in person, by phone or through other means of electronic communication in accordance with the Articles of Association.
B.1.2	The remuneration committee should consult the chairman and/or chief executive officer about their proposals relating to the remuneration of other executive directors and have access to professional advice if considered necessary.	√	• The Remuneration Committee has consulted the Chairman and/or the executive Directors about proposals relating to the remuneration packages and other human resources issues of the Directors and senior management, including, without limitation, succession plan and key personnel movements as well as policies for recruiting and retaining qualified personnel. • The emoluments of Directors are based on the skill, knowledge, involvement in the Company's affairs and the performance of each Director, together with reference to the profitability of the Company, remuneration benchmarks in the industry, and prevailing market conditions. • To enable them to better advise on the Group's future remuneration policy and related strategies, the Remuneration Committee has been advised of the Group's existing remuneration policy and succession plan, such as guidelines on designing employees' remuneration packages and related market trends and information.

Code Ref.	Code Provisions	Compliance Status	Corporate Governance Practice
B.1.3	Terms of reference of the remuneration committee include: – determine specific remuneration packages of all executive directors and senior management – review and approve performance-based remuneration – review and approve the compensation payable to executive directors and senior management on loss or termination of office or appointment – review and approve compensation arrangements on dismissal or removal of directors for misconduct – ensure that no director or any of his associates is involved in deciding his own remuneration	√	• The terms of reference of the Remuneration Committee follow closely the requirements of the code provisions of the Code on CG Practices. The principal responsibilities of the Remuneration Committee include determining the policy and structure for the remuneration of executive Directors, evaluating the performance of executive Directors, reviewing incentive schemes and Directors' service contracts and fixing the remuneration packages for all Directors and senior management.

Code Ref.	Code Provisions	Compliance Status	Corporate Governance Practice
B.1.4	The remuneration committee should make available its terms of reference, explaining its role and the authority delegated to it by the board.	√	• Each Director has kept one copy of the terms of reference for Remuneration Committee and fully understand the function and roles of the Remuneration Committee. Also, the terms of reference of the Remuneration Committee are posted on the Company's website.
B.1.5	The remuneration committee should be provided with sufficient resources to discharge its duties.	√	• The Human Resources Department and the Financial Department administratively supports and implements the approved remuneration packages and other human resources related decisions approved by the Remuneration Committee.
C. ACCOUNTABILITY AND AUDIT **C.1 Financial reporting** ***Corporate Governance Principle*** *The board should present a balanced, clear and comprehensible assessment of the company's performance, position and prospects.*			
C.1.1	Management should provide such explanation and information to the board as will enable the board to make an informed assessment of the financial and other information put before the board for approval.	√	• Directors are provided with a review of the Group's major business activities and detailed financial information on a quarterly basis.

Code Ref.	Code Provisions	Compliance Status	Corporate Governance Practice
C.1.2	— The directors should acknowledge in the Corporate Governance Report their responsibility for preparing the accounts. — There should be a statement by the auditors about their reporting responsibilities in the auditors' report on the financial statements.	√ √	• The Directors acknowledge their responsibility for preparing the financial statements of the Group. • With the assistance of the Financial/Accounts Department which is under the supervision of the Qualified Accountant of the Company, the Directors ensure the preparation of the financial statements of the Group are in accordance with statutory requirements and applicable accounting standards. • The Directors also ensure the publication of the financial statements of the Group is in a timely manner. • The statement by the auditors of the Company regarding their reporting responsibilities on the financial statements of the Group is set out in the Report of the Independent Auditor on pages 70 to 71.
	— Unless it is inappropriate to assume that the company will continue in business, the directors should prepare the accounts on a going concern basis, with supporting assumptions or qualifications as necessary.	√	• Directors are not aware of material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern as referred to in C.1.2 of the Code on CG Practices.

Code Ref.	Code Provisions	Compliance Status	Corporate Governance Practice
C.1.2 (Continued)	— When the directors are aware of material uncertainties relating to events or conditions that may cast significant doubt upon the company's ability to continue as a going concern, such uncertainties should be clearly and prominently set out and discussed at length in the Corporate Governance Report.	N/A	
C.1.3	The board's responsibility to present a balanced, clear and understandable assessment extends to annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements.	√	• The Board aims to present a clear, balanced and understandable assessment of the Group's performance and position in all Shareholder communications. • The Board is aware of the requirements under the applicable rules and regulations about timely disclosure of price-sensitive information or matters regarding the Company and will authorise the publication of such announcements as and when the occasion arises. The Company Secretary and Chief Financial Officer work closely and in consultation with legal advisers to review the materiality and sensitivity of transactions and proposed transactions and advise the Board accordingly.

Code Ref.	Code Provisions	Compliance Status	Corporate Governance Practice
C.2 Internal controls			
	Corporate Governance Principle		
	The board should ensure that the company maintains sound and effective internal controls to safeguard the shareholders' investment and the company's assets.		
C.2.1	— Directors to review effectiveness of the system of internal control of the company and its subsidiaries and report to shareholders that they have done so in their Corporate Governance Report. — The review should cover all material controls, including financial, operational and compliance controls and risk management functions.	√ √	• The Board has overall responsibility for maintaining sound and effective internal control system of the Group. The Group's system of internal control includes a defined management structure with limits of authority which is designed to help the achievement of business objectives, safeguard assets against unauthorised use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with relevant legislation and regulations. The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure in operational systems and achievement of the Group's objectives. ***Internal Control Environment*** • An organisational structure with operating policies and procedures, lines of responsibility and delegated authority has been established. • The relevant executive Directors and senior management are delegated with respective levels of authorities with regard to key corporate strategy and policy and contractual commitments. • Operational budgets are prepared by operational departments and reviewed by the responsible Directors prior to being adopted. There are procedures for the appraisal, review and approval of major capital and recurrent expenditure. Results of operations against budgets are reported regularly to the executive Directors.

Code Ref.	Code Provisions	Compliance Status	Corporate Governance Practice
C.2.1 (Continued)			• Proper controls are in place for the recording of complete, accurate and timely accounting and management information. Regular reviews and audits are carried out to ensure that the preparation of financial statements is carried out in accordance with generally accepted accounting principles, the Group's accounting policies and applicable laws and regulations. • The Internal Audit Department provides an independent appraisal of the Group's financial and operational activities, and makes constructive recommendations to the relevant management for necessary actions. • The Internal Audit Department carries out annual risk assessment on each audit area and derives a yearly audit plan according to their risk ratings. The audit plan is reviewed and endorsed by the Audit Committee. In addition to its agreed schedule of work, the Internal Audit Department conducts other review and investigative work as may be required. The results of internal audit reviews and agreed action plans in response to the Internal Audit Department's recommendations are reported to the executive Directors and the Audit Committee periodically. The Internal Audit Department also follows up the corrective actions to ensure that satisfactory controls are maintained. • The Directors, through the Audit Committee, have conducted an annual review of the effectiveness of the system of internal control of the Company and its subsidiaries. The review covers all material controls, including financial, operational and compliance controls and risk management functions.

Code Ref.	Code Provisions	Compliance Status	Corporate Governance Practice
C.3 Audit Committee			
Corporate Governance Principle			
The board should establish formal and transparent arrangements for considering how it will apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors.			
C.3.1	– Full minutes of audit committee meetings should be kept by a duly appointed secretary of the meeting.	√	• All minutes were kept by the Company Secretary.
	– Draft and final versions of minutes of the audit committee meetings should be sent to all members of the committee for their comment and records respectively, in both cases within a reasonable time after the meeting.	√	• Draft and final versions of the minutes are circulated to all members of the Audit Committee for their comment and records within a reasonable time after each meeting.
C.3.2	A former partner of the existing auditing firm shall not act as a member of the committee for 1 year after he ceased to be a partner of or to have any financial interest in, that firm, whichever is the later.	√	• No member of the Audit Committee is a former partner of the existing auditing firm of the Company.

Code Ref.	Code Provisions	Compliance Status	Corporate Governance Practice
C.3.3	The terms of reference of the audit committee should include: — recommendation to the board on the appointment, re-appointment and removal of external auditors and approval of their terms of engagement — review and monitor external auditors' independence and effectiveness of audit process — develop and implement policy on the engagement of an external auditor to supply non-audit services — review of financial information of the company — oversight of the company's financial reporting system and internal control procedures.	√	• The Company established the Audit Committee in June 2007, with reference to "A Guide for Formation of an Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants, comprising three members who are independent non-executive Directors only and one of whom have appropriate professional qualifications, or accounting or related financial management expertise. The existing Audit Committee comprises three independent non-executive Directors, namely, Mr. SHEN Bing (Chairman of the Audit Committee), Mr. ZUE Wai To, Victor and Mr. LIU Chung Laung. • The principal duties of the Audit Committee include the review and supervision of the Group's financial reporting system and internal control procedures, review of the Group's financial information and review of the relationship with the external auditors of the Company. Regular meetings have been held by the Audit Committee since its establishment. In accordance with the requirements of the Code on CG Practices, the official terms of reference of the Audit Committee were released and approved on 27 October 2007 in terms substantially the same as the provisions set out in the Code on CG Practices. The terms of reference of the Audit Committee are available on the Company's website.
C.3.4	The audit committee should make available its terms of reference, explaining its role and the authority delegated to it by the board.		• Audit Committee meetings were held in August, October and December in 2007. Details of the attendance records of members of the Audit Committee are as follows:

Code Ref.	Code Provisions	Compliance Status	Corporate Governance Practice
			(Continued) **Members of the Audit Committee** — **Attendance** Mr. SHEN Bing — 3/3 *(Chairman of the audit committee)* Mr. ZUE Wai To, Victor — 3/3 Mr. LIU Chung Laung — 2/3 Note: The members of the Audit Committee can attend meetings in person, by phone or through other means of electronic communication or by their alternates in accordance with the Company's Articles of Association. • The following is a summary of the work of the Audit Committee during 2007: 1. Review of the financial reports for 2007 interim and the 3rd quarter results; 2. Review of the "DNI Internal Auditing Charter" and "Internal Auditing Procedure"; 3. Approval of Audit Committee Terms of Reference; 4. Review of the findings and recommendations of the Internal Audit Department on the work of various departments; 5. Review of the external auditors' audit service plan for the year ended 31 December 2007; 6. Review of the external auditors' audit findings; 7. Review of the auditors' remuneration.

Code Ref.	Code Provisions	Compliance Status	Corporate Governance Practice
			(Continued) • After due and careful consideration of reports from management and the internal and external auditors, the Audit Committee was of the view that no suspected fraud or irregularities, significant internal control deficiencies, or suspected infringement of laws, rules, or regulations had been found, and concluded at the meeting held on 17 December 2007 that the system of internal controls was adequate and effective.
C.3.5	Where the board disagrees with the audit committee's view on the selection, appointment, resignation or dismissal of the external auditors, the company should include in the Corporate Governance Report a statement from the audit committee explaining its recommendation and also the reason(s) why the board has taken a different view.	N/A	• This issue did not arise in 2007.
C.3.6	The audit committee should be provided with sufficient resources to discharge its duties.	√	• The Audit Committee is able to obtain sufficient resources through the Chief Financial Officer and Internal Auditor. Should the need arise, the Audit Committee can arrange independent professional advice at the expense of the Company.

Code Ref.	Code Provisions	Compliance Status	Corporate Governance Practice
D. DELEGATION BY THE BOARD			
D.1 Management functions			
Corporate Governance Principle			
The company should have a formal schedule of matters specifically reserved to the board and those delegated to management.			
D.1.1	When the board delegates aspects of its management and administration functions to management, it must at the same time give clear directions as to the powers of management, in particular, with respect to the circumstances where management should report back and obtain prior approval from the board before making decisions or entering into any commitments on behalf of the company.	√	• Executive Directors are in charge of different businesses and functional divisions in accordance with their respective areas of expertise. • For matters or transactions of a magnitude requiring disclosure under the Listing Rules or other applicable rules or regulations, appropriate disclosure will be made and where necessary, circular will be prepared and Shareholders' approval will be obtained in accordance with the requirements of the applicable rules and regulations.
D.1.2	Formalise functions reserved to the board and those delegated to management. It should review those arrangements on a periodic basis to ensure that they remain appropriate to the needs of the company.	√	• The Board, led by the Chairman, is responsible for the Group's future development directions; overall strategies and policies; evaluation of the performance of the Group and the management; and approval of matters that are of a material or substantial nature. • Under the leadership of the Chairman, management is responsible for the day-to-day operations of the Group.

Code Ref.	Code Provisions	Compliance Status	Corporate Governance Practice
D.2 Board Committees			
	Corporate Governance Principle		
	Board committees should be formed with specific written terms of reference which deal clearly with the committees' authority and duties.		
D.2.1	Where board committees are established to deal with matters, the board should prescribe sufficiently clear terms of reference to enable such committees to discharge their functions properly.	√	• Three Board committees, namely, Nomination Committee, Remuneration Committee and Audit Committee have been established with specific terms of reference as mentioned in Recommended Best Practices under A.4, B.1.3 and C.3.3 above.
D.2.2	The terms of reference of board committees should require such committees to report back to the board on their decisions or recommendations, unless there are legal or regulatory restrictions on their ability to do so (such as a restriction on disclosure due to regulatory requirements).	√	• Board committees report to the Board of their decisions and recommendations at the Board meetings.

Code Ref.	Code Provisions	Compliance Status	Corporate Governance Practice
E. COMMUNICATION WITH SHAREHOLDERS			
E.1 Effective communication			
Corporate Governance Principle			
The Board should endeavour to maintain an on-going dialogue with shareholders and in particular, use annual general meetings or other general meetings to communicate with shareholders and encourage their participation.			
E.1.1	In respect of each substantially separate issue at a general meeting, a separate resolution should be proposed by the chairman of that meeting.	√	• Separate resolutions are proposed at the general meeting on each substantially separate issue, including the election of individual Director.
E.1.2	— The chairman of the board should attend the annual general meeting and arrange for the chairmen of the audit, remuneration and nomination committees (as appropriate) or in the absence of the chairman of such committees, another member of the committee or failing this his duly appointed delegate, to be available to answer questions at the annual general meeting.	√	• In 2008, the Chairman of the Board, Chairman of the Audit Committee, Chairman of the Nomination Committee and Chairman of the Remuneration Committee will attend the 2007 Annual General Meeting and be available to answer questions.

Code Ref.	Code Provisions	Compliance Status	Corporate Governance Practice
E.1.2 (Continued)	— The chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval.	N/A	• No such independent board committee had been formed during the year ended 31 December 2007. • The Company establishes different communication channels with Shareholders and investors, including (i) printed copies of corporate communication (including but not limited to annual reports, interim reports, notices of meeting, circulars and proxy forms) required under the Listing Rules, and Shareholders can select to receive such documents by electronic means, (ii) annual general meeting which provides a forum for Shareholders to raise comments and exchange views with the Board, (iii) the Company's website which also updates key information of the Group, (iv) regular press conferences and briefing meetings with analysts from the investment sectors on updated performance information of the Group, (v) the Company's registrars which deal with Shareholders for all share registration and related matters, and (vi) Investor Relations Department of the Company which handles enquiries from Shareholders and investors generally.

Code Ref.	Code Provisions	Compliance Status	Corporate Governance Practice
E.2 Voting by Poll			
	Corporate Governance Principle		
	The Company should regularly inform shareholders of the procedure for voting by poll and ensure compliance with the requirements about voting by poll contained in the Listing Rules and the constitutional documents of the company.		
E.2.1	— The chairman of a meeting should ensure disclosure in the circulars to shareholders of the procedures for and the rights of shareholders to demand a poll.	√	• At the 2007 Annual General Meeting, the right to demand a poll will set out in the circular containing the notice of annual general meeting. • At the 2007 Annual General Meeting, the chairman of the meeting will exercise his power under the Articles of Association to put each resolution set out in the notice to be voted by way of a poll.
	— The chairman of a meeting and/or directors who, individually or collectively, hold proxies in respect of shares representing 5% or more of the total voting rights at a particular meeting shall demand a poll in certain circumstances where, on a show of hands, a meeting votes in the opposite manner to that instructed in those proxies.	√	

Code Ref.	Code Provisions	Compliance Status	Corporate Governance Practice
E.2.1 (Continued)	— If a poll is required under such circumstances, the chairman of the meeting should disclose to the meeting the total number of votes represented by all proxies held by directors indicating an opposite vote to the votes cast at the meeting on a show of hands.	√	
E.2.2	— The company should count all proxy votes and, except where a poll is required, the chairman of a meeting should indicate to the meeting the level of proxies lodged on each resolution, and the balance for and against the resolution, after it has been dealt with on a show of hands. — The company should ensure that votes cast are properly counted and recorded.	√ √	• Representatives of the share registrars of the Company will be appointed as scrutineers to monitor and count the poll votes to be cast at the annual general meetings. • Poll results will be announced at the meeting and the related announcement will be posted on the respective websites of the Company and the Stock Exchange following the annual general meeting of the Company.

Code Ref.	Code Provisions	Compliance Status	Corporate Governance Practice
E.2.3	The chairman of a meeting should at the commencement of the meeting ensure that an explanation is provided of: - — the procedures for demanding a poll by shareholders before putting a resolution to the vote on a show of hands; and — the detailed procedures for conducting a poll and then answer any questions from shareholders whenever voting by way of a poll is required.	√	• At the 2007 Annual General Meeting, the chairman of the meeting will explain the detailed procedures for conducting a poll, which had also been set out in the circular containing the notice of annual general meeting, and then answer any questions from Shareholders.

EXECUTIVE DIRECTORS

Mr. LIANG Ker Uon, Sam (梁克勇先生), aged 59, is an executive Director and is also a director of our subsidiaries, DNI Labuan and DNI Taiwan. Mr. Liang is also chairman of our Remuneration Committee. Mr. Liang was a chief technical officer and director of DEI until 6 July 2007. He joined our Company in 2002 as our chairman and chief executive officer and is responsible for developing and implementing our Group's strategic objectives and business plans. Mr. Liang has over 30 years of engineering and management experience in the communications industry. Before joining DNI, Mr. Liang was the president of D-Link Corporation, and also held engineering and management positions at Rockwell, Siemens and Ericsson Corporation. Mr. Liang obtained a Master's degree in Electrical Engineering from Mississippi State University in the U.S. He also holds three patents and is a member of the Institute of Electrical and Electronics Engineers.

Mr. CHENG An, Victor (鄭安先生), aged 44, is an executive Director and is also a director of our subsidiaries, DNI Labuan, DNI Taiwan, DNI US and DNI Dongguan. Mr. Cheng was a director of Addtron Technology (Japan) Co., Ltd., a subsidiary of DEI during the Track Record Period and resigned from such position in April 2007. He is a son of Mr. Cheng Chung Hua, Bruce, a non-executive Director of our Company, and a brother of Mr. Cheng Ping, a director of DEI and our subsidiary, DNI Dongguan, and ten of DEI's subsidiaries. Mr. Cheng Ping was also a director of the Company's subsidiary, DNI Dongguan until 15 June 2007. Mr. Cheng An, Victor was also on the board of Macronix International Co., Ltd., a company listed on the Taiwan Stock Exchange, from April 2001 to June 2004. He is responsible for overseeing the entire operations and general management of our Group. Prior to assuming his current position in 2002, Mr. Cheng was the general manager of the DEI Group's video display business unit, covering a broad product range including computer CRT color monitors, TFT-LCD monitors, data projectors and rear projection displays. Mr. Cheng obtained a Bachelor's degree and a Master's degree in Electrical Engineering from Santa Clara University in the U.S.

NON-EXECUTIVE DIRECTORS

Mr. CHENG Chung Hua, Bruce (鄭崇華先生), aged 71, is a non-executive Director. He was also a director of our subsidiaries, DNI Labuan and DNI Taiwan until 20 July 2007 and 20 June 2007, respectively. Mr. Cheng founded the DEI Group in 1971 and is currently the chairman of and a director of DEI. He is also the chairman of six of DEI's subsidiaries and a director of six of DEI's subsidiaries. In addition, Mr. Cheng is currently serving on the board of Cyntec Co., Ltd., a company listed on the Taiwan Stock Exchange. Mr. Cheng has more than 45 years of experience in manufacturing operations, products management and development in switch power supplies, electronic components, video displays, networking products and renewable energy. He is the father of Mr. Cheng An, Victor, an executive Director of our Company, and Mr. Cheng Ping, a director of DEI. Mr. Cheng was appointed as a Director in 2002 and has since served on the Board. He graduated from National Cheng Kung University in Taiwan with a Bachelor's degree in Electrical Engineering in 1959. He also received an honorary Doctorate degree from National Tsing Hua University in Taiwan in 2006.

Mr. HAI Ing-Jiunn, Yancey (海英俊先生), aged 59, is a non-executive Director. Mr. Hai is also the chairman of our Nomination Committee. Mr. Hai is currently the vice-chairman and chief executive officer and a director of DEI. He is also serving on the board of two other companies listed on the Taiwan Stock Exchange, Fubon Financial Holding Co., Ltd. and CTCI Corporation. In addition, he is a supervisor of one of DEI's subsidiaries and a director of six of DEI's subsidiaries. He served as a director of Macronix International Co., Ltd., a company listed on the Taiwan Stock Exchange, from April 2001 to June 2004. He was appointed as a Director in May 2006 and has since served on the Board. He has over 30 years of experience in strategic planning, operations and management for major multinational organizations, including Citibank, JP Morgan, Lehman Brothers and GE Capital. Mr. Hai obtained a Bachelor's degree with a major in Sociology from National Taiwan University in 1972 and a Master's degree in International Business Management from the University of Texas in 1978.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. ZUE Wai To, Victor (舒維都先生), aged 62, is an independent non-executive Director. Mr. Zue is a professor of Electrical Engineering and Computer Science at the Massachusetts Institute of Technology ("MIT"). He is also a director of MIT's Computer Science and Artificial Intelligence Laboratory, which researches and develops, among other things, networking technology. He has been on the technology advisory board of DEI since 2001 and has been involved in networking technology development and product planning. Outside of MIT, Mr. Zue has acted as a consultant for many multinational corporations and has served on many planning, advisory, and review committees for the U.S. Department of Defense, the National Science Foundation and the National Academy of Science and Engineering. He chaired the information science and technology study group for the Defense Advanced Research Projects Agency of the U.S. Department of Defense from 1996 to 1998. He received the Defense Advanced Research Projects Agency Sustained Excellence Award in 1999 and the Speech Technology Magazine's inaugural Lifetime Achievement Award in 2002. He was inducted into the National Academy of Engineering in 2004. Mr. Zue was appointed as our independent non-executive Director in June 2007.

Mr. LIU Chung Laung (劉炯朗先生), aged 73, is an independent non-executive Director. He is currently an independent director of Lightronik Technology Inc., Macronix International Co., Ltd., United Microelectronics Corporation, Anpec Electronics Corporation and an independent supervisor of MediaTek Incorporation, all of which are companies listed on the Taiwan Stock Exchange and an independent non-executive director of TCL Communication Technology Holdings Limited, a company listed on the Main Board of the Stock Exchange. In addition, he was a director of Optimax Technology Corporation, a company listed on the Taiwan Stock Exchange, from May 2003 to June 2004. Mr. Liu is a Professor of Computer Science at the National Tsing Hua University in Taiwan and has held this position since 1998. He was also the National Tsing Hua University's president from 1998 to 2002. Prior to joining the National Tsing Hua University, he was a faculty member of the University of Illinois at Urbana-Champaign from 1972 to 1998 and served as an associate provost from 1995 to 1998. From 1962 to 1972, Mr. Liu was a faculty member of MIT in the U.S. Mr. Liu was appointed as our independent non-executive Director in June 2007.

Mr. SHEN Bing (沈平先生), aged 58, is an independent non-executive Director. Mr. Shen is also the chairman of our Audit Committee. Mr. Shen has 34 years of experience in accounting, banking, and investment management. He is currently a director of The Taiwan Fund, Inc., a company listed on the New York Stock Exchange, and a supervisor and the chairman of the audit committee of CTCI Corporation ("CTCI"), a company listed on the Taiwan Stock Exchange. His responsibilities as the chairman of the audit committee of CTCI include, among other things, reviewing CTCI's audited financial statements, participating in establishing CTCI's risk control system and working closely with CTCI's internal auditing department to ensure integrity of CTCI's internal processes and its legal and regulatory compliance. Mr. Shen then served as a director of TISCO Bank Public Company Limited ("TISCO Bank"), a company listed on The Stock Exchange of Thailand, from May 2004 to August 2005 and was involved in reviewing the audited financial statements of TISCO Bank for the year 2004 before its public release. He was previously the president of CDIB & Partners Investment Holding Corporation, Taiwan, and an executive vice president of China Development Industrial Bank, Taiwan. Before that, he also worked as an executive director of Morgan Stanley and as an investment officer in the International Finance Corporation of the World Bank Group. Mr. Shen graduated from Princeton University, with a Bachelor's degree from the Woodrow Wilson School of Public and International Affairs, and received his Master's degree in Business Administration from Harvard Business School. Mr. Shen was appointed as our independent non-executive Director in June 2007.

SENIOR MANAGEMENT

Mr. LEE Yi Pin (李宜平先生), aged 50, is the chief financial officer of our Company. He joined our Group in August 2006. He oversees our finance and accounting functions, and is responsible for our overall financial control and management. He has more than 18 years of experience in accounting, financial control and management. Prior to joining us, he served as the chief financial officer of CMC Magnetics Corporation for six years and worked at Acer Group for 12 years, gaining experience in finance, basic treasury operations and insight into the role of a chief financial officer. Mr. Lee holds a Master's degree in Business Administration from Central Missouri State University in the U.S.

Mr. LIAO Hsiao-Ti, Peter (廖曉狄先生), aged 56, is the vice president of our sales division. He joined our Group in 2004 and is responsible for the overall management of the sales functions of our Group. He has more than 20 years of experience in the design, development and management of the computer and communications industry of the U.S. and more than five years of experience in the business development of the OEM/ODM communications industry of Taiwan. Mr. Liao obtained a Bachelor's degree in Electrical Engineering from National Taiwan University in Taiwan and a Master's degree in Computer Science from the University of Southern California in the U.S.

Mr. WU Honda (吳宏達先生), aged 46, is the vice president of our software engineering division. He joined our Group in 1999 and is responsible for overseeing the operation of our software engineering division. Prior to that, he worked for the DEI Group for one year. Mr. Wu has around 17 years of experience in Ethernet technology and its application in embedded systems and networking. Mr. Wu obtained a Master's degree in Electrical Engineering from Pennsylvania State University in the U.S.

Mr. CHIU SK (邱松貴先生), aged 65, is the Head of Operations – Dongguan. He has more than 32 years of manufacturing management and technology development experiences in electronics field. He has worked for EMMT Taiwan for fourteen years, MiTAC Taiwan/China for eighteen years and Delta Network Incorporation China for 9 months. His positions include production supervisor, mechanical engineer, facility engineer, manufacturing technology development manager, plant manager and VP. He received his Bachelor's degree in Physics from Taiwan Normal University in 1969 and graduated from his MBA study from Tsing Hua University in China.

Mr. WEN Hsin-Chin, Mike (溫新鏡先生), aged 50, is the head of operations at our production plant in Taoyuan, Taiwan. He joined our Group in 2001 and is responsible for supervising the manufacturing operations at our production plant in Taoyuan. He has more than 25 years of manufacturing and engineering experience in the industry. Prior to joining our Group, he worked for the DEI Group for around 17 years. Mr. Wen graduated from Nan-Ya College in Taiwan with a Bachelor's degree in Industry Engineering and is currently taking a Master's degree in Business Administration from Mingshin University of Science and Technology in Taiwan.

Mr. YU Cheng-Hsiung, Clint (余正雄先生), aged 47, is the vice president of our hardware engineering division. He joined our Group in 2002 and is responsible for the development of networking products. Mr. Yu has strong background in hardware design procedure and products development. He has over 20 years of experience in analog and digital circuitry design and networking product design. Before joining our Group, he was with Xinetron, Inc. and Accton Technology Corporation and was in charge of the development of various networking products. He also held senior engineering and management positions in Digital Equipment International Limited. Mr. Yu holds a Bachelor's degree in Electric Engineering from Tatung Institute of Technology in Taiwan.

Mr. CHEN Chao-Chih, George (陳昭智先生), aged 40, is the director of our material procurement division. He joined our Group in 2004 and is responsible for procurement and material planning of our Group. Mr. Chen has over 14 years of experience in material planning. Prior to joining our Group, he worked for the DEI Group for 12 years. Mr. Chen holds a Bachelor's degree in Industrial Engineering from National Chiao Tung University in Taiwan.

Mr. LEUNG Sai Cheong (梁世昌先生), aged 44, is our qualified accountant for the purposes of Rule 3.24 of the Listing Rules. He worked at a large international accountancy firm for several years. He was the financial controller of Jet Air International Group Limited (now known as China Best Group Holding Limited), a company listed on the Main Board of the Stock Exchange. He was also an independent non-executive director of Sunny Global Holdings, Limited, a company listed on the Main Board of the Stock Exchange from September 2004 to August 2006. Mr. Leung holds a Master's degree in Business Administration from the University of South Australia. Mr. Leung is an associate member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants and has more than 15 years of experience in audit, accounting and taxation matters.

Mr. NGAI Wai Fung (魏偉峰), age 46, is the Company Secretary of the Company. Mr. Ngai is a director and head of listing services of KCS Hong Kong Limited, a corporate secretarial and accounting services provider in Hong Kong. Mr. Ngai is currently vice president of The Hong Kong Institute of Chartered Secretaries (HKICS) and the Chairmen of its China Affairs Committee and Membership Committee. He is also a fellow of HKICS and the Institute of Chartered Secretaries and Administrators in United Kingdom, a member of the Hong Kong Institute of Certified Public Accountants, a member of the Association of Chartered Certified Accountants in the United Kingdom, a member of Hong Kong Institute of Directors and a member of Hong Kong Securities Institute. Mr. Ngai holds a Master of Corporate Finance from The Hong Kong Polytechnic University, a Master of Business Administration from Andrews University of the United States and a Bachelor of Laws (with Honours) degree from the University of Wolverhampton, the United Kingdom. He is also a PhD (thesis stage) in Finance at Shanghai University of Finance and Economics.

The Directors are pleased to present their report together with the audited financial statements for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

An analysis of the Group's performance for the year by business and geographical segments is set out in note 5 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2007 are set out in the consolidated income statement on page 75.

The Directors recommend the payment of a final dividend of 1.03 US cents per share, totalling US$12,581,000 in respect of the year ended 31 December 2007.

FINANCIAL SUMMARY

A four-year financial summary of the results and of the assets and liabilities of the Group is set out on page 148.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 6 to the financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association and there was no restriction against such rights under the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 15 to the financial statements.

RESERVES

Details of the movements in reserves of the Group and the Company during the year are set out in note 16 to the financial statements.

DISTRIBUTABLE RESERVES

Distribution reserves of the Company as at 31 December 2007, calculated under respective regulation of the Cayman Islands, amounted to US$15,258,000.

DIRECTORS

The Directors of the Company during the year and up to the date of this annual report are:

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	(appointed on 13 June 2007)
Mr. LIU Chung Laung	(appointed on 13 June 2007)
Mr. SHEN Bing	(appointed on 13 June 2007)

The biographical details of the Directors and senior management are set out under the section "Directors and Senior Management Profile" of this annual report.

In accordance with Article 130 of the Articles of Association, Mr. LIANG Ker Uon, Sam, Mr. CHENG An, Victor and Mr. CHENG Chung Hua, Bruce shall retire by rotation and in accordance with Article 114 of the Articles of Association, Mr. HAI Ing-Jiunn, Yancey, Mr. ZUE Wai To, Victor, Mr. LIU Chung Laung and Mr. SHEN Bing, being eligible, have offered themselves for re-election at the forthcoming Annual General Meeting.

Each of Mr. LIANG Ker Uon, Sam and Mr. CHENG An, Victor, being the executive Directors, has entered into a service contract with the Company for an initial term of three years commencing on 13 June 2007; each of Mr. CHENG Chung Hua, Bruce and Mr. HAI Ing-Jiunn, Yancey has been appointed as a non-executive Director for an initial term of two years commencing from 13 June 2007; each of Mr. ZUE Wai To, Victor, Mr. LIU Chung Laung and Mr. SHEN Bing has been appointed as an independent non-executive Director for an initial term of two years commencing from 13 June 2007. All of these service contracts or, where applicable, appointment letters shall be terminated in accordance with the provisions of the service contract or, where applicable, appointment letters by either party giving to the other not less than three months' prior notice in writing.

The Company has received from each of the independent non-executive Director an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and the Company considered all the independent non-executive Directors to be independent.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Company's business to which the Company, its subsidiaries, its fellow subsidiaries or its holding company was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2007, the Group had a total of 2,656 employees. Total staff costs incurred for the year ended 31 December 2007 amounted to approximately US$45.7 million. 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 provide incentive to 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 Listing Rules.

DISCONTINUED SHARE-BASED COMPENSATION SCHEME

(a) DEI Share Awards

Historically, we reward our eligible employees for their contributions annually with DEI bonus shares. Similarly, we plan to reward our Directors, senior management and existing employees for their services in 2006 with bonus shares of DEI. Traditionally, all non-hourly rate employees who work with the Group receive shares of the DEI Group. The number of shares received by each employee is based upon the financial performance of the Group, his or her categorisation and ranking among the five-tier assessment system. The issuance of these bonus shares was approved at the Annual General Meeting of DEI held on 8 June 2007, and following such approval, DEI shares were delivered to our eligible employees in July 2007. Following the Listing, we replaced the DEI Share Awards with the Employee Incentive Scheme.

CONTINUING SHARE-BASED COMPENSATION SCHEMES

(a) Employee Incentive Scheme

The Employee Incentive Scheme was first approved and adopted by resolutions of our Board on 21 August, 2006. It was modified and approved by our Board on 13 June, 2007 and its implementation is conditional on the Listing.

Pursuant to the Employee Incentive Scheme, the Company alloted and issued 124,000,000 Shares (the "124,000,000 Shares"), representing the total number of Shares subject to the Employee Incentive Scheme, to the Employee Incentive Scheme Trustee prior to Listing to be held in trust for satisfying grants of awards by the Company to eligible participants. No further Shares will be issued by the Company to the Employee Incentive Scheme Trustee under the scheme. The 124,000,000 Shares represent approximately 10.36% of total Share Capital.

Immediately after completion of the Global Offering, assuming that no Share has yet been allotted and issued pursuant to the Management Share Subscription Scheme, the exercise of options granted under the Share Option Scheme, the Employee Incentive Scheme Trustee will hold 124,000,000 Shares representing approximately 10.4% of the then total issued share capital of the Company. As the Employee Incentive Scheme Trustee's shareholding in our Company is 10% or more of the total issued Shares immediately after completion of the Global Offering, it will be a substantial Shareholder, and therefore, our connected person. No grant of award or transfer of any of the 124,000,000 Shares by the Employee Incentive Scheme Trustee to a connected person of our Company would require compliance with requirements of Chapter 14A of the Listing Rules.

As the Shares in the Employee Incentive Scheme are funded by us, those Shares held by the Employee Incentive Trustee will not be counted towards the calculation of the amount of Shares in the public float. No grant of award or transfer of Shares will be made by the Employee Incentive Scheme Trustee unless the minimum public float is maintained.

The 124,000,000 Shares will only be utilized over the period from 6 March 2008 to and including 31 December 2011 such that in any given financial year of our Company (which begins on January 1), the aggregate of (i) the total number of Shares to be awarded through the Employee Incentive Scheme Trustee pursuant to the Employee Incentive Scheme during such financial year and (ii) the total number of Shares covered by options granted during such financial year under the Share Option Scheme, shall not in aggregate exceed 3% of the total issued share capital of the Company as of the beginning of such financial year (after giving effect to any share consolidation, share split or other capital reorganization during such financial year).

For the year ended 31 December 2007, no Share has been granted or agreed to be granted pursuant to the Employee Incentive Scheme to the eligible participants. We expect to begin to make grants under the Employee Incentive Scheme through the Employee Incentive Scheme Trustee in 2008 for employees' services rendered in 2007. Further details of the principal terms of the Employee Incentive Scheme are summarized in "Appendix VI — Statutory and General Information — Employee Incentive Scheme" to the Prospectus.

(b) Share Option Scheme

The Share Option Scheme was adopted by resolutions of our Board on 13 June, 2007 and its implementation is conditional on the Listing. The options granted under the Share Option Scheme do not give immediate ownership of the underlying Shares as they require payment of subscription price based on the then prevailing market price of the Shares after Listing. Accordingly, these options may only become meaningful to the grantees after their contributions have created value for our Company.

The purpose of the Share Option Scheme is to reward participants who have contributed to the Group and to encourage participants to work towards enhancing the value of the Company and its Shares for the benefit of the Company and the Shareholders as a whole.

Participants under the Share Option Scheme include Directors and employees of the Group and any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters or service providers of any member of the Group whom the Board considers have contributed or will contribute to the Group.

On acceptance of options granted, a grantee shall pay to the Company US$1.00 per option granted as consideration for the grant of options.

The subscription price for Shares under the Share Option Scheme shall be determined by the Board in its absolute discretion but in any event shall not be less than the higher of (i) the closing price of the Shares as stated in the daily quotations sheet issued by the Stock Exchange on the date of the grant of options which must be a Business Day; (ii) the average closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange for the five Business Days immediately preceding the date of the grant of options; and (iii) the nominal value of the Shares.

The maximum number of Shares issued and to be issued upon exercise of the options granted to each grantee under the Share Option Scheme in any 12-month period shall not (other than those options granted pursuant to specific approval by the Shareholders in a general meeting) exceed 1% of the Shares in issue for the time being

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during the period to be determined and notified by the Board to each grantee, at the time of making an offer of the grant of an option, which shall not expire later than 10 years from the date of the grant of the option.

The Share Option Scheme was adopted for a period of 10 years commencing from 13 June 2007, and shall expire on 12 June 2017.

The maximum number of Shares which may be issued upon exercise of all Options to be granted under the Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% in nominal amount in the aggregate of Shares in issue on the Listing Date (the "Scheme Mandate Limit"), representing 119,680,000 Shares. As at the date of this report, no option had been issued under the Share Option Scheme.

CONTINUING SHARE-BASED COMPENSATION SCHEME WITH NO FURTHER REWARDS

Management Share Subscription Scheme

The Management Share Subscription Scheme was adopted by the Board on 21 August, 2006. The Management Share Subscription Scheme 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 Shares, no further awards will be made and no one is entitled to subscribe for any Shares under the scheme. As at the date of this report, we have granted 56,744,000 Shares to our directors, senior management and selected employees and the Company will allot and issue the subject Shares directly to the beneficiaries upon the vesting of the awards under the scheme.

Under the scheme, we invited members of the Group's board of directors, senior management and other employees who contributed to the success of the Group and who we consider as valuable assets to our growth to acquire Shares representing an aggregate of 4.5% of the Reference Share Capital. In order to acquire Shares under the scheme, eligible participants have paid upon the acceptance of an award under the scheme, and the Company has received US$2.42 per Share (at the then par value of US$1.00), an amount equal to a 50% discount to the fair value of each Share (having par value of US$1.00) as of 31 July 2006, as determined by an independent valuer. In accordance with acceptances made by eligible participants under the Management Share Subscription Scheme, 36,000,000 Shares, 3,120,000 Shares and 17,624,000 Shares have been awarded under the scheme to our Directors, seven senior management members and 109 other employees of our Group, respectively. Subject to the terms and conditions under the scheme rules, Shares to be acquired by the eligible participants under the Management Share Subscription Scheme will vest in four equal annual installments, namely on (i) 1 April 2008, (ii) 1 April 2009, (iii) 1 April 2010 and (iv) 1 April 2011.

Awards granted under the Management Share Subscription Scheme

The details of the Share awards made and subscribed under the Management Share Subscription Scheme are set out below:

Name	Address	Title/Position	Number of Shares awarded and subscribed
Directors			
Mr. LIANG Ker Uon, Sam	6/F, No. 59-3 Jin Long Road, 10 Lin, Jin Long Village, Nei Hu District, Taipei, Taiwan	Executive Director	12,000,000
Mr. CHENG An, Victor	8/F, No. 7, Section 3, Xin Yi Road, Taipei, Taiwan	Executive Director	8,000,000
Mr. CHENG Chung Hua, Bruce	5/F, No. 21, Lane 222, Dun Hua North Road, Taipei, Taiwan	Non-executive Director	4,000,000
Mr. HAI Ing-Jiunn, Yancey	13/F, No. 8, Lane 331, Desing East Road, Taipei,	Non-executive Director	4,000,000
Mr. LIU Chung Laung	5/F, No. 464, Section 4, Ren Ai Road, Taipei, Taiwan	Independent non-executive Director	4,000,000
Mr. ZUE Wai To, Victor	15 Glengarry Road, Winchester, MA 01890, U.S.	Independent non-executive Director	4,000,000

The Rest of MSSS Participants 20,444,000.

RETIREMENT BENEFIT SCHEME

Information on the Group's retirement benefit schemes is set out in note 18 to the financial statements.

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 31 December 2007, 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 SFO) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions 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
	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/ interest of spouse	3,873,518 Stocks (L) *(Note 4)*	0.18
CHENG Chung Hua, Bruce	The Company	Beneficial owner	4,000,000 Shares (L) *(Note 5)*	0.33
	DEI	Beneficial owner/ interest of spouse	177,195,923 Stocks (L) *(Note 6)*	8.41
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/ joint interest	26,878 Stocks (L) *(Note 9)*	0.001
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. Mr. LIANG Ker Uon, Sam, was awarded 12,000,000 Shares pursuant to the MSSS. Pursuant to the rules of the MSSS, these Shares were 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. Mr. CHENG An, Victor, was awarded 8,000,000 Shares pursuant to the MSSS. Pursuant to the rules of the MSSS, these Shares were 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. Mr. CHENG An, Victor is deemed or taken to be interested, for the purpose of the SFO, the 506,314 Stocks which are beneficially owned by his spouse, Jen, Hsiao-Yuan.

5. Mr. CHENG Chung Hua, Bruce, was awarded 4,000,000 Shares pursuant to the MSSS. Pursuant to the rules of the MSSS, these Shares were 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.

6. Mr. CHENG Chung Hua, Bruce is deemed or taken to be interested, for the purpose of the SFO, the 42,862,821 Stocks which are beneficially owned by his spouse, Hsieh Yih Ying.

7. Mr. HAI Ing-Jiunn, Yancey, was awarded 4,000,000 Shares pursuant to the MSSS. Pursuant to the rules of the MSSS, these Shares were 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. Mr. ZUE Wai To, Victor, was awarded 4,000,000 Shares pursuant to the MSSS. Pursuant to the rules of the MSSS, these Shares were 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. Mr. SHEN Bing is deemed or taken to be interested, for the purpose of the SFO, the 17,820 Stocks which are beneficially owned by Mr. Shen and his spouse, Terry Kam Ha Yip jointly.

10. Mr. LIU Chung Laung, was awarded 4,000,000 Shares pursuant to the MSSS. Pursuant to the rules of the MSSS, these Shares were 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.

Save as disclosed above, as at 31 December 2007, 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 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.

Interests and short position of substantial Shareholders and other interest discloseable under Part XV of the SFO

As at 31 December 2007, 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 which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of entities	Capacity/ nature of interest	Number of Shares	Approximate percentage of issued share capital of the Company (%)
Delta Networks Holding Limited *(Note 1)*	Beneficial owner	712,160,000	59.51
DEI *(Note 1)*	Interest of controlled corporation	712,160,000	59.51
HSBC International Trustee Limited *(Note 2)*	Trustee	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 Employee Incentive Scheme, 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 Employee Incentive Scheme. As at 31 December 2007, none of these Shares has been awarded to the employees.

Save as disclosed above and so far as the Directors are aware of, as at 31 December 2007, 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.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

PUBLIC FLOAT

As at the date of this report, the Company has maintained the prescribed minimum public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors.

MAJOR CUSTOMERS AND SUPPLIERS

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

Percentage of purchases attributable to the Group's largest supplier	20.34%
Percentage of purchases attributable to the Group's five largest suppliers	44.27%
Percentage of sales attributable to the Group's largest customer	20.9%
Percentage of sales attributable to the Group's five largest customers	74.6%

None of the Directors, their associates or shareholders, which to the knowledge of the Directors, held any interests in the share capital of the suppliers or customers noted above.

MANAGEMENT CONTRACTS

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

AUDITORS

The financial statements have been audited by PricewaterhouseCoopers who shall retire, and being eligible, offer themselves for re-appointment at the forthcoming Annual General Meeting.

On behalf of the Board
Liang Ker Uon, Sam
Chairman

Taipei, Taiwan
6 March 2008

羅兵咸永道會計師事務所

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS 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 72 to 147, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE 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 and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of 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.

REPORT OF THE INDEPENDENT AUDITOR

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.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and of the Group as of 31 December 2007, and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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, 6 March 2008

CONSOLIDATED BALANCE SHEET

As at 31 December 2007

	Note	2007 US$'000	2006 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**17,655**	12,950
Land use rights	8	**285**	292
Available-for-sale financial assets	9	**—**	774
Deferred income tax assets	22	**3,322**	2,591
		21,262	16,607
Current assets			
Inventories	10	**32,229**	28,042
Trade receivables	11, 33	**88,893**	59,421
Prepayments and other assets	12	**3,812**	2,443
Available-for-sale financial assets	9	**—**	214
Derivative financial instruments	13	**5,202**	814
Cash and cash equivalents	14	**251,969**	82,707
		382,105	173,641
Total assets		**403,367**	190,248
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	15	**59,840**	41,880
Share premium	15	**117,024**	—
Other reserves	16	**43,565**	26,355
Retained earnings			
Proposed final dividend	29	**12,581**	—
Others		**53,577**	36,754
		286,587	104,989
Minority interest		**287**	190
Total equity		**286,874**	105,179

The notes on pages 78 to 147 are an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2007

	Note	2007 US$'000	2006 US$'000
LIABILITIES			
Non-current liabilities			
Provisions and other liabilities	17	3,663	4,802
Retirement benefit obligations	18	3,913	3,795
Deferred income tax liabilities	22	1,301	—
		8,877	8,597
Current liabilities			
Trade and other payables	19, 33	99,436	66,593
Income tax liabilities		1,754	828
Borrowings, unsecured	20	—	6,000
Derivative financial instruments	13	2,483	1,069
Provisions and other liabilities	17	3,943	1,982
		107,616	76,472
Total liabilities		116,493	85,069
Total equity and liabilities		403,367	190,248
Net current assets		274,489	97,169
Total assets less current liabilities		295,751	113,776

LIANG Ker Uon, Sam
Director

CHENG Au, Victor
Director

The notes on pages 78 to 147 are an integral part of these financial statements.

	Note	2007 US$'000	2006 US$'000
ASSETS			
Non-current assets			
Investments in subsidiaries	7	**67,610**	34,209
Current assets			
Prepayments and others assets	12	**421**	150
Cash and cash equivalents	14	**162,976**	38,126
		163,397	38,276
Total assets		**231,007**	72,485
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	15	**59,840**	41,880
Share premium	15	**117,024**	—
Other reserves	16	**11,071**	5,174
Retained earnings			
Proposed final dividend	29	**12,581**	—
Others		**21,705**	19,028
Total equity		**222,221**	66,082
LIABILITIES			
Non-current liabilities			
Provisions and other liabilities	17	**3,663**	4,802
Current liabilities			
Trade and other payable	19	**1,957**	—
Provisions and other liabilities	17	**3,166**	1,601
		5,123	1,601
Total liabilities		**8,786**	6,403
Total equity and liabilities		**231,007**	72,485
Net current assets		**158,274**	36,675
Total assets less current liabilities		**225,884**	70,884

LIANG Ker Uon, Sam
Director

CHENG Au, Victor
Director

The notes or pages 78 to 147 are an integral part of these financial statements.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

	Note	2007 US$'000	2006 US$'000
Revenue	5	**418,621**	357,419
Cost of sales	24	**(345,955)**	(300,102)
Gross profit		**72,666**	57,317
Other gains	23	**8,810**	3,855
Selling expenses	24	**(14,436)**	(11,659)
General and administration expenses	24	**(13,316)**	(8,725)
Research and development expenses	24	**(26,154)**	(18,672)
Profit from operations		**27,570**	22,116
Finance income	26	**7,156**	2,192
Finance cost	26	**(324)**	(49)
		6,832	2,143
Profit before income tax		**34,402**	24,259
Income tax (expense)/benefit	21	**(2,949)**	1,311
Profit for the year		**31,453**	25,570
Attributable to:			
Equity holders of the Company		**31,356**	25,475
Minority interest		**97**	95
		31,453	25,570
Earnings per share for profit attributable to the equity holders of the Company during the year (in US cents per share)			
– Basic	28	**3.29**	3.04
– Diluted	28	**3.12**	2.92
Dividends	29	**1.03**	—

The notes or pages 78 to 147 are an integral part of these financial statements.

		Attributable to equity holders of the Company						
	Note	Share capital US$'000	Share premium US$'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 year					31,356	31,356	97	31,453
Shares issued at premium	15	11,760	123,630	—	—	135,390	—	135,390
Share issuance costs	15	—	(6,606)	—	—	(6,606)	—	(6,606)
Issue of shares to employee incentive scheme trust	16	6,200	—	(6,200)	—	—	—	—
Share-based payment settled by ultimate holding company's shares without recharge	16	—	—	9,361	—	9,361	—	9,361
Management share subscription scheme reward	16	—	—	2,934	—	2,934	—	2,934
Employee incentive scheme reward	16	—	—	9,163	—	9,163	—	9,163
Transfer to statutory reserves	16	—	—	1,952	(1,952)	—	—	—
Balance at 31 December 2007		59,840	117,024	43,565	66,158	286,587	287	286,874
Balance at 1 January 2006		41,880	—	14,314	12,044	68,238	95	68,333
Fair value gain, net of tax		—	—	60	—	60	—	60
Profit for the year		—	—	—	25,475	25,475	95	25,570
Share-based payment settled by ultimate holding company's shareswithout recharge	16	—	—	6,042	—	6,042	—	6,042
Management share subscription scheme reward	16	—	—	1,112	—	1,112	—	1,112
Employee incentive scheme reward	16	—	—	4,062	—	4,062	—	4,062
Transfer to statutory reserves	16	—	—	765	(765)	—	—	—
Balance at 31 December 2006		41,880	—	26,355	36,754	104,989	190	105,179

The notes on pages 78 to 147 are an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

	Note	2007 US$'000	2006 US$'000
Cash flows from operating activities			
Cash generated from operations	30	49,903	45,248
Interest paid		(8)	(49)
Income tax paid		(959)	(700)
Net cash generated from operating activities		48,936	44,499
Cash flows from investing activities			
Acquisition of property, plant and equipment		(9,496)	(5,432)
Proceeds from sale of property, plant and equipment		—	18
Interest received		6,669	2,118
Net cash used in investing activities		(2,827)	(3,296)
Cash flows from financing activities			
Proceeds from borrowings		—	4,000
Repayment of borrowings		(6,000)	—
Receipt pursuant to management share subscription scheme		513	6,403
Refund pursuant to management share subscription scheme		(87)	—
Proceeds from issue of shares		128,784	—
Net cash generated from financing activities		123,210	10,403
Foreign exchange difference		(57)	(406)
Net increase in cash and cash equivalents		169,262	51,200
Cash and cash equivalents at beginning of year		82,707	31,507
Cash and cash equivalents at end of year		251,969	82,707

The notes on pages 78 to 147 are an integral part of these 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 have been listed on The Stock Exchange of Hong Kong Limited since 6 July 2007.

These consolidated financial statements have been approved for issue by the Board of Directors on 6 March 2008.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

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. It currently has no impact on the Group's financial statements as there are no such transactions;

- 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 any 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 impact on the Group's financial statements;

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

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. The Group will apply IAS 23 (Amendment) from 1 January 2009 but is currently not applicable to the Group as there are no borrowings and qualifying assets;

- 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 Group will apply IFRS 8 from 1 January 2009. The adoption of this standard impacts the format and extent of segment reporting disclosures presented in the financial statements. The impact is expected that the number of reportable segments, as well as the manner in which the segments are reported, will change in a manner that is consistent with the internal reporting provided to the chief operating decision — maker;

- 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. The Group will apply IFRIC 11 from 1 January 2008. The adoption of this interpretation does not have any 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;

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

- IFRIC 13, 'Customer loyalty programmes' (effective from 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the Group's operations; and

- IFRIC 14, IAS19 - The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective from 1 January 2008). IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding. The Group will apply IFRIC 14 from 1 January 2008. It currently has no impact on the Group's financial statements as there are no defined benefit assets;

2.2 Consolidation

Subsidiaries and controlled special purpose entity

Subsidiaries and controlled special purpose entity 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 and controlled special purpose entity 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.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.4 Foreign currency translation (Cont'd)

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.5 Property, plant and equipment (Cont'd)

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.8 Financial assets (Cont'd)

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.8 Financial assets (Cont'd)

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.14 Employee benefit (Cont'd)

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.14 Employee benefit (Cont'd)

(b) Share-based compensation (Cont'd)

(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.

(c) Bonus supplementary to EIS

The Group recognises a liability and an expense for bonus supplementary to EIS based on a formula that takes into consideration the fair value of EIS to be granted to eligible EIS participants. The fair value of EIS is measured based on number of DNI Shares to be granted and the closing market price of DNI Shares as at each measurement date. The Group recognises a provision where contratually obliged.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.15 Current and deferred income taxes

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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;

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.19 Research and development (Cont'd)

(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.

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 by management on an ongoing basis.

If US dollar had gained (lost) 2 percent against NTD and RMB at 31 December2007, the other gains would have been approximately US$460,000 lower (higher) (unaudited) at 31 December 2007; if US dollar had gained (lost) 2 percent against NTD and RMB at 31 December 2006, the other gains would have been approximately US$349,000 lower (higher) (unaudited) at 31 December 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 31 December 2007, profit or loss would have been approximately US$1,673,000 higher (lower)(unaudited); If the market interest rates had been 100 basis points higher (lower) at 31 December 2006, profit or loss would have been approximately US$571,000 higher (lower)(unaudited).

3 FINANCIAL RISK MANAGEMENT (Cont'd)

(a) Financial risk factors (Cont'd)

(iii) Credit risk

The credit risk of the Group mainly arises from cash and cash equivalents, trade receivables and other receivables. 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. The carrying amounts of these balances represent the Group's maximum exposure to credit risk in relation to financial assets.

As at 31 December 2007, counterparties for derivative and cash transactions and the bank deposits are limited to financial institutions with high credit ratings.

Cash at bank and short-term bank deposits

The table below shows the bank deposits balance of the major banks as at 31 December 2007. Management does not expect any losses from non-performance by these banks.

The Group has no policy to limit the amount of credit exposure to any financial institution.

	Group		**Company**	
Categorised by counterparty's credit rating (*)	**2007** **US$'000**	2006 US$'000	**2007** **US$'000**	2006 US$'000
A or above	**166,140**	52,254	**122,969**	38,126
A- to A	**33,901**	27,853	**—**	—
Lower than A	**50,022**	—	**40,007**	—
Unrated	**1,906**	2,600	**—**	—
	251,969	82,707	**162,976**	38,126

3 FINANCIAL RISK MANAGEMENT (Cont'd)

(a) Financial risk factors (Cont'd)

(iii) Credit risk (Cont'd)

Derivative financial assets

The table below shows the derivative financial assets balance as at 31 December 2007.

	Group	
Categorised by counterparty's credit rating (*)	**2007 US$'000**	2006 US$'000
A- to A	**486**	—
Lower than A	**4,716**	814
	5,202	814

* Based on credit rating from Standard & Poor's

(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. Given that the Group had cash and cash equivalents of US$251,969,000 as at 31 December 2007, management considers that the liquidity risk is low.

(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.

3 FINANCIAL RISK MANAGEMENT (Cont'd)

(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.

Total equity of the Group amounted to US$286,874,000 (2006: US$105,179,000) and the gearing ratio was zero as at 31 December 2007 (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. These calculations require the use of judgements and estimates.

Management judgement is required in the area of asset impairment particularly in assessing : (i) whether an event has occurred that may indicated that the related assets values may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell or net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value in the impairment test and as a result affect the Group's financial condition and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to take an impairment charge to the income statement.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Cont'd)

(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 several jurisdictions. There are certain 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.

Deferred tax assets relating to certain temporary differences, tax losses and tax credits are recognised when management considers it is likely that future taxable profits will be available against which the temporary differences or tax losses can be utilised. When the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and income tax charges in the period in which such estimates are changed.

(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. The foreign currency forward contracts of the Group are valued based on the applicable forward exchange rates available as at year end. The fair value measured based on the forward exchange rates as at year end may not equal to the gains or losses realised upon the maturity of the contacts.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Cont'd)

(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 awards, the Group estimates and recognises the compensation expense based on management's estimate of number of shares could be granted upon the approval of the board of directors in subsequent year. The actual number of awards to be granted is subject to the market price at the grant date.

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:

	Year ended 31 December 2007				
	Mainland China US$'000	Taiwan US$'000	Elimination US$'000	Unallocated US$'000	Consolidated US$'000
External sales and service:					
Sales revenue	350,614	64,741	—	—	415,355
Service revenue	1,591	1,675	—	—	3,266
	352,205	66,416	—	—	418,621
Inter-segment sales and services:					
Sales revenue	40,617	4,421	(45,038)	—	—
Service revenue	140	15,948	(16,088)	—	—
	40,757	20,369	(61,126)	—	—
Total operating revenue	392,962	86,785	(61,126)	—	418,621
Segment result/profit from operations	40,593	(12,501)	(154)	(368)	27,570
Finance income					7,156
Finance cost					(324)
					6,832
Profit before income tax					34,402
Income tax expense					(2,949)
Profit for the year					31,453

5 SEGMENT FINANCIAL INFORMATION (Cont'd)

(a) Primary reporting format - geographical segments (Cont'd)

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

	Year ended 31 December 2007				
	Mainland China US$'000	Taiwan US$'000	Elimination US$'000	Unallocated US$'000	Consolidated US$'000
Attributable to:					
Equity holders of the Company					31,356
Minority interest					97
					31,453
Other information					
Depreciation	3,286	1,434	—	—	4,720
Amortisation	7	—	—	—	7
Inventory write-down	597	248	—	—	845
Segment assets	170,619	62,473	—	170,275	403,367
Segment liabilities	81,814	24,842	—	9,837	116,493
Capital expenditure	7,479	2,017	—	—	9,496
Research and development expenses	1,999	24,155	—	—	26,154

5 SEGMENT FINANCIAL INFORMATION (Cont'd)

(a) Primary reporting format - geographical segments (Cont'd)

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

	Year ended 31 December 2006				
	Mainland China US$'000	Taiwan US$'000	Elimination US$'000	Unallocated US$'000	Consolidated US$'000
External sales and service:					
Sales revenue	291,861	64,183	—	—	356,044
Service revenue	547	828	—	—	1,375
	292,408	65,011	—	—	357,419
Inter-segment sales and services:					
Sales revenue	35,635	6,251	(41,886)	—	—
Service revenue	124	17,166	(17,290)	—	—
	35,759	23,417	(59,176)	—	—
Total operating revenue	328,167	88,428	(59,176)	—	357,419
Segment result/profit from operations	22,783	(492)	(175)	—	22,116
Finance income					2,192
Finance cost					(49)
					2,143
Profit before income tax					24,259
Income tax expense					1,311
Profit for the year					25,570

5 SEGMENT FINANCIAL INFORMATION (Cont'd)

(a) Primary reporting format- geographical segments (Cont'd)

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

	Year ended 31 December 2006				
	Mainland China US$'000	Taiwan US$'000	Elimination US$'000	Unallocated US$'000	Consolidated US$'000
Attributable to:					
Equity holders of the Company					25,475
Minority interest					95
					25,570
Other information					
Depreciation	2,752	1,462	—	—	4,214
Amortisation	7	—	—	—	7
Inventory write-down	574	585	—	—	1,159
Segment assets	111,131	27,935	—	51,182	190,248
Segment liabilities	61,879	15,867	—	7,323	85,069
Capital expenditure	3,391	2,041	—	—	5,432
Research and development expenses	1,492	17,180	—	—	18,672
Provision for impairment of trade receivables	(6)	88	—	—	82

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

5 SEGMENT FINANCIAL INFORMATION (Cont'd)

(a) Primary reporting format- geographical segments (Cont'd)

(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:

	2007		2006	
	Amounts US$'000	**%**	Amounts US$'000	%
Asia	**87,601**	**21%**	84,145	23%
Americas	**168,817**	**40%**	117,228	33%
Europe	**161,485**	**39%**	154,984	43%
Others	**718**	**—**	1,062	1%
	418,621	**100%**	357,419	100%

5 SEGMENT FINANCIAL INFORMATION (Cont'd)

(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 is as follows:

2007

	Ethernet switch					
	Carrier	Enterprise	SOHO	Broadband and wireless	Others	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
External sales and services	**64,486**	**176,296**	**99,696**	**57,718**	**20,425**	**418,621**

2006

	Ethernet switch					
	Carrier	Enterprise	SOHO	Broadband and wireless	Others	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
External sales and services	47,894	140,453	92,201	59,661	17,210	357,419

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	Machinery and factory equipment	Office equipment, fixtures and leasehold improvements	Total
	US$'000	US$'000	US$'000	US$'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
Year ended 31 December 2007				
Opening net book amount	4,800	7,207	943	12,950
Additions	366	8,220	910	9,496
- Disposals	—	(65)	(6)	(71)
Depreciation charge	(386)	(3,581)	(753)	(4,720)
Closing net book amount	4,780	11,781	1,094	17,655
As at 31 December 2007				
Cost	7,828	37,576	3,520	48,924
Accumulated depreciation	(3,048)	(25,795)	(2,426)	(31,269)
Net book amount	4,780	11,781	1,094	17,655

6 PROPERTY, PLANT AND EQUIPMENT (Cont'd)

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

	2007	2006
	US$'000	US$'000
Cost of sales	3,725	3,289
Selling expenses	19	36
General and administration expenses	104	65
Research and development expenses	872	824
	4,720	4,214

Rental expense amounting to US$993,000 for the lease of buildings has been included in the consolidated income statement (2006: US$910,000).

7 INVESTMENTS IN SUBSIDIARIES - THE COMPANY

	2007	2006
	US$'000	US$'000
Unlisted investments, at cost	67,610	34,209

Particulars of the Company's principal subsidiaries are set out in Note 34.

8 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:

	2007	2006
	US$'000	US$'000
In Mainland China held on:		
Leases of between 10 and 50 years	**285**	292
Beginning of year	**292**	299
Amortisation	**(7)**	(7)
End of the year	**285**	292
Cost	**341**	341
Accumulated amortisation	**(56)**	(49)
Closing net book amount	**285**	292

9 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2007	2006
	US$'000	US$'000
Beginning of the year	**988**	714
Additions	**—**	214
Disposals	**(988)**	—
Revaluation adjustment included in equity	**—**	60
End of the year	**—**	988

9 AVAILABLE-FOR-SALE FINANCIAL ASSETS (Cont'd)

Available-for-sale financial assets include the following:

	2007 US$'000	2006 US$'000
Current:		
Listed equity securities	—	214
Non-current:		
Listed equity securities	—	68
Unlisted equity securities	—	706
	—	774
	—	988

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

	2007 US$'000	2006 US$'000
US dollar	—	988

10 INVENTORIES

	2007 US$'000	2006 US$'000
Raw materials	**15,994**	15,288
Work-in-progress	**4,272**	2,481
Finished goods	**11,963**	10,273
	32,229	28,042

The cost of inventory recognised as expense and included in cost of sales in the consolidated income statement amounted to US$345,110,000 (2006: US$298,943,000).

Allowance for decline in market value and inventory obsolescence amounted to US$845,000 (2006: US$1,159,000).

11 TRADE RECEIVABLES

	2007 US$'000	2006 US$'000
Trade receivables	**88,865**	61,017
Trade receivables from related parties (Note 33(d))	**50**	210
	88,915	61,227
Less: Provision for impairment of trade receivables	**(22)**	(1,806)
Trade receivables - net	**88,893**	59,421

The carrying amounts of trade receivables approximate their fair values.

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

	2007 US$'000	2006 US$'000
Beginning of the year	**1,806**	1,711
Additional provision	**8**	88
Write-off	**(1,758)**	—
Reversal of provisions	**(34)**	(6)
Exchange difference	**—**	13
End of the year	**22**	1,806

The maximum exposure to credit risk at the reporting date is the fair value of the each class of receivable mentioned above. The Group does not hold any collateral as security.

11 TRADE RECEIVABLES (Cont'd)

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

	2007	2006
	US$'000	US$'000
Days outstanding		
0 - 30 days	**40,174**	26,958
31 - 60 days	**34,318**	23,305
61 - 90 days	**14,050**	8,423
91 - 180 days	**373**	783
Over 180 days	**—**	1,758
Total	**88,915**	61,227

As of 31 December 2007, trade receivables of US$4,098,000 (2006: US$4,615,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The credit quality of trade receivables neither past due nor impaired has been assessed by reference to historical information about the counterparty default rates. The existing counterparties do not have defaults in the past.

The ageing analysis of these trade receivables is as follows:

	2007	2006
	US$'000	US$'000
Days past due		
0 - 30 days	**3,765**	2,693
31 - 60 days	**333**	77
61 - 90 days	**—**	10
91 - 180 days	**—**	77
Over 180 days	**—**	1,758
Total	**4,098**	4,615

11 TRADE RECEIVABLES (Cont'd)

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

	2007 US$'000	2006 US$'000
US dollar	82,294	56,660
Chinese Renminbi	3,614	3,412
New Taiwan dollar	2,999	1,100
Others	8	55
	88,915	61,227

12 PREPAYMENTS AND OTHER ASSETS

	Group		Company	
	2007 US$'000	2006 US$'000	2007 US$'000	2006 US$'000
Value Added Tax recoverable	1,123	1,645	—	—
Rental deposits	158	142	—	—
Interest receivable	569	83	378	—
Claims receivable from suppliers and customers	814	330	—	—
Others	1,148	243	43	150
	3,812	2,443	421	150

13 DERIVATIVE FINANCIAL INSTRUMENTS

(a) The net fair value of derivative financial instruments is as follows:

	2007		2006	
	Asset	Liability	Asset	Liability
	US$'000	US$'000	US$'000	US$'000
Foreign currency forward contracts	5,202	2,483	814	1,055
Foreign currency option contracts	—	—	—	14
	5,202	2,483	814	1,069

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

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

	2007	2006
	US$'000	US$'000
Foreign currency forward contracts		
– notional principal amounts (US$'000)	210,000	240,000
– exercise prices		
Chinese Renminbi vs US dollar	7.0462~7.612	7.6342~7,81
Foreign currency option contracts		
– notional principal amounts (US$'000)	—	3,990
– exercise prices		
US dollar vs New Taiwan dollar	—	32.25~32.75

(c) The maximum exposure to credit risk at the reporting date is the fair value of the derivative financial assets in the balance sheet.

14 CASH AND CASH EQUIVALENTS

	Group		Company	
	2007	2006	**2007**	2006
	US$'000	US$'000	**US$'000**	US$'000
Cash at bank and on hand	**54,634**	21,055	**11,448**	626
Short-term bank deposits	**196,244**	59,144	**151,528**	37,500
Other short-term investments	**1,091**	2,508	**—**	—
	251,969	82,707	**162,976**	38,126

Cash at banks are with effective interest rates of between 0.04% to 4.95% per annum (2006: 0.01% to 4.80%).

Bank deposits are time deposits with effective interest rates of 1.71% to 5.18% per annum (2006: 1.62% to 5.09%). These bank deposits have original maturities of less than three months.

Other investments are treasury bonds with effective interest rate of 1.85% per annum (2006: 1.55%). These bond investments have original maturities of less than three months.

Cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	2007	2006	**2007**	2006
	US$'000	US$'000	**US$'000**	US$'000
US dollar	**222,788**	60,465	**159,383**	38,126
Chinese Renminbi	**23,074**	17,383	**—**	—
New Taiwan dollar	**2,159**	1,995	**—**	—
Others	**3,948**	2,864	**3,593**	—
	251,969	82,707	**162,976**	38,126

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.

The credit quality of cash and cash equivalents has been assessed by reference to external credit ratings (if available) or to historical information about the counterparty default rates as disclosed in Note 3(a). The existing counterparties do not have defaults in the past.

15 SHARE CAPITAL AND SHARE PREMIUM

	Number of shares (in thousand)	Share capital US$'000	Share premium US$'000	Total US$'000
Authorised:				
At 1 January 2006 and at 31 December 2006	50,000	50,000	—	50,000
At 1 January 2007	50,000	50,000	—	50,000
Increase in authorised share capital (note (a))	30,000	30,000	—	30,000
	80,000	80,000	—	80,000
Additions due to 1 to 20 share sub-division (note (b))	1,520,000	—	—	—
At 31 December 2007	1,600,000	80,000	—	80,000
Issued and fully paid:				
At 1 January 2006 and at 31 December 2006	41,880	41,880	—	41,880
At 1 January 2007	41,880	41,880	—	41,880
Additions due to 1 to 20 share sub-division (note (b))	795,720	—	—	—
	837,600	41,880	—	41,880
Shares issued to EIS trust (note (c))	124,000	6,200	—	6,200
Shares issued on 5 July 2007 (note (d))	235,200	11,760	123,630	135,390
Share issuance costs	—	—	(6,606)	(6,606)
At 31 December 2007	1,196,800	59,840	117,024	176,864

15 SHARE CAPITAL AND SHARE PREMIUM (Cont'd)

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 Employee Incentive Scheme ("EIS") trust at nil consideration. These shares will be granted to the participants of EIS in the coming years. Please also see Notes 16 (b)(i) and 35.

(d) Pursuant to a 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.

16 OTHER RESERVES

The Group

	Contributed reserves (note (a))	Share-based payment reserves (note (b))	Statutory reserves (note (c))	Fair value reserves	Contribution to EIS trust	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Balance at 1 January 2007	17,274	5,174	3,907	—	—	26,355
Shares issued to employee incentive scheme trust (note 15(c))	—	—	—	—	(6,200)	(6,200)
Share-based payment settled by ultimate holding company's shares without recharge (note 33(b))	9,361	—	—	—	—	9,361
Management share subscription scheme reward	—	2,934	—	—	—	2,934
Employee incentive scheme reward	—	9,163	—	—	—	9,163
Transfer from retained earnings	—	—	1,952	—	—	1,952
Replacement of employee incentive scheme award with ultimate holding company's shares (note 16(a))	4,062	(4,062)	—	—	—	—
Balance at 31 December 2007	30,697	13,209	5,859	—	(6,200)	43,565

16 OTHER RESERVES (Cont'd)

The Group (Cont'd)

	Contributed reserves (note (a))	Share-based payment reserves (note (b))	Statutory reserves (note (c))	Fair value reserves	Contribution to EIS trust	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Balance at 1 January 2006	11,232	—	3,142	(60)	—	14,314
Share-based payment settled by ultimate holding company's shares without recharge (note 33(b))	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
Fair value gain, net of tax — available for sale financial assets	—	—	—	60	—	60
Balance at 31 December 2006	17,274	5,174	3,907	—	—	26,355

16 OTHER RESERVES (Cont'd)

Company

	Contributed reserves (note (a))	Share-based payment reserves (note (b))	Contribution to EIS trust	Total
	US$'000	US$'000	US$'000	US$'000
Balance at 1 January 2007	—	5,174	—	5,174
Management share subscription scheme reward	—	2,934	—	2,934
Employee incentive scheme reward	—	9,163	—	9,163
Replacement of employee incentive scheme award with ultimate holding company's shares (note 33(b))	4,062	(4,062)	—	—
Contribution to employee incentive scheme (note 16(c))	—	—	(6,200)	(6,200)
Balance at 31 December 2007	4,062	13,209	(6,200)	11,071
Balance at 1 January 2006	—	—	—	—
Management share subscription scheme reward	—	1,112	—	1,112
Employee incentive scheme reward	—	4,062	—	4,062
Balance at 31 December 2006	—	5,174	—	5,174

(a) Contributed reserves

Contributed reserves mainly represent capital reserves 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 16(b)(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 suspend the implementation of EIS up to June 2007, and the Group's employees would receive DEI Shares pursuant to the DEI incentive scheme instead. In connection with such a change, share-based payment reserves of US$4,062,000 were therefore transferred to contributed reserves.

16 OTHER RESERVES (Cont'd)

(a) Contributed reserves

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 reserves.

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

	2007	2006
	US$'000	US$'000
Cost of sales	1,680	966
Selling expenses	1,464	818
General and administrative expenses	1,153	1,329
Research and development expenses	5,064	2,929
	9,361	6,042

(b) 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. Pursuant to the terms of EIS, EIS participants are entitled to EIS awards if they have rendered the services to the Group during the period from the beginning of each financial year to the grant date in subsequent financial year.

Upon the implementation of EIS, the Company issued 124,000,000 ordinary shares ("DNI Shares") to an independently administered trust for granting to EIS awards in the future. The maximum number of DNI Shares to be granted to EIS participants for every financial year must not exceed 3% of the total issued share capital of the Company as at the beginning of that financial year.

16 OTHER RESERVES (Cont'd)

(b) Share-based payment reserve (Cont'd)

(i) Employee incentive scheme ("EIS") (Cont'd)

In 2007, management estimated the fair value of DNI Shares to be granted to EIS participants for their services rendered during the vesting period from January 2007 to the grant date in 2008 would amount to US$10,690,000, estimating based on 3% (equivalent to 32,184,000 shares) of the total issued share capital of the Company as at the beginning of financial year in which DNI Shares to be granted and the closing market price of US$0.33 per DNI Share as at 31 December 2007. On a pro-rated basis of the vesting period, US$9,163,000 (2006: US$4,062,000) was recognised as compensation expenses in the consolidated income statement as follows:

	2007	2006
	US$'000	US$'000
Cost of sales	**1,643**	609
Selling expenses	**1,434**	609
General and administrative expenses	**1,128**	813
Research and development expenses	**4,958**	2,031
	9,163	4,062

(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 equal 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. MSSS awards will therefore be vested and issued in four equal instalments on 1 April 2008, 1 April 2009, 1 April 2010 and 1 April 2011, respectively. 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$2,934,000 were recognised as compensation expenses (2006: US$1,112,000). As at 31 December 2007, subscription proceeds of US$6,829,000 (2006: US$6,403,000) (Note 17) were received from the subscribers. The subscription proceeds are refundable at principal amount plus interest of 3.5% per annum subject to certain conditions and are included in "Provisions and other liabilities" in the consolidated balance sheet.

16 OTHER RESERVES (Cont'd)

(b) Share-based payment reserve (Cont'd)

(ii) Management share subscription scheme ("MSSS") (Cont'd)

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

	2007 US$'000	2006 US$'000
Cost of sales	261	106
Selling expenses	161	66
General and administrative expenses	2,021	740
Research and development expenses	491	200
	2,934	1,112

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

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

All DNI Shares subscribed under MSSS were not vested to the eligible employees as at 31 December 2007.

(c) Statutory reserves

As stipulated by regulations in Mainland China and Taiwan, each of the Company's subsidiaries established and operated in Mainland China and Taiwan have to appropriate 10% of its 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.

17 PROVISIONS AND OTHER LIABILITIES

	Group		Company	
	2007	2006	**2007**	2006
	US$'000	US$'000	**US$'000**	US$'000
Current				
Receipts in advance from customers	**777**	381	**—**	—
Receipts under MSSS plan (Note 16(b)(ii))	**3,166**	1,601	**3,166**	1,601
	3,943	1,982	**3,166**	1,601
Non-current				
Receipts under MSSS plan (Note 16(b)(ii))	**3,663**	4,802	**3,663**	4,802
	7,606	6,784	**6,829**	6,403

18 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 the Old Plan as a whole. The details of the New Plan have been set out in Note 18(b).

18 RETIREMENT BENEFIT OBLIGATIONS (Cont'd)

(a) (Cont'd)

As at 31 December 2007, benefit obligations under these defined benefit plans and recognised in the consolidated balance sheet are as follows:

	2007 US$'000	2006 US$'000
Present value of funded obligation	5,890	5,334
Fair value of plan assets	(1,663)	(1,526)
	4,227	3,808
Present value of unfunded obligation	—	169
Unrecognised actuarial gains	(314)	(182)
Liability in the balance sheet	3,913	3,795

The plans are valued by ClientView Management Consulting Co., Ltd ("ClientView"), an independent actuary in Taiwan, using the projected unit credit method.

The principal actuarial assumptions used are as follows:

	2007 US$'000	2006 US$'000
Discount rate of funded obligation	3.00%	2.50%
Discount rate of unfunded obligation	3.00%	2.50%
Expected return rate on plan assets	2.50%	2.00%
The average rate of salary increase	3.00%	3.00%

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

	2007 US$'000	2006 US$'000
Current service cost	266	258
Interest cost	143	124
Expected return on plan assets	(32)	(20)
Net pension cost	377	362

18 RETIREMENT BENEFIT OBLIGATIONS (Cont'd)

(a) (Cont'd)

The actual return of funded obligation on plan assets was US$33,000 (2006: US$34,000).

The movements in pension benefit obligation are as follows:

	2007 US$'000	2006 US$'000
Beginning of year	5,503	4,876
Current service cost	266	258
Interest cost	143	124
Actuarial losses	153	205
Benefits paid	218	(2)
Exchange difference	43	42
End of year	5,890	5,503

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

	2007 US$'000	2006 US$'000
Beginning of year	1,526	1,308
Employer contribution	170	174
Expected return on plan assets	32	20
Actuarial (gains)/losses	12	15
Benefits paid	(86)	—
Exchange difference	9	9
End of year	1,663	1,526

Based on estimation of ClientView, the expected contributions to the plan assets for the year ending 31 December 2008 is US$180,000 (unaudited).

18 RETIREMENT BENEFIT OBLIGATIONS (Cont'd)

(a) (Cont'd)

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

	2007 US$'000	2006 US$'000
Present value of defined benefit obligation	**5,890**	5,503
Fair value of plan assets	**(1,663)**	(1,526)
Deficit	**4,227**	3,977
Experience adjustments on plan liabilities	**266**	75
Experience adjustments on plan assets	**(12)**	(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 Group 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 contributions by employees are on a voluntary basis.

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$639,000 (2006: US$578,000).

For all plans, there was no significant forfeited contribution available for offsetting the Group's contribution obligations for the year ended December 31, 2007 (2006: Nil).

18 RETIREMENT BENEFIT OBLIGATIONS (Cont'd)

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

	2007 US$'000	2006 US$'000
Cost of sales	374	337
Selling expenses	133	103
General and administrative expenses	76	120
Research and development expenses	433	380
	1,016	940

19 TRADE AND OTHER PAYABLES

	Group		Company	
	2007 US$'000	2006 US$'000	2007 US$'000	2006 US$'000
Trade payables	64,880	45,135	—	—
Trade payables due to related parties (Note 33(e))	9,520	5,755	—	—
	74,400	50,890	—	—
Accruals and other payables:				
Accrued payrolls and bonuses	6,348	3,603	1,357	—
Accrued customs duties and Value added tax	4,022	4,105	—	—
Other accrued expenses and payables	12,363	7,466	600	—
Other payables due to related parties (Note 33(f))	2,303	529	—	—
	25,036	15,703	1,957	—
	99,436	66,593	1,957	—

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

19 TRADE AND OTHER PAYABLES (Cont'd)

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

	2007 US$'000	2006 US$'000
0 - 30 days	26,413	14,820
31 - 60 days	23,089	19,077
61 - 90 days	15,485	10,407
Over 90 days	9,413	6,586
	74,400	50,890

20 BORROWINGS, UNSECURED

	2007 US$'000	2006 US$'000
Short-term bank borrowings denominated in US dollar	—	6,000
The effective interest rates at the balance sheet date	—	5.62%

21 INCOME TAX EXPENSE

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

	2007 US$'000	2006 US$'000
Current taxation		
Taiwan	1,199	605
Mainland China	1,475	699
Other countries	41	57
	2,715	1,361
Over-provision in prior years - net	(336)	(81)
Deferred taxation	570	(2,591)
	2,949	(1,311)

21 INCOME TAX EXPENSE (Cont'd)

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:

	2007 US$'000	2006 US$'000
Profit before income tax	**34,402**	24,259
Tax calculated at domestic tax rates	**4,947**	3,235
Income not subject to tax	**(360)**	—
Expenses not deductible for tax purposes	**418**	167
Increase in deferred tax liabilities resulting from an increase in tax rate	**780**	—
Utilisation of previously unrecognised tax losses	**—**	(1,131)
Over-provision of income tax in prior years	**(336)**	(81)
	5,449	2,190
Utilisation of investment tax credits	**(1,769)**	(910)
Tax benefit for which deferred income tax asset was recognised (Note 22)	**(731)**	(2,591)
Tax expense/(benefit)	**2,949**	(1,311)

The weighted average applicable tax rate was 14% (2006: 13%). 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. DNI Dongguan was qualified as a high-new technology enterprise and was therefore entitled to a preferential 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.

21 INCOME TAX EXPENSE (Cont'd)

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.

DNI Labuan carries on offshore trading activities in Labaun, with other group companies which are non-residents of Malaysia, in currencies other than Malaysia Ringgit. As such, it is qualified as an offshore trading company in Labuan and is taxed charged at a fixed annual sum rate of Malaysian RM20,000.

Macao branch of DNI Labuan is incorporated under Decree-Law no.58/99/M ("58/99/M Company") and is exempted from Macao complementary tax (Macao income tax) as long as the 58/99/M Company does not sell its products to a Macao resident it satisfies a number of conditions. These include: (i) All activities shall be conducted only in non-Macao currency (other than for the purpose of paying local expenses); (ii) The target customers cannot be Macao residents; and (iii) The target markets must be outside Macao. In addition, the Macao branch must have substance in Macao and must carry on its business in accordance with the investment plan previously submitted to the Macau authorities.

22 DEFERRED TAXATION

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	2007 US$'000	2006 US$'000
Deferred tax assets:		
- Deferred tax asset to be recovered after more than 12 months	**3,322**	2,591
Deferred tax liabilities		
- Deferred tax liabilities to be settled within 12 months	**(1,301)**	—
End of year	**2,021**	2,591

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

	2007 US$'000	2006 US$'000
Beginning of year	**2,591**	—
Credited to consolidated income statement	**(570)**	2,591
End of year	**2,021**	2,591

22 DEFERRED TAXATION (Cont'd)

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances with the same tax jurisdiction, is as follows:

Deferred tax liabilities	**Unrealised foreign exchange gains**
	US$'000
At 31 December 2007	1,301

Deferred tax assets	**Unrealised foreign exchange loss-net**	**Decelerated depreciation allowance**	**Others**	**Tax credit**	**Total**
	US$'000	US$'000	US$'000	US$'000	US$'000
At 1 January 2006	—	—	—	—	—
Credited/(debited) to consolidated income statement (Note 21)	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 21)	(101)	(280)	126	986	731
At 31 December 2007	10	—	211	3,101	3,322

22 DEFERRED TAXATION (Cont'd)

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 (2006: US$3,091,000) that can be carried forward against future taxable income. These tax losses will expire in 2008.

The Group also did not recognise deferred income tax assets in respect of investment tax credits amounting to US$7,834,000 that can be carried forward against future tax liability (2006: US$7,975,000). These investment tax credits will expire in between one and four years.

The Group determined that there were no deferred income tax liabilities at the end of December 31, 2007 to be recognised for the withholding tax and other taxes that would be payable on remitted earnings of subsidiaries. Unremitted earnings totalled US$35,127,000 (2006: US$8,118,000). The Group has no plan to distribute the amount at 31 December 2007 and the amount is more likely to be reinvested.

23 OTHER GAINS

	2007	2006
	US$'000	US$'000
Other income and expense		
- Commission income	**694**	—
- Design and service charge	**—**	756
- Claims from suppliers and customers	**1,017**	828
- Tax refund in respect of reinvestment	**597**	—
- Others	**955**	784
	3,263	2,368
Derivative instruments		
- forward contracts	**3,892**	915
Gains on disposal of available-for-sale investments	**119**	—
Net foreign exchange gains	**1,536**	572
	8,810	3,855

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.

24 EXPENSES BY NATURE

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

	2007 US$'000	2006 US$'000
Amortisation of land use rights	**7**	7
Auditor's remuneration	**582**	250
Depreciation of property, plant and equipment (Note 6)	**4,720**	4,214
Changes in inventories of finished goods and work in progress	**3,482**	(1,427)
Raw materials and consumables used	**309,787**	260,039
Operating lease rental - buildings	**993**	910
Employee benefit expense (Note 25)	**45,711**	31,013
Other expenses	**34,579**	44,152
Total cost of sales, selling expenses, general and administration expenses and research and development expenses	**399,861**	339,158

25 EMPLOYEE BENEFIT EXPENSE

	2007 US$'000	2006 US$'000
Basic salary and allowance	**17,047**	15,338
Bonus	**2,712**	2,507
Social security costs	**1,070**	1,012
Share-based payment		
- DEI's incentive scheme	**9,361**	6,042
- Employee incentive scheme	**11,571**	4,062
- Management share subscription scheme	**2,934**	1,112
Pension cost		
- defined contribution plans	**639**	578
- defined benefit plans (Note 18)	**377**	362
	45,711	31,013

25 EMPLOYEE BENEFIT EXPENSE (Cont'd)

(a) **Directors' emoluments**

The remuneration of each director of the Company for the year ended 31 December 2007 is set out below:

Name of director	Fees	Salaries	Discretionary	MSSS	Employer's contributions to retirement schemes	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Executive Directors						
LIANG Ker Uon, Sam	—	67	1,044	378	1	1,490
CHENG An, Victor	—	90	313	252	3	658
Non-executive directors						
CHENG Chung Hua, Bruce	17	—	—	126	—	143
HAI Ing-Jiunn, Yancey	17	—	—	126	—	143
Independent non-executive directors						
ZUE Wai To, Victor	22	—	—	126	—	148
LIU Chung Laung	22	—	—	126	—	148
SHEN Bing	28	—	—	—	—	28
	106	157	1,357	1,134	4	2,758

25 EMPLOYEE BENEFIT EXPENSE (Cont'd)

(a) **Directors' emoluments (Cont'd)**

The remuneration of each director of the Company for the year ended 31 December 2006 is set out below:

Name of director	Fees	Salaries	Discretionary	MSSS	Employer's contributions to retirement schemes	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Executive Directors						
LIANG Ker Uon, Sam	—	67	1,197	139	1	1,404
CHENG An, Victor	—	62	335	92	3	492
Non-executive directors						
CHENG Chung Hua, Bruce	—	—	—	46	—	46
HAI Ing-Jiunn, Yancey	—	—	—	46	—	46
	—	129	1,532	323	4	1,988

No director waived any emoluments during the year ended 31 December 2007 and 2006.

25 EMPLOYEE BENEFIT EXPENSE (Cont'd)

(b) **Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group include two directors for each of the two years ended 31 December 2007 and 2006 whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three individuals for each of the years ended 31 December 2007 are as follows:

	2007 US$'000	2006 US$'000
Basic salaries, housing allowances and other allowances	176	154
Discretionary bonuses	998	462
MSSS	34	11
Retirement schemes	6	3
	1,214	630

	Number of individuals	
	2007	2006
The emoluments fell within the following bands:		
US$Nil - US$128,041 (equivalent to approximately HK$1,000,000)	—	—
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)	—	—
US$320,511 - US$384,615 (equivalent to approximately HK$2,500,001 - HK$3,000,000)	1	—
US$384,615 - US$512,820 (equivalent to approximately HK$3,500,001 - HK$4,000,000)	2	—
	3	3

(c) During the year ended 31 December 2007 and 2006, no emoluments were paid by the Company to any director or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

26 FINANCE INCOME AND FINANCE COST

	2007 US$'000	2006 US$'000
Bank interest income	7,071	2,192
Interest income of share subscription monies received	85	—
	7,156	2,192
Interest on bank borrowing and overdrafts wholly repayable within five years	(8)	(49)
Interest on MSSS subscription money	(316)	—
	(324)	(49)
Net finance costs	6,832	2,143

27 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of US$15,258,000 (2006: US$17,512,000).

28 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.

	2007 US$'000	2006 US$'000
Profit attributable to equity holders of the Company (US$'000)	31,356	25,475
Weighted average number of ordinary shares in issue after share sub-division of 1 to 20 (Note 15) (thousands)	952,300	837,600
Basic earnings per share (US cents per share)	3.29	3.04

28 EARNINGS PER SHARE (Cont'd)

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 22,587,000 shares (2006: 1,256,000 shares) and MSSS of 1,381,000 shares (2006: 442,000). 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.

	2007	2006
	US$'000	US$'000
Profit attributable to equity holders of the Group (US$'000)	**31,356**	25,475
Weighted average number of ordinary shares in issue		
after share sub-division of 1 to 20 (thousands)	**952,300**	837,600
Adjustments for		
- MSSS and EIS after share sub-division of 1 to 20 (thousands)	**53,558**	33,960
Weighted average number of ordinary shares		
for diluted earnings per share (thousands)	**1,005,859**	871,560
Diluted earnings per share (US cents per share)	**3.12**	2.92

29 DIVIDEND

At a meeting held on 6 March 2008, the board of directors recommended a final dividend in respect of the year ended 31 December 2007 of 1.03 US cents per share, totalling US$12,581,000 (2006: Nil). This dividend is subject to the approval of shareholders at the annual general meeting on 24 April 2008. These financial statements do not reflect this dividend payable.

30 CONSOLIDATED CASH FLOW STATEMENT

Cash generated from operations

	2007	2006
	US$'000	US$'000
Profit before income tax	34,402	24,259
Adjustments for:		
(Reversal of impairment provision)/ impairment provision of receivables	(26)	82
Depreciation	4,720	4,214
Inventory write-down	845	1,159
Amortisation of land use rights	7	7
(Gain)/loss from derivative instruments	(2,609)	255
Share-based payment compensation	23,866	11,216
Loss on disposal of property, plant and equipment	132	59
Profit on disposal of available-for-sale financial assets	(119)	—
Interest income	(7,156)	(2,192)
Interest expense	324	49
Changes in working capital:		
Inventories	(5,032)	(1,217)
Prepayments and other assets	(617)	(674)
Trade receivables	(29,466)	4,998
Trade and other payables	30,119	3,972
Retirement benefit obligation	118	218
Provisions and other liabilities	395	(1,157)
	49,903	45,248

31 CONTINGENT LIABILITIES

As at 31 December 2007 and 2006, the Group and the Company did not have material contingent liabilities.

32 COMMITMENTS

(a) Capital commitments

As at 31 December 2007, the Group and the Company did not have significant capital commitments.

(b) Operating lease commitments

As at 31 December 2007, the Group had future aggregate minimum lease payments under non-cancellable operating leases of land and buildings as follows:

	2007 US$'000	2006 US$'000
Not later than one year	1,095	10
Later than one year and not later than five years	1,095	—
	2,190	10

The relevant lease agreements were entered into with Delta Electronics, Inc., the ultimate holding company. Please also see Note 33(b).

33 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to 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 year ended 31 December 2007, the Group's management are of the view that the following companies are related parties of the Group during the year:

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

33 RELATED PARTY TRANSACTIONS (Cont'd)

(b) The Group had the following significant related party transactions:

	Note	2007	2006
		US$000'	US$000'
Ultimate holding company			
Purchase of goods by the Group	i	432	1,034
Supporting expenses paid by the Group	ii	614	711
DEI incentive scheme received by the Group (Note 16(a))		9,361	6,042
Rental expenses to ultimate holding company	iii	1,098	885
Fellow subsidiaries			
Purchase of goods by the Group	i	31,854	19,967
Supporting expenses paid by the Group	ii	1,709	1,604
Selling expenses and commission paid by the Group	iv	600	600
Other expenses recharged to the Group	v	1,161	1,207
Purchases of property, plant and equipment by the Group	vi	1,431	—

Notes:

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

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

(iii) 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.

(iv) The selling expenses and commission were calculated based on a certain percentage of the transaction value arranged by the follow subsidiaries.

(v) Other expenses recharged by 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.

(vi) The purchases were conducted based on the terms of agreed made between the parties.

33 RELATED PARTY TRANSACTIONS (Cont'd)

(c) Key management compensation

	2007 US$'000	2006 US$'000
Fee	105	—
Basic salary and allowance	2,084	424
Share-based payments		
- DEI's incentive scheme	579	730
- Employee incentive scheme	675	1,510
- Management share subscription scheme	1,219	401
Pension cost-defined contribution plans	10	6
Pension cost-defined benefit plans	6	6
	4,678	3,077

(d) Trade receivables due from related parties

	2007 US$'000	2006 US$'000
Ultimate holding company	4	89
Fellow subsidiaries	46	121
	50	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 interest-free.

33 RELATED PARTY TRANSACTIONS (Cont'd)

(e) Trade payables due to related parties

	2007	2006
	US$'000	US$'000
Ultimate holding company	140	42
Fellow subsidiaries	9,380	5,713
	9,520	5,755

The trade payables arose mainly from purchase transactions and payment terms were negotiated with related parties. The payables were unsecured and interest-free.

(f) Other payables due to related parties

	2007	2006
	US$'000	US$'000
Ultimate holding company	271	85
Fellow subsidiaries	2,032	444
	2,303	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 were unsecured and interest-free.

34 PARTICULARS OF SUBSIDIARIES

As at 31 December 2007, the Company had direct and indirect interests in the following subsidiaries:

Directly held

Name	Place of incorporation/ establishment	Kind of legal equity	Issued and fully paid up share capital/ registered capital	Attributable equity interests		Principal activities and place of operations
				2007	2006	
Delta Networks, INC. ("DNI Taiwan")	Taiwan	Limited liability company	50,000,000 Ordinary shares of NT$10 each	99.20%	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%	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%	100%	Trading of networking system and peripherals in Macau

Indirectly held

Name	Place of incorporation/ establishment	Kind of legal equity	Issued and fully paid up share capital/ registered capital	2007	2006	Principal activities and place of operations
Delta Networks (Dong Guan) Ltd. ("DNI Dongguan") (formerly known as Delta Electronics Industrial (Dong Guan) Co., Ltd.)	Mainland China	Wholly-owned foreign enterprise	Paid up capital of US$27,000,000	100%	100%	Manufacturing of networking system and peripherals in Mainland China
Delta Networks (H.K.) Limited	Hong Kong	Limited liability company	35,000,000 Ordinary shares of US$1 each	100%	Nil	Investment holding
Delta Networks (Shanghai) Ltd.	Mainland China	Wholly-owned foreign enterprise	Paid up capital of US$500,000	100%	Nil	Product research and development
Delta Networks (Wujiang) Ltd.	Mainland China	Wholly-owned foreign enterprise	Paid up capital of US$5,000,000	100%	Nil	Manufacturing of networking system and peripherals in Mainland China

35 PARTICULARS OF A CONTROLLED SPECIAL PURPOSE ENTITY

As at 31 December 2007, there was one special purpose entity controlled by the Company which operates in Hong Kong, particulars of which are as follows:

Name	**Principal activities**
Delta Networks, Inc. Employee Incentive Scheme ("EIS Trust")	Administering and holding DNI Shares for EIS for the benefit of eligible participants of EIS (Note 16 (b)(i))

As the Company has the power to govern the financial and operating policies of EIS Trust, accordingly the group has consolidated EIS Trust. As at 31 December 2007, the Company had issued 124,000,000 ordinary shares of US$0.05 each to EIS Trust.

FOUR-YEAR FINANCIAL SUMMARY

	For the year ended 31 December			
	2004	2005	2006	**2007**
	(US$'million)	(US$'million)	(US$'million)	**(US$'million)**
Results				
Revenue	199.83	289.42	357.42	**418.62**
Profit from operations	3.32	15.69	22.12	**27.57**
Financial cost	(0.61)	(0.09)	(0.05)	**(0.32)**
Financial income	0.46	0.55	2.19	**7.16**
Profit before tax	3.17	16.14	24.26	**34.40**
Income tax (expense)/benefit	(0.16)	(0.60)	1.31	**(2.95)**
Profit after tax and before minority interests	3.01	15.54	25.57	**31.45**
Minority interests	(0.01)	(0.04)	(0.10)	**(0.10)**
Net profit for the year	3.00	15.50	25.47	**31.35**

	As at 31 December			
	2004	2005	2006	**2007**
	(US$'million)	(US$'million)	(US$'million)	**(US$'million)**
Assets and liabilities				
Total assets	118.28	139.31	190.25	**403.37**
Total liabilities	(72.20)	(70.98)	(85.07)	**(116.49)**
Minority interests	(0.06)	(0.10)	(0.19)	**(0.29)**
Capital and reserves	46.02	68.23	104.99	**286.59**