ANNUAL REPORT 07

# Sunlink, your link to mWorld

Sunlink International Holdings Limited
科 浪 國 際 控 股 有 限 公 司

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

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# CORPORATE INFORMATION

## EXECUTIVE DIRECTORS

Wong Shu Wing *(Chairman)*
Choi Tat Kai
Han Yang
Liu Shun Keung

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Yeung Ming Tai
Sun Hanxu
Chan Kwok Ming Daniel

## COMPANY SECRETARY

Lee Chak To

## PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Bank of Communications Co., Limited
(Hong Kong Branch)
CITIC Ka Wah Bank Limited
DBS Bank (Hong Kong) Limited
Hang Seng Bank Limited
Shanghai Commercial Bank Limited
The Hong Kong and Shanghai Banking
Corporation Limited
Wing Hang Bank Limited

## AUDITOR

Deloitte Touche Tohmatsu

## REGISTERED OFFICE

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

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Limited
P.O. Box 705
Butterfield House
68 Fort Street
George Town
Grand Cayman
Cayman Islands
British West Indies

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

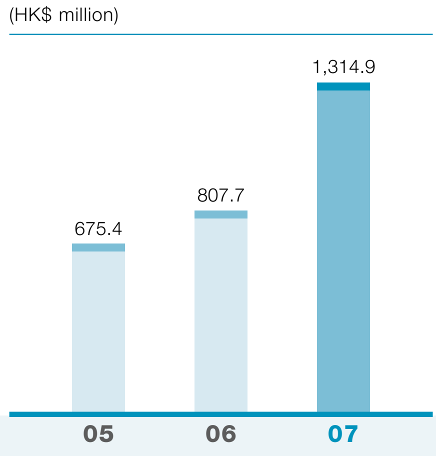
## WEBSITE

http://www.sunlink.biz

# FINANCIAL HIGHLIGHTS

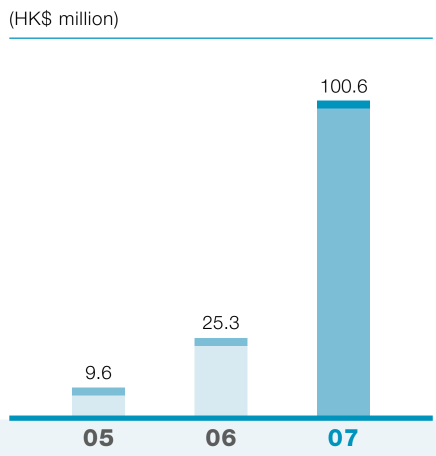
## TURNOVER

Turnover for 2007 Growth 62.8%
to HK$1,314.9 million from 2006



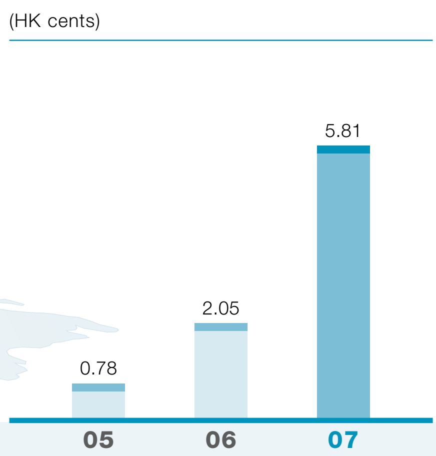

## NET PROFIT

Net Profit for 2007 increased 297.2%
to HK$100.6 million from 2006




## EARNINGS PER SHARE

Earings per share increased 183.4% to
HK cents 5.81 per share from 2006



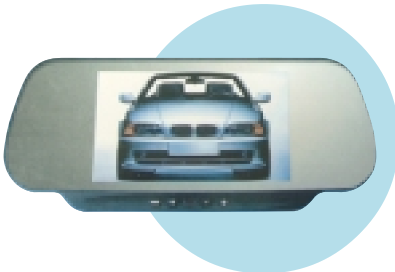
# CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "Board"), I hereby announce the audited financial results of Sunlink International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2007.

In 2007, the Group demonstrated that we are a strong and fast growing enterprise delivering excellent results. The Group's revenue in 2007 was approximately HK$1,314.9 million, a 62.8% increase over 2006. The Group's profit for 2007 grew 297.2% to HK$100.6 million and earning per share rose 183.4% to HK cents 5.81.

We are very pleased with our outstanding results. They are proof that our strategy to improve product mix has been effective. The result of Auto Devices and Parts ("Auto") and Wireless Devices and Solutions ("Wireless") businesses were impressive as the strategy enabled us to capture increasing demand for Auto and Wireless products during the year. In 2007, not only had we achieved record high annual turnover and profit, but also evolved from a pure distributor to an industrial wireless communication devices and solutions provider.

## CHAIRMAN'S STATEMENT




However, 2007 is a history. While we are proud of our accomplishments, our sight are clearly set on the future, with many more exciting plans for outstanding new products and for how we go to market. We expect to continue to reap fruits in 2008 from the successful execution of longer term strategies back in 2004-2007. We will continue to prove our capability in continuous product innovation, business development and commercialization. Building on our highly competitive, top-notch industrial graded wireless communication modules and solutions for the wireless communication and GPS industries, we will continue to offer superior products and solutions that enable our customers to compete even more effectively in their respective industries.

We are confident that we can continue to expand our business and attain the best possible long term returns for our shareholders.

**Wong Shu Wing**
*Chairman*

Hong Kong,
15 April 2008

# DIRECTORS AND SENIOR MANAGEMENT PROFILES

## EXECUTIVE DIRECTORS

**Dr. Wong Shu Wing**, aged 45, is the Chairman of the Group. Dr. Wong is responsible for formulating the Group's overall corporate strategies and business development. He is also responsible for convening and chairing the Board meetings. He is the founder of the Group and has over 20 years of experience in the electronic and wireless communication industries. Dr. Wong is also the pioneer in the region leading the wireless communication market and automobile electronics in technology and business development. Dr. Wong has been awarded the "World Outstanding Chinese" from the World Outstanding Chinese Association and the "Young Industrialist Award of Hong Kong" from the Federation of Hong Kong Industries. He holds an Honorable Doctoral degree in Business and Administration from Adam University, U.S.A.

**Mr. Choi Tat Kai**, aged 36, is the Chief Operating Officer of the Group. Mr. Choi is responsible for overseeing the daily operations of the Group ensuring the fulfillment of the corporate objectives and customer expectations. He also assists the Chairman in overseeing the Group's sales and marketing activities and implementing the Group's sales and marketing strategies. Mr. Choi joined the Group in July 1994. He holds a Bachelor of Science degree in Applied Physics from the City University of Hong Kong.

**Mr. Han Yang**, aged 40, is the General Manager of Jun Tai Yang Technologies (Shenzhen) Ltd., a wholly-owned subsidiary of the Group. Mr. Han is responsible for overall monitoring, control and review of operations and regional sales representatives in China. He has over 15 years of experience in the electronic technology industry. He joined the Group in October 2004.

**Mr. Liu Shun Keung**, aged 36, holds several positions in the Group, namely the Chief Technical Officer of the Group, the Director of Spaceinet Sunlink Limited and the Director of Hong Kong Cab ITS Limited. Mr. Liu is responsible for overall monitoring, control and review of M2M products and draws the product road map of the Group. Mr. Liu has over 14 years of experience in the technology industry and project management. Prior to joining the Group in April 2005, he was the Solution Manager of Esri China (Hong Kong) Limited. He holds a Bachelor degree in Computer Science and Business System from Monash University, Australia.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Yeung Ming Tai**, aged 45, was appointed as an Independent Non-executive Director of the Company in August 2002. Mr. Yeung has been practicing as a Certified Public Accountant in Hong Kong for over 13 years. Mr. Yeung is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. He holds an Honours diploma in Accountancy from Lingnan University.

**Professor Sun Hanxu**, aged 48, was appointed as an Independent Non-executive Director of the Company in April 2007. Professor Sun is the Head of School of Automation, Beijing University of Posts and Telecommunications and the Doctoral Students Supervisor at Beihang University in the PRC. Professor Sun is also one of the expert members of the State High-Tech Research and Development Plan (863 Program). He holds a Bachelor degree, a Master degree and a Doctoral degree in Engineering.

**Mr. Chan Kwok Ming Daniel**, aged 47, was appointed as an Independent Non-executive Director of the Company in September 2007. Mr. Chan has over 20 years of experience in trading business. He previously worked as the Managing Director of Linx Asia Limited from 1987 to 2003. He currently serves as the General Manager of Colamark Asia Limited. He graduated from the University of Hong Kong with a Bachelor degree in Engineering and holds a Master degree in Business Administration from the Southern Illinois University at Carbondale, Illinois, U.S.A.



## SENIOR MANAGEMENT

**Mr. Chan Chi Mo**, aged 35, is the Senior Marketing Manager of the Group. Mr. Chan is responsible for sales and marketing of semiconductor distribution and micro-controller units solution development for Mobile Phone ("MP") and Micro-controller Units ("MCU") Solution Distribution Business Unit. He joined the Group in July 1995. Mr. Chan holds a Bachelor of Science degree in Physics from the Chinese University of Hong Kong.

**Mr. Chan Ka Tak**, aged 44, is the Chief Executive Officer of the Group. Mr. Chan is responsible for general management. He also takes part in business relating to communication and networking products. Prior to joining the Group in September 2003, he possessed over 15 years of experience in administration, sales and marketing. Mr. Chan holds a Bachelor degree in Social Science and a Master degree in Business Administration from the Chinese University of Hong Kong.

**Mr. Lam Wai Keung**, aged 45, is the Business Development Director of the Group. Mr. Lam is responsible for overseeing the strategic and business development of M2M Products Integrated Business Unit and group marketing. Prior to joining the Group in March 2006, he gained over 15 years of experience in research and business development of GPS and GIS products and services. Mr. Lam holds a Bachelor of Science degree in Surveying Engineering from the University of New Brunswick, Canada and a Master of Science degree in Surveying Engineering from the University of Calgary, Canada.

**Mr. Lee Chak To**, aged 36, is the Chief Finance Officer of the Group and the Company Secretary of the Company. Mr. Lee is responsible for the Group's financial and tax reporting. Prior to joining the Group in May 2002, he gained over 10 years of experience in auditing, accounting and financial management. Mr. Lee is a member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. He holds a Bachelor degree in Business Administration from the Chinese University of Hong Kong.

**Dr. Wang Jian Wei**, aged 44, is the Vice President of the Group. Dr. Wang is responsible for the Group's product management including monitoring, review and control of the products' quality as well as R & D of the products. Prior to joining the Group in May 2006, he gained over 23 years of experience in wireless communication and computer system, and was a member of the Chinese Society of Aeronautics and Astronautics and the Chinese Association of Automation. Dr. Wang holds a Bachelor degree and a Master degree in Engineering from Beihang University, China, and a Doctor degree in Engineering from Tsinghua University, China.

## DIRECTORS AND SENIOR MANAGEMENT PROFILES

**Mr. Wang Zheng**, aged 38, is the Operation Manager of the Group. Mr. Wang is responsible for the operation management in mainland China, including quality assurance, marketing communication, administration and human resources management. Prior to joining the Group in January 2005, he gained over 11 years of experience in engineering, quality assurance, human resources and administration. Mr. Wang holds a Bachelor degree in Engineering from East China University of Science and Technology and a Master degree in Business Administration from Tsinghua University, China.



**Mr. Wei Lei**, aged 56, is the Vice President of the Group. Mr. Wei is responsible for the automotive device of the Group including its quality control, R & D, and sales and marketing. Prior to joining the Group in December 2007, he possessed over 17 years of experience in electronic devices and engineering. He was the project leader of TDFH Communicative Solutions of the PRC Government. Mr. Wei holds Bachelor degrees in Japanese from Shanghai Normal University, China, in Wireless Communications from Beijing University of Posts and Telecommunications, China, in Chinese Language and Literature from Beijing Normal University, China, and in Journalism from Renmin University of China.

**Mr. Xu Min**, aged 41, is the Engineering Project Manager of the Group. Mr. Xu is responsible for wireless communication development as well as engineering projects control and quality assurance. Prior to joining the Group in October 2005, he gained over 18 years of experience in the computer technology, GIS, embedded product developing technology and project management. Mr. Xu holds a Bachelor of Science degree in Electronic Information Processing from the Northwest University, U.S.A.

# MANAGEMENT DISCUSSION AND ANALYSIS



## FINANCIAL REVIEW

### Overall Review

For the year ended 31 December 2007, the Group recorded a significant increase of approximately 297.2% in net profit comparing with 2006. The turnover and net profit of the Group for the year ended 31 December 2007 amounted to approximately HK$1,314.9 million and HK$100.6 million respectively. The notable accomplishment that the increase of turnover of 62.8% brought the Group the significant increase of net profit of 297.2% for the year under review was mainly attributable to the Group's effort in capturing the rising demand for the products under the Auto Business and Wireless Business.

In 2007, the Group recorded a significant increase of approximately 957.4 % and 101.7% in the turnovers of Auto Business and Wireless Business respectively compared with 2006. The turnovers for Auto Business, Wireless Business and Semiconductor & Related ("Semicon") Business are approximately HK$381.6 million (2006: HK$36.1 million), HK$260.7 million (2006: HK$129.2 million) and HK$672.6 million (2006: HK$642.4 million) respectively. The total turnover of the Group was approximately HK$1,314.9 million (2006: HK$807.7 million), an increase of approximately 62.8% comparing with 2006. Net profit for the fiscal 2007 of the Group was approximately HK$100.6 million (2006: HK$25.3 million).

The selling and distribution costs were increased by approximately HK$4.4 million while general and administrative expenses were increased by approximately HK$12.3 million. The increase of selling and distribution costs was mainly due to greater expenses incurred for team of salesman in the current year. The increase of general and administrative expenses was mainly attributable to additional costs incurred for new management and relevant operations to match with the growth of auto devices and parts business. As a result, the profit of the Group for the year ended 31 December 2007 amounted to approximately HK$100.6 million, representing an increase of approximately 297.2% as compared with that of prior year.

### Financial Resources and Liquidity

As at 31 December 2007, the Group had bank balances and cash of approximately HK$100.8 million (2006: HK$69.4 million). The Group had total assets of approximately HK$568.5 million (2006: HK$317.1 million) which was financed by current liabilities of approximately HK$262.5 million (2006: HK$196.7 million), minority interests of approximately HK$1.1 million (2006: HK$0.8 million) and shareholders' equity of approximately HK$304.7 million (2006: HK$119.3 million). The current ratio was approximately 2.1 (2006: 1.6) and the gearing ratio of the Group was approximately 38.1% (2006: 54.3%). The gearing ratio has been calculated based on the total borrowings to the sum of equity attributable to equity holders of the Company and total borrowings of the Group.

The total facilities granted to the Group by its bankers amounted to approximately HK$221.0 million (2006: HK$163.0 million). The management believes that the Group has adequate financial resources for its business requirement for the year as well as its forecast requirement for the coming year.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Treasury Policies

The Group generally finances its operations with internally generated resources and banking facilities provided by the banks in Hong Kong. The banking facilities are mainly trust receipt loans and invoice finance tenor up to 120 days from the invoice date. The bank interest rate is mainly fixed by reference to the Hong Kong Interbank Offered Rate for Hong Kong dollars loans and London Interbank Offered Rate for United States dollars loans.



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

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

### Charges on Assets

The Group's certain bank deposits were pledged to its bankers to secure certain banking facilities granted to the Group.

### Contingent liabilities

The Group did not have any significant contingent liabilities as at 31 December 2007.

### Employees and Remuneration Policies

As at 31 December 2007, the Group had approximately 153 employees (2006: 122). The Group remunerates its employees based on their performance and the prevailing industry practices. The Board reviews the remuneration policy and package on a periodical basis. Bonus and share options may be awarded to employees based on the performance appraisal.

## BUSINESS REVIEW

The Group's mission is to be a global market leader in industrial wireless communication. During the year, the Group has obtained the leading position in Asia in industrial wireless communication based on its 20 years of experience in wireless communications and electronics applications, its strong research and development capabilities and its stringent quality management.

Industrial wireless communication devices have much higher requirements in terms of their specifications, quality and reliability in comparison to those used in the consumer electronic sector, we call them as "M2M products". The core components of industrial wireless communication devices are the industrial wireless communication module. The company's KENJI mCar Terminals ("Vehicle Black Box") was developed based on the industrial wireless communication module. Apart from terminals for vehicle tracking and monitoring, the Group has also developed other devices and solutions such as Automatic Metering Reader, POS machine and VAT Controller etc.

## MANAGEMENT DISCUSSION AND ANALYSIS



During the year, the Group recorded a significant growth of 297.2% in net profit as a result of sales of "Vehicle Black Box" and other industrial wireless communication modules and devices.

As a result of the continuous expansion of the Group, the management of the Group identifies (i) Auto Business; and (ii) Wireless Business, which were included in development and provision of electronic turnkey device solutions in prior year, as two additional reportable business segments in current year.

Having these achievements, the Group has committed to the following strategies during the year.

– Alliance – form strong business partnerships with both suppliers and distributors to have more rapid business growth.

– Branding – focus on brand building to extend its sales network and strengthen the Sunlink International brand, products and customer service.

– Commercialization – diversify products with the support of its strong research and development teams and partnerships with universities in order to meet industrial requirements.

Major corporate activities undertaken in 2007 were summarized as follows:

| | |
|---|---|
| February: | Established Intelligent Transportation System Research Laboratory with Macau University of Science and Technology and CASTEL SpaceiNet (Macau) Communications Co. Limited aiming at promoting the application and research of Intelligent Transportation System in Macau. |
| May: | Signed a letter of intent with Xinyi Glass Holdings Limited in relation to a proposed cooperation of distributing the Group's automobile related electronic products via Xinyi Glass's global sales network. |
| July: | Through a co-owned company with Wavecom S.A. to develop and support products or solutions that address wireless machine-to-machine applications using development licenses of Wavecom's Open AT® software Suite and its wireless CPU® components, including the latest wireless Microprocessor® technologies. |
| October: | Signed distribution agreements with six new regional sales agents, who will sell the Group's Automatic Vehicle Locative products and solutions, including KENJI Vehicle Black Box, portable navigation device, rearview LCD display and other auto parts in China. |

## MANAGEMENT DISCUSSION AND ANALYSIS

November: Through a joint venture company with Concord Pacific Satellite Technologies Limited to develop and provide intelligent transportation solutions and products.

Set up the Provincial Operation Center for Central China Sales Agent in Hunan.



December: Introduced the first intelligent transportation technology for taxi service in Hong Kong.

### Auto Business

During the year, the Group is pleased to announce that Auto Business achieved a significant development in 2007. Its revenue increased from approximately HK$36.1 million to approximately HK$381.6 million, representing an increase of nearly 9.6 times from the year of 2006.

The significant increase of shipment of KENJI mCar Terminals compared with 2006 is in light of the booming demand in intelligent transportation systems. In 2006, the Group mainly focused on the development of the application system for logistic companies, of which the products include Vehicle Black Box and VTrack4U Fleet Management. While in 2007, the Group also developed a number of application systems, including an intelligent Taxi Dispatch System, Bus Dispatch System and Marine Security Tracking System for yacht fleet. With quality products and advanced technologies, the Group has been meeting the demands of customers from different industries through its professional services.

### Wireless Business

During the year, the revenue of Wireless Business increased from approximately HK$129.3 million to approximately HK$260.7 million, representing an increase of approximately 101.7% from the year of 2006. For the shipment of modules, it reached approximately 0.9 million for the year of 2007, representing an increase of nearly 191.5% from the year of 2006.

The increase in revenue was attributable to the development by the Group of diversified wireless communication terminals, parts and application software for various application industries. The Group provided total solutions for diverse markets, empowering companies to quickly and broadly apply wireless communication technology in the rapidly changing business environment. These included the solutions applied in electricity meters and water meters for public utilities, Fixed Cellular Terminals, Personal Tracking Devices and Automatic Vending Machines. With the increasing availability of wireless communication networks and technological advancements, the industries such as transportation, public utilities and energy, finance and insurance, communications and networks, and security, etc., all now involve the use of these applications. After forming the joint venture Company with Wavecom S.A. and with the cooperation with Wavecom S.A., the Group successfully embedded its key technology in manufacturing industrial wireless communication into Sunlink-branded modules, which can be widely used in different wireless communication solutions for different industries.

## Semicon Business

During the year, the Group managed to maintain its level of revenue and profit margin amid fierce competition in the semiconductor distribution industry compared with 2006. As the rapid growth of Auto Business as well as Wireless Business, the revenue of Semicon Business attributed to approximately 51.2% of the Group's revenue, which dropped from nearly 79.5% in 2006. As the Auto Business and Wireless Business have become more and more mature, the Group expects that the synergies between the Group's Semicon Business and Auto Business as well as Wireless Business would impose greater influence on the Group's overall profit.



## Corporate Governance and Investors Relation Strategy

Unlike traditional business operations in the stock markets, the Group understands that its business nature is not easily understood by the investing community in Asia and believes that a more proactive channel of communication needs to be established to explain our business models and the potential of the market for industrial wireless communication globally.

The Group continued to pay great efforts to enhance investor relations during 2007 and the Group has established various means of communication channels in order that the Group's management philosophy, operations, and future investment and development strategies are communicated to existing shareholders and the investing community.

During the year, representatives from the Group met with the investors and relevant parties for a total attendance of 345.

In 2007, the Group participated in corporate briefings to financial institutions organized by various international securities houses, including CLSA Limited, Daiwa Securities SMBC Hong Kong Limited, Kingsway Financial Services Group Limited, Mega Capital (Asia) Co. Ltd. and Mirae Asset Investment Management Co. Ltd in Hong Kong, Singapore, Korea, Taiwan and Mainland China.

The Board believes that an effective practice in corporate governance and a disciplined approach to build a platform of communication with the investing community for industrial wireless communication companies could generate better value for the Group in the long term and achieve better shareholders' value.

MANAGEMENT DISCUSSION AND ANALYSIS

## PROSPECTS

Following the Group's successes in 2007, the Group will continue to implement its business strategies in the two growing businesses, auto and wireless business.

### Auto Business



The demand for intelligent transportation systems is increasing as many developed and developing countries face with the problems of traffic accidents and traffic congestion. The industrial wireless communication device is a major element in the master plan for the future development of intelligent transportation system. The Group will capture these booming demands by followings:

a) Expand its sales channels
b) Enrich its products

***a) Expand its sales channels***

With appointment of six PRC Regional Sales Agents (the "Agents") in the third quarter of 2007, the six Agents will develop more than 720 sales points and will purchase not less than 300,000 units of KENJI Vehicle Black Box in the coming 12 months from the agreement date. The Group is confident that the six Agents will bring positive contribution to the Group's turnover and profit in 2008. Therefore, apart from the six Agents, the Group will continue to strengthen its sales network by appointing more sales agents in PRC as well as oversea in 2008.

***b) Enrich its products***

Apart from KENJI Vehicle Black Box and VTRACK4U for logistic companies, the Group had developed different terminals and solutions for Bus, Taxi and Yacht in 2007. With the strong customers' response, the Group expected that those new products developed in 2007 will lead to increase in revenue and profit of 2008. Therefore, with the supports of universities and alliance, the Group will continue to develop different products and solution for different vehicles or moving objects.

### Wireless Business

Business of M2M Industry Specific Application is growing with stronger momentum in 2007, from the aspect of both volume of terminals and wide spread of applications, with more advanced mobile telecommunication technology, every business is willing to utilize mobile telecommunication technology to gain efficiency and real-time access to its business. M2M Industry Specific Application is gradually applying to every business.

With the Group's success in providing modules, devices and solutions in the market of the public electricity industry, the Group has become Asia's market leader in M2M industrial wireless communication modules, devices and solutions.

Being a pioneer in this field of Asia, in July 2007, the Group cooperated with Wavecom S.A. and successfully manufactured its own industrial wireless communication modules branded with Sunlink in December 2007. With this highly cost-effective wireless communication modules and cooperation with universities such as Beijing University of Posts and Telecommunication and South China University of Technology, the Group will develop other industrial applications and solutions for other markets, such as public utilities and energy, finance and insurance, communication networks, and security etc. to capture the growth of M2M market. In order to strengthen its leadership position in the industry, the Group will continue to form partnership with major players in the industry. Apart from technology partners and distributers, telecommunication operators such as China Mobile Limited in China, Hong Kong CSL Limited and call center operators such as Sege and Huaqiang in PRC are the next targets for forming alliance in 2008.



### Semicon Business

Semiconductor business will remain as the major source of revenue for the Group in this coming year. The management will continue the proven strategy in the past year to maintain the segment's profit margin. In addition, the management will pay special attention to boost the synergies between its semiconductor business and the growing power metering and auto devices and parts business to strengthen its overall business performance.

### Conclusion

Looking ahead, the Group expects industrial wireless communication modules to become its major growth driver in the year to come. The market for the product type is expected to grow at a CAGR (Compounded Annual Grow Rate) of 29.5% between 2006 and 2011.

Nothing better illustrates the opportunities and the evolution of the business than the Group's results. Being the market leader in the industry, the Group understands that there are many challenges and risks associated with the industry. The Group will keep reviewing and responding accordingly in applying its business strategies. The Group is optimistic about its outlook in 2008 and is in a state of readiness to actively explore and pursue different expansion possibilities.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2007.

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICES

The Company acknowledges the importance of good corporate governance practices that they will enable the Company to better manage its business risks and ensure the Company is run in the best interests of its shareholders. It thus aims at complying with, where appropriate, all Code Provisions set out in Appendix 14 Code of Corporate Governance Practices ("Code") of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules").

The Company has complied with the Code Provisions throughout the accounting year ended 31 December 2007.

## BOARD OF DIRECTORS

The Board comprises of three Executive Directors in 2007, being Dr. Wong Shu Wing (Chairman), Mr. Choi Tat Kai and Dr. Lau Kit Hung; and five Independent Non-executive Directors, being Mr. Yeung Ming Tai, Mr. Chang Kin Man, Ms. Wong Lai Ying Cecilia, Prof. Sun Hanxu and Mr. Chan Kwok Ming Daniel. Executive Director of Dr. Lau Kit Hung resigned due to his personal reasons on 30 September 2007. Independent Non-executive Directors of Mr. Chang Kin Man and Ms. Wong Lai Ying Cecilia resigned due to their personal reasons on 18 April 2007 and 28 September 2007 respectively. New Executive Directors namely, Mr. Han Yang and Mr. Liu Shun Keung were appointed with effect from 17 January 2008. New Independent Non-executive Directors namely, Prof. Sun Hanxu and Mr. Chan Kwok Ming Daniel have joined the Company with effect from 18 April 2007 and 28 September 2007 respectively. Biographical details of the Board are provided in the section of "Directors and Senior Management Profile" of the Annual Report 2007.

The Independent Non-executive Directors have entered into service agreements with the Company for an initial term of one year and would continue thereafter from year to year until terminated by either party with one month's notice in writing served on the other side. They are subject to retirement by rotation and re-election at the annual general meeting of the Company at least once every three years in accordance with Article 87 of the Company's Articles of Association.

The role of the Board is to provide high-level guidance and oversight. Apart from exercising all the powers and authorities and discharging its duties under the law, the Board is responsible for formulating the overall corporate strategic direction, monitoring and controlling the performance of the Group. It also reviews and approves annual financial budgets and major transactions. The Board delegates its power to the management team consisting of Chief Executive Officer, Chief Operation Officer, Chief Finance Officer and Chief Technical Officer etc. headed by CEO to manage day-to-day operations of the Group.

All Directors have access to the advice and service of the Company Secretary in a view to ensure that the Board meeting procedures and all applicable rules and regulations are followed. Draft and final versions of minutes of Board meetings are sent to all Directors for comment and records respectively. The Directors can obtain independent professional advice at the Company's expenses. Directors or any of their associates having a material interest in a matter to be considered will not be counted in the quorum of the meeting and will abstain from voting on the relevant resolution. The proceedings of the Board follow all the relevant Code Provisions.

The Board meets regularly throughout the year and at least four times a year. In 2007 there were 32 meetings held. The attendance of Directors at the Board meetings held during the period is as follows:

| **Name of Directors** | **Attendance/Number of Board Meetings Held** |
|---|---|
| *Executive Directors* | |
| Wong Shu Wing | 32/32 |
| Choi Tat Kai | 32/32 |
| Lau Kit Hung *(resigned on 30 September 2007)* | 23/29 |
| Han Yang *(appointed on 17 January 2008)* | Not Applicable |
| Liu Shun Keung *(appointed on 17 January 2008)* | Not Applicable |
| | |
| *Independent Non-executive Directors* | |
| Yeung Ming Tai | 13/32 |
| Chang Kin Man *(resigned on 18 April 2007)* | 4/17 |
| Wong Lai Ying Cecilia *(resigned on 28 September 2007)* | 11/29 |
| Sun Hanxu *(appointed on 18 April 2007)* | 8/16 |
| Chan Kwok Ming Daniel *(appointed on 28 September 2007)* | 0/3 |

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Chairman of the Group is Dr. Wong Shu Wing and the Chief Executive Officer is Mr. Chan Ka Tak. The roles of the Chairman and the CEO are segregated. This segregation ensures a clear distinction between the Chairman's responsibility to manage the Board and the CEO's responsibility to manage the Group's operation. There is no financial, business, family, material or other relevant relationship between the Chairman and the CEO.

## AUDIT COMMITTEE

The Company has established the Audit Committee since 2003. The role of the Audit Committee is to assist the Board in considering how it will apply the financial reporting and internal control principles and to cooperate with the Company's external auditors.



The Audit Committee has specific written Terms of Reference which deal clearly with its authority and duties. The Terms of Reference of the Audit Committee has been prepared in late December 2004 to include the duties set out in Code Provision C.3.3 (a) to (n), with modifications where necessary. They have been posted to the Company's website at www.sunlink.biz and are also available in writing upon request to the Company Secretary. The Audit Committee shall have power to hire independent legal, financial or other advisors, as it may deem necessary, with prior approval from the Board.

The members of the Audit Committee are Independent Non-executive Directors. The Audit Committee was chaired by Mr. Chang Kin Man and its other members were Mr. Yeung Ming Tai, Ms. Wong Lai Ying Cecilia, Prof. Sun Hanxu and Mr. Chan Kwok Ming Daniel in 2007. Mr. Chang King Man resigned on 18 April 2007 and Prof. Sun Hanxu was appointed to replace him with effect from 18 April 2007. Ms. Wong Lai Ying Cecilia resigned on 28 September 2007 and Mr. Chan Kwok Ming Daniel was appointed to replace her with effect from 28 September 2007. The Audit Committee is chaired by Mr. Yeung Ming Tai with effect from 18 April 2007.

The work performed by the Audit Committee during the year of 2007 included:

- Review on the audited accounts and annual results announcement for the year of 2006;
- Review the interim report and interim results announcement for the six months ended 30 June 2007;
- Meeting with the external auditors and management of the Company to discuss issues arising from the audit of annual accounts and interim accounts;
- Considering and recommending adoption of new accounting policies and standards;
- Review on and approving the remuneration in respect of audit and non-audit services provided by the external auditors;
- Review on the Terms of Reference of the Audit Committee; and
- Review on internal checking.

The Audit Committee meets regularly throughout the year and at least twice a year. In 2007 there were 2 meetings held. The attendance of members of the Audit Committee meetings held during the period is as follows:

| Name of Directors | Attendance/Number of Audit Committee Meetings Held |
|---|---|
| *Independent Non-executive Directors* | |
| Yeung Ming Tai | 2/2 |
| Chang Kin Man *(resigned on 18 April 2007)* | Not Applicable |
| Wong Lai Ying Cecilia *(resigned on 28 September 2007)* | 2/2 |
| Sun Hanxu *(appointed on 18 April 2007)* | 2/2 |
| Chan Kwok Ming Daniel *(appointed on 28 September 2007)* | Not Applicable |

## REMUNERATION COMMITTEE

The Company has established the Remuneration Committee with specific Terms of Reference which deal clearly with its authority and duties since 1 January 2005. The role of the Remuneration Committee is to formulate and review the remuneration policy of the Directors and Senior Management and monitor the implementation of such policy.

The written Terms of Reference of the Remuneration Committee have included the specific duties set out in Code Provision B.1.3(a) to (f) of the Code, with appropriate modifications where necessary. They have been posted to the Company's website at www.sunlink.biz and are also available in writing upon request to the Company Secretary. The Remuneration Committee shall have power to hire independent legal, financial or other advisors, as it may deem necessary, with prior approval from the Board.

The members of the Remuneration Committee are Independent Non-executive Directors. The Remuneration Committee was chaired by Mr. Chang Kin Man and its other members were Mr. Yeung Ming Tai, Ms. Wong Lai Ying Cecilia, Prof. Sun Hanxu and Mr. Chan Kwok Ming Daniel in 2007. Mr. Chang King Man resigned on 18 April 2007 and Prof. Sun Hanxu was appointed to replace him with effect from 18 April 2007. Ms. Wong Lai Ying Cecilia resigned on 28 September 2007 and Mr. Chan Kwok Ming Daniel was appointed to replace her with effect from 28 September 2007. The Remuneration Committee is chaired by Mr. Yeung Ming Tai with effect from 18 April 2007.

## CORPORATE GOVERNANCE REPORT

The work performed by the Remuneration Committee during the year of 2007 included:

- Review on the remuneration policy of the Company;
- Review on the remuneration policy and package for Executive Directors and Senior Management;
- Assessing performance of Executive Directors and Senior Management;
- Review on the terms of Executive Directors' service agreements; and
- Review on the Terms of Reference of the Remuneration Committee.

The remuneration package of the Executive Directors and Senior Management is determined by the Remuneration Committee in consultation with the Chairman of the Board according to the remuneration policy. The key principles that underpin the remuneration policy are:

(a) remuneration must reflect the market in which the Group operates;

(b) key performance indicators will be applied to deliver results to the Group;

(c) remuneration is to be linked to the creation of value to shareholders; and

(d) remuneration is to reward both financial and non-financial performance.

The remuneration package consists of basic salary, fringe benefits, and short-term performance incentive. In addition, the Company has adopted the Share Option Scheme which is a kind of long-term incentives to the key employees since 2003. After giving due consideration to market trend, responsibilities and performance of each individual, the remuneration packages to the Executive Directors and Senior Management are viewed as sufficient to attract, motivate and retain individuals with good performance in the Group.

The Remuneration Committee meets regularly throughout the year and at least twice a year. In 2007 there was 2 meetings held. The attendance of members of Remuneration Committee meeting held during the period is as follows:

| **Name of Directors** | **Attendance/Number of Remuneration Committee Meeting Held** |
|---|---|
| *Independent Non-executive Directors* | |
| Yeung Ming Tai | 2/2 |
| Chang Kin Man *(resigned on 18 April 2007)* | Not Applicable |
| Wong Lai Ying Cecilia *(resigned on 28 September 2007)* | 2/2 |
| Sun Hanxu *(appointed on 18 April 2007)* | 1/2 |
| Chan Kwok Ming Daniel *(appointed on 28 September 2007)* | Not Applicable |



## NOMINATION OF DIRECTORS

According to the Article 86 of the Company's Articles of Association, the Board has the power from time to time and at any time to appoint any person as a Director either to fill a causal vacancy or as an addition to the Board. The nomination should be taken into consideration of the nominee's qualification, ability and potential contributions to the Company.

The Company has not established a nomination committee. The Board considered that the nomination of Directors should be determined by the Board itself and thus does not delegate this power to any committee. In 2007, Executive Director Dr. Lau Kit Hung resigned on 30 September. Mr. Han Yang and Mr. Liu Shun Keung were appointed as Executive Directors on 17 January 2008. In 2007, Independent Non-executive Directors Mr. Chang Kin Man and Ms. Wong Lai Ying Cecilia resigned on 18 April and 28 September 2007 respectively. After consideration, the Board appointed Prof. Sun Hanxu to replace Mr. Chang Kin Man and Mr. Chan Kwok Ming Daniel to replace Ms. Wong Lai Ying Cecilia as Independent Non-executive Directors on 18 April and 28 September 2007 respectively.

## SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code during the year of 2007 and they have all confirmed that they had fully complied with the required standard set out in the Model Code.

## DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors are responsible for the preparation of the financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the financial statements for the year ended 31 December 2007, the Directors selected suitable accounting policies and applied them consistently, made judgments and estimated that are prudent, fair and reasonable and prepared the financial statements on a going concern basis. The Directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group, for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## AUDITORS' REMUNERATION

In respect of the financial year 2007, the following remuneration was paid or is payable to the Company's auditors:

| | |
|---|---|
| Fee for audit services: | HK$1,500,000 |
| Fee for non-audit services: | HK$280,000 |
| | HK$1,780,000 |

## INTERNAL CONTROLS

The Board has the overall responsibilities of maintaining an effective internal control system for the Group safeguarding the shareholders' investment and the Company's assets at all time. The Company has adopted the total quality management corporate strategy. It has been accredited with ISO 9001:2000 for the operation of and internal control over the Group since 2004. The Company has maintained up-to-date operation manuals and relevant documentation and would put forward to the Board for review in due course.

In order to ensure ISO 9001:2000 be operated effectively, the Company has set up an internal audit team whose leader is an Executive Director representing the Board. The internal audit team has conducted reviews and checks on the effectiveness of core operation of the Group covering financial, operational and compliance controls and risk management functions in the year of 2007 and reported to the Audit Committee and the Board directly.

## INVESTOR RELATIONS

### 1. Communication Channels

The Company encourages two way communications with its investors. On one hand, extensive information about the Company's activities is laid down in its Annual Report and Interim Report, which are sent to shareholders of the Company. The Company uses its website at www.sunlink.biz to disseminate financial and other information relating to the Group and its business to the public in order to enable the Company's shareholders and the investors to have timely access to updated information about the Group. On the other hand, shareholders can raise any comments on the performance and future directions of the Company with the Directors at the annual general meetings.

### 2. General Meetings

(a) The general meetings provide a forum for the Board to communicate with its shareholders. Shareholders holding not less than one-tenth of the paid-up capital of the Company may deposit a requisition to convene an extraordinary general meeting and state the purpose therefor at the Company's principal place of business in Hong Kong at Room 1905-07, Tower III, Enterprise Square, 9 Sheung Yuet Road, Kowloon Bay, Kowloon.

(b) To facilitate enforcement of shareholders' rights, substantially separate issues at general meetings are dealt with under separate resolutions.

# REPORT OF DIRECTORS

The Directors present their annual report and the audited consolidated financial statement of the Company for the year ended 31 December 2007.

## PRINCIPAL ACTIVITIES



The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 33 of 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 statements on page 32 of the annual report.

The Directors do not recommend the payment of any final dividend.

## FINANCIAL SUMMARY

A summary of the consolidated results and of the assets and liabilities of the Group for the last five financial years is set out on page 80.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year ended 31 December 2007 are set out in note 15 of the consolidated financial statements.

## SHARE CAPITAL

Details of the share capital of the Company are set out in note 26 of the consolidated financial statements.

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

## SHARE OPTION SCHEME

Particulars of the Company's shares option scheme are set out in note 27 of the consolidated financial statements.

Details of the options which have been granted to the following category of participants under the share option scheme during the year ended 31 December 2007 are as follows:



Outstanding options at 1 January 2007 and 31 December 2007

| | | | Subscription | Number of options | |
|---|---|---|---|---|---|
| **Category of Participants** | **Date of grant** | **Exercisable period** | **price per share (HK$)** | **Outstanding at 01/01/2007** | **Outstanding at 31/12/2007** |
| Directors | 11/10/2004 | 11/10/2004 to 10/10/2014 | 0.100 | 8,000,000 | – |
| | 11/10/2004 | 11/10/2004 to 10/10/2014 | 0.130 | 3,000,000 | – |
| | 25/6/2007 | 25/6/2007 to 24/6/2017 | 0.694 | – | 26,900,000* |
| | 13/8/2007 | 13/8/2007 to 12/8/2017 | 0.520 | – | 200,000# |
| Other employees | 11/10/2004 | 11/10/2004 to 10/10/2014 | 0.100 | 5,000,000 | – |
| | 11/10/2004 | 11/10/2004 to 10/10/2014 | 0.130 | 5,104,000 | – |
| | 02/11/2006 | 02/11/2006 to 01/11/2016 | 0.120 | 18,896,000 | – |
| | 25/6/2007 | 25/6/2007 to 24/6/2017 | 0.694 | – | 20,400,000 |
| | 13/8/2007 | 13/8/2007 to 12/8/2017 | 0.520 | – | 75,904,800 |

During the year, 123,404,800 share options were granted. 40,000,000 share options were exercised and no share options were cancelled.

* *Included in the outstanding share options at 31 December 2007 are 3,000,000 of share options granted to Dr. Lau Kit Hung who resigned as the director of the Company on 30 September 2007.*

\# *Included in the outstanding share options at 31 December 2007 are 200,000 of share options granted to Ms. Wong Lai Ying Cecilia who resigned as the director of the Company on 28 September 2007.*

# REPORT OF DIRECTORS

## DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

*Executive Directors:*
Wong Shu Wing
Choi Tat Kai
Lau Kit Hung *(resigned on 30 September 2007)*
Han Yang *(appointed on 17 January 2008)*
Liu Shun Keung *(appointed on 17 January 2008)*

*Independent Non-executive Directors:*
Yeung Ming Tai
Chang Kin Man *(resigned on 18 April 2007)*
Wong Lai Ying Cecilia *(resigned on 28 September 2007)*
Sun Hanxu *(appointed on 18 April 2007)*
Chan Kwok Ming Daniel *(appointed on 28 September 2007)*

In accordance with the provisions of the Company's Articles of Association, Mr. Choi Tat Kai, Mr. Han Yang, Mr. Liu Shun Keung, Mr. Yeung Ming Tai and Mr. Chan Kwok Ming Daniel will retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election. The remaining Directors shall remain in office.

Each of the Executive Directors has entered into a service agreement with the Company under which they act as the Executive Directors for an initial term of three years (as to Dr. Wong Shu Wing) commencing from 20 December 2002 and one year (as to Mr. Choi Tat Kai, Dr. Lau Kit Hung, Mr. Han Yang and Mr. Liu Shun Keung) commencing from 20 December 2002 (as to Mr. Choi Tat Kai and Dr. Lau Kit Hung) and 17 January 2008 (as to Mr. Han Yang and Mr. Liu Shun Keung), and shall continue thereafter from year to year until terminated by either party with three months' notice in writing served on the other side. All the Executive Directors except the Chairman of the Board are subject to retirement by rotation and re-election at the annual general meeting of the Company at least once every three years in accordance with the Company's Articles of Association. Details of the Directors' remunerations during the year ended 31 December 2007 are set out in note 12 of the consolidated financial statements. Dr. Lau Kit Hung resigned due to his personal reasons on 30 September 2007.

Each Independent Non-executive Directors has entered into a service agreement with the Company for an initial term of one year commencing from 20 December 2002 (as to Mr. Yeung Ming Tai), from 24 June 2004 (as to Mr. Chang Kin Man), from 1 March 2006 (as to Ms. Wong Lai Ying Cecilia), from 18 April 2007 (as to Prof. Sun Hanxu) and from 28 September 2007 (as to Mr. Chan Kwok Ming Daniel), and shall continue thereafter from year to year until terminated by either party with one month's notice in writing served on the other side. They are subject to retirement by rotation and re-election at the annual general meeting of the Company at least once every three years in accordance with the Company's Articles of Association. Mr. Chang Kin Man resigned due to his personal reasons on 18 April 2007 and Prof. Sun Hanxu was appointed in place effective from 18 April 2007. Ms. Wong Lai Ying Cecilia resigned due to her personal reasons on 28 September 2007 and Mr. Chan Kwok Ming Daniel was appointed in place effective from 28 September 2007.

Save as disclosed above, none of the Directors being 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.

The Company has received annual confirmation from each of the Independent Non-executive Directors as regards their independence to the Company and considers that each of the Independent Non-executive Directors is independent to the Company.

## DIRECTORS' INTERESTS IN SHARES

At 31 December 2007, the issued share capital of the Company consisted of ordinary shares. The interests and short positions of the Directors and the Chief Executive of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the Company's register kept under Section 352 of the SFO are as follows:

### Interest in the Company's shares

| Name | Capacity, Nature of Interest | Number of shares held Long Position | Number of shares held Short Position | Percentage of the issued share capital of the Company |
|---|---|---|---|---|
| Wong Shu Wing | Corporate | 571,200,000 *(Note 1)* | – | 30.63% |
| Wong Shu Wing | Personal | 608,400,000 | – | 32.63% |
| Choi Tat Kai | Personal | 11,200,000 | – | 0.6% |

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

Other than as disclosed above, none of the Directors or Chief Executives, nor their associates, had any interests or short positions in any shares of the Company or any of its associated corporations as at 31 December 2007.

REPORT OF DIRECTORS

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the issue of shares of the Company pursuant to the Corporate organization mentioned above, 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 18, had right to subscribe for the securities of the Company, or had exercised any such right during the year.



## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company, its holding company or any of its subsidiaries was a party and in which the Directors of the Company had a material interest, whether directly or indirectly, subsisted at 31 December 2007 or at any time during the year then ended.

## SUBSTANTIAL SHAREHOLDERS

At 31 December 2007, in accordance with the register of substantial shareholders kept by the Company pursuant to Section 336 of the SFO and so far as is known to the Directors, the following persons (other than the Directors or Chief Executive of the Company) were interested in the issued capital (including short positions) representing 5% or more of the issued share capital:

| Name | Capacity, Nature of Interest | Number of shares held Long Position | Short Position | Percentage of the issued share capital of the Company |
|---|---|---|---|---|
| Best Eagle International Ltd. *(Note 1)* | Corporate | 571,200,000 | – | 30.63% |
| Wong Shu Wing *(Note 1)* | Personal | 608,400,000 | – | 32.63% |
| Fu Guang Limited *(Note 2)* | Corporate | 281,481,600 | – | 15.10% |
| Lee Yin Yee *(Note 2)* | Personal | 281,481,600 | – | 15.10% |
| D & M International Limited *(Note 3)* | Corporate | 168,000,000 | – | 9.01% |
| Leung Yu Ming Steven *(Note 3)* | Personal | 168,000,000 | – | 9.01% |

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

*(Note 2):* The entire issued share capital of Fu Guang Limited is beneficially owned by Mr. Lee Yin Yee. Therefore both Fu Guang Limited and Mr. Lee Yin Yee are deemed to have the duplicate interests in the share capital of the Company under the SFO.

*(Note 3):* The entire issued share capital of D & M International Limited is beneficially owned by Mr. Leung Yu Ming Steven. Therefore both D & M International Limited and Mr. Leung Yu Ming Steven are deemed to have the duplicate interests in the share capital of the Company under the SFO.

Save as disclosed herein, as at 31 December 2007, no other person was recorded in the Company's register maintained by the Company pursuant to Section 336 of the SFO as having an interest in the issued share capital of the Company representing 5% or more of the issued capital.

Save as disclosed herein, the Directors are not aware of any person other than the persons (including his personal, family and corporate interests) as aforementioned, who had, directly or indirectly, an interest in the issued capital (including short positions) representing 5% or more of the issued capital as at 31 December 2007.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2007, the five largest customers of the Group in aggregate accounted for about 19.4% of the turnover of the Group and the largest customer accounted for about 5.6% of the total turnover.

The five largest suppliers of the Group in aggregate accounted for about 50.3% of its purchases for the year. Purchases from the largest supplier accounted for about 15.2% of its purchases.

At no time during the year, none of the Directors, their respective associates, or any shareholders (which to the knowledge of the Directors owned more than 5% of the Company's share capital) has any interest in any of the five largest customers and the five largest suppliers of the Group.

## RETIREMENT BENEFITS SCHEMES

The Group makes mandatory contributions to Mandatory Provident Fund Scheme for its staff in Hong Kong and retirement plans for those staff in other jurisdictions.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands, which would oblige the Company to offer new shares on pro-rata basis to existing shareholders.

# REPORT OF DIRECTORS

## PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Company, as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.



## CHARITABLE DONATIONS

During the year, the Group did not make any charitable donation.

## AUDITORS

The consolidated financial statements for the financial year ended 31 December 2007 have been audited by Deloitte Touche Tohmatsu who will retire upon conclusion of the forthcoming annual general meeting. Deloitte Touche Tohmatsu offers for re-appointment as auditors at the forthcoming Annual General Meeting.

On behalf of the Board
**Wong Shu Wing**
*Chairman*

Hong Kong
15 April 2008

# INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤



**TO THE SHAREHOLDERS OF SUNLINK INTERNATIONAL HOLDINGS LIMITED**
*(incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of Sunlink International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 32 to 79, which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE 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, 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
15 April 2008

# CONSOLIDATED INCOME STATEMENT

*For the year ended 31 December 2007*

| | NOTES | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| Revenue | 7 | **1,314,867** | 807,690 |
| Cost of sales | | **(1,117,186)** | (727,220) |
| Gross profit | | **197,681** | 80,470 |
| Other income | 8 | **2,980** | 9,676 |
| Selling and distribution costs | | **(17,727)** | (13,331) |
| General and administrative expenses | | **(49,603)** | (37,315) |
| Finance costs | 9 | **(8,491)** | (9,347) |
| Share of results of an associate | | **(5)** | – |
| Profit before taxation | 10 | **124,835** | 30,153 |
| Income tax expense | 11 | **(24,205)** | (4,817) |
| Profit for the year | | **100,630** | 25,336 |
| Attributable to: | | | |
| Equity holders of the Company | | **100,510** | 25,268 |
| Minority interests | | **120** | 68 |
| | | **100,630** | 25,336 |
| | | **HK cents** | HK cents |
| Earnings per share | 14 | | |
| Basic | | **5.81** | 2.05 |
| Diluted | | **5.78** | 2.04 |

# CONSOLIDATED BALANCE SHEET

*At 31 December 2007*

| | NOTES | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | *15* | **9,854** | 3,579 |
| Interest in an associate | *16* | **–** | – |
| Available-for-sale investments | *17* | **–** | 2,238 |
| Club debenture | | **636** | – |
| Deposits for acquisition of property, plant and equipment | | **4,653** | – |
| | | **15,143** | 5,817 |
| Current assets | | | |
| Investment held for trading | | **55** | 38 |
| Inventories | *18* | **62,750** | 34,959 |
| Debtors, deposits and prepayments | *19* | **387,914** | 206,041 |
| Amount due from an associate | *16* | **1,526** | – |
| Tax recoverable | | **259** | 902 |
| Pledged bank deposits | | **2,000** | 39,656 |
| Bank balances and cash | *20* | **98,828** | 29,698 |
| | | **553,332** | 311,294 |
| Current liabilities | | | |
| Creditors and accrued charges | *21* | **52,903** | 49,706 |
| Bills payables | *22* | **1,591** | – |
| Taxation | | **20,821** | 5,009 |
| Trust receipt loans | *23* | **155,106** | 112,369 |
| Bank borrowings | *24* | **32,058** | 28,576 |
| Bank overdrafts | | **–** | 997 |
| | | **262,479** | 196,657 |
| Net current assets | | **290,853** | 114,637 |
| Total assets less current liabilities | | **305,996** | 120,454 |
| Non-current liability | | | |
| Deferred taxation | *25* | **179** | 312 |
| | | **305,817** | 120,142 |
| Capital and reserves | | | |
| Share capital | *26* | **186,468** | 47,300 |
| Reserves | | **118,246** | 72,004 |
| Equity attributable to equity holders of the Company | | **304,714** | 119,304 |
| Minority interests | | **1,103** | 838 |
| | | **305,817** | 120,142 |

The consolidated financial statements on pages 32 to 79 were approved and authorised for issue by the Board of Directors on 15 April 2008 and are signed on its behalf by:

**Wong Shu Wing**
*DIRECTOR*

**Choi Tat Kai**
*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 | **Special reserve** HK$'000 *(Note)* | **Share option reserve** HK$'000 | **Investment revaluation reserve** HK$'000 | **Exchange reserve** HK$'000 | **Retained profits** HK$'000 | **Total** HK$'000 | **Minority interests** HK$'000 | **Total equity** HK$'000 |
| At 1 January 2006 | 47,300 | 53,529 | (64,907) | – | 180 | 52 | 55,514 | 91,668 | 768 | 92,436 |
| Gain arising from fair value changes of available-for-sale investments | – | – | – | – | 163 | – | – | 163 | 2 | 165 |
| Exchange differences arising on translation of foreign operations | – | – | – | – | – | 242 | – | 242 | – | 242 |
| Net income recognised directly in equity | – | – | – | – | 163 | 242 | – | 405 | 2 | 407 |
| Release of amount previously included in investment revaluation reserve and retained profits upon disposal of an available-for-sale investment | – | – | – | – | 23 | – | 158 | 181 | – | 181 |
| Profit for the year | – | – | – | – | – | – | 25,268 | 25,268 | 68 | 25,336 |
| Total recognised income for the year | – | – | – | – | 186 | 242 | 25,426 | 25,854 | 70 | 25,924 |
| Recognition of equity-settled share-based payment | – | – | – | 1,782 | – | – | – | 1,782 | – | 1,782 |
| At 31 December 2006 | 47,300 | 53,529 | (64,907) | 1,782 | 366 | 294 | 80,940 | 119,304 | 838 | 120,142 |
| Exchange differences arising on translation of foreign operations recognised directly in equity | – | – | – | – | – | 377 | – | 377 | – | 377 |
| Release of amount previously included in investment revaluation reserve and retained profits upon disposal of an available-for-sale investment | – | – | – | – | (366) | – | 82 | (284) | (3) | (287) |
| Profit for the year | – | – | – | – | – | – | 100,510 | 100,510 | 120 | 100,630 |
| Total recognised income for the year | – | – | – | – | (366) | 377 | 100,592 | 100,603 | 117 | 100,720 |
| Offer shares issued on open offer *(note 26(a))* | 10,240 | 8,192 | – | – | – | – | – | 18,432 | – | 18,432 |
| Bonus shares issued on open offer *(note 26(a))* | 81,920 | (62,147) | – | – | – | – | (19,773) | – | – | – |
| Shares issued on subscription and placing *(note 26(b) & (c))* | 43,008 | 12,042 | – | – | – | – | – | 55,050 | – | 55,050 |
| Expenses relating to issue of new shares | – | (3,796) | – | – | – | – | – | (3,796) | – | (3,796) |
| Recognition of equity-settled share based payment | – | – | – | 10,500 | – | – | – | 10,500 | – | 10,500 |
| Shares issued upon exercise of share options | 4,000 | 2,403 | – | (1,782) | – | – | – | 4,621 | – | 4,621 |
| Partial disposal of interest in a subsidiary | – | – | – | – | – | – | – | – | 148 | 148 |
| **At 31 December 2007** | **186,468** | **10,223** | **(64,907)** | **10,500** | **–** | **671** | **161,759** | **304,714** | **1,103** | **305,817** |

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

# CONSOLIDATED CASH FLOW STATEMENT

*For the year ended 31 December 2007*

| | **2007** **HK$'000** | 2006 HK$'000 |
|---|---|---|
| **Operating activities** | | |
| Profit before taxation | **124,835** | 30,153 |
| Adjustments for: | | |
| Finance costs | **8,491** | 9,347 |
| Interest income | **(570)** | (1,414) |
| Increase in fair value of investment held for trading | **(17)** | (17) |
| Share of results of an associate | **5** | – |
| Depreciation of property, plant and equipment | **1,785** | 2,065 |
| Allowance for slow moving inventories | **468** | 115 |
| Allowance for doubtful debts | **341** | 84 |
| Loss on disposal of investment properties | **–** | 110 |
| Share-based payment expense | **10,500** | 1,782 |
| Gain on disposal of property, plant and equipment | **–** | (4,090) |
| Gain on disposal of an available-for-sale investment | **(422)** | (39) |
| Operating cash flows before movements in working capital | **145,416** | 38,096 |
| Increase in inventories | **(28,259)** | (12,221) |
| Increase in debtors, deposits and prepayments | **(182,214)** | (45,237) |
| Increase in amount due from an associate | **(1,526)** | – |
| Increase in creditors and accrued charges | **3,197** | 7,453 |
| Increase (decrease) in bills payables | **1,591** | (5,528) |
| **Cash generated used in operations** | **(61,795)** | (17,437) |
| Income taxes paid | **(7,883)** | (1,606) |
| **Net cash used in operating activities** | **(69,678)** | (19,043) |
| **Investing activities** | | |
| Decrease (increase) in pledged bank deposits | **37,656** | (4,558) |
| Proceeds on disposal of an available-for-sale investment | **2,373** | 2,043 |
| Interest received | **570** | 1,414 |
| Proceeds from partial disposal of interest in a subsidiary | **148** | – |
| Proceeds on disposal of property, plant and equipment | **–** | 7,118 |
| Proceeds on disposal of investment properties | **–** | 2,720 |
| Purchase of property, plant and equipment | **(12,480)** | (108) |
| Purchase of club debenture | **(636)** | – |
| Investment in an associate | **(5)** | – |
| **Net cash from investing activities** | **27,626** | 8,629 |

# CONSOLIDATED CASH FLOW STATEMENT

*For the year ended 31 December 2007*

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| **Financing activities** | | |
| New bank loans raised | **56,422** | 44,442 |
| Proceeds from subscription and placing agreement | **55,050** | – |
| Increase in trust receipt loans | **42,737** | 11,876 |
| Proceeds from issuance of shares on open offer | **18,432** | – |
| Proceeds from issue of shares upon exercise of share options | **4,621** | – |
| Repayment of bank loans | **(49,648)** | (31,853) |
| Interest paid | **(8,491)** | (9,347) |
| Expenses paid relating to issue of new shares | **(3,796)** | – |
| (Decrease) increase in bank borrowings from discounting advances drawn on trade debtors | **(3,304)** | 7,747 |
| Decrease in bank borrowings from discounted bills receivables with full recourse | **–** | (858) |
| Repayment of obligations under finance leases | **–** | (78) |
| **Net cash generated from financing activities** | **112,023** | 21,929 |
| **Net increase in cash and cash equivalents** | **69,971** | 11,515 |
| **Cash and cash equivalents at 1 January** | **28,701** | 16,917 |
| **Effect of change in foreign exchange rate** | **156** | 269 |
| **Cash and cash equivalents at 31 December** | **98,828** | 28,701 |
| **Analysis of the balances of cash and cash equivalents** | | |
| Bank balances and cash | **98,828** | 29,698 |
| Bank overdrafts | **–** | (997) |
| | **98,828** | 28,701 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2007*



## 1. GENERAL

The Company is an exempted company with limited liability incorporated in the Cayman Islands under the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the introduction 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 is an investment holding company. Details of the principal activities of the subsidiaries are set out in note 33.

## 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 requirement 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2007*

## 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 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 Arranagements[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 and interpretations will have no material impact on the results and the financial position of the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2007*



## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at 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 and the Hong Kong Companies Ordinance. The principal accounting policies adopted are as follows:

**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 in 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2007*



## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Investments in an associate

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of the associate are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investment in an associate is 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 associate, less any identified impairment loss. When the Group's share of loss 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.

### 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.

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

Interest income from a financial asset excluding financial assets at fair value through profit or loss 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.

### Property, plant and equipment

Property, plant and equipment including building held for use for administrative purpose are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2007*

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Club debenture

On initial recognition, club debenture is stated at cost. After initial recognition, club debenture with indefinite useful life is carried at cost less any subsequent accumulated impairment losses.

Club debenture is tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. 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.

When 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.

### 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 lessee***

Rentals payables 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.

### 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 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2007*



## 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 date of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange 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

The contributions payable to the retirement benefits schemes are charged the consolidated income statement represent as expenses when employees have rendered service entitling them to the contributions.

### 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 income statement 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 amount of assets and liabilities in the consolidated financial statements and the corresponding tax bases 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 the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2007*



## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Taxation (Continued)

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.

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 in the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

### Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

### 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2007*

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Financial instruments (Continued)**

***Financial assets***

The Group's financial assets comprise of 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.

*Financial assets at fair value through profit or loss*

The Group's financial assets at FVTPL are financial assets held for trading.

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.

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 dividend or interest earned on the financial assets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2007*

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Financial instruments (Continued)**

***Financial assets (Continued)***

*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 debtors, amount due from an associate, pledged bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, 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 (see accounting policy on impairment loss on financial assets below).

*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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2007*

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

***Financial assets (Continued)***

*Impairment of financial assets (Continued)*

For certain categories of financial asset, such as debtors, 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, as well as 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. 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.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of debtors, where the carrying amount is reduced through the use of an allowance account. When a debtor is considered uncollectible, it is written off against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

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. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

***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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2007*



## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

***Financial liabilities and equity (Continued)***

*Financial liabilities*

The Group's financial liabilities mainly include creditors, bills payables, trust receipt loans and bank borrowings which are subsequently measured at amortised cost, using the effective interest method.

*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.

*Equity instruments*

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

*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.

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.

### Impairment of tangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that these 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.

When 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2007*



## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Equity-settled share-based payment transactions

***Share options granted to employees after 7 November 2002 and vested before 1 January 2005***

The financial impact of share options granted is not recorded in the consolidated financial statements until such time as the options are exercised, and no charge is recognised in the consolidated income statement in respect of the value of options granted. Upon the exercise of the share options, the resulting shares issued are recorded as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded as share premium. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

***Share options granted to employees after 7 November 2002 and vested on or after 1 January 2005***

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 or recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share option reserve).

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 corresponding adjustment to share option reserve.

At the time when the share options are exercised, the amount previously recognised in share option 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 option reserve will be transferred to retained profits.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The Group makes estimates and assumptions concerning the future. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

### Estimated allowance for doubtful receivables

The Group makes allowances for doubtful debts based on an assessment of the recoverability of debtors. Allowances are applied to debtors where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debtors requires the use of judgement and estimates. Where the expectation on the recoverability of debtors is different from the original estimate, such difference will impact carrying value of debtors and doubtful debtors expenses in the years in which such estimate has changed.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2007*

## 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 stakeholders 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 debt, which includes the bank borrowings disclosed in note 24 and equity attributable to equity holders of the Company, comprising issued share capital, share premium and retained profit.

The directors of the Company review the capital structure on a ongoing basis. 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, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

## 6. FINANCIAL INSTRUMENTS

### 6a. Categories of financial instruments

| | **2007** **HK$'000** | 2006 HK$'000 |
|---|---|---|
| **Financial assets** | | |
| Available-for-sale financial assets | **–** | 2,238 |
| Financial assets at fair value through profit or loss | **55** | 38 |
| Loans and receivables | **459,292** | 256,818 |
| **Financial liabilities** | | |
| Amortised cost | **220,610** | 174,688 |

The Group's major financial instruments include available-for-sale investments, investment held for trading, debtors, pledged bank deposits, bank balances and cash, creditors, bills payables, trust receipt loans, bank overdrafts and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2007*

## 6. FINANCIAL INSTRUMENTS (Continued)

### 6b. Financial risk management objectives and policies

***Market risk***

*(i) Foreign currency risk*

Several subsidiaries of the Group have sales transactions denominated in foreign currencies, hence exposures to exchange rate fluctuation arises. The Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rate.

The carrying amounts of the Group's monetary assets denominated in foreign currency, that is currency other than the functional currency of the respective group entities at balance sheet date are as follow:

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **Assets** | | |
| United States dollars | **17,240** | – |

The respective subsidiaries with functional currency of Hong Kong dollars are mainly exposed to currency fluctuation of United States dollars. As Hong Kong dollars are pegged with United States dollars in Hong Kong, no significant foreign currency risk is expected and no foreign currency sensitively analysis is presented.

*(ii) Cash flow interest rate risk*

The Group is exposed to cash flow interest rate risk through the changes in interest rates relates mainly to the Group's bank borrowings trust receipts loans and bank overdrafts. The management monitors the interest rate exposure and, considers hedging significant interest rate exposure should the need arises.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note. The Group cash flow interest rate risk is mainly concentrated on the fluctuation of prime rate arising from the Group's HK dollar bank borrowings and trust receipts loans.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2007*

## 6. FINANCIAL INSTRUMENTS (Continued)

### 6b. Financial risk management objectives and policies (Continued)

***Market risk (Continued)***

*(ii) Cash flow interest rate risk (Continued)*

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to interest rates for trust receipt loans, bank borrowings and bank overdrafts at the balance sheet date. For variable-rate bank borrowings, trust receipts loans and bank overdrafts, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and 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$772,000 (2006: decrease/increase by HK$586,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings and trust receipts loans.

The Group's sensitivity to interest rates has increased during the current year mainly due to the increase in variable rate debt instruments.

***Credit risk***

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has policies in place 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, management considers that the Group's credit risk is significantly reduced.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2007*



## 6. FINANCIAL INSTRUMENTS (Continued)

### 6b. Financial risk management objectives and policies (Continued)

***Credit risk (Continued)***

The credit risk for pledged bank deposits and bank balances is considered minimal as such amounts are placed with banks with good credit ratings.

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

***Liquidity risk***

The Group's objective is to maintain a balance between the continuity of funding and the flexibility through the use of bank borrowings and bank overdrafts. In addition, banking facilities have been put in place for contingency purposes.

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 short-term bank loan facilities of approximately HK$1,000,000 (2006: HK$9,000,000) and HK$28,855,000 (2006: HK$69,000,000) respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2007*

## 6. FINANCIAL INSTRUMENTS (Continued)

### 6b. Financial risk management objectives and policies (Continued)

The following table details the Group's remaining contractual maturity for its financial liabilities. For non-derivative 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.

| | **Less than 1 month HK$'000** | **1-3 months HK$'000** | **3 months to 1 year HK$'000** | **Total undiscounted cash flows HK$'000** | **Carrying amount at 31.12.2007 HK$'000** |
|---|---|---|---|---|---|
| **2007** | | | | | |
| **Non-derivative financial liabilities** | | | | | |
| Creditors and bills payables | **23,294** | **8,136** | **2,016** | **33,446** | **33,446** |
| **Variable interest rate instruments** | | | | | |
| Bank borrowings | **11,346** | **16,363** | **6,474** | **34,183** | **32,058** |
| Trust receipt loans | **35,746** | **122,856** | **–** | **158,602** | **155,106** |
| | **70,386** | **147,355** | **8,490** | **226,231** | **220,610** |

| | Less than 1 month HK$'000 | 1-3 months HK$'000 | 3 months to 1 year HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amount at 31.12.2006 HK$'000 |
|---|---|---|---|---|---|
| 2006 | | | | | |
| **Non-derivative financial liabilities** | | | | | |
| Creditors | 20,823 | 9,399 | 2,524 | 32,746 | 32,746 |
| **Variable interest rate instruments** | | | | | |
| Bank borrowings | 19,143 | 6,530 | 3,094 | 28,767 | 28,576 |
| Trust receipt loans | 18,667 | 95,123 | – | 113,790 | 112,369 |
| Bank overdrafts | 1,002 | – | – | 1,002 | 997 |
| | 59,635 | 111,052 | 5,618 | 176,305 | 174,688 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2007*

## 6. FINANCIAL INSTRUMENTS (Continued)

### 6c. Fair value

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

- The fair values of the available-for-sale investments have been determined by reference to the quoted market bid prices of the underlying assets of the available-for-sale investments.

- The fair values of the investment held for trading are determined based on quoted market bid prices available on the relevant exchange.

- The fair value of other financial assets and financial liabilities are determined in accordance with general accepted pricing models based on discounted cash flow analysis.

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



## 7. REVENUE AND SEGMENT INFORMATION

### Revenue

Revenue represents the amounts received and receivable for goods sold by the Group to outside customers.

### Business segments

For management purposes, the Group was organised into two operating divisions – distribution of semiconductors and development and provision of electronic turnkey device solutions in prior year. Due to expansion of its business of the Group, the management of the Group identifies Auto and Wireless businesses, which were included in development and provision of electronic turnkey device solutions in prior year, as two reportable segments in current year. The distribution of semiconductors and the remaining business for consumer electronic products included in development and provision of electronic turnkey device solutions in prior year are combined into a reportable segment of semiconductor and related business.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2007*



## 7. REVENUE AND SEGMENT INFORMATION (Continued)

**Business segments (Continued)**

Principal activities are as follows:

| | | |
|---|---|---|
| Semiconductors and related business | – | sale of semiconductors and related products |
| Auto devices and parts business | – | sale of terminals and accessories for vehicle tracking and monitoring system |
| Wireless devices and solutions business | – | sale of industrial wireless and communication modules and devices |

Segment information about these businesses is presented below:

**Income statement**

*for the year ended 31 December 2007*

| | Semiconductors and related business HK$'000 | Auto devices and parts business HK$'000 | Wireless devices and solutions business HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|
| **Revenue** | | | | |
| External sales | 672,560 | 381,560 | 260,747 | 1,314,867 |
| Segment results | 18,915 | 86,327 | 27,080 | 132,322 |
| Unallocated corporate income | | | | 1,009 |
| Finance costs | | | | (8,491) |
| Share of result of an associate | | | | (5) |
| Profit before taxation | | | | 124,835 |
| Income tax expense | | | | (24,205) |
| Profit for the year | | | | 100,630 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2007*

## 7. REVENUE AND SEGMENT INFORMATION (Continued)

**Balance sheet**

*as at 31 December 2007*

| | Semiconductors and related business HK$'000 | Auto devices and parts business HK$'000 | Wireless devices and solutions business HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Segment assets | 296,403 | 93,176 | 75,592 | 465,171 |
| Amount due from an associate | – | 1,526 | – | 1,526 |
| Unallocated corporate assets | | | | 101,778 |
| Consolidated total assets | | | | 568,475 |
| **Liabilities** | | | | |
| Segment liabilities | 22,910 | 9,294 | 22,290 | 54,494 |
| Unallocated corporate liabilities | | | | 208,164 |
| Consolidated total liabilities | | | | 262,658 |
| **Other information** | | | | |
| Additions to property, plant and equipment | 1,941 | 3,267 | 2,619 | 7,827 |
| Allowance for (reversal of allowance for) doubtful debts | 356 | – | (15) | 341 |
| Allowance for slow moving inventories | 468 | – | – | 468 |
| Depreciation of property, plant and equipment | 1,394 | – | 391 | 1,785 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2007*



## 7. REVENUE AND SEGMENT INFORMATION (Continued)

**Income statement**

*for the year ended 31 December 2006*

| | Semiconductors and related business HK$'000 | Auto devices and parts business HK$'000 | Wireless devices and solutions business HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|
| **Revenue** | | | | |
| External sales | 642,350 | 36,084 | 129,256 | 807,690 |
| Segment results | 21,296 | 2,319 | 10,077 | 33,692 |
| Unallocated corporate income | | | | 5,918 |
| Unallocated corporate expenses | | | | (110) |
| Finance costs | | | | (9,347) |
| Profit before taxation | | | | 30,153 |
| Income tax expense | | | | (4,817) |
| Profit for the year | | | | 25,336 |

**Balance sheet**

*as at 31 December 2006*

| | Semiconductors and related business HK$'000 | Auto parts and devices business HK$'000 | Wireless devices and solutions business HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Segment assets | 199,260 | 5,873 | 39,446 | 244,579 |
| Unallocated corporate assets | | | | 72,532 |
| Consolidated total assets | | | | 317,111 |
| **Liabilities** | | | | |
| Segment liabilities | 35,402 | 2,998 | 11,306 | 49,706 |
| Unallocated corporate liabilities | | | | 147,263 |
| Consolidated total liabilities | | | | 196,969 |
| **Other information** | | | | |
| Additions to property, plant and equipment | – | – | 108 | 108 |
| Allowance for doubtful debts | 71 | – | 13 | 84 |
| Allowance for slow moving inventories | 104 | – | 11 | 115 |
| Depreciation of property, plant and equipment | 1,713 | – | 352 | 2,065 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2007*

## 7. REVENUE AND SEGMENT INFORMATION (Continued)

**Geographical segments**

The Group's operations are principally located in Hong Kong and the People's Republic of China ("PRC").

The following table provides an analysis of the Group's revenue by geographical location of customers, irrespective of the origin of the goods/services:

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| Hong Kong | **1,079,906** | 593,819 |
| PRC | **150,629** | 204,320 |
| Others | **84,332** | 9,551 |
| | **1,314,867** | 807,690 |

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

| | **Carrying amount of segment assets** | | **Additions to property, plant and equipment** | |
|---|---|---|---|---|
| | **2007 HK$'000** | 2006 HK$'000 | **2007 HK$'000** | 2006 HK$'000 |
| Hong Kong | **401,311** | 199,720 | **1,941** | – |
| PRC | **52,123** | 44,452 | **5,886** | 108 |
| Others | **11,737** | 407 | **–** | – |
| | **465,171** | 244,579 | **7,827** | 108 |

## 8. OTHER INCOME

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| Included in other income are: | | |
| Gain on disposal of an available-for-sale investment | **422** | 39 |
| Gain on disposal of property, plant and equipment | **–** | 4,090 |
| Increase in fair value of investment held for trading | **17** | 17 |
| Interest income | **570** | 1,414 |
| Sample income | **267** | 34 |

## 9. FINANCE COSTS

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| Interest on bank borrowings wholly repayable within five years | **8,491** | 9,337 |
| Finance lease charges | **–** | 10 |
| | **8,491** | 9,347 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2007*

## 10. PROFIT BEFORE TAXATION

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| Profit before taxation is arrived at after charging: | | |
| Allowance for doubtful debts included in general and administrative expenses | **341** | 84 |
| Allowance for slow moving inventories included in cost of sales | **468** | 115 |
| Auditors' remuneration: | | |
| Current year | **1,500** | 1,200 |
| Underprovision for previous years | **51** | 136 |
| Depreciation of property, plant and equipment: | | |
| Own assets | **1,785** | 2,065 |
| Loss on disposal of investment properties | **–** | 110 |
| Operating leases in respect of | | |
| Office premises | **1,911** | 1,341 |
| Office equipment | **22** | 17 |
| Research and development cost | **155** | 368 |
| Staff costs inclusive of directors' remuneration | **33,200** | 24,388 |
| Share-based payment expense | | |
| – included in selling and distribution costs | **3,395** | – |
| – included in general and administrative expenses | **7,105** | 1,782 |
| Total staff costs | **43,700** | 26,170 |
| Exchange loss, net | **1,162** | 327 |

## 11. INCOME TAX EXPENSE

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| The charge comprises: | | |
| Hong Kong Profits Tax | | |
| Current year | **24,713** | 4,595 |
| (Over)underprovision in prior year | **(375)** | 439 |
| | **24,338** | 5,034 |
| Deferred taxation | | |
| Current year | **(133)** | (217) |
| | **24,205** | 4,817 |

Hong Kong Profits Tax is calculated at 17.5% on the estimated assessable profit for the year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2007*

## 11. INCOME TAX EXPENSE (Continued)

The taxation 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 | **124,835** | 30,153 |
| Tax at the domestic income tax rate of 17.5% | **21,846** | 5,277 |
| Tax effect of expenses not deductible for tax purpose | **2,542** | 322 |
| Tax effect of income not taxable for tax purpose | **(33)** | (757) |
| Tax effect of tax losses not recognised | **397** | 15 |
| Utilisation of tax losses previously not recognised | **(54)** | (549) |
| Effect of tax exemptions granted to PRC subsidiaries | **(87)** | (4) |
| (Over)underprovision in prior year | **(375)** | 439 |
| Others | **(31)** | 74 |
| Taxation charge for the year | **24,205** | 4,817 |

## 12. DIRECTORS' REMUNERATIONS AND FIVE HIGHEST PAID EMPLOYEES

### Directors' emoluments

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

| | **Wong Shu Wing** HK$'000 | **Kwan Kim Fai Stanley** *(Note a)* HK$'000 | **Choi Tai Kai** HK$'000 | **Lau Kit Hung** *(Note e and f)* HK$'000 | **Liu Shun Keung** *(Notes b and g)* HK$'000 | **Han Yang** *(Notes b and g)* HK$'000 | **Lau Chung Kwan** *(Notes a and b)* HK$'000 | **Yeung Ming Tai** *(Note b)* HK$'000 | **Chang Kin Man** *(Notes b and c)* HK$'000 | **Sun Hanxu** *(Notes b and d)* HK$'000 | **Wong Lai Ying Cecilia** *(Notes b and e)* HK$'000 | **Chan Kwok Ming Daniel** *(Notes b and h)* HK$'000 | **Total** HK$'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2007** | | | | | | | | | | | | | |
| Fees | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **50** | **41** | **–** | **79** | **–** | **170** |
| Other emoluments | | | | | | | | | | | | | |
| Salaries and other benefits | **1,912** | **–** | **1,276** | **390** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **3,578** |
| Retirements benefits scheme contributions | **12** | **–** | **12** | **9** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **33** |
| Share-based payments | **1,939** | **–** | **1,598** | **444** | **–** | **–** | **–** | **–** | **–** | **–** | **65** | **–** | **4,046** |
| Total emoluments | **3,863** | **–** | **2,886** | **843** | **–** | **–** | **–** | **50** | **41** | **–** | **144** | **–** | **7,827** |
| **2006** | | | | | | | | | | | | | |
| Fees | – | – | – | – | – | – | 79 | 50 | 50 | – | 50 | – | 229 |
| Other emoluments | | | | | | | | | | | | | |
| Salaries and other benefits | 996 | 471 | 728 | 507 | – | – | – | – | – | – | – | – | 2,702 |
| Retirements benefits scheme contributions | 12 | 2 | 12 | 12 | – | – | – | – | – | – | – | – | 38 |
| Total emoluments | 1,008 | 473 | 740 | 519 | – | – | 79 | 50 | 50 | – | 50 | – | 2,969 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2007*

## 12. DIRECTORS' REMUNERATIONS AND FIVE HIGHEST PAID EMPLOYEES (Continued)

### Directors' emoluments (Continued)

*Note a:* Mr. Kwan Kim Fai Stanley and Mr. Lau Chung Kwan both resigned as directors of the Company on 28 February 2006.

*Note b:* Independent non-executive director

*Note c:* Mr. Chang Kin Man resigned as independent non-executive director of the Company on 18 April 2007.

*Note d:* Professor Sun Hanxu was appointed as an independent non-executive director of the Company on 18 April 2007.

*Note e:* Ms. Wong Lai Ying Cecilia resigned as directors of the Company on 28 September 2007.

*Note f:* Dr. Lau Kit Hung resigned as directors of the Company on 30 September 2007.

*Note g:* Mr. Liu Shun Keung and Mr. Han Yang were appointed as directors of the Company on 17 January 2008.

*Note h:* Mr. Chan Kwok Ming Daniel was appointed as independent non-executive director of the Company on 28 September 2007.

### Employees' emoluments

The five highest paid individuals of the Group included two (2006: two) directors, details of their remunerations are set out above. The remunerations of the remaining three (2006: three) individuals were as follows:

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| Basic salaries, housing allowances, other allowances and benefits in kind | **1,989** | 1,597 |
| Retirement benefits scheme contributions | **36** | 33 |
| Share-based payments | **2,054** | – |
| | **4,079** | 1,630 |

Their emoluments were within the following bonds

| | **2007 No. of employees** | 2006 No. of employees |
|---|---|---|
| Nil to HK$1,000,000 | **–** | 3 |
| HK$1,000,001 to HK$1,500,000 | **2** | – |
| HK$1,500,001 to HK$2,000,000 | **1** | – |

During both years, no remunerations were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. No director has waived any remuneration during both years.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2007*

## 13. DIVIDEND

The directors do not recommend the payment of a dividend and proposed the profit for the year be retained.

## 14. EARNINGS PER SHARE



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

| | **2007** **HK$'000** | 2006 HK$'000 |
|---|---|---|
| Earnings for the purposes of basic and diluted earnings per share: | | |
| Profit for the year attributable to equity holders of the Company | **100,510** | 25,268 |

| | **2007** | 2006 |
|---|---|---|
| Number of shares: | | |
| Weighted average number of shares for the purpose of basic earnings per share | **1,728,588,390** | 1,235,447,761 |
| Effect of dilutive potential shares – Share options | **9,112,304** | 1,780,944 |
| Weighted average number of shares for the purpose of diluted earnings per share | **1,737,700,694** | 1,237,228,705 |

The weighted average number of ordinary shares for the purposes of basic earnings per share in both years have been adjusted for the bonus element in relation to open offer of new shares during the current year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2007*

## 15. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold properties HK$'000 | Leasehold improve-ments HK$'000 | Plant and machinery HK$'000 | Office equipment HK$'000 | Furniture and fixtures HK$'000 | Computer equipment HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| COST | | | | | | | | |
| At 1 January 2006 | 3,056 | 2,607 | – | 7,300 | 1,741 | 1,025 | 1,073 | 16,802 |
| Exchange realignment | – | 19 | – | 39 | – | 3 | 10 | 71 |
| Additions | – | – | – | 31 | – | 77 | – | 108 |
| Disposals | (3,056) | – | – | – | – | – | (438) | (3,494) |
| At 31 December 2006 | – | 2,626 | – | 7,370 | 1,741 | 1,105 | 645 | 13,487 |
| Exchange realignment | – | 40 | – | 248 | – | 53 | – | 341 |
| Additions | – | 1,508 | 5,016 | 400 | – | 546 | 357 | 7,827 |
| **At 31 December 2007** | **–** | **4,174** | **5,016** | **8,018** | **1,741** | **1,704** | **1,002** | **21,655** |
| DEPRECIATION | | | | | | | | |
| At 1 January 2006 | 257 | 1,771 | – | 3,928 | 1,521 | 389 | 416 | 8,282 |
| Exchange realignment | – | 11 | – | 14 | – | – | 2 | 27 |
| Provided for the year | 24 | 304 | – | 957 | 220 | 397 | 163 | 2,065 |
| Eliminated on disposals | (281) | – | – | – | – | – | (185) | (466) |
| At 31 December 2006 | – | 2,086 | – | 4,899 | 1,741 | 786 | 396 | 9,908 |
| Exchange realignment | – | 40 | – | 62 | – | 6 | – | 108 |
| Provided for the year | – | 382 | 71 | 949 | – | 241 | 142 | 1,785 |
| **At 31 December 2007** | **–** | **2,508** | **71** | **5,910** | **1,741** | **1,033** | **538** | **11,801** |
| CARRYING VALUES | | | | | | | | |
| **At 31 December 2007** | **–** | **1,666** | **4,945** | **2,108** | **–** | **671** | **464** | **9,854** |
| At 31 December 2006 | – | 540 | – | 2,471 | – | 319 | 249 | 3,579 |

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

| | |
|---|---|
| Leasehold properties | Over the term of the lease or 40 years, whichever is shorter |
| Leasehold improvement | 20% – 25% or over the term of lease, whichever is shorter |
| Plant and machinery | 20% – 25% |
| Office equipment | 20% – 25% |
| Furniture and fixtures | 20% – 25% |
| Computer equipment | 30% – 50% |
| Motor vehicles | 20% |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2007*

## 16. INTERESTS IN AN ASSOCIATE AND AMOUNT DUE FROM AN ASSOCIATE

| | **2007** **HK$'000** | 2006 HK$'000 |
|---|---|---|
| Cost of investment in associate, unlisted | **5** | – |
| Share of post-acquisition losses | **(5)** | – |
| | **–** | – |



As at 31 December 2007, the Group has interests in the following associates:

| **Name of entity** | **Form of business structure** | **Place of incorporation/ operation** | **Class of share held** | **Proportion of nominal value of issued capital held by the Group** % | **Proportion of voting power held** % | **Principal activity** |
|---|---|---|---|---|---|---|
| Spaceinet Sunlink Limited | Incorporated | Hong Kong | Ordinary | 45% | 45% | Trading of electronic parts and provision of technology solutions |

The Group has discontinued recognition of its share of loss of the associate. The amounts of unrecognised share of the associate, extracted from the financial statements of the associate, both for the year and cumulatively, are as follows:

| | **2007** **HK$'000** | 2006 HK$'000 |
|---|---|---|
| Unrecognised share of losses of the associate for the year | **454** | – |
| Accumulated unrecognised share of losses of the associate | **454** | – |

Amount due from an associate is unsecured, interest free and recoverable within twelve months after balance sheet date.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2007*

## 17. AVAILABLE-FOR-SALE INVESTMENTS/INVESTMENT HELD FOR TRADING

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Available-for-sale investments | | |
| Unlisted unit trust fund, at fair value | – | 2,238 |
| Investment held for trading | | |
| Listed equity securities in Hong Kong, at fair value | 55 | 38 |
| | 55 | 2,276 |
| Analysed for reporting purposes as: | | |
| Non-current | – | 2,238 |
| Current | 55 | 38 |
| | 55 | 2,276 |

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

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

## 18. INVENTORIES

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Raw materials | 6,490 | 459 |
| Work in progress | 3,804 | 241 |
| Finished goods | 52,456 | 34,259 |
| | 62,750 | 34,959 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2007*

## 19. DEBTORS, DEPOSITS AND PREPAYMENTS

| | **2007** **HK$'000** | 2006 HK$'000 |
|---|---|---|
| Debtors | **357,619** | 187,804 |
| Less: allowance for doubtful debts | **(681)** | (340) |
| | **356,938** | 187,464 |
| Deposits and prepayments | **30,976** | 18,577 |
| Total debtors, deposits and prepayment | **387,914** | 206,041 |

The Group has a policy of allowing average credit period of 30 to 90 days to its trade customers. For following is an aged analysis of trade debtors, net of allowance for doubtful debts at the reporting date:

| | **2007** **HK$'000** | 2006 HK$'000 |
|---|---|---|
| Within 30 days | **111,063** | 97,533 |
| Between 31 to 60 days | **93,823** | 60,067 |
| Between 61 to 90 days | **84,328** | 22,567 |
| Over 90 days | **67,724** | 7,297 |
| | **356,938** | 187,464 |

Included in trade debtors as at 31 December 2007 are amounts of HK$5,803,000 (2006: HK$9,919,000) of debtors discounted to banks with recourse by providing a credit guarantee over the expected losses of those debtors. Accordingly, the Group continues to recognise the full carrying amount of the debtors and has recognised the cash received on such discount as bank borrowings (see note 24).

80% (2006: 84%) of the debtors that are neither past due nor impaired and have either been subsequently settled or maintained active trade business relationship with the Group.

Included in the Group's trade debtors are debtors with a carrying amount of HK$17,240,000 (2006: nil) which are denominated in US dollars (that is the currency other than the functional currencies of the respective group entities).

Included in the Group's trade debtors are debtors with aggregate carrying amount of HK$72,055,000 (2006: HK$29,637,000) 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. Approximate 90% of these balances were subsequently settled after 31 December 2007.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2007*

## 19. DEBTORS, DEPOSITS AND PREPAYMENTS (Continued)

### Ageing of trade receivables which are past due but not impaired

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Between 31 to 60 days | **540** | 1,308 |
| Between 61 to 90 days | **3,791** | 21,032 |
| Over 90 days | **67,724** | 7,297 |
| Total | **72,055** | 29,637 |

In determining the recoverability of a trade debtor, the Group considers any change in the credit quality of the trade debtors from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the large customer base. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

Included in the allowance for doubtful debts are individually impaired trade receivables with balance of HK$681,000 (2006: HK$340,000), which have either been placed under liquidation or have been long outstanding without settlement nor having any business relationship with the Group. The Group does not hold any collateral over these balances.

### Movement in the allowance for doubtful debts

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Balance at beginning of the year | **340** | 410 |
| Amounts written off as uncollectible | **–** | (154) |
| Impairment losses recognised on receivables | **341** | 84 |
| Balance at end of the year | **681** | 340 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2007*



## 20. BANK BALANCES, PLEDGE BANK DEPOSITS AND BANK OVERDRAFTS

**Pledged bank deposits**

The pledged deposits have been placed in designated banks as part of the securities provided for general banking facilities granted to the Group by banks. The bank deposits carry interest at rates ranging from 2% to 3.55% (2006: 3.10% to 4.79%) per annum.

**Bank balances and cash**

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The bank balances carry interest at rates ranging from 0.01% to 0.35% (2006: 0.01% to 2.04%) per annum.

**Bank overdrafts**

As at 31 December 2006, bank overdrafts carried interests at margin over Hong Kong dollar prime rate with average effective interest rate of 9% per annum and were secured by the Group's bank deposits and available-for-sale investments.

## 21. CREDITORS AND ACCRUED CHARGES

An aged analysis of the trade creditors is as follows:

| | **2007**<br>**HK$'000** | 2006<br>HK$'000 |
|---|---|---|
| Within 30 days | **17,645** | 20,808 |
| Between 31 to 60 days | **9,742** | 8,335 |
| Over 60 days | **4,468** | 3,603 |
| | **31,855** | 32,746 |
| Other creditors and accrued charges | **21,048** | 16,960 |
| | **52,903** | 49,706 |

The average credit period on purchases of goods is 60 days. The Group has financial risk management policy in place to ensure that all payables are within the credit timeframe.

## 22. BILLS PAYABLE

Included in the bills payables as at 31 December 2007 are bills with age within 30 days.

## 23. TRUST RECEIPT LOANS

The trust receipt loans carry interests at a margin over Hong Kong Inter-bank Offered Rate ("HIBOR") with average effective interest rate of 5.8% (2006: 7.3%) per annum. Certain trust receipt loans are secured by the Group's bank deposits. The Group's trust receipt loans are arranged at floating interest rates and subject to cash flow interest rate risk.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2007*



## 24. BANK BORROWINGS

| | **2007** **HK$'000** | 2006 HK$'000 |
|---|---|---|
| Bank loans *(note a)* | **27,396** | 20,610 |
| Discounting advances drawn on trade debtors *(note b)* | **4,662** | 7,966 |
| | **32,058** | 28,576 |
| Secured | **11,462** | 28,576 |
| Unsecured | **20,596** | – |
| | **32,058** | 28,576 |

The Group's bank borrowings are arranged at floating interest rates and subject to cash flow interest rate risk.

*Notes:*

(a) Bank loans carry interests at a margin over HIBOR with average effective interest rate of 6.625% (2006: 6%) per annum and certain bank loans are secured by the Group's bank deposits.

(b) Discounting advances drawn on trade debtors carry interests at a margin over HIBOR with average effective interest rate of 6.625% (2006: 6%) per annum and are secured by certain trade debtors of the Group.

## 25. DEFERRED TAXATION

The following are the major deferred tax liabilities (assets) recognised by the Group and movements thereon during the two years ended 31 December 2007 and 2006:

| | **Accelerated tax depreciation** HK$'000 | **Tax losses** HK$'000 | **Total** HK$'000 |
|---|---|---|---|
| At 1 January 2006 | 532 | (3) | 529 |
| (Credit) charge to consolidated income statement | (220) | 3 | (217) |
| At 31 December 2006 | 312 | – | 312 |
| Credit to consolidated income statement | (133) | – | (133) |
| At 31 December 2007 | **179** | **–** | **179** |

At the balance sheet date, the Group has unused tax losses of HK$7,395,000 (2006: HK$5,435,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2007*



## 26. SHARE CAPITAL

| | Number of shares | Amount HK$'000 |
|---|---|---|
| Ordinary shares of HK$0.1 each | | |
| *Authorised:* | | |
| At 1 January 2006 and 31 December 2006 | 1,000,000,000 | 100,000 |
| Increase in authorised share capital *(note a)* | 2,000,000,000 | 200,000 |
| At 31 December 2007 | 3,000,000,000 | 300,000 |
| *Issued and fully paid:* | | |
| At 1 January 2006 and 31 December 2006 | 473,000,000 | 47,300 |
| Shares issued on open offer *(note a)* | 921,600,000 | 92,160 |
| Shares issued on subscription agreement *(note b)* | 315,392,000 | 31,539 |
| Shares issued on placing agreement *(note c)* | 114,688,000 | 11,469 |
| Shares issued upon exercise of share options | 40,000,000 | 4,000 |
| At 31 December 2007 | 1,864,680,000 | 186,468 |

*Notes:*

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

(i) the authorised share capital of the Company was increased from HK$100,000,000 to HK$300,000,000 by the creation of an additional 2,000,000,000 new ordinary shares of HK$0.10 each.

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

(b) On 15 February 2007, the Company entered into a subscription agreement with a subscriber in relation to the subscription of 315,392,000 subscription shares at the subscription price of HK$0.128 per share, representing 22.0% of the existing issued share capital of the Company as at 15 February 2007. Completion of the subscription agreement took place on 16 April 2007 and the Company had issued 315,392,000 shares of HK$0.128 per share for a total consideration of HK$40,370,000.

(c) On 15 February 2007, the Company also entered into a placing agreement with an independent third party, Kingsway Financial Services Group Limited ("Kingsway") pursuant to which Kingsway would procure the placing to subscribe for a maximum of 114,688,000 placing shares at the placing price of HK$0.128 per share, representing in aggregate 8.0% of the existing issued share capital of the Company as at 15 February 2007. Completion of the placing agreement took place on 13 April 2007 and the Company had issued 114,688,000 shares of HK$0.128 per share for a total consideration of HK$14,680,000.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2007*



## 27. SHARE OPTION SCHEME

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

The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes of the Company shall not exceed 30% of the shares of the Company in issue from time to time. The maximum number of shares in respect of which options may granted under the Scheme, when aggregated with any shares subject to any other schemes shall not exceed 10% of the issued share capital of the Company immediately upon the listing of the shares on the Stock Exchange, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in aggregate in any 12-month period shall not exceed 1% of the shares of the Company in issue, without prior approval from the Company's shareholders.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2007*

## 27. SHARE OPTION SCHEME (Continued)

The following tables disclose details of the Company's share options and movements in such holdings during the year.

| | | | Number of share options | | | |
|---|---|---|---|---|---|---|
| **Date of grant** | **Exercisable period** | **Exercise price per share** HK$ | **Outstanding at 1.1.2007** | **Granted during the year** | **Exercised during the year** | **Outstanding at 31.12.2007** |
| **2007** | | | | | | |
| **Directors** | | | | | | |
| 11 October 2004 | 11 October 2004 to 10 October 2014 | 0.100 | 8,000,000 | – | (8,000,000) | – |
| 11 October 2004 | 11 October 2004 to 10 October 2014 | 0.130 | 3,000,000 | – | (3,000,000) | – |
| 25 June 2007 | 25 June 2007 to 24 June 2017 | 0.694 | – | 26,900,000 | – | 26,900,000* |
| 13 August 2007 | 13 August 2007 to 12 August 2017 | 0.520 | – | 200,000 | – | 200,000# |
| | | | 11,000,000 | 27,100,000 | (11,000,000) | 27,100,000 |
| **Other employees** | | | | | | |
| 11 October 2004 | 11 October 2004 to 10 October 2014 | 0.100 | 5,000,000 | – | (5,000,000) | – |
| 11 October 2004 | 11 October 2004 to 10 October 2014 | 0.130 | 5,104,000 | – | (5,104,000) | – |
| 2 November 2006 | 2 November 2006 to 1 November 2016 | 0.120 | 18,896,000 | – | (18,896,000) | – |
| 25 June 2007 | 25 June 2007 to 24 June 2017 | 0.694 | – | 20,400,000 | – | 20,400,000 |
| 13 August 2007 | 13 August 2007 to 12 August 2017 | 0.520 | – | 75,904,800 | – | 75,904,800 |
| | | | 29,000,000 | 96,304,800 | (29,000,000) | 96,304,800 |
| Exercisable at the end of the year | | | | | | 4,750,000 |
| Weighted average exercise price (HK$) | | | 0.116 | 0.587 | 0.116 | 0.587 |

* *Included in the outstanding share options at 31 December 2007 are 3,000,000 of share options granted to Dr. Lau Kit Hung who resigned as the director of the Company on 30 September 2007.*

\# *Included in the outstanding share options at 31 December 2007 are 200,000 of share options granted to Ms. Wong Lai Ying Cecilia who resigned as the director of the Company on 28 September 2007.*

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2007*

## 27. SHARE OPTION SCHEME (Continued)

| | | | Number of share options | | | |
|---|---|---|---|---|---|---|
| **Date of grant** | **Exercisable period** | **Exercise price per share** HK$ | **Outstanding at 1.1.2006** | **Granted during the year** | **Cancelled/ lapsed the year** | **Outstanding at 31.12.2006** |
| **2006** | | | | | | |
| **Directors** | | | | | | |
| 11 October 2004 | 11 October 2004 to 10 October 2014 | 0.100 | 8,000,000 | – | – | 8,000,000 |
| 11 October 2004 | 11 October 2004 to 10 October 2014 | 0.130 | 3,000,000 | – | – | 3,000,000 |
| | | | 11,000,000 | – | – | 11,000,000 |
| **Other employees** | | | | | | |
| 11 October 2004 | 11 October 2004 to 10 October 2014 | 0.100 | 5,000,000 | – | – | 5,000,000 |
| 11 October 2004 | 11 October 2004 to 10 October 2014 | 0.130 | 6,408,000 | – | (1,304,000) | 5,104,000 |
| 2 November 2006 | 2 November 2006 to 1 November 2016 | 0.120 | – | 18,896,000 | – | 18,896,000 |
| | | | 11,408,000 | 18,896,000 | (1,304,000) | 29,000,000 |
| Exercisable at the end of the year | | | | | | 40,000,000 |
| Weighted average exercise price (HK$) | | | 0.113 | 0.120 | 0.130 | 0.116 |

At 31 December 2007, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 123,404,800 (2006: 40,000,000), representing 6.6% (2006: 8.46%) of the shares of the Company in issue at that date.

The options outstanding at the end of the year have a weighted average remaining contractual life of 9.6 years (2006: 8.7 years).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2007*



## 27. SHARE OPTION SCHEME (Continued)

The estimated fair value of the options on the date of grant was calculated using The Binominal model. The inputs into the model were as follows:

| Date of grant | Exercise price HK$ | Number of share options | Share price HK$ | Expected volatility % | Expected life years | Risk-free rate % | Estimated Expected dividend yield % | Fair value HK$ |
|---|---|---|---|---|---|---|---|---|
| **2007** | | | | | | | | |
| 25 June 2007 *(note a)* | 0.694 | 47,300,000 | 0.68 | 39.41 | 1 | 4.07 | – | 0.148 |
| 13 August 2007 *(note a)* | 0.520 | 200,000 | 0.53 | 40.24 | 5 | 4.40 | – | 0.326 |
| 13 August 2007 *(note b)* | 0.520 | 57,268,000 | 0.53 | 40.24 | 2 | 4.06 | – | 0.207 |
| 13 August 2007 *(note c)* | 0.520 | 18,636,800 | 0.53 | 40.24 | 1 | 3.99 | – | 0.148 |
| **2006** | | | | | | | | |
| 2 November 2006 *(Note a)* | 0.12 | 18,896,000 | 0.11 | 113.80 | 7 | 3.78 | – | 0.094 |

*Note:*

a. In accordance with the terms of the share-based arrangement, these options granted during the year vest at the date of their grant.

b. In accordance with the terms of the share-based arrangement, these options will vest if certain non-market performance conditions, for example sale target, are fulfilled within 1 to 2 years from the date of grant. These options are exercisable on the vesting date.

c. In accordance with the terms of the share-based arrangement, these options will vest if the share price of the Company exceeds certain amount within 1 year from the date of grant. These options are exercisable on the vesting date.

Expected volatility was determined by using the historical volatility of similar entities following a comparable period in their lives.

In respect of the share options exercised during the year, the weighted average share price at the dates of exercise is HK$0.50. For the year ended 31 December 2007, the Company recognised the total expense of HK$10,500,000 (2006: HK$1,782,000) in relation to equity-settled share-based payment transactions during the year.

The Binominal 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.

Consideration paid for each grant of option is HK$1. The total consideration received during the year from employees for taking up the options granted is amounted to HK$24 (2006: HK$6).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2007*



## 28. PLEDGE OF ASSETS

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

| | **2007** **HK$'000** | 2006 HK$'000 |
|---|---|---|
| Available-for-sale investments | **–** | 2,238 |
| Bank deposits | **2,000** | 39,656 |
| Trade debtors | **5,803** | 9,919 |
| | **7,803** | 51,813 |

## 29. OPERATING LEASE ARRANGEMENTS

**The Group as lessee**

| | **2007** **HK$'000** | 2006 HK$'000 |
|---|---|---|
| At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows: | | |
| Office premises: | | |
| Within one year | **1,704** | 1,930 |
| In the second to fifth year inclusive | **212** | 1,428 |
| | **1,916** | 3,358 |
| Office equipment: | | |
| Within one year | **16** | 17 |
| In the second to fifth year inclusive | **15** | 32 |
| | **31** | 49 |

Operating lease payments represent rentals payable by the Group for certain of its office premises and office equipment. Leases are fixed and negotiated for terms ranging from 12 to 60 months.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2007*

## 30. CAPITAL COMMITMENTS

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Capital expenditure in respect of the acquisition of plant and equipment contracted for but not provided in the consolidated financial statements | **5,089** | – |



## 31. EMPLOYEE RETIREMENT BENEFITS

Prior to 1 December 2000, the Group operated a defined contribution retirement benefit scheme for its qualifying employees in Hong Kong. The assets of the scheme are held under funds managed by independent trustees. The Group and its employees participating in the scheme were each required to make contributions to the scheme calculated at 5 per cent. of individual employee's basic monthly salaries. The Group's contribution made to employees who have left the Group's employment prior to being vested fully with such contributions were forfeited. Contributions from the Group and its employees were frozen with the adoption of Mandatory Provident Fund Scheme ("MPF Scheme").

With effective from 1 December 2000, the operating subsidiaries in Hong Kong joined the MPF Scheme for all employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Scheme Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at rates specified in the rules. The obligation of the Group with respect of MPF Scheme is to make the required contributions under the MPF Scheme. No forfeited contribution is available to reduce the contributions payable in future years.

The PRC employees of subsidiaries registered in the PRC are members of the pension scheme operated by the PRC local government. The PRC subsidiaries are required to contribute a certain percentage of the relevant portion of the payroll of these employees to the pension scheme to fund the benefits. The only obligation of the Group with respect of the pension scheme is the required contributions under the pension scheme.

The amount charged to consolidated income statement of HK$948,000 (2006: HK$742,000) represents contributions paid or payable to these schemes by the Group in respect of the current accounting year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2007*

## 32. RELATED PARTY TRANSACTION

### Compensation of key management personnel

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

| | **2007** **HK$'000** | 2006 HK$'000 |
|---|---|---|
| Short-term benefits | **6,798** | 5,560 |
| Post-employment benefits | **93** | 98 |
| Share-based payments | **6,619** | – |
| | **13,510** | 5,658 |

## 33. SUBSIDIARIES

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

| **Name of company** | **Place and date of incorporation/registration** | **Place of operation** | **Issued and fully paid share capital/ registered capital** | **Attributable equity interest held by the Group** | **Principal activities** |
|---|---|---|---|---|---|
| Apson Electronic Products Limited | Hong Kong 7 August 1990 | Hong Kong | Ordinary shares HK$200,000 | 99% | Manufacturing and trading of computer components |
| Hoover Technologies Limited | Hong Kong 19 November 1992 | Hong Kong | Ordinary shares HK$1,020,000 | 99% | Trading of electronic products |
| Kingful Investment Limited | Hong Kong 26 April 2002 | Hong Kong | Ordinary shares HK$10,000 | 100% | Inactive |
| Ocean King Investment Limited | British Virgin Islands 18 March 2002 | Hong Kong | Ordinary shares US$1 | 100% | Investment holding |
| J-Link Group Limited | British Virgin Islands 27 May 2002 | Hong Kong | Ordinary shares US$1 | 100% | Investment holding |
| Rawason Development Limited | British Virgin Islands 23 February 2000 | Hong Kong | Ordinary shares US$1 | 100% | Investment holding |
| Sunlink Apson Multi-media Limited | Hong Kong 8 August 2006 | Hong Kong | Ordinary shares HK$1 | 100% | Trading of electronic products |
| Sunwave Computers Limited | Hong Kong 20 August 1991 | Hong Kong | Ordinary shares HK$1,170,000 | 92% | Trading of computer components |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2007*

## 33. SUBSIDIARIES (Continued)



| Name of company | Place and date of incorporation/registration | Place of operation | Issued and fully paid share capital/ registered capital | Attributable equity interest held by the Group | Principal activities |
|---|---|---|---|---|---|
| Sunwave Development Limited | Hong Kong 18 September 1987 | Hong Kong | Ordinary shares HK$1,100,000 | 99% | Trading of electronic parts |
| Sunlink Geomatics Limited | British Virgin Islands 12 August 2005 | Hong Kong | Ordinary shares US$1 | 100% | Investment holding |
| Sunlink Hitech (BVI) Limited | British Virgin Islands 25 November 2004 | Hong Kong | Ordinary shares US$1 | 100% | Investment holding |
| Sunlink Hi-Tech Limited | Hong Kong 3 December 2004 | Hong Kong | Ordinary shares HK$1,000,000 | 100% | Trading of electronic parts |
| Sun Horse Technologies (H.K.) Limited | Hong Kong 25 July 2001 | Hong Kong | Ordinary shares HK$10,000 | 100% | Trading of electronic parts |
| Sunlink International Investments Limited | British Virgin Islands 10 July 2006 | Hong Kong | Ordinary shares US$1 | 100% | Investment holding |
| Sunlink Wavecom Limited (previously known as Sunlink OTA Limited and Sunlink International mLogistics Limited) *(note a)* | Hong Kong 15 June 2005 | Hong Kong | Ordinary shares HK$10,000 | 90.5% | Trading of electronic products |
| Sunlink M2M Technologies Limited | British Virgin Islands 9 June 2005 | Hong Kong | Ordinary shares US$1 | 100% | Investment holding |
| Sunlink M2M Solutions Limited (previously known as Sunlink mLogistics Holdings Limited) | British Virgin Islands 19 August 2005 | Hong Kong | Ordinary shares HK$1,000,000 | 100% | Investment holding |
| Sunlink mSolutions Holdings Limited | British Virgin Islands 10 August 2005 | Hong Kong | Ordinary shares US$1 | 100% | Investment holding |
| Sunlink mSolutions Limited | Hong Kong 22 October 1997 | Hong Kong | Ordinary shares HK$1,000,000 | 100% | Trading of electronic parts and provision of technology solutions |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2007*

## 33. SUBSIDIARIES (Continued)

| Name of company | Place and date of incorporation/registration | Place of operation | Issued and fully paid share capital/ registered capital | Attributable equity interest held by the Group | Principal activities |
|---|---|---|---|---|---|
| Sunlink Technologies Holdings Limited | British Virgin Islands 27 May 2002 | Hong Kong | Ordinary shares US$700 | 100% | Investment holding |
| Sunlink Technologies Limited | British Virgin Islands 27 May 2002 | Hong Kong | Ordinary shares US$1 | 100% | Investment holding |
| Tech-Link T & E Limited | Hong Kong 28 December 2000 | Hong Kong | Ordinary shares HK$500,000 | 100% | Trading of electronic parts |
| 駿泰陽軟件科技(深圳)有限公司 (known as "Jun Tai Yang Software Technologies (Shenzhen) Limited" for identification purpose) *(note b)* | PRC 7 August 2000 | PRC | Registered capital HK$3,000,000 | 100% | Provision of technology solutions |
| 駿泰陽科技(深圳)有限公司 (known as "Jun Tai Yang Technologies (Shenzhen) Limited" for identification purpose) *(note b)* | PRC 25 July 2003 | PRC | Registered capital HK$6,000,000 | 100% | Design and production of electronic parts |

*Notes:*

a. The equity interest in this subsidiary held by the Group has decreased from 100% to 90.5% in the current year.

b. These subsidiaries registered in the PRC are wholly foreign owned enterprises.

The Company directly holds the entire interest in Sunlink Technologies Holdings Limited. The interests of all other companies are indirectly held by the Company.

None of the subsidiaries had any debt securities outstanding at 31 December 2007 or at any time during the year.

# FINANCIAL SUMMARY

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2003<br>HK$'000 | 2004<br>HK$'000 | 2005<br>HK$'000 | 2006<br>HK$'000 | **2007**<br>**HK$'000** |
| **RESULTS** | | | | | |
| Revenue | 356,541 | 520,418 | 675,391 | 807,690 | **1,314,867** |
| (Loss) profit for the year | (11,807) | 5,827 | 9,600 | 25,336 | **100,630** |
| Attributable to: | | | | | |
| Equity holders of the Company | (11,653) | 5,781 | 9,608 | 25,268 | **100,510** |
| Minority interests | (154) | 46 | (8) | 68 | **120** |
| | (11,807) | 5,827 | 9,600 | 25,336 | **100,630** |

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | 2003<br>HK$'000 | 2004<br>HK$'000 | 2005<br>HK$'000 | 2006<br>HK$'000 | **2007**<br>**HK$'000** |
| **ASSETS AND LIABILITIES** | | | | | |
| Total assets | 235,321 | 231,533 | 254,378 | 317,111 | **568,475** |
| Total liabilities | (166,079) | (146,531) | (161,942) | (196,969) | **(262,658)** |
| | 69,242 | 85,002 | 92,436 | 120,142 | **305,817** |
| Equity attributable to equity holders of the Company | 68,495 | 84,209 | 91,668 | 119,304 | **304,714** |
| Minority interests | 747 | 793 | 768 | 838 | **1,103** |
| | 69,242 | 85,002 | 92,436 | 120,142 | **305,817** |