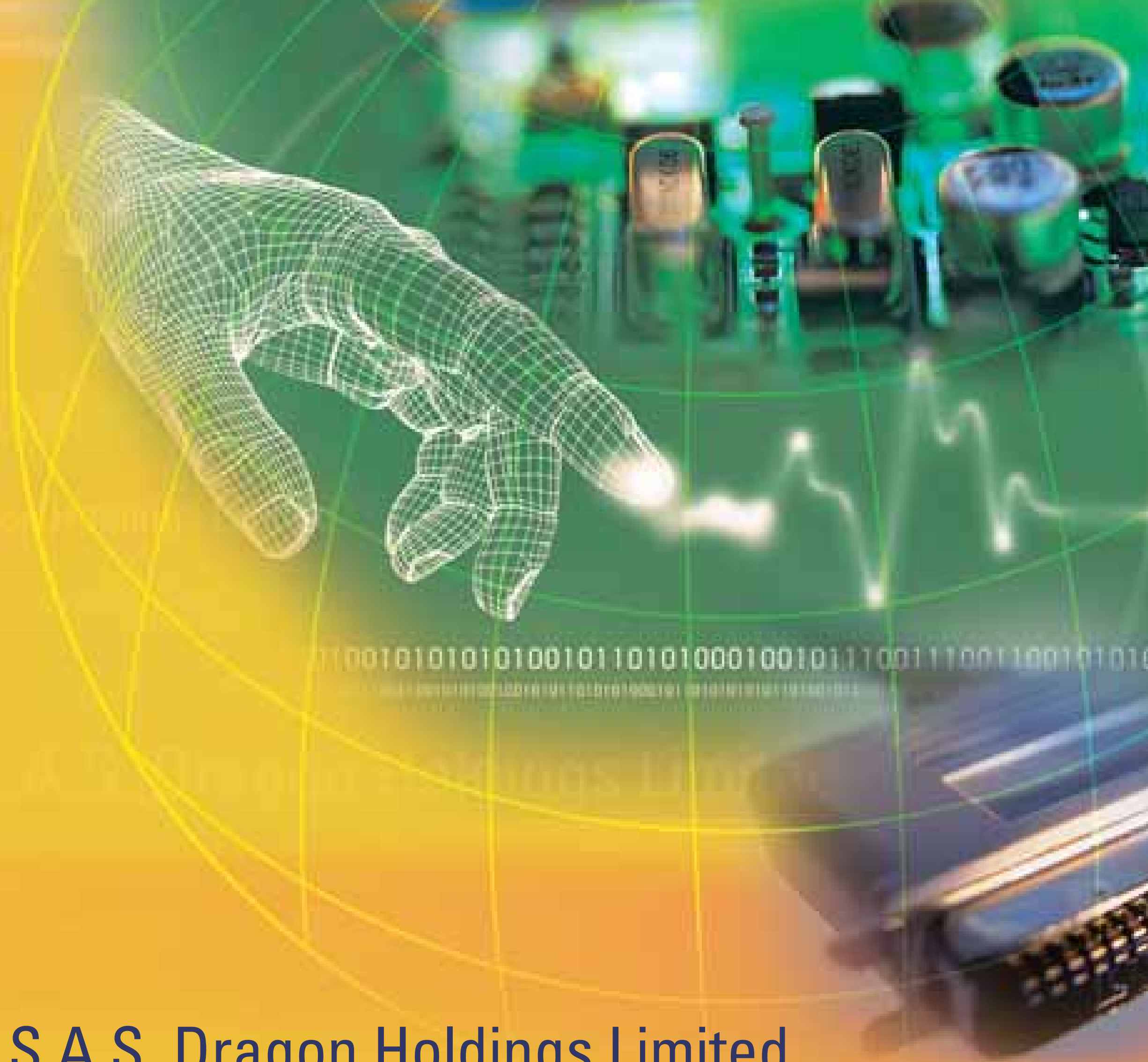


S.A.S. Dragon Holdings Limited

(Stock Code : 1184)

ANNUAL REPORT 2007

Contents

Corporate Information

DIRECTORS

Executive Directors

Mr. Yim Yuk Lun, Stanley *JP*
(Chairman and Managing Director)
Mr. Wong Sui Chuen
Mr. Lau Ping Cheung

Non-Executive Director

Dr. Chang Chu Cheng

Independent Non-Executive Directors

Mr. Cheung Chi Kwan
Mr. Liu Chun Ning, Wilfred
Dr. Lui Ming Wah *SBS JP*
Mr. Wong Tak Yuen, Adrian

AUDIT COMMITTEE

Mr. Wong Tak Yuen, Adrian *(Chairman)*
Dr. Chang Chu Cheng
Mr. Cheung Chi Kwan

REMUNERATION COMMITTEE

Mr. Wong Sui Chuen *(Chairman)*
Dr. Lui Ming Wah *SBS JP*
Mr. Wong Tak Yuen, Adrian

COMPANY SECRETARY

Mr. Wong Wai Tai

REGISTERED OFFICE

Clarendon House
Church Street
Hamilton HM 11
Bermuda

PRINCIPAL OFFICE

6th Floor, Tower B
Hunghom Commercial Centre
37 Ma Tau Wai Road
Hong Kong

SHARE REGISTRARS AND TRANSFER OFFICE

Secretaries Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Chong Hing Bank Limited
Dah Sing Bank Limited
Fubon Bank
Hang Seng Bank
The Hongkong and Shanghai
Banking Corporation Limited
Standard Chartered Bank (Hong Kong) Limited

LEGAL ADVISOR

C.P. Cheung & Co.
23rd Floor, Golden Centre
188 Des Voeux Road
Central
Hong Kong

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants
35/F., One Pacific Place
88 Queensway
Hong Kong

WEBSITE

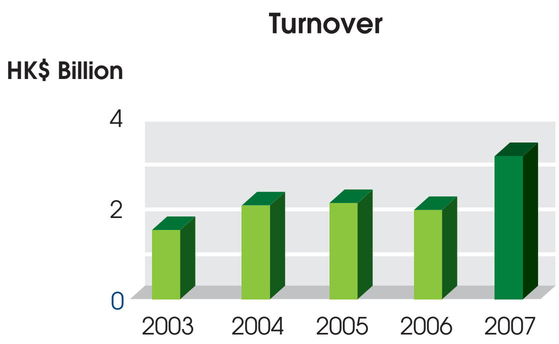
http://www.sasdragon.com.hk

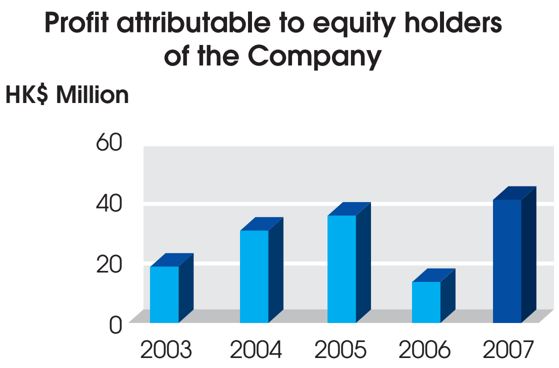
STOCK CODE

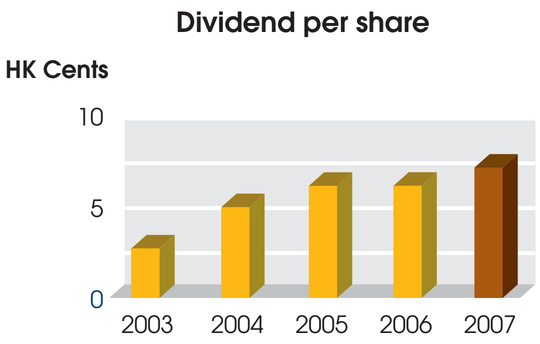
The Stock Exchange of Hong Kong Limited: 1184

FINANCIAL HIGHLIGHTS

- Turnover increased by 52.1% to HK$3.5 billion
- Earnings before interest, tax, depreciation and amortization (EBITDA) rose by 22.3% to HK$100.1 million
- Profit attributable to equity holders grew by 148.8% to HK$45.3 million
- Basic earnings per share amounted to HK18.18 cents (2006: HK7.50 cents)
- Proposed final dividend per share was HK5 cents (2006: HK5 cents)
- Total dividend per share for 2007 was HK8 cents (2006: HK7 cents)







Chairman's Statement

TO OUR SHAREHOLDERS

On behalf of the Board of Directors of S.A.S. Dragon Holdings Limited and its subsidiaries (the "Group"), I am pleased to report the annual results of the Group for the year ended 31 December 2007.

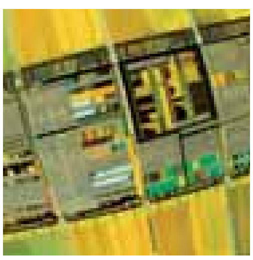
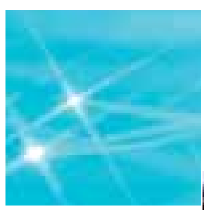
During the year under review, the Group focused on integrating its newly combined business units, one specializes in multimedia system solution design and the other possessing expertise in liquid crystal display module design and manufacturing. Due to the satisfactory performance of our existing business units, including the newly combined divisions, we were able to achieve record high turnover and net profit in 2007.

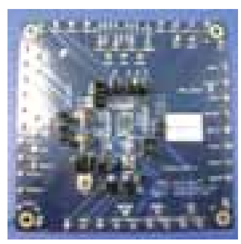
Also, during the year under review, the Group successfully invited CCB International Asset Management Limited, an investment arm of China Construction Bank Corporation, to become one of our strategic shareholders. With their added input, the Group's capital base was widened and we have a more solid shareholder foundation to further expand our business in the China market.

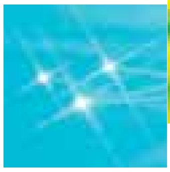
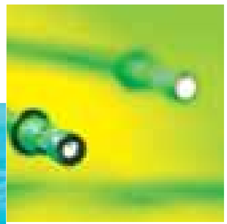
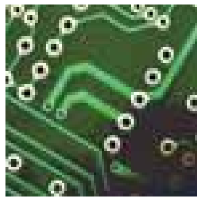
Looking to 2008, the economic uncertainties in the US and possible inflation control measures to be adopted by China warrants careful attention. That said, we also see opportunities arising from the Beijing Olympics. We will therefore stay alert to market conditions, and promptly adapt to changes while at the same time continuing to focus on optimizing our cost structure.

Finally, on behalf of the Board of Directors, I would like to thank all our staff members for their contribution and effort. I also wish to extend my sincere gratitude to our shareholders, customers, suppliers and business partners for their valuable support and dedication in 2007.

Yim Yuk Lun, Stanley *JP*
Chairman
Hong Kong, 18 April 2008



BUSINESS REVIEW

For the year ended 31 December 2007, the Group's turnover increased by 52.1% to HK$3,499,789,000 (2006: HK$2,301,140,000), gross profit rose by 29.1% to HK$201,678,000 (2006: HK$156,180,000), and EBITDA (represented gross profit plus interest and other income minus distribution costs and administrative expenses plus depreciation and amortization) grew by 22.3% to HK$100,107,000 (2006: HK$81,872,000).

Profit attributable to equity holders of the Company rose by 148.8% to HK$45,282,000 (2006:HK$18,201,000), which resulted in basic earnings per share of HK18.18 cents (2006: HK7.5 cents).

2007 represents a record-setting year for the Group. Such significant growth was mainly attributed to the strong demand for consumer and other electronic products under the booming consumer market in China. Combined with the business operations of Hi-Level Technology Limited ("Hi-Level") and Kitronix Limited ("Kitronix"), we successfully captured market opportunities by virtue of the Group's broadened supply and sales network.

Distribution of Electronic Components and Semiconductor Products

Consumer Electronic Products

Building on our bolstered position following the acquisition of Hi-Level, the Group began business relations with Sunplus Technology Company Limited, a global consumer chip design company. Consequently, we were able to enlarge our consumer electronic distribution business, offering more solutions for LCD TV, digital camera, set top box, and portable DVD player products. Also our customers benefited from Hi-Level's outstanding multimedia chip and circuit board design capabilities.

During the year under review, strong demand for consumer electronic products in China created similarly keen demand for associated solutions. Besides, our focusing components, namely, TFT panels and memory chips, continued to record satisfactory sales in 2007.

Mobile Phone Products

Handset demand in China grew steadily during the reporting period. The Group generated additional revenue by providing solutions for smartphones, multimedia phones as well as dual-mode dual-card handsets.

Computer Products

The new generation of computer processors and operating systems have created demand for a large number of PC-related components. Accordingly, our Group's portfolio of products, which includes high-end motherboards, VGA cards and memory chips, generated significant sales during the year under review.

Management Discussion and Analysis

Communication Products

Due to the launch of 3G in China, we expect business growth on infrastructure upgrade and 3G applications. But there is still uncertainty on business re-organization of service operators. New application of mobile TV will strengthen the demand for high speed data communication which further enhance the demand for our products.

Distribution of Sports Products

Moderate growth was recorded for our sports products distribution business.

Design, Manufacture and Sales of Liquid Crystal Display Modules ("LCMs")

By setting up a joint-venture company in 2006, namely, Kitronix, the Group has broadened its business scope to include the design, production and sales of LCMs and related products. Kitronix's production facilities have given us a decided edge in terms of securing a stable supply of products, thereby complementing our ability to tailor solutions for customers to meet their specific needs. The company's production plant, equipped with fine-pitch COG manufacturing facilities, commenced first phase of production since early 2007, contributing profits to the Group in the year under review.

FINANCIAL REVIEW

Significant Acquisitions and Investment

On 2 January 2007, the Group has completed the acquisition of 51% equity interest in Hi-Level at a consideration of HK$30 million (excluding any transaction costs on acquisition), which was paid in cash during the year under review. Details of the acquisition were set out in note 34 to the consolidated financial statements.

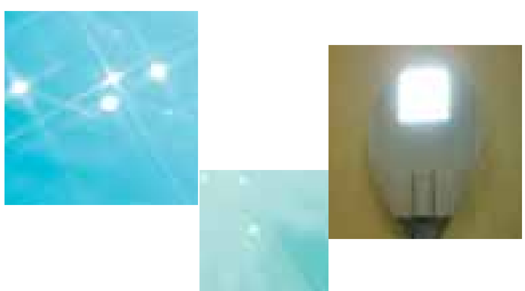
On 15 June 2007, the Group has entered into Agreements to acquire a commercial property located at Shanghai, the PRC, at a total consideration of RMB20 million, which was paid in cash during the year under review. Details of the acquisition were included in the circular of the Company dated 9 July 2007.

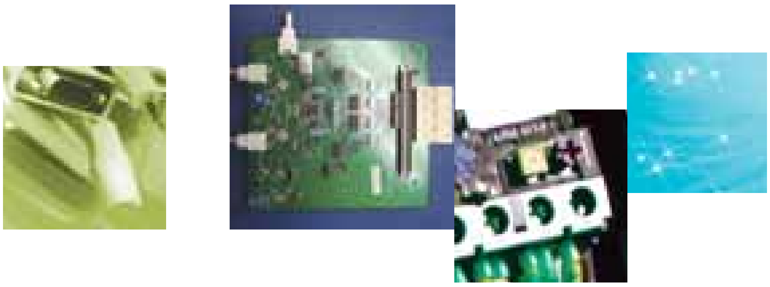
Except for the significant acquisitions and investment as disclosed above, there was no significant acquisition and investment for the year ended 31 December 2007.

Liquidity and Financial Resources

On 31 December 2007, the Group's current ratio was 136.2% (2006: 137.9%), net gearing ratio was 99.5% (2006: 83.0%), which is calculated based on the Group's net borrowings (calculated as total interest-bearing borrowing minus total cash and bank balances) of approximately HK$442,059,000 (2006: HK$310,454,000) and total equity of HK$444,186,000 (2006: HK$373,841,000).

The Group recorded debtors turnover of approximately 41 days for the year under review (2006: approximately 56 days) based on the amount of trade and bills receivables as at 31 December 2007 divided by sales for the year ended 31 December 2007 and multiplied by 365 days.





The Group recorded inventory turnover and average payable period of approximately 56 days and 40 days respectively for the year ended 31 December 2007 (2006: approximately 46 days and 31 days respectively) based on the amount of inventory and trade and bills payables as at 31 December 2007 divided by cost of sales for year ended 31 December 2007 and multiplied by 365 days.

In August 2007, by way of placing of 16,950,000 shares, the Group introduced CCB International Asset Management Limited, a wholly owned subsidiary of China Construction Bank Corporation, as one of its substantial shareholders. Details of the placing of shares were disclosed in note 31 to the consolidated financial statements.

The Directors considered that the Group's current cash and bank balances, together with available credit facilities will be sufficient to satisfy the Group's current and expected expending operation needs. The Group's liquidity is further strengthened after the placing of shares as mentioned above.

Foreign Exchange Risk Management

Most business transactions conducted by the Group and payments made to suppliers are either in Hong Kong Dollars, United States Dollars or Renminbi. Since the Group has maintained a near to naturally hedged position of the above foreign currency during the year under review, no financial instruments has been applied for direct hedging purposes. However, the management of the Group monitors foreign exchange exposure from time to time and will consider hedging significant foreign currency exposure when the need arises.

EMPLOYEE AND REMUNERATION POLICY

On 31 December 2007, the Group employed approximately 450 employees in the PRC and Hong Kong. They were remunerated according to their merit, qualification, competence and job nature. Other staff benefits include share option scheme, provident fund schemes and medical insurance. Also, discretionary bonus may be granted to eligible employees based on the Group's financial results and individual performance.

PROSPECTS

With uncertainties looming over the global economy, brought about by the sub-prime turmoil, record high oil prices, and possible inflation control measures to be employed by China, we will remain vigilant to changing market conditions and adopt swift yet prudent measures as needed.

Though challenges lay on the horizon, we draw optimism from the fact that the semiconductor industry is forecasted to grow by another 6-12% in 2008, and subscribe to the view that the fundamentals of the electronic industry will remain healthy. Moreover, with opportunities expected to develop from this year's Beijing Olympics, and demand for electronic security devices, LED lighting, GPS, mobile TV and 3G handsets anticipated to remain firm, sales of our products are set to enjoy further growth.

Regardless of how events may unfold, we remain committed to maintaining our lead position in the electronic components distribution market. Drawing synergy from our superior customer services, extensive sales and support network as well as careful management of supplier relations, we aim to deliver more fruitful returns for our shareholders.

Directors and Senior Management Profiles

DIRECTORS

Executive Directors

Mr. Yim Yuk Lun, Stanley JP, aged 48, is the founder and the Chairman and Managing Director of the Group. He is responsible for the formulation of corporate strategies and the overall direction for the Group's management team. He is currently the Chairman of Hong Kong Trade Services Council of Federation of Hong Kong Industries, the executive committee member of the Hong Kong Electronic Industries Association, a member of Yan Chai Hospital Advisory Board, a member of Shanghai Committee of Chinese People's Political Consultative Conference and a member of Yun Fu City Committee of Chinese People's Political Consultative Conference.

Mr. Wong Sui Chuen, aged 54, was appointed as an Executive Director of the Company in 2003. He is mainly responsible for overall administration operations in the PRC. Mr. Wong has over fifteen years experience in the PRC business affairs. He is currently appointed as the vice president of Shenzhen Association of Enterprises with Foreign Investment, the director of Shanghai Chinese Overseas Friendship Association, the consultant of Shenzhen Association for the Promotion of International Economy & Culture, and the director of Dongguan City Tang Sha Association of Enterprises with Foreign Investment and the director of Dongguan Electronic Industries Association.

Mr. Lau Ping Cheung, aged 37, was appointed as an Executive Director of the Company in 2007 and is the Sales Vice President of S.A.S. Electronic Company Limited. He graduated from the University of Hong Kong with a Bachelor's degree in Electrical and Electronic Engineering and got his Master's degree in Engineering Business Management jointly awarded by The Hong Kong Polytechnic University and The University of Warwick in 2003. He is under study of Engineering Doctorate in the City University of Hong Kong. He has over ten years experience in electronic field on sales, marketing and R&D project development.

Non-Executive Director

Dr. Chang Chu Cheng, aged 64, was appointed as a Non-Executive Director of the Company in 1994. Dr. Chang gained his Doctorate in Solid State Electronics from the University of Manchester Institute of Science & Technology in 1969 and lectured in physics and electronics at the Chinese University of Hong Kong prior to the founding of Varitronix in 1978. He is presently the Chairman of iView Limited and Honorary Chairman of Varitronix International Limited. He is also currently a non-executive director of Fujikon Industrial Holdings Limited, an Honorary Advisor of Hong Kong Critical Components Manufacturers Association and an Honorary Chairman of Hong Kong Photographic and Optics Manufacturers Association.

Independent Non-Executive Directors

Dr. Lui Ming Wah SBS JP, aged 70, was appointed as an Independent Non-Executive Director of the Company in 1994. Dr. Lui holds a Master's degree in applied science from the University of New South Wales, Australia and a Doctorate in engineering from the University of Saskatchewan, Canada. Dr. Lui is currently the managing director of Keystone Electronics Company Limited. In addition to being board member of nine other committees, Dr. Lui is one of the members of the Legislative Council of Hong Kong, the Hon. Chairman of the Hong Kong Electronic Industries Association Limited and an Executive committee member of CMA.

Mr. Liu Chun Ning, Wilfred, aged 46, was appointed as an Independent Non-Executive Director of the Company in 2001. Mr. Liu is an Executive Director in charge of the securities business of Chong Hing Banking Group. He holds a Bachelor's degree in economics from the University of Newcastle-upon- Tyne (UK).

Mr. Wong Tak Yuen, Adrian, aged 53, was appointed as an Independent Non-Executive Director of the Company in 1999. Mr. Wong holds a Bachelor's degree in Economics and Mathematics from the University of Western Ontairo, London, Canada. Mr. Wong has over twenty years experience in the financial Industry.

Mr. Cheung Chi Kwan, aged 48, was appointed as an Independent Non-Executive Director of the Company in 2004. Mr. Cheung has over twenty years of accounting experience. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of Association of Chartered Certified Accountants. In addition, Mr. Cheung holds a Bachelor's Degree in Laws from University of Wolverhampton, United Kingdom.

SENIOR MANAGEMENT

Mr. Cheung Chin Hung, Richard, aged 52, joined the Group in 1997 as the Director of RSL Electronic Company Limited. He has a Bachelor's degree in Economics, from University of Waterloo in Ontario, Canada. Prior to joining our Group, he worked with Sunrise Technology Limited as Sales Director.

Mr. Lock Shui Cheung, aged 45, joined the Group in 1997 as the Director of RSL Electronic Company Limited. He holds a higher diploma in Marine Electronics, from Hong Kong Polytechnic University and a Master's degree in Business Administration from the University of Hull, England. He has more than twenty years sales and management experience in electronics components distribution business with various global companies.

Mr. Wang Yi, Michael, aged 41, joined the Group in 2002 as the Sales Director of SMartech Electronic Company Limited. He graduated from Shanghai University of Technology, with a Bachelor's degree in Electronic engineering. He has several years experience as Field Application Engineer in Philips Semiconductor Shanghai and ten years experience as Sales & Marketing Manager of Samsung Semiconductor in the PRC.

Mr. Chang Wei Hua, Benson, aged 43, joined the Group in January 2007 as the Director and General Manager of Hi-Level Technology Limited. He graduated from Tung-Nan Institute of Technology in Taiwan with a Bachelor's degree in Electronics Engineering. He has more than twenty years management experience in electronic field on sales, marketing and R & D project.

Mr. Su Ching Yang, Stephen, aged 41, joined the Group in 1991 as the Sales Director of S.A.S. Electronic Company Limited. He has over fifteen years experience in distribution of electronic components business.

Mr. Fu Chi Cheung, Denny, aged 35, joined the Group in 2001 as the Sales Director of S.A.S. Electronic Company Limited. He holds a Certificate in Management from the Hong Kong Haking Wong Institute. He has over eight years experience in electronic industry.

Mr. Ng Sai Wah, Tommy, aged 42, joined the Group in 2004 as the Sales Director of S.A.S. Electronic Company Limited. He holds B.Sc. (Hon.) in Communications Engineering from the University of Kent (UK) and a MBA from The Open University of Hong Kong. He is a member of IET, UK, and has more than ten years experience in liquid crystal display industry.

Mr. Wong Wai Tai, Peter, aged 36, joined the Group in 2005 as the Financial Controller of the Group. He holds a Bachelor's degree of Business Administration from Hong Kong Baptist University. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of Association of Chartered Certified Accountants. He has over ten years experience in accounting, auditing, taxation and financial management.

The Group continues to achieve high standards of corporate governance which, it believes, is crucial to the development of the Group and to safeguard the interests of the Company's shareholders.

The Company complied with the applicable Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2007, except for the deviations from code provisions A.2.1 and A.4.1 which are explained in the relevant paragraphs below.

BOARD OF DIRECTORS

The Board currently consists of 3 executive directors, namely Mr. Yim Yuk Lun, Stanley *JP*, Mr. Wong Sui Chuen and Mr. Lau Ping Cheung and 1 non-executive director, namely Dr. Chang Chu Cheng and 4 independent non-executive directors ("**INEDs**") (collectively the "Directors"), namely Mr. Cheung Chi Kwan, Mr. Liu Chun Ning, Wilfred, Dr. Lui Ming Wah *SBS JP* and Mr. Wong Tak Yuen, Adrian.

The principal functions of the Board are to supervise the management of the business and affairs; to approve the strategic plans, investment and funding decision; to review the Group's financial performance and operative initiatives.

The role of INEDs is to bring an independent and objective view to the Board's deliberations and decisions. The Company has received annual confirmation of independence from the four INEDs pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the INEDs are independent within the definition of the Listing Rules.

The Board held a total of five board meetings during the year. The attendance of the Directors at meetings of the Board and Board Committees are disclosed below in this report.

Having considered the current business operation and the size of the Group, the Board is of the view that Mr. Yim Yuk Lun, Stanley *JP* acting as both the Chairman and the Managing Director of the Group is acceptable and in the best interest of the Group. Mr. Yim is responsible for the formulation of corporate strategies and the overall direction for the Group's management team.

Under the code provision A.4.1 of the Code, non-executive directors should be appointed for a specific term and subject to re-election. The non-executive directors of the Company have not been appointed for a specific term. However, according to the Bye-laws of the Company, one-third of the directors for the time being shall retire from office by rotation at each annual general meeting. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are similar to those in the Code.

In considering the nomination of a new director, the Board will take into account the qualification, ability, working experience, leadership and professional ethics of the candidates. Furthermore, as the full Board is responsible for selection and approval of candidates for appointment as executive director to the board, the Company has not established a Nomination Committee for the time being.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies contained in Appendix 10 of the Listing Rules (the "Model Code") as the code of conduct regarding directors' securities transactions.

Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code throughout the year under review.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility to prepare financial statements for each half and full financial year which give a true and fair view of the state of affairs of the Group.

AUDIT COMMITTEE

The Audit Committee consists of three non-executive directors, namely Mr. Wong Tak Yuen, Adrian, Mr. Cheung Chi Kwan and Dr. Chang Chu Cheng. Mr. Wong Tak Yuen, Adrian is the Chairman of the Audit Committee. In accordance with the terms of reference of the Audit Committee, the Audit Committee met twice in 2007 to review the interim and final results of the Company. The terms of reference of the Committee are aligned with the recommendations set out in "A Guide For Effective Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants and the code provisions set out in the Code.

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 Auditors of the Company.

During the financial year ended 31 December 2007, the Group has engaged the external auditors to provide the following services and their respective fees charged are set out as below:

Type of Services	**Amount** HK$'000
Audit fee	1,368
Other non-audit services	140

REMUNERATION COMMITTEE

The Remuneration Committee comprises 3 members, namely Mr. Wong Sui Chuen, Dr. Lui Ming Wah *SBS JP* and Mr. Wong Tak Yuen, Adrian, majority of whom are independent non-executive directors, and is chaired by Mr. Wong Sui Chuen.

The principal responsibilities of the Remuneration Committee are to make recommendations to the Board on the Company's policies and structure for all remuneration of Directors and senior management and to review the specific remuneration packages of Directors and senior management by reference to corporate goals and objectives resolved by the Board from time to time. One meeting has been held during the year under review.

The following table summarizes the attendance of Directors at meetings of the Board and the above committees during the year:

	Board	Audit Committee	Remuneration Committee
Number of Meetings	5	2	1
Executive Directors			
Yim Yuk Lun, Stanley *JP*	5/5	N/A	N/A
Wong Sui Chuen	5/5	N/A	1/1
Lau Ping Cheung	1/4	N/A	N/A
Non-Executive Directors			
Dr. Chang Chu Cheng	1/5	1/2	N/A
Independent Non-Executive Directors			
Cheung Chi Kwan	3/5	2/2	N/A
Liu Chun Ning, Wilfred	2/5	N/A	N/A
Dr. Lui Ming Wah *SBS JP*	2/5	N/A	0/1
Wong Tak Yuen, Adrian	3/5	2/2	1/1

INTERNAL CONTROL

The Board has overall responsibilities 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 for the achievement of business objectives, safeguarding assets against unauthorized use or disposition, ensuring the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensuring compliance with relevant legislation and regulations. The system is designed to manage, but not eliminate, the risk of failure to achieve business objectives and can only provide reasonable, and not absolute, assurance against the risks of material misstatement, fraud or losses.

COMMUNICATION WITH SHAREHOLDERS

To foster effective communications with its shareholders, the Company provides extensive information in its annual report and press release. Also the Group disseminates information relating to its business electronically through its website at www.sasdragon.com.hk.

The Company regards the annual general meeting as an important event as it provides an important opportunity for direct communications between the Board and the Company's shareholders. All directors and senior management will make an effort to attend. All shareholders will be given at least 21 days' notice of the annual general meeting and are encouraged to attend the annual general meeting and other shareholders' meetings.

Directors' Report

The directors present their annual report and the audited consolidated financial statements of S.A.S. Dragon Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company and the activities of its principal subsidiaries are set out in note 40 to the consolidated 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 23.

An interim dividend of HK3.0 cents per share, amounting to HK$7,784,000, was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of HK5 cents per share to the shareholders on the register of members on 23 May 2008.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate purchases attributable to the Group's largest supplier and five largest suppliers taken together accounted for 16.0% and 56.3% respectively of the Group's total purchases for the year.

During the year, the aggregate sales attributable to the Group's five largest customers were less than 30% of the Group's total sales for the year.

Save for Hon Hai Precision Industry Co., Ltd., a shareholder holding more than 5% of the Company's share capital, was one of the Group's five largest customers, none of the directors, their associates or any shareholders (which to the knowledge of the directors owns more than 5% of the Company's share capital) has any interest in the Group's five largest suppliers and customers.

INVESTMENT PROPERTIES

At 31 December 2007, the investment properties of the Group were revalued by an independent firm of professional property valuers on an open market value basis at HK$111,830,000. The revaluation resulted in a surplus of HK$11,421,000 and is recognised in the consolidated income statement. Details are set out in note 15 to the consolidated financial statements.

Particulars of investment properties of the Group at 31 December 2007 are set out on page 87.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 31 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2007, calculated in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, is represented by the contributed surplus and the accumulated profits in the aggregate amount of HK$194,231,000 (2006: HK$215,185,000) as disclosed in note 39 to the consolidated financial statements.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive Directors

Yim Yuk Lun, Stanley *JP* *(Chairman and Managing Director)*
Wong Sui Chuen
Lau Ping Cheung (appointed on 1 January 2007)

Non-Executive Director

Dr. Chang Chu Cheng

Independent Non-Executive Directors

Cheung Chi Kwan
Liu Chun Ning, Wilfred
Dr. Lui Ming Wah *SBS JP*
Wong Tak Yuen, Adrian

In accordance with Clauses 87(1) and 87(2) of the Company's Bye-Laws, Dr. Chang Chu Cheng, Mr. Cheung Chi Kwan and Mr. Liu Chun Ning, Wilfred retire and, being eligible, offer themselves for re-election.

The term of office for all directors is the period up to his retirement by rotation in accordance with the above Bye-Laws.

DIRECTORS *(continued)*

Mr. Lau Ping Cheung has entered into a service contract with the Company for a fixed term of three years from 1 January 2007.

Save as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2007, the interests of the directors of the Company in the shares and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Future Ordinance ("SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long positions

Ordinary shares of HK$0.10 each of the Company

Name of directors	Capacity	Number of issued ordinary shares held	Percentage of issued share capital of the Company
Yim Yuk Lun, Stanley *JP*	Beneficial owner	13,990,000	5.39%
	Held by controlled corporation *(note)*	63,771,400	24.58%
		77,761,400	29.97%
Wong Sui Chuen	Beneficial owner	622,000	0.24%

Note: These shares are held by a unit trust whose trustee is Unimicro Limited, a company incorporated in the British Virgin Islands, of which Mr. Yim Yuk Lun, Stanley *JP* is also a director. All units in the unit trust are beneficially owned by a discretionary trust established by Mr. Yim Yuk Lun, Stanley *JP*, the beneficiaries of which include the spouse and issues of Mr. Yim Yuk Lun, Stanley *JP*.

Save as disclosed above, other than certain nominee shares in subsidiaries held by certain directors in trust for the Company, none of the directors or chief executives or their associates had any interests or short position in any shares, underlying shares or debentures of the Company or any of its associated corporations at 31 December 2007.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 32 to the consolidated financial statements.

During the year, the movements in the share options to subscribe for the Company's shares were as follows:

	Number of share options granted during the year and outstanding at 31.12.2007
Director-Lau Ping Cheung	1,000,000
Employees	5,000,000
	6,000,000

Share options granted in July 2007 under the Company's share option scheme are exercisable during the period from 3 July 2008 to 2 July 2010 in two batches.

The closing price at 3 July 2007, being the date of grant of the share options, was HK$1.36.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed under the section "Share options", at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the directors or their spouses or children under the age of eighteen had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2007, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of certain directors, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Long positions

Ordinary shares of HK$0.10 each of the Company

Name of shareholders	Capacity	Number of issued ordinary shares held	Percentage of issued share capital of the Company
Hon Hai Precision Industry Co., Ltd. ("Hon Hai")	Held by controlled corporation *(note)*	46,000,000	17.73%
Foxconn Holding Limited ("Foxconn")	Beneficial owner	46,000,000	17.73%
CCB International Asset Management Limited	Beneficial owner	16,950,000	6.53%

Note: Hon Hai owns 100% interest in Foxconn and is accordingly deemed to be interested in those ordinary shares of the Company beneficially owned by Foxconn.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company at 31 December 2007.

CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS

Save for those connected transactions for the year disclosed in note 38 to the consolidated financial statements,

(i) there were no contracts of significance subsisted at any time during the year to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly; and

(ii) there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

In accordance with the conditions agreed with the Stock Exchange with respect to the connected transactions, the independent non-executive directors have reviewed the connected transactions set out in note 38 to the consolidated financial statements and, in their opinion, these transactions were entered into by the Group:

(i) in the ordinary course of business of the Group;

(ii) on normal commercial terms; and

(iii) on terms that are fair and reasonable so far as the shareholders of the Company are concerned.

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

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

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-Laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Board of Directors on the basis of their merit, qualifications, competence and job nature.

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

The Company has adopted a share option scheme as an incentive to eligible directors and employees, details of the scheme is set out in note 32 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

According to the information that is publicly available to the Company and within the knowledge of the directors, the Company has maintained a sufficient public float throughout the year ended 31 December 2007.

DONATIONS

During the year, the Group made charitable and other donations amounting to HK$575,000.

AUDITOR

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

YIM YUK LUN, STANLEY ***JP***
CHAIRMAN AND MANAGING DIRECTOR
Hong Kong, 18 April 2008

Deloitte.
德勤

TO THE MEMBERS OF S.A.S. DRAGON HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of S.A.S. Dragon Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 23 to 86, which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

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

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

OPINION

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
18 April 2008

Consolidated Income Statement

For the year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Turnover	7	**3,499,789**	2,301,140
Cost of sales		**(3,298,111)**	(2,144,960)
Gross profit		**201,678**	156,180
Other income		**32,286**	17,612
Distribution and selling expenses		**(18,131)**	(14,755)
Administrative expenses		**(127,657)**	(88,056)
Increase in fair value of investment properties		**11,421**	4,521
Share of results of associates		**(21)**	(151)
Finance costs	8	**(36,603)**	(32,559)
Impairment loss on available-for-sale investments	21	**–**	(15,600)
Gain on deemed disposal of interest in an associate		**–**	329
Profit before taxation		**62,973**	27,521
Taxation	11	**(9,884)**	(5,149)
Profit for the year	12	**53,089**	22,372
Attributable to:			
Equity holders of the Company		**45,282**	18,201
Minority interests		**7,807**	4,171
		53,089	22,372
Dividends paid	13	**19,911**	16,978
Earnings per share	14		
Basic		**HK18.18 cents**	HK7.50 cents

Consolidated Balance Sheet

At 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current Assets			
Investment properties	15	**111,830**	87,200
Property, plant and equipment	16	**145,628**	135,508
Prepaid lease payments – non-current portion	17	**1,243**	1,179
Goodwill	18	**16,419**	1,369
Interests in associates	19	**678**	699
Available-for-sale investments	21	**8,180**	4,970
Club memberships	22	**3,465**	3,012
Pledged bank deposits	23	**–**	23,396
Deposits paid on acquisition of property, plant and equipment		**20,600**	–
		308,043	257,333
Current Assets			
Inventories	24	**504,601**	269,392
Trade and other receivables	25	**443,407**	357,665
Bills receivable	25	**25,012**	26,398
Prepaid lease payments – current portion	17	**26**	24
Financial assets at fair value through profit or loss	26	**28,178**	12,025
Available-for-sale investments	21	**5,084**	–
Taxation recoverable		**1,878**	3,047
Pledged bank deposits	23	**62,543**	45,097
Bank balances and cash	23	**179,501**	225,705
		1,250,230	939,353
Current Liabilities			
Trade and other payables	27	**316,669**	145,149
Bills payable	27	**97,762**	63,056
Derivative financial instruments	28	**692**	–
Taxation payable		**3,400**	1,224
Obligations under finance leases – due within one year	29	**–**	111
Bank borrowings – due within one year	30	**499,291**	471,870
		917,814	681,410
Net Current Assets		**332,416**	257,943
		640,459	515,276

Consolidated Balance Sheet

At 31 December 2007

	Notes	**2007 HK$'000**	2006 HK$'000
Capital and Reserves			
Share capital	*31*	**25,949**	24,254
Share premium and reserves		**387,254**	341,906
Equity attributable to equity holders of the Company		**413,203**	366,160
Minority interests		**30,983**	7,681
Total Equity		**444,186**	373,841
Non-current Liabilities			
Obligations under finance leases – due after one year	*29*	**–**	56
Bank borrowings – due after one year	*30*	**184,812**	132,615
Deferred tax liabilities	*33*	**11,461**	8,764
		196,273	141,435
		640,459	515,276

The consolidated financial statements on pages 23 to 86 were approved and authorised for issue by the Board of Directors on 18 April 2008 and are signed on its behalf by:

Yim Yuk Lun, Stanley *JP*
DIRECTOR

Wong Sui Chuen
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	Attributable to equity holders of the Company												
	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Capital reserve HK$'000	Contributed surplus HK$'000	Property revaluation reserve HK$'000	Investment revaluation reserve HK$'000	Translation reserve HK$'000	Share options reserve HK$'000	Accumulated profits HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2006	24,254	10,992	1,109	11,145	102,558	24,149	150	(1,388)	-	191,668	364,637	6,510	371,147
Gain on fair value changes of available-for-sale investments directly recognised in equity	-	-	-	-	-	-	300	-	-	-	300	-	300
Profit for the year	-	-	-	-	-	-	-	-	-	18,201	18,201	4,171	22,372
Total recognised income for the year	-	-	-	-	-	-	300	-	-	18,201	18,501	4,171	22,672
Dividend paid to minority interests	-	-	-	-	-	-	-	-	-	-	-	(3,000)	(3,000)
Dividends paid *(note 13)*	-	-	-	-	(16,978)	-	-	-	-	-	(16,978)	-	(16,978)
At 31 December 2006	24,254	10,992	1,109	11,145	85,580	24,149	450	(1,388)	-	209,869	366,160	7,681	373,841
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	-	867	-	-	867	-	867
Gain on fair value changes of available-for-sale investments	-	-	-	-	-	-	374	-	-	-	374	-	374
Total income recognised directly in equity	-	-	-	-	-	-	374	867	-	-	1,241	-	1,241
Profit for the year	-	-	-	-	-	-	-	-	-	45,282	45,282	7,807	53,089
Total recognised income for the year	-	-	-	-	-	-	374	867	-	45,282	46,523	7,807	54,330
Issue of shares	1,695	18,306	-	-	-	-	-	-	-	-	20,001	-	20,001
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	15,495	15,495
Recognition of equity-settled share-based payment expenses	-	-	-	-	-	-	-	-	430	-	430	-	430
Dividends paid *(note 13)*	-	-	-	-	(19,911)	-	-	-	-	-	(19,911)	-	(19,911)
At 31 December 2007	**25,949**	**29,298**	**1,109**	**11,145**	**65,669**	**24,149**	**824**	**(521)**	**430**	**255,151**	**413,203**	**30,983**	**444,186**

The capital reserve of the Group represents the aggregate of:

(i) the reserve of HK$10,445,000 arising on the acquisition of shares in subsidiaries from minority shareholders pursuant to a group reorganisation prior to 1994; and

(ii) the differences between the nominal value of the aggregate share capital of the subsidiaries acquired pursuant to the group reorganisation in September 1994, and the nominal value of the Company's shares issued in exchange of HK$700,000.

At 31 December 2007, the property revaluation reserve includes an amount of HK$10,582,000 (2006: HK$10,582,000) relating to a property previously held as property, plant and equipment and reclassified as an investment property in 1997. On the disposal or retirement of the asset, the revaluation reserve will be transferred directly to accumulated profits.

The contributed surplus of the Group represents the net aggregate of:

(i) the credit arising from the reduction of nominal value of the consolidated shares from HK$1.00 each to HK$0.10 each by cancelling HK$0.90 paid up on each issued share, after a transfer of HK$10,565,000 towards the elimination of the accumulated losses of the Company as at 31 December 1997, of HK$70,510,000;

(ii) the credit arising from cancellation of the share premium account of HK$237,881,000, after a transfer of HK$180,003,000 towards the elimination of the accumulated losses of the Company as at 31 December 2002, of HK$57,878,000; and

(iii) the distribution to shareholders of HK$19,911,000 (2003 to 2006: HK$42,808,000) for the year ended 31 December 2007.

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	2007 HK$'000	2006 HK$'000
OPERATING ACTIVITIES		
Profit before taxation	62,973	27,521
Adjustments for:		
Interest income	(9,656)	(7,129)
Dividend income from listed securities	(202)	–
Finance costs	36,603	32,559
Share of results of associates	21	151
Gain on deemed disposal of interest in an associate	–	(329)
Increase in fair value of investment properties	(11,421)	(4,521)
Decrease in fair value of derivative financial instruments	692	–
Change in fair value of financial assets designated as at FVTPL	(1,092)	–
Change in fair value of financial assets classified as held-for-trading	(8,581)	–
Impairment loss on available-for-sale investments	–	15,600
Depreciation of property, plant and equipment	11,931	10,891
Release of prepaid lease payments	26	–
Allowance for trade and other receivables	10,781	1,137
Allowance (reversal of allowance) for inventories	16,011	(744)
(Gain) loss on disposal of property, plant and equipment	(3,054)	528
Equity-settled share-based payment expenses	430	–
Operating cash flows before movements in working capital	105,462	75,664
(Increase) decrease in inventories	(170,647)	9,969
(Increase) decrease in trade and other receivables	(45,979)	119,413
Decrease in bills receivable	1,386	21,322
Increase in financial assets at fair value through profit or loss	(6,480)	(12,025)
Increase (decrease) in trade and other payables	25,766	(13,614)
Increase (decrease) in bills payable	34,706	(34,785)
Cash (used in) generated from operations	(55,786)	165,944
Hong Kong Profits Tax paid	(3,277)	(6,260)
Hong Kong Profits Tax refunded	1,793	–
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(57,270)	159,684

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
INVESTING ACTIVITIES			
Payment for property, plant and equipment		**(47,451)**	(30,647)
Purchase of investment properties		**(13,209)**	(4,000)
Purchase of available-for-sale investments		**(5,736)**	–
Purchase of club memberships		**(453)**	–
Interest received		**9,656**	7,129
Proceeds on disposal of property, plant and equipment		**9,608**	242
Acquisition of a subsidiary (net of cash and cash equivalents acquired)	*34*	**9,561**	–
Decrease in pledged bank deposits		**5,950**	18,154
Dividend received from listed securities		**202**	–
Increase in prepaid lease payments		**–**	(1,203)
NET CASH USED IN INVESTING ACTIVITIES		**(31,872)**	(10,325)
FINANCING ACTIVITIES			
Bank borrowings raised		**2,894,488**	1,942,706
Proceeds from issue of shares		**20,001**	–
Repayment of bank borrowings		**(2,814,870)**	(1,915,097)
Interest paid		**(36,585)**	(32,546)
Dividends paid		**(19,911)**	(16,978)
Repayment of obligations under finance leases		**(167)**	(189)
Interest on obligations under finance leases		**(18)**	(13)
Dividend paid to minority interests		**–**	(3,000)
NET CASH FROM (USED IN) FINANCING ACTIVITIES		**42,938**	(25,117)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(46,204)**	124,242
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**225,705**	101,463
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash		**179,501**	225,705

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

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

The Company acts as an investment holding company and the activities of its principal subsidiaries are set out in note 40.

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

In the current year, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1 January 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

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

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

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC)-Int 11	HKFRS 2: Group and Treasury Share Transactions[3]
HK(IFRIC)-Int 12	Service Concession Arrangements[4]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[5]
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

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

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other new or revised standards, amendment and interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis, except for certain properties and certain financial instruments, which are measured at revalued amounts or fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill

Goodwill arising on acquisitions prior to 1 January 2005

Goodwill arising on an acquisition of net assets and operations of another entity for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant acquiree at the date of acquisition.

For previously capitalised goodwill arising on acquisitions of net assets and operations of another entity after 1 January 2001, the Group has discontinued amortisation from 1 January 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash-generating unit to which the goodwill relates may be impaired.

Goodwill arising on acquisitions on or after 1 January 2005

Goodwill arising on an acquisition of a business for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Interests in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Jointly controlled entity

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

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

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts.

Revenue from sales of goods is recognised when goods are delivered and title has passed.

Rental income, including rentals invoiced in advance from properties let under operating leases, are recognised on a straight-line basis over the term of the relevant lease.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at fair value using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year in which the asset is derecognised.

Property, plant and equipment

Property, plant and equipment including land and buildings held for use in the production or supply of goods or services, or for administrative purposes are stated at cost or valuation less subsequent accumulated depreciation and amortisation and accumulated impairment losses.

Certain of the Group's leasehold land and buildings were revalued at 31 December 1994. The surplus arising on revaluation of these properties was credited to asset revaluation reserve. Advantage has been taken of the transitional relief provided by paragraph 80A of HKAS 16 "Property, Plant and Equipment" from the requirement to make regular revaluations of the Group's land and buildings which had been carried at revalued amounts prior to 30 September 1995, and accordingly no further revaluation of land and buildings is carried out. Prior to 30 September 1995, the revaluation increase arising on the revaluation of these assets was credited to the revaluation reserve. Any future decreases in value of these assets will be dealt with as an expense to the extent that they exceed the balance, if any, on the revaluation reserve relating to a previous revaluation of the same asset. On the subsequent sale or retirement of a revalued asset, the corresponding revaluation surplus is transferred to accumulated profits.

Depreciation is provided to write off the cost or valuation of items of property, plant and equipment over their estimated useful lives using the straight-line method.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leasing

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

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, leasehold land which title is not expected to pass to the lessee by the end of the lease term is classified as an operating lease except for those that are classified and accounted for as investment properties under fair value model and unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is classified as a finance lease.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

Retirement benefit costs

Payments to defined contribution retirement benefits schemes are charged as expenses when employees have rendered service entitling them to the contributions. Payments made to state-managed retirement benefits schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefits scheme.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Club memberships

Club memberships with indefinite useful life are carried at cost less an subsequent accumulated impairment losses.

Club memberships are tested for impairment annually and whenever there is an indication that they may be impaired by comparing their carrying amounts with their recoverable amounts. If the recoverable amount of club memberships is estimated to be less than its carrying amount, the carrying amount of the club memberships is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method for electronic products and the weighted average cost method for other inventories.

Financial instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets

The Group's financial assets are classified as financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL, of which interest income is included in net gains or losses.

Financial assets at fair value through profit or loss

Financial assets at FVTPL has two subcategories, including financial assets held for trading and those designated at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, bills receivable, pledged bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

Impairment of financial assets (continued)

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days to 120 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including trade and other payables, bills payable and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred asset, the Group continues to recognise the financial asset and recognise a collateralised borrowing for proceeds received.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Equity-settled share-based payment transactions

Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in the share options reserve in equity.

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve in equity.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated profits.

Impairment losses (other than goodwill and club memberships)

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that other standard.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated impairment of goodwill

Determining whether goodwill amounting to HK$16,419,000 as at 31 December 2007 (2006: HK$1,369,000) is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. Details of the impairment test are set out in note 18.

Allowance for trade and other receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2007, the carrying value of trade and other receivables (net of allowance) is HK$443,407,000 (2006: HK$357,665,000).

Income tax

As at 31 December 2007, deferred tax assets in relation to unused tax losses and unrecognised deductible temporary differences amounted to HK$53,479,000 (2006: HK$65,888,000) and HK$14,057,000 (2006: HK$10,293,000), respectively have not been recognised in the Group's consolidated balance sheet due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are more than expected, a material recognition of deferred tax assets may arise, which would be recognised in the consolidated income statement for the period in which such a recognition takes place.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes the borrowings disclosed in note 30, net of cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves and accumulated profits.

The directors of the Company review the capital structure regularly. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends and new share issues as well as the issue of new debt or the repayment of existing debt.

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2007 HK$'000	2006 HK$'000
Financial assets		
Fair value through profit or loss		
Held for trading	**19,316**	12,025
Designated at FVTPL	**8,862**	–
Loans and receivables (including cash and cash equivalents)	**679,297**	675,240
Available-for-sale financial assets	**13,264**	4,970
Financial liabilities		
Derivative financial instruments	**692**	–
Amortised cost	**1,075,397**	797,708

(b) Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, trade and other receivables, bills receivable, financial assets at fair value through profit or loss, pledged bank deposits, bank balances, trade and other payables, bills payable, derivative financial instruments and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

6. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk management objectives and policies *(continued)*

Market risk

(i) Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases and foreign currency bank borrowings and structured deposits, which expose the Group to foreign currency risk.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
United States dollars ("USD")	**288,980**	215,012	**331,845**	337,631

The carrying amounts of the Group's foreign currency denominated financial assets designated at FVTPL at the reporting date are as follows:

	Assets	
	2007	2006
	HK$'000	HK$'000
USD	**8,862**	–

The Group currently does not have a foreign currency hedging policy. However, management will monitor foreign exchange exposure closely and consider the usage of hedging instruments when the need arise.

No sensitivity analysis is presented as Hong Kong dollars is currently pegged to USD, management considers that the exposure to exchange fluctuation in respect of USD is limited.

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances and bank borrowings (see notes 23 and 30 for details). It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of London Inter Bank Offer Rate ("LIBOR") and Hong Kong Inter Bank Offer Rate ("HIBOR") arising from the Group's USD and HKD borrowings respectively.

6. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk management objectives and policies *(continued)*

Market risk (continued)

(ii) Interest rate risk *(continued)*

Sensitivity analysis

The sensitivity analyses below has been determined based on the exposure to interest rates for its variable-rate bank balances and bank borrowings at the balance sheet date. For variable-rate borrowings and bank balances, the analysis is prepared assuming the amount of assets and liabilities outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used which represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2007 would decrease/increase by HK$2,638,000 (2006: decrease/increase by HK$1,801,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank balances and bank borrowings.

(iii) Equity price risk

The Group is exposed to equity price risk through its investments in listed equity securities and quoted equity funds. Management manages this exposure by maintaining a portfolio of investments with different risks. The Group's equity price risk is mainly concentrated on equity securities listed on the Stock Exchange.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

If the market prices of the respective equity instruments and the quoted prices of the equity funds had been 5% higher/lower and all other variables were held constant:

- profit for the year would increase/decrease by HK$1,409,000 (2006: increase/decrease by HK$601,000) as a result of the changes in fair value of investments held-for-trading; and

- investment valuation reserve would increase/decrease by HK$363,000 (2006: increase/decrease by HK$249,000) for the Group as a result of the changes in fair value of available-for-sale investments.

6. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk management objectives and policies *(continued)*

Credit risk

As at 31 December 2007, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds and bills receivables is limited because the counterparties are banks with good reputation.

The Group has no significant concentration of credit risk on trade receivables, with exposure spread over a number of counterparties and customers.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2007, the Group has available unutilised overdraft and bank loan facilities of approximately HK$48,500,000 (2006: HK$57,500,000) and HK$475,825,000 (2006: HK$500,258,000) respectively.

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

6. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk management objectives and policies *(continued)*

Liquidity risk (continued)

Liquidity and interest risk tables

	Weighted average effective interest rate %	Less than 1 month HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	Over 1 year HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31/12/2007 HK$'000
2007							
Non-derivative financial liabilities							
Trade and other payables	-	251,261	23,368	18,903	-	293,532	293,532
Bills payable	-	70,666	27,096	-	-	97,762	97,762
Bank borrowings							
– variable rate	6.65	51,986	264,908	203,627	195,136	715,657	684,103
		373,913	315,372	222,530	195,136	1,106,951	1,075,397
Derivatives – net settlement							
Foreign exchange forward contracts		692	-	-	-	692	692

6. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk management objectives and policies *(continued)*

Liquidity risk (continued)

Liquidity and interest risk tables *(continued)*

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	Over 1 year	Total undiscounted cash flows	Carrying amount at 31/12/2006
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2006							
Non-derivative financial liabilities							
Trade and other payables	–	99,526	10,553	20,088	–	130,167	130,167
Bills payable	–	63,056	–	–	–	63,056	63,056
Bank borrowings							
– variable rate	6.33	43,716	222,038	220,768	148,855	635,377	604,485
		206,298	232,591	240,856	148,855	828,600	797,708

(c) Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices; and

- the fair value of other financial assets and financial liabilities (including derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

7. TURNOVER AND BUSINESS AND GEOGRAPHICAL SEGMENTS

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers, net of discounts.

Business segments

For management purposes, the Group's operations are organised into three (2006: two) operating divisions namely distribution of electronic components and semiconductors products, distribution of sports products and design, manufacture and sales of liquid crystal display modules ("LCMs"). These divisions are the basis on which the Group reports its primary segment information.

During the year, the Group has one new business segment – design, manufacture and sales of LCMs.

Segment information about these businesses is presented below.

2007

	Distribution of electronic components and semiconductors products HK$'000	Distribution of sports products HK$'000	Design, manufacture and sales of LCMs HK$'000	Eliminations HK$'000	Consolidated HK$'000
TURNOVER					
External sales	3,449,010	28,341	22,438	–	3,499,789
Inter-segment sales	16,496	–	–	(16,496)	–
Total	3,465,506	28,341	22,438	(16,496)	3,499,789
Inter-segment sales are charged at prevailing market rates					
RESULTS					
Segment results	74,262	1,950	1,599		77,811
Interest income					9,656
Unallocated corporate expenses					(15,872)
Unallocated corporate income					16,581
Increase in fair value of investment properties					11,421
Finance costs					(36,603)
Share of results of associates	(21)	–	–		(21)
Profit before taxation					62,973
Taxation					(9,884)
Profit for the year					53,089

7. TURNOVER AND BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

2007 *(continued)*

	Distribution of electronic components and semiconductors products HK$'000	Distribution of sports products HK$'000	Design, manufacture and sales of LCMs HK$'000	Consolidated HK$'000
CONSOLIDATED BALANCE SHEET				
ASSETS				
Segment assets	1,235,514	20,194	19,010	1,274,718
Interests in associates	678	–	–	678
Unallocated corporate assets				282,877
Total assets				1,558,273
LIABILITIES				
Segment liabilities	407,250	1,375	4,659	413,284
Unallocated corporate liabilities				700,803
Total liabilities				1,114,087

	Distribution of electronic components and semiconductors products HK$'000	Distribution of sports products HK$'000	Design, manufacture and sales of LCMs HK$'000	Others HK$'000	Consolidated HK$'000
OTHER INFORMATION					
Capital additions	23,784	271	4,204	–	28,259
Depreciation of property, plant and equipment	7,819	388	507	3,217	11,931
Release of prepaid lease payments	–	–	26	–	26
Allowance for trade and other receivables	10,680	101	–	–	10,781
Allowance for inventories	15,676	335	–	–	16,011

7. TURNOVER AND BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

2006

	Distribution of electronic components and semiconductors products HK$'000	Distribution of sports products HK$'000	Consolidated HK$'000
TURNOVER			
External sales	2,274,532	26,608	2,301,140
RESULTS			
Segment results	73,790	(3,092)	70,698
Interest income			7,129
Unallocated corporate expenses			(13,885)
Unallocated corporate income			7,039
Increase in fair value of investment properties			4,521
Finance costs			(32,559)
Share of results of associates	(151)	–	(151)
Impairment loss on available-for-sale investments			(15,600)
Gain on deemed disposal of interest in an associate	329	–	329
Profit before taxation			27,521
Taxation			(5,149)
Profit for the year			22,372

7. TURNOVER AND BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

2006 *(continued)*

	Distribution of electronic components and semiconductors products HK$'000	Distribution of sports products HK$'000	Consolidated HK$'000
CONSOLIDATED BALANCE SHEET			
ASSETS			
Segment assets	945,176	36,623	981,799
Interests in associates	699	–	699
Unallocated corporate assets			214,188
Total assets			1,196,686
LIABILITIES			
Segment liabilities	200,073	3,307	203,380
Unallocated corporate liabilities			619,465
Total liabilities			822,845

	Distribution of electronic components and semiconductors products HK$'000	Distribution of sports products HK$'000	Others HK$'000	Consolidated HK$'000
OTHER INFORMATION				
Capital additions	24,066	6,581	–	30,647
Depreciation of property, plant and equipment	8,031	857	2,003	10,891
Loss on disposal of property, plant and equipment	26	294	208	528
(Reversal of) allowance for trade and other receivables	(1,863)	3,000	–	1,137

7. TURNOVER AND BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Geographical segments

The Group's operations are located in Hong Kong, the Mainland PRC and Taiwan. The Group's distribution of electronic components and semiconductors products is mainly carried out in these areas. Distribution of sports products and design, manufacture and sales of LCMs are mainly carried out in Hong Kong and the Mainland PRC.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods:

	Sales revenue by geographical market	
	2007	2006
	HK$'000	HK$'000
Mainland PRC	**2,215,146**	1,461,957
Hong Kong	**906,212**	556,467
Taiwan	**336,728**	254,427
Others	**41,703**	28,289
	3,499,789	2,301,140

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**962,251**	596,567	**18,587**	13,167
Mainland PRC	**206,763**	301,453	**9,672**	17,480
Taiwan	**100,951**	79,305	**–**	–
Others	**4,753**	4,474	**–**	–
	1,274,718	981,799	**28,259**	30,647

8. FINANCE COSTS

	2007 **HK$'000**	2006 HK$'000
Interest on:		
– bank borrowings wholly repayable within five years	**35,517**	31,334
– bank borrowings not wholly repayable within five years	**1,068**	1,212
– obligations under finance leases	**18**	13
	36,603	32,559

9. DIRECTORS' REMUNERATIONS

The remuneration paid or payable to each of the eight (2006: nine) directors were as follows:

2007

	Yim Yuk Lun, Stanley *JP* HK$'000	Wong Sui Chuen HK$'000	Lau Ping Cheung HK$'000	Dr. Chang Chu Cheng HK$'000	Cheung Chi Kwan HK$'000	Liu Chun Ning, Wilfred HK$'000	Dr. Lui Ming Wah, *SBS JP* HK$'000	Wong Tak Yuen, Adrian HK$'000	Total HK$'000
Fees	-	-	-	-	100	-	50	50	200
Other emoluments									
Salaries and other benefits	4,020	516	843	-	-	-	-	-	5,379
Equity-settled share-based payment expenses	-	-	72	-	-	-	-	-	72
Retirement benefits scheme contributions	242	22	24	-	-	-	-	-	288
Performance related incentive payments *(note)*	910	94	200	-	-	-	-	-	1,204
Total emoluments	5,172	632	1,139	-	100	-	50	50	7,143

9. DIRECTORS' REMUNERATIONS *(continued)*

2006

	Yim Yuk Lun, Stanley *JP* HK$'000	Wong Sui Chuen HK$'000	Lau Ping Cheung HK$'000	Dr. Chang Chu Cheng HK$'000	Cheung Chi Kwan HK$'000	Liu Chun Ning, Wilfred HK$'000	Dr. Lui Ming Wah, *SBS JP* HK$'000	Wong Tak Yuen, Adrian HK$'000	Chang Ping Kin HK$'000	Total HK$'000
Fees	–	–	–	–	100	–	50	50	–	200
Other emoluments										
Salaries and other benefits	4,466	490	–	–	–	–	–	–	–	4,956
Retirement benefits scheme contributions	211	14	–	–	–	–	–	–	–	225
Performance related incentive payments *(note)*	1,505	84	–	–	–	–	–	–	–	1,589
Total emoluments	6,182	588	–	–	100	–	50	50	–	6,970

Note: Performance related incentive payments were determined with reference to the Group's operating results, individual performance and comparable market statistics.

During the years ended 31 December 2007 and 2006, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, during the years ended 31 December 2007 and 2006, no directors waived any emoluments.

10. EMPLOYEES' REMUNERATIONS

Of the five highest paid individuals in the Group, two (2006: one) were directors of the Company whose remunerations are set out in note 9 above. The remuneration of the remaining three (2006: four) individuals are as follows:

	2007 HK$'000	2006 HK$'000
Salaries and other benefits	**2,868**	2,916
Equity-settled share-based payment expenses	**179**	–
Performance related incentive payments	**741**	160
Retirement benefits scheme contributions	**103**	112
	3,891	3,188

Their emoluments were within the following bands:

	2007 No. of employees	2006 No. of employees
Not exceeding HK$1,000,000	**–**	4
HK$1,000,001 to HK$1,500,000	**3**	–

11. TAXATION

	2007 HK$'000	2006 HK$'000
The charge comprises:		
Hong Kong Profits Tax		
Current year	**6,623**	3,271
Under(over)provision in prior years	**564**	(273)
	7,187	2,998
Deferred taxation *(note 33)*	**2,697**	2,151
	9,884	5,149

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for both years.

No PRC income tax is payable by the Group since the Mainland PRC subsidiaries incurred tax losses for both years.

On 16 March 2007, the Mainland PRC promulgated the Law of the Mainland PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the Mainland PRC. On 6 December 2007, the State Council of the Mainland PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate from 33% to 25% for all PRC subsidiaries from 1 January 2008.

The tax charge for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2007 HK$'000	2006 HK$'000
Profit before taxation	**62,973**	27,521
Tax at Hong Kong Profits Tax rate of 17.5%	**11,020**	4,816
Tax effect of expenses not deductible for tax purpose	**313**	5,575
Tax effect of income not taxable for tax purpose	**(500)**	(616)
Under(over)provision in prior years	**564**	(273)
Tax effect of tax losses/other deferred tax assets not recognised	**791**	867
Utilisation of tax losses/other deferred tax assets previously not recognised	**(2,304)**	(5,220)
Tax charge for the year	**9,884**	5,149

12. PROFIT FOR THE YEAR

	2007 HK$'000	2006 HK$'000
Profit for the year has been arrived at after charging:		
Staff costs, including directors' remunerations		
– salaries and other benefits	**62,666**	42,137
– equity-settled share-based payment expenses	**430**	–
– performance related incentive payments	**1,204**	1,589
– retirement benefits scheme contributions, net of forfeited contributions of HK$12,000 (2006: HK$71,000)	**1,942**	1,288
	66,242	45,014
Auditor's remuneration	**1,368**	1,291
Depreciation of property, plant and equipment	**11,931**	10,891
Release of prepaid lease payments	**26**	–
Loss on disposal of property, plant and equipment	**–**	528
Change in fair value of derivative financial instruments	**692**	–
Allowance for trade and other receivables	**10,781**	1,137
Allowance for inventories	**16,011**	–
Cost of inventories recognised as an expense	**3,298,111**	2,144,960
and after crediting:		
Interest income	**9,656**	7,129
Dividend income from listed securities	**202**	–
Gain on disposal of property, plant and equipment	**3,054**	–
Net foreign exchange gain	**306**	493
Change in fair value of financial assets designated as at FVTPL	**1,092**	–
Change in fair value of financial assets classified as held-for-trading	**8,581**	3,702
Rental income from properties, net of outgoings of HK$37,000 (2006: HK$42,000)	**3,630**	3,391
Reversal of allowance for inventories	**–**	744

13. DIVIDENDS PAID

	2007 HK$'000	2006 HK$'000
2007 interim dividend of HK3.0 cents (2006: HK2.0 cents) per share	**7,784**	4,851
2006 final dividend of HK5.0 cents (2005: HK5.0 cents) per share	**12,127**	12,127
	19,911	16,978

A final dividend of HK5.0 cents (2006: HK5.0 cents) per share has been proposed by the board of directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

14. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year is based on the profit attributable to equity holders of the Company of HK$45,282,000 (2006: HK$18,201,000) and on the weighted average of 249,042,090 (2006: 242,540,720) ordinary shares in issued during the year.

No diluted earnings per share for the year was presented since the exercise price of the Company's share options were higher than the average market price per share for the year.

No diluted earnings per share for the year ended 31 December 2006 had been presented as the Company had no potential ordinary shares outstanding during that year.

15. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1 January 2006	78,679
Additions	4,000
Increase in fair value recognised in the consolidated income statement	4,521
At 31 December 2006	87,200
Additions	13,209
Increase in fair value recognised in the consolidated income statement	11,421
At 31 December 2007	111,830

The fair values of the Group's investment properties at 31 December 2007 have been arrived at on the basis of a valuation carried out on that date by Savills Valuation and Professional Services Limited ("Savills"). Savills are members of the Institute of Valuers, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to the Valuation Standards on Properties of the Hong Kong Institute of Surveyors, was arrived at by reference to market evidence of transaction prices for similar properties.

The investment properties are held under medium term leases in Hong Kong and held for rental income under operating leases.

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Leasehold improve-ments	Plant and machinery	Furniture and fixtures	Office equipment	Motor vehicles and vessel	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
COST OR VALUATION							
At 1 January 2006	124,498	19,898	–	14,255	15,126	15,994	189,771
Additions	13,774	1,044	851	8,377	6,541	60	30,647
Disposals	–	–	–	(461)	(24)	(1,060)	(1,545)
At 31 December 2006	138,272	20,942	851	22,171	21,643	14,994	218,873
Exchange adjustments	198	118	–	42	57	11	426
Additions	14,984	969	3,188	1,634	4,024	2,052	26,851
Acquired on acquisition of a subsidiary	–	499	–	–	757	152	1,408
Disposals	(6,743)	(59)	–	(15)	(29)	(638)	(7,484)
At 31 December 2007	146,711	22,469	4,039	23,832	26,452	16,571	240,074
Comprising:							
At cost	101,361	22,469	4,039	23,832	26,452	16,571	194,724
At valuation – 1994	45,350	–	–	–	–	–	45,350
	146,711	22,469	4,039	23,832	26,452	16,571	240,074
DEPRECIATION							
At 1 January 2006	24,610	15,653	–	10,787	11,010	11,189	73,249
Provided for the year	3,335	2,384	–	2,227	1,640	1,305	10,891
Eliminated on disposals	–	–	–	(442)	(8)	(325)	(775)
At 31 December 2006	27,945	18,037	–	12,572	12,642	12,169	83,365
Exchange adjustments	8	27	–	40	4	1	80
Provided for the year	3,753	1,253	199	2,498	2,990	1,238	11,931
Eliminated on disposals	(270)	(9)	–	(5)	(8)	(638)	(930)
At 31 December 2007	31,436	19,308	199	15,105	15,628	12,770	94,446
CARRYING VALUES							
At 31 December 2007	115,275	3,161	3,840	8,727	10,824	3,801	145,628
At 31 December 2006	110,327	2,905	851	9,599	9,001	2,825	135,508

16. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold land and buildings	Over the shorter of the term of the relevant lease or 25 years
Leasehold improvements	Over the term of the relevant lease
Others	5 years

The carrying values of leasehold land and buildings held by the Group at the balance sheet date comprises:

	2007	2006
	HK$'000	HK$'000
Land and buildings held in Hong Kong under medium term leases	**72,753**	70,355
Land and buildings held in Hong Kong under long term leases	**637**	651
Buildings held in the Mainland PRC under long term leases	**41,885**	39,321
	115,275	110,327

Certain owner-occupied leasehold land is included in property, plant and equipment, as in the opinion of the directors, allocations between the land and buildings elements could not be made reliably.

At 31 December 2006, the carrying value of motor vehicles and vessel included an amount of HK$199,000 in respect of assets held under finance leases.

17. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise leasehold land in the Mainland PRC under medium term lease.

	2007	2006
	HK$'000	HK$'000
Analysed for reporting purposes as:		
Current asset	**26**	24
Non-current asset	**1,243**	1,179
	1,269	1,203

18. GOODWILL

	HK$'000
CARRYING VALUES	
At 1 January 2006 and 31 December 2006	1,369
Arising on acquisition of a subsidiary	15,050
At 31 December 2007	16,419

Goodwill acquired in business combinations was allocated, at acquisition, to the individual cash-generating units ("CGUs") that are expected to benefit from that business combination. The carrying amount of goodwill was allocated as follows:

	2007 **HK$'000**	2006 HK$'000
Distribution of sports products	**1,369**	1,369
Distribution of electronic components and semiconductors products	**15,050**	–
	16,419	1,369

The basis of the recoverable amounts of the CGUs and their major underlying assumptions are summarised below:

Distribution of sports products

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period using a steady 5% (2006: 5%) growth rate, and discount rate of 7% (2006: 7%). This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Another key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of this unit to exceed the aggregate recoverable amount of this unit.

18. GOODWILL *(continued)*

Distribution of electronic components and semiconductors products

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period using a steady 5% growth rate, and discount rate of 7% (2006: 7%). This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Another key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of this unit to exceed the aggregate recoverable amount of this unit.

For the year ended 31 December 2007, management of the Group determines that there is no impairment of the CGUs containing goodwill.

19. INTERESTS IN ASSOCIATES

	2007	2006
	HK$'000	HK$'000
Cost of unlisted investments in associates	**943**	943
Share of post-acquisition losses	**(265)**	(244)
	678	699

Particulars of the Group's associates at 31 December 2007 and 31 December 2006 are as follows:

Name of associate	Form of business structure	Place of incorporation/ operations	Class of shares held	Proportion of issued share capital held by the Group %	Principal activities
Bestime Technology Development Limited	Incorporated	Hong Kong	Ordinary	30	Trading of electronic products
Now Electron Inc.	Incorporated	Republic of Korea	Ordinary	29	Trading of electronic products
Ocean Bright Technology Limited	Incorporated	Hong Kong	Ordinary	30	Trading of electronic products

19. INTERESTS IN ASSOCIATES *(continued)*

The summarised financial information in respect of the Group's associates is set out below:

	2007 **HK$'000**	2006 HK$'000
Total assets	**4,199**	5,204
Total liabilities	**(3,094)**	(3,501)
Net assets	**1,105**	1,703
Group's share of net assets of associates	**678**	699
Revenue	**1,016**	21,348
Loss for the year	**(534)**	(894)
Group's share of results of associates for the year	**(21)**	(151)

The Group has discontinued recognition of its share of losses of certain associates. The amounts of unrecognised share of the associates, both for the year and cumulatively, are as follows:

	2007 **HK$'000**	2006 HK$'000
Unrecognised share of losses of associates for the year	**138**	218
Accumulated unrecognised share of losses of associates	**356**	218

20. INTEREST IN A JOINTLY CONTROLLED ENTITY

As at 31 December 2007, the Group had interest in the following jointly controlled entity:

Name of jointly controlled entity	Form of business structure	Place of incorporation/ operations	Class of shares held	Proportion of issued share capital held by the Group %	Principal activities
Kitronix Limited	Incorporated	Hong Kong	Ordinary	35	Design, manufacturing and sales of electronic products

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

	2007 **HK$'000**	2006 HK$'000
Current assets	**9,042**	8,765
Non-current assets	**10,321**	6,184
Current liabilities	**4,870**	2,097
Income	**22,950**	11
Expenses	**21,590**	459

21. AVAILABLE-FOR-SALE INVESTMENTS

	2007	2006
	HK$'000	HK$'000
Available-for-sale investments comprise:		
AT FAIR VALUE		
Investments in overseas listed equity securities	**207**	208
Investments in unlisted equity funds in Hong Kong	**7,057**	4,762
	7,264	4,970
AT COST		
Investments in unlisted equity securities in Hong Kong	**6,000**	–
Investments in unlisted equity securities in the South Korea *(note)*	**–**	15,600
Less: Impairment loss recognised	**–**	(15,600)
	–	–
	13,264	4,970
Analysed for reporting purposes as:		
Current assets	**5,084**	–
Non-current assets	**8,180**	4,970
	13,264	4,970

The above unlisted securities represent investments in unlisted equity securities issued by private entities which are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

Note: During the year ended 31 December 2006, the directors of the Company considered that as the investee was under liquidation and it was unlikely that the carrying amount of the available-for-sale investments can be recovered, an impairment loss of HK$15,600,000 had been recognised in full in the consolidated income statement.

22. CLUB MEMBERSHIPS

	2007 HK$'000	2006 HK$'000
Club memberships outside Hong Kong, at cost	**3,465**	3,012

During the year, the club memberships were tested for impairment by comparing their carrying amounts with their recoverable amounts. The directors determined that no impairment loss was charged for the year and are of the opinion that the club memberships are worth at least their carrying amounts.

23. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

At 31 December 2007, the pledged bank deposits represent amount pledged to banks to secure short-term banking facilities granted to the Group. At 31 December 2006, deposits amounting to HK$23,396,000 were with maturities more than one year from the balance sheet date and were therefore classified as non-current assets.

The pledged bank deposits and bank balances carry fixed interest rate of 4.5% (2006: 3.5%) per annum and variable interest rate of average 4.6% (2006: 4.0%) per annum, respectively. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

24. INVENTORIES

	2007 HK$'000	2006 HK$'000
Raw materials	**4,958**	–
Work-in-progress	**246**	–
Finished goods	**499,397**	269,392
	504,601	269,392

25. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLE

	2007 HK$'000	2006 HK$'000
Trade receivables	**388,623**	335,437
Less: allowance for doubtful debts	**(17,018)**	(6,252)
	371,605	329,185
Other receivables	**71,802**	28,480
Total trade and other receivables	**443,407**	357,665
Bills receivable	**25,012**	26,398

The Group allows a credit period ranged from 30 days to 120 days to its trade customers.

25. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLE *(continued)*

An aged analysis of trade and bills receivable, net of allowance for doubtful debts, by due date is as follows:

	2007	2006
	HK$'000	HK$'000
Current	**227,717**	224,286
Within 30 days	**116,839**	67,657
More than 30 days and within 60 days	**30,787**	29,923
More than 60 days and within 90 days	**7,230**	12,488
More than 90 days	**14,044**	21,229
	396,617	355,583

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$168,900,000 (2006: HK$131,297,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is 70 days (2006: 96 days).

Before accepting any new customer, the Group assess the potential customer's credit quality by investigating their historical credit record and define credit limits by customer.

Ageing of trade receivables which are past due but not impaired

	2007	2006
	HK$'000	HK$'000
Within 30 days	**116,839**	67,657
More than 30 days and within 60 days	**30,787**	29,923
More than 60 days and within 90 days	**7,230**	12,488
More than 90 days	**14,044**	21,229
Total	**168,900**	131,297

The Group has provided fully for all receivables over 365 days because historical experience is such that receivables that are past due beyond 365 days are generally not recoverable.

25. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLE *(continued)*

Movement in the allowance for doubtful debts

	2007	2006
	HK$'000	HK$'000
Balance at beginning of the year	**6,252**	13,962
Impairment losses recognised on receivables	**10,781**	1,137
Amounts written off as uncollectible	**(15)**	(8,847)
Balance at end of the year	**17,018**	6,252

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of HK$17,018,000 (2006: HK$6,252,000) which have either been placed under liquidation or in severe financial difficulties. The Group does not hold any collateral over these balances.

26. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2007	2006
	HK$'000	HK$'000
Investments held-for-trading:		
Listed equity securities in Hong Kong	**19,316**	12,025
Financial assets designated at fair value through profit or loss:		
Structured deposits	**8,862**	–
	28,178	12,025

Included in financial assets designated at fair value through profit or loss is structured deposits of HK$8,862,000 (2006: nil) placed with banks. Under the relevant agreements, these structured deposits contain embedded derivatives in which their returns are determined by reference to the change in exchange rate of certain foreign currencies.

27. TRADE AND OTHER PAYABLES AND BILLS PAYABLE

	2007 **HK$'000**	2006 HK$'000
Trade payables	**262,786**	118,119
Other payables	**53,883**	27,030
Total trade and other payables	**316,669**	145,149
Bills payable	**97,762**	63,056

The average credit period on purchase of goods ranged from 30 days to 120 days. The Group has financial risk management policies in place to ensure that all payables within the credit timeframe.

An aged analysis of trade and bills payable by due date is as follows:

	2007 **HK$'000**	2006 HK$'000
Current	**244,531**	147,779
Within 30 days	**92,186**	20,127
More than 30 days and within 60 days	**18,118**	2,630
More than 60 days and within 90 days	**2,645**	3,026
More than 90 days	**3,068**	7,613
	360,548	181,175

28. DERIVATIVE FINANCIAL INSTRUMENTS

	LIABILITIES	
	2007 **HK$'000**	2006 HK$'000
Derivatives not under hedge accounting		
Fair value of foreign currency forward contracts	**692**	–

Major terms of the foreign currency forward contracts outstanding at 31 December 2007 are as follows:

Notional amount	**Maturity**	**Exchange rates**
Eight contracts to buy/sell USD in total of USD81,500,000	Ranging from 4 January 2008 to 4 May 2009	HK$/USD ranging from 7.69 to 7.83

29. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under finance leases:				
Within one year	**–**	124	**–**	111
More than one year, but not exceeding two years	**–**	57	**–**	50
More than two years, but not exceeding three years	**–**	6	**–**	6
	–	187		
Less: Future finance charges	**–**	(20)		
Present value of lease obligations	**–**	167	**–**	167
Less: Amount due for settlement within one year shown under current liabilities			**–**	(111)
Amount due for settlement after one year			**–**	56

30. BANK BORROWINGS

	2007	2006
	HK$'000	HK$'000
Bank borrowings comprise:		
Bank import loans	**381,827**	387,976
Other bank loans	**302,276**	216,509
	684,103	604,485
Analysed as:		
Secured	**652,371**	564,538
Unsecured	**31,732**	39,947
	684,103	604,485

30. BANK BORROWINGS *(continued)*

The bank borrowings are repayable as follows:

	2007 HK$'000	2006 HK$'000
Within one year or on demand	**499,291**	471,870
More than one year, but not exceeding two years	**145,524**	107,025
More than two years, but not exceeding five years	**29,452**	13,795
More than five years	**9,836**	11,795
	684,103	604,485
Less: Amount due within one year shown under current liabilities	**(499,291)**	(471,870)
Amount due after one year	**184,812**	132,615

At 31 December 2007, all of the bank borrowings are variable-rate borrowings with an average interest rate of 6.65% (2006: 6.33%) per annum.

The Group's borrowings denominated in the currencies other than the functional currency of the respective entity are set out below:

	2007 HK$'000	2006 HK$'000
USD	**169,433**	385,067

31. SHARE CAPITAL

	Number of ordinary shares	Amount HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January 2006, 31 December 2006 and 31 December 2007	1,454,000,000	145,400
Issued and fully paid:		
At 1 January 2006 and 31 December 2006	242,540,720	24,254
Issue of shares	16,950,000	1,695
At 31 December 2007	259,490,720	25,949

31. SHARE CAPITAL *(continued)*

	Number of non-redeemable convertible preference shares	Amount HK$'000
Non-redeemable convertible preference shares of HK$0.10 each		
Authorised:		
At 1 January 2006, 31 December 2006 and 31 December 2007	46,000,000	4,600
Issued and fully paid:		
At 1 January 2006, 31 December 2006 and 31 December 2007	–	–

On 31 July 2007, arrangements were made for a private placement to professional and institutional investors of 16,950,000 existing shares of HK$0.10 each at a price of HK$1.18 per share by Unimicro Limited, a substantial shareholder of the Company.

Pursuant to a subscription agreement of the same date, Unimicro Limited subscribed for 16,950,000 new shares of HK$0.10 each at a price of HK$1.18 per share. The proceeds were used to provide additional working capital for the Company. These new shares rank pari passu with the then existing shares in all respects.

32. SHARE-BASED PAYMENT TRANSACTIONS

Pursuant to a resolution passed on 28 June 2002, the Company adopted a share option scheme (the "Scheme") for recognition of past services contributed by, and giving incentives to the eligible directors and employees.

According to the Scheme, the board of directors (the "Board") of the Company may at their discretion grant options to any director, executive and employee of each member of the Group to subscribe for shares in the Company for a consideration of HK$1 for each lot of share options granted. Share options granted should be accepted within 28 days from the date of grant. The Board may at its absolute discretion determine the period during which a share option may be exercised, such period should expire no later than 10 years from the date of grant. There is no minimum period that a grantee must hold an option before it can be exercised. The Board may also provide restrictions on the exercise of a share option during the period a share option may be exercised. The exercise price is determined by the Board of the Company, and shall be at least the highest of: (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the Company's shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the share.

32. SHARE-BASED PAYMENT TRANSACTIONS *(continued)*

The maximum number of shares in respect of which options may be granted under the Scheme and any other share option schemes of the Company shall not exceed 10% (or such higher percentage as may be allowed under the Listing Rules) of the total number of shares in issue as at the date of adoption of the Scheme.

The maximum number of shares issued and to be issued upon exercise of the options granted to each individual under the Scheme and any other share option schemes (including both exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue.

Details of the share options granted under the Scheme are as follows:

	Date of grant	Vesting period	Exercisable period	Exercise price per share HK$	Number of share options
Tranche 1	03.07.2007	03.07.2007 to 02.07.2008	03.07.2008 to 02.07.2010	1.50	3,000,000
Tranche 2	03.07.2007	03.07.2007 to 02.07.2009	03.07.2009 to 02.07.2010	1.50	3,000,000
					6,000,000

The following table discloses movements of the Company's share options held by a director and employees during the year:

	Number of share options granted during the year and outstanding at 31.12.2007
Director	**1,000,000**
Employees	**5,000,000**
	6,000,000

No share option under the Scheme was outstanding or granted during the year ended 31 December 2006.

The closing price at 3 July 2007, being the date of grant of the share options, was HK$1.36.

32. SHARE-BASED PAYMENT TRANSACTIONS *(continued)*

The estimated fair value of the options granted on that date is HK$1,147,000.

The fair values was calculated using the Binomial model. The inputs into the model were as follows:

	2007	
	Tranche 1	**Tranche 2**
Closing share price at date of grant	**HK$1.36**	**HK$1.36**
Exercise price	**HK$1.50**	**HK$1.50**
Expected volatility	**31.22%**	**31.22%**
Exercise multiple		
For director	**1.298**	**1.298**
For employees	**1.269**	**1.269**
Risk-free rate	**4.395%**	**4.395%**
Expected dividend yield	**5.147%**	**5.147%**

The exercise multiple was to account for the early exercise behaviour of the share options granted by the Company. The risk-free rate was based on the yield of the Hong Kong Exchange Fund Note.

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 3 years.

The Group recognised an expense of HK$430,000 for the year ended 31 December 2007 (2006: nil) in relation to the share options granted by the Company.

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

33. DEFERRED TAXATION

The following are the major deferred tax liabilities (assets) recognised by the Group and movements thereon during the current and prior accounting periods:

	Accelerated tax depreciation HK$'000	Revaluation of properties HK$'000	Tax losses HK$'000	Other deferred tax assets HK$'000	Total HK$'000
At 1 January 2006	1,747	5,122	(85)	(171)	6,613
Charge (credit) for the year	1,328	791	(139)	171	2,151
At 31 December 2006	3,075	5,913	(224)	–	8,764
Charge (credit) for the year	1,515	1,999	(486)	(331)	2,697
At 31 December 2007	4,590	7,912	(710)	(331)	11,461

At 31 December 2007, the Group had unused tax losses of HK$57,539,000 (2006: HK$67,169,000) available for offset against future assessable profits. A deferred tax asset has been recognised in respect of HK$4,060,000 (2006: HK$1,281,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$53,479,000 (2006: HK$65,888,000) due to the unpredictability of future profit streams. The unrecognised tax losses may be carried forward indefinitely.

At 31 December 2007, the Group had deductible temporary differences of HK$15,952,000 (2006: HK$10,293,000). A deferred tax asset has been recognised in respect of HK$1,895,000 (2006: nil) of such deductible temporary differences. No deferred tax asset has been recognised in respect of the remaining HK$14,057,000 (2006: HK$10,293,000) as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

34. ACQUISITION OF A SUBSIDIARY

On 2 January 2007, the Group acquired 51% equity interest in Hi-Level Technology Limited ("Hi-Level Technology"), a company engaged in the development and provision of integrated circuits, for a consideration of HK$31,177,000 (included transaction costs on acquisition of HK$1,177,000). The acquisition has been accounted for using the purchase method of accounting. The amount of goodwill arising as a result of this acquisition was HK$15,050,000.

34. ACQUISITION OF A SUBSIDIARY *(continued)*

The net assets acquired in the transaction, and the goodwill arising on acquisition, are as follows:

	Acquiree's carrying amount and fair value
	HK$'000
Net assets acquired:	
Plant and equipment	1,408
Available-for-sale investments	2,184
Inventories	80,573
Trade and other receivables	50,115
Taxation recoverable	2,358
Bank balances and cash	40,738
Trade and other payables	(145,754)
	31,622
Minority interests	(15,495)
Goodwill arising on acquisition	15,050
Total consideration satisfied by cash	31,177
Net cash inflow arising on acquisition:	
Cash consideration paid	(31,177)
Bank balances and cash acquired	40,738
	9,561

The goodwill arising on the acquisition of Hi-Level Technology is attributable to the anticipated profitability of the distribution of the Group's products in the new markets and the anticipated future operating synergies from the combination.

The subsidiary acquired during the year contributed approximately HK$812.8 million and HK$11.9 million to the Group's turnover and results for the year.

35. RETIREMENT BENEFITS SCHEME

The Group participates in both a defined contribution retirement benefits scheme which is registered under the Occupational Retirement Scheme Ordinance (the "ORSO Scheme") and a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme were offered a choice of staying within the ORSO Scheme, or switching to the MPF Scheme, whereas all new employees joining the Group on or after 1 December 2000 are required to join the MPF Scheme.

The retirement benefits cost of the ORSO Scheme and MPF Scheme charged to the consolidated income statement represents contributions payable to the funds by the Group at rates specified in the rules of the schemes. Where there are employees who leave the ORSO Scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

The employees employed in the Mainland PRC subsidiaries are members of the state-managed retirement benefits schemes operated by the Mainland PRC government. The Mainland PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under the schemes.

At 31 December 2007, the total amount of forfeited contributions, which arose upon employees leaving the ORSO Scheme and which are available to reduce the contributions payable in the future years, was HK$4,000 (2006: HK$4,000).

Under the MPF Scheme, no forfeited contributions are available to reduce the contributions payable in the future years.

36. PLEDGE OF ASSETS

At 31 December 2007, the following assets were pledged by the Group to banks in order to secure general banking facilities granted by these banks to the Group:

(a) investment properties and leasehold land and buildings with carrying values of HK$106,630,000 (2006: HK$83,200,000) and HK$95,246,000 (2006: HK$97,720,000), respectively;

(b) bank deposits of HK$62,543,000 (2006: HK$68,493,000);

(c) trade receivables of HK$167,007,000 (2006: HK$155,474,000);

(d) available-for-sale investments of HK$3,106,000 (2006: HK$2,865,000); and

(e) inventories of HK$100,582,000 (2006: HK$84,370,000).

37. OPERATING LEASE ARRANGEMENTS

The Group as lessee

	2007 HK$'000	2006 HK$'000
Minimum lease payments paid under operating leases in respect of rented premises:		
Related parties	–	145
Outsiders	2,730	1,763
	2,730	1,908

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises, which fall due as follows:

	2007 HK$'000	2006 HK$'000
Within one year	1,448	681
In the second to fifth year inclusive	476	–
	1,924	681

Operating lease payments represent rentals payable by the Group for certain of its office and warehouse. Leases are negotiated for lease terms of one to two years with fixed rental.

The Group as lessor

Property rental income earned during the year was HK$3,667,000 (2006: HK$3,433,000). The properties held have committed tenants for the next two (2006: two) years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	2007 HK$'000	2006 HK$'000
Within one year	3,220	3,205
In the second to fifth year inclusive	626	2,310
	3,846	5,515

38. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES

(I) Connected parties

During the year, the Group had significant transactions and balances with related parties, some of which are also deemed to be connected parties pursuant to the Listing Rules. The significant transactions during the year and balances at the balance sheet date with a substantial shareholder are as follows:

(a) *Transactions*

Name of party	Nature of transactions	2007 HK$'000	2006 HK$'000
Hon Hai Precision Industry Co., Ltd. ("Hon Hai") *(note)* and its subsidiaries	Purchases of electronic products	**43,641**	41,927
	Sales of electronic products	**347,943**	246,576

(b) *Balances*

Name of party	Nature of transactions	2007 HK$'000	2006 HK$'000
Hon Hai and its subsidiaries	Balance at 31 December		
	– trade receivables	**96,193**	71,972
	– trade payables	**13,102**	14,450

Note: Hon Hai is a substantial shareholder of the Company.

38. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES *(continued)*

(II) Related parties, other than connected parties

The significant transactions with related parties, other than connected parties, during the year, and significant balances with them at the balance sheet date, are as follows:

(a) Transactions

Name of party	**Nature of transactions**	**2007 HK$'000**	2006 HK$'000
Varitronix International Limited *(note)* and its subsidiaries	Purchases of electronic products	**111**	1,136
	Sales of electronic products	**8,574**	71,384
	Rental expenses paid by the Group	**–**	145
Venturers of Kitronix Limited	Sales of electronic products	**16,496**	–
Associates:			
Bestime Technology Development Limited	Sales of electronic products	**95**	221
Now Electron Inc.	Sales of electronic products	**5,069**	8,685

(b) Balances

Name of party	**Nature of transactions**	**2007 HK$'000**	2006 HK$'000
Varitronix International Limited *(note)* and its subsidiaries	Balance at 31 December		
	– trade receivables	**–**	7,639
	– trade payables	**–**	6
Venturers of Kitronix Limited	Balance at 31 December		
	– trade receivables	**3,410**	–
	– other receivables	**–**	667
Associates:			
Bestime Technology Development Limited	Balance at 31 December		
	– trade receivables	**760**	733
Now Electron Inc.	Balance at 31 December		
	– trade receivables	**969**	1,532

Note: Dr. Chang Chu Cheng, a director of the Company, retired as director of this company on 11 June 2007.

38. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES *(continued)*

(II) Related parties, other than connected parties *(continued)*

(c) Compensation of key management personnel

The compensation of directors of the Company for both years are set out in note 9.

39. BALANCE SHEET OF THE COMPANY

The balance sheet of the Company at 31 December 2007 are as follows:

	2007	2006
	HK$'000	HK$'000
Non-current assets	**33,645**	33,645
Current assets	**401,121**	440,505
Current liabilities	**183,749**	222,610
Net current assets	**217,372**	217,895
	251,017	251,540
Capital and reserves		
Share capital	**25,949**	24,254
Share premium and reserves *(note)*	**225,068**	227,286
	251,017	251,540

39. BALANCE SHEET OF THE COMPANY *(continued)*

Note:

	Share premium HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Share options reserve HK$'000	Accumulated profits (losses) HK$'000	Total HK$'000
At 1 January 2006	10,992	1,109	194,835	–	(1,495)	205,441
Profit for the year	–	–	–	–	38,823	38,823
Dividends paid	–	–	(16,978)	–	–	(16,978)
At 31 December 2006	10,992	1,109	177,857	–	37,328	227,286
Issue of shares	18,306	–	–	–	–	18,306
Recognition of equity-settled share-based payment expenses	–	–	–	430	–	430
Loss for the year	–	–	–	–	(1,043)	(1,043)
Dividends paid	–	–	(19,911)	–	–	(19,911)
At 31 December 2007	29,298	1,109	157,946	430	36,285	225,068

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 December 2007 and 31 December 2006 are as follows:

Name of subsidiary	Place of incorporation/ operations	Nominal value of issued and paid up share capital	Proportion of issued share capital held by the Company 2007 %	2006 %	Principal activities
Dragon Trading Limited	British Virgin Islands	Ordinary US$40,000	**100**	100	Investment holding
Hi-Level Technology Limited	Hong Kong	Ordinary HK$25,000,000	**51**	-	Distribution of electronic products
HAS Electronic Company Limited	Hong Kong	Ordinary HK$1,000,000	**85**	85	Distribution of electronic products
RSL Electronic Company Limited	Hong Kong	Ordinary HK$5,000,000	**100**	100	Distribution of electronic products
RSL Microelectronics Company Limited	Hong Kong	Ordinary HK$500,000	**100**	100	Distribution of electronic products
S.A.S. Electronic Company Limited	Hong Kong	Ordinary HK$1,000,000	**100**	100	Distribution of electronic products

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Particulars of the Company's principal subsidiaries at 31 December 2007 and 31 December 2006 are as follows:

Name of subsidiary	Nominal value Place of incorporation/ operations	Proportion of issued and paid up share capital	of issued share capital held by the Company 2007 %	2006 %	Principal activities
S.A.S. Enterprises Company Limited	Hong Kong	Ordinary HK$100	**100**	100	Distribution of electronic products
		Non-voting deferred* HK$1,000,000	**100**	100	
S.A.S. Investment Company Limited	Hong Kong	Ordinary HK$100	**100**	100	Property and investment holding
		Non-voting deferred* HK$1,000,000	**100**	100	
SMartech Electronic Company Limited	Hong Kong	Ordinary HK$1,000,000	**70**	70	Distribution of electronic products
Sportline Limited	Hong Kong	Ordinary HK$200,000	**100**	100	Distribution of sports products
時捷電子科技(深圳)有限公司**	Mainland PRC	HK$20,000,000	**100**	100	Distribution of electronic products

* *The non-voting deferred shares practically carry no rights to dividends or to receive notice of or to attend or vote at any general meetings of the company or to participate in any distribution on winding up.*

** *Foreign wholly-owned enterprise*

With the exception of Dragon Trading Limited and S.A.S. Investment Company Limited, all the subsidiaries are indirectly held by the Company.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

Particulars of Investment Properties

Location	Lot No.	Category of lease	Use
Units 1 and 2 on Ground Floor and Carparking spaces Nos. B20, B21 and B22 on Basement Floor, Peninsula Square, Sung On Street, Hunghom, Kowloon, Hong Kong	11623/588444 shares of Kowloon Inland Lot No. 10985	Medium term	Commercial
Flat B on 16th Floor of Block 5 Royal Peninsula, No. 8 Hung Lai Road, Kowloon, Hong Kong	176/380954 shares of Kowloon Inland Lot No. 11084	Medium term	Residential
Flat B on 17th Floor of Block 5 Royal Peninsula, No. 8 Hung Lai Road, Kowloon, Hong Kong	176/380954 shares of Kowloon Inland Lot No. 11084	Medium term	Residential
Flat B on 19th Floor of Block 5 Royal Peninsula, No. 8 Hung Lai Road, Kowloon, Hong Kong	176/380954 shares of Kowloon Inland Lot No. 11084	Medium term	Residential
Unit 10 on 5th Floor Po Lung Centre, No. 11 Wang Chiu Road, Kowloon, Hong Kong	10/1936 shares of Kowloon Inland Lot No. 5850	Medium term	Commercial
House C1 of Stage II, Marina Cove, 380 Hiram Highway, Hebe Haven, Sai Kung, Hong Kong	1318/1000000 shares of Lot No. 526	Medium term	Residential

The Group has 100% interest in the above properties.

Financial Summary

RESULTS

	For the year ended 31 December				
	2003	2004	2005	2006	**2007**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Turnover	1,848,307	2,407,088	2,453,638	2,301,140	**3,499,789**
Profit before taxation	32,413	52,256	50,891	27,521	**62,973**
Taxation	(5,335)	(7,929)	(8,126)	(5,149)	**(9,884)**
Profit for the year	27,078	44,327	42,765	22,372	**53,089**
Attributable to:					
Equity holders of the Company	23,527	35,108	40,110	18,201	**45,282**
Minority interests	3,551	9,219	2,655	4,171	**7,807**
	27,078	44,327	42,765	22,372	**53,089**

ASSETS AND LIABILITIES

	At 31 December				
	2003	2004	2005	2006	**2007**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total Assets	901,426	983,642	1,214,528	1,196,686	**1,558,273**
Total Liabilities	(587,881)	(636,550)	(843,381)	(822,845)	**(1,114,087)**
Net Assets	313,545	347,092	371,147	373,841	**444,186**
Equity attributable to equity holders of the Company	301,874	340,237	364,637	366,160	**413,203**
Minority interests	11,671	6,855	6,510	7,681	**30,983**
Total Equity	313,545	347,092	371,147	373,841	**444,186**