Annual Report 2007

Tomorrow International Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 760)

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Corporate Information

DIRECTORS

Executive Directors

YAU Tak Wah, Paul *(Chairman)*
LOUIE Mei Po
WONG Shin Ling, Irene
LIU Yee Nee

Independent Non-executive Directors

NG Wai Hung
CHEUNG Chung Leung, Richard
WU Wang Li

COMPANY SECRETARY

LIU Yee Nee

AUDITOR

CCIF CPA Limited

LEGAL ADVISER IN HONG KONG

Vincent T.K. Cheung, Yap & Co.

LEGAL ADVISER ON BERMUDA LAW

Conyers, Dill & Pearman

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

27th Floor, Henley Building
5 Queen's Road Central
Hong Kong

PRINCIPAL SHARE REGISTRAR

The Bank of Bermuda Limited
6 Front Street
Hamilton HM 11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Room 1901-1905
19th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Credit Suisse
Fubon Bank (Hong Kong) Limited
Goldman Sachs (Singapore) Pte
LGT Bank in Liechtenstein (Singapore) Ltd.
The Hongkong and Shanghai Banking Corporation Limited
UBS

The board of directors (the "Board") of Tomorrow International Holdings Limited (the "Company") announces the 2007 audited annual results of the Company, its subsidiaries and associates (collectively the "Group") for the year ended 31 December 2007.

RESULTS

The Group's loss attributable to equity holders of the Company for the year was HK$25.9 million (2006 : loss of HK$16.2 million). The loss was mainly due to the provision of tax payment for the year of assessment 1998/99 to 2006/07 which has just reached final agreement with Hong Kong Inland Revenue Department as a result of the settlement of tax audit. Excluding this exceptional item and also the amortisation of share-based compensation arising from the granting of share options, the Company profits generated from operation in the year was $6.5 million (2007 : loss of HK$16.4 million).

Loss per share amounted to HK1.15 cents, compared with loss HK1.06 cents in the previous year, as restated to reflect subdivision of 1 share to 10 shares. As at 31 December 2007, the Group's net cash position amounted to HK$657.2 million (2006 : HK$619.7 million) representing 67.7% of the equity attributable to equity holders of the Company of HK$971.4 million (2006: 65.5%).

BUSINESS REVIEW

Electronic products division recorded operational profits in year 2007. Turnover of electronic products division for the year was HK$373.7 million (2006: HK$353.7 million), representing an increase of HK$20 million or 5.6% to that of last year. With new product development, wireless application and radio-frequency products has started to contribute to turnover. Despite the fact that manufacturing business continued to face a hard operating environment of increasing in operating cost and worsening of worldwide economic environment, the Group had put more emphasis on cost saving measures which proved to be effective. As a whole segmental profit was HK$12.3 million, compared with profit of HK$4.6 million in year 2006.

Under a keen market competition situation, the printed circuit boards ("PCB") division had adopted a strategy to focus on key customers and to reject those low margin orders. As a result, the turnover of the PCB division for the year dropped to HK$89.9 million (2006: HK$104.3 million), representing a decrease of 13.9% comparing with last year. Despite the decrease in turnover, the PCB division had succeeded to trim down the overhead costs. The operational loss had narrowed from last year's HK$23.8 million to this year's HK$10.7 million.

The local securities market remained robust throughout 2007. To avoid participating in the over speculation market, the Group has reduced its trading of listed equity investments, resulting in decrease in turnover to $12.6 million, as compared with HK$56.0 million in year 2006. Putting more focus on other available-for-sale financial assets, the Group recorded a gain of $17.3 million on disposal of convertible bonds. The segmental profit was HK$13.1 million (2006: HK$2.2 million).

Loan financing business remained inactive during the year. It reported segmental loss of HK$9.4 million. Legal case relating to loan to Moulin Eyecare Holdings Limited was still in progress and further update will be published in due course.

FUTURE PLANS

Upon the implementation of New Labour Contract Law in China from 2008 and also the continuous appreciation of Renminbi, the operation environment in China is becoming less favourable to foreign investment. Coupled with the weakening overseas retail market, the Group believes year 2008 will be a challenging year. The Group prepares to consolidate its customer base and to develop more products relating to audio and visual markets. At the same time, the Group will continue to impose stringent cost saving measures in year 2008. Barring any unforeseen circumstances, the electronic products division should be able to maintain its performance in coming year.

Upon consolidation in year 2007, the Board intends to increase its production capacity in the PCB factory in near future in order to fulfil the ever-growing market demand on industrial grade PCB products. With our experienced sales forces and dedicated management teams, we will progressively capture large market shares from the US and Europe onwards.

The continuously rapid and healthy growth of the Chinese economy has created excellent investment opportunities and a favorable operating environment for our investment activities. The Board will focus on investments with core businesses which are PRC-based and may allocate appropriate resources in potential investment opportunities with sound fundamental and prospect.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2007, cash and bank balances (including time deposits) maintained by the Group were HK$657.2 million (2006: HK$619.7 million), representing an increase of HK$37.5 million compared with the position as at 31 December 2006. It is believed that the Group has adequate cash resources to meet the normal working capital requirements and all commitments of future development. The gearing of the Group, measured as total debts to total assets, was 13.9% as at 31 December 2007, comparing with 12.6% as at 31 December 2006.

Most of the business transactions conducted by the Group were nominated in Hong Kong Dollars, United States Dollars and Renminbi. As at 31 December 2007, there were no outstanding forward contracts in foreign currency committed by the Group that might involve it in significant foreign exchange risks and exposures.

CORPORATE TRANSACTIONS

To improve the liquidity of the shares of the Company and enable the Company to attract more investors and broaden its shareholder base, the board of the Company proposed that each of the existing issued and unissued shares of HK$0.04 each be subdivided into ten subdivided shares of HK$0.004 each ("Share Subdivision") on April 2007. Upon the Share Subdivision becoming effective, each board lot size of shares for trading on the Stock Exchange changed from 5,000 shares to 15,000 subdivided shares. The monetary value of each board lot of the subdivided Shares was lower and the transaction cost of the subdivided shares was reduced.

The special general meeting of the Company was held on 15 June 2007 to approve the Share Subdivision, which together with the change in board lot size became effective on 18 June 2007.

On June 2007, the Company announced that its subsidiary entered into negotiation on a proposed investment in relation to 3G Global Management Pty Ltd.. However, the proposed acquisition was lapsed in light of the expiry of the exclusivity period on 20 June 2007.

On August 2007, the Company announced that Connion Limited, a wholly-owned subsidiary of the Company, has sold its investment in the convertible bonds at a consideration of HK$29,000,000. Upon completion of the transaction, the Group recorded a gain on disposal of HK$17.3 million.

On October and November 2007, the Company through its wholly owned subsidiaries entered into non-binding memorandum of understandings ("MOUs") with independent third parties in relation to the negotiation on possible acquisition of interests in coal mines in Inner Mongolia and in Shanxi respectively. However, the MOUs were terminated on 23 January 2008.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2007, the Group employed approximately 2,200 employees, with about 2,132 in the Mainland China and 68 in Hong Kong. All employees are remunerated based on industry practice and in accordance with prevailing labour law. In Hong Kong, apart from basic salary, staff benefits include medical insurance, performance related bonuses and mandatory provident fund would be provided by the Group.

EXECUTIVE DIRECTORS

Mr. YAU Tak Wah, Paul — Chairman, aged 52, is the founder of the Group and is primarily responsible for corporate strategic planning. He holds a bachelor of science degree in mechanical engineering and has more than 22 years' experience in the electronics industry. Before he established the Group, Mr. Yau worked as design engineer in a renowned US electronics company operating in Hong Kong where he gained invaluable experience in production design and established close business relationships with various electronics manufacturers in Hong Kong.

Ms. LOUIE Mei Po — Director, aged 40, is responsible for business investment and development of the Group. Ms. Louie holds a master's degree in Business Administration and a bachelor's degree in Social Science from the Chinese University of Hong Kong. Prior to joining the Group, Ms. Louie was the executive director of two listed companies in Hong Kong specialising in mortgage loan financing, property investment and development. She has over 12 years' experience in business investment and development. She joined the Group in February 2000.

Ms. WONG Shin Ling, Irene — Director, aged 47, is responsible for management and administration of the Group. Ms. Wong has over 15 years of experience in the field of property development and management. Prior to joining the Group, she was an executive director of two listed companies in Hong Kong specialising in mortgage loan financing, property investment and development. She joined the Group in February 2000.

Ms. LIU Yee Nee — Director, aged 42, is responsible for finance and is the company secretary of the Group. Ms. Liu holds a Master Degree of Business from the Hong Kong University of Science & Technology and is a member of The Chartered Institute of Management Accountants, The Hong Kong Institute of Certified Public Accountants, The Association of Chartered Certified Accountants, The Institute of Chartered Secretaries & Administrators and The Hong Kong Institute of Company Secretaries and has over 20 years experience in the field of accounting and management. She joined the Group in August 2007.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. NG Wai Hung — Director, aged 44, is a practicing solicitor and a partner in Iu, Lai & Li, a Hong Kong firm of solicitors and notaries. Mr. Ng has extensive experience in the area of securities law, corporate law and commercial law in Hong Kong and has been involved in initial public offerings of securities in Hong Kong as well as corporate restructuring, mergers and acquisitions and takeovers of listed companies. He frequently advises multinational and Hong Kong corporations on private equity investments, joint ventures as well as regulatory compliance. He joined the Group in March 2000.

Mr. CHEUNG Chung Leung, Richard — Director, aged 54, has 31 years of experience as an architect and real estate investment adviser. He graduated from the University of Hong Kong with degrees of Bachelor of Arts (Architectural Studies) and Bachelor of Architecture. He is a member of the Hong Kong Institute of Architects and a Registered Architect pursuant to the Architects Registration Ordinance. He is an executive director of Beauforte Investors Corporation Limited, a company listed on the main board of the Hong Kong Stock Exchange. He joined the Group in March 2000.

Mr. WU Wang Li — Director, aged 33, has over 10 years of experience in the auditing and accounting profession and consulting services. He is a director of Skywise Consultants Limited and is admitted to the status of Certified Practising Accountant of CPA Australia. He joined the Group in September 2004.

SENIOR MANAGEMENT

Mr. TAM Ping Wah, aged 52, product and marketing director, is responsible for the product, sales and marketing management. He has more than 21 years' experience in electronic business. Being a graduate from Simon Fraser University in Canada in 1979. Mr. Tam first worked at a leading electronics company operation in Hong Kong as regional marketing manager and obtained extensive exposure to the North American and European markets. He rejoined the Group in December 2005.

Mr. YEUNG Kam Tong, aged 54, is the director and general manager of E-Top PCB Limited and is responsible for the overall PCB operations of the Group. He holds a bachelor degree in chemical engineering. Prior to joining the Group in 1991, he worked for several PCB manufacturers at management level and had over 15 years' operation and management experience in PCB business.

Mr. Paul NG, aged 53, is the senior marketing manager responsible for the Group's sales and marketing activities relating to electronic products. He has over 21 years' experience in sales and marketing. He joined the Group in 1988.

Mr. LEUNG Hung Tat, aged 42, is the general manager, responsible for the manufacturing operations of the Group's electronic products division. Prior to joining the Group in 1995, he worked as quality manager with an electronic manufacturer listed in Hong Kong for 5 years.

Mr. FONG Wing Hon, aged 42, is the R & D manager, responsible for the Group's product design and development and technical support. He holds a bachelor degree in electronic engineering and has over 11 years' experience in production engineering. He joined the Group in 1996.

Mr. WEI, Andrew Yick Siu, aged 38, is the senior business development manager with extensive experience in Japanese market with more than 15 years. He graduated from the University of Toronto in 1992 with a bachelor degree in Arts & Science. Mr. Wei worked in various leading Japanese trading companies and buying offices in the electronics field before joining the Group in 2000.

Mr. KIANG Shun Hung, aged 37, is the senior marketing manager, responsible for the sales operation & marketing activities of the Group's electronics product division and ODM/OEM product development team. He holds a bachelor of degree in social sciences and has over 14 years' sales and marketing experience in consumer electronics business. He joined the Group in 1998.

The directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2007.

PRINCIPAL ACTIVITY

The principal activity of the Company is investment holding. The Group's principal activities consisted of the design, development, manufacture and sale of electronic products, the manufacture and sale of printed circuit boards, the trading and distribution of electronic components and parts, the trading of listed equity investments and the provision of loan financing. There were no significant changes in the nature of the Group's principal activity during the year.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2007 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 19 to 104.

The Board does not recommend the payment of any dividend in respect of the year (2006: Nil).

SUMMARY FINANCIAL INFORMATION

	Year ended 31 December				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS AND LIABILITIES					
FIXED ASSETS	**97,383**	104,509	113,485	171,530	185,769
INVESTMENT PROPERTIES	**—**	18,542	28,750	93,000	—
NEGATIVE GOODWILL	**—**	—	—	(27,284)	(40,346)
INTERESTS AND AMOUNTS DUE FROM AN ASSOCIATE	**151,367**	151,367	156,892	37,220	35,581
PREPAID RENTAL	**429**	1,166	1,903	2,640	3,377
RENTAL DEPOSITS	**—**	—	—	—	388
DEFERRED PRODUCT DEVELOPMENT COSTS	**7,880**	8,387	6,819	5,861	4,783
LOANS RECEIVABLE	**—**	562	1,000	2,000	—
AVAILABLE-FOR-SALE FINANCIAL ASSETS	**46,066**	33,612	27,364	—	—
CURRENT ASSETS	**825,204**	774,051	594,650	635,798	725,510
TOTAL ASSETS	**1,128,329**	1,092,196	930,863	920,765	915,062
CURRENT LIABILITIES	**156,224**	135,634	132,044	155,907	191,046
PROVISION FOR LONG SERVICE PAYMENTS	**570**	570	570	949	1,243
DEFERRED TAX	**—**	1,319	2,053	3,122	1,433
OBLIGATION ON FINANCE LEASE	**132**	—	—	—	—
TOTAL LIABILITIES	**156,926**	137,523	134,667	159,978	193,722
NET ASSETS	**971,403**	954,673	796,196	760,787	721,340

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 15 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 34 and 36 to the financial statements.

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 35 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2007, the Company's reserves available for cash distribution and/or distribution in specie, calculated in accordance with the Companies Act 1981 of Bermuda (as amended), amounted to HK$462,542,000. In addition, there is HK$365,359,000 in the Company's share premium account, whether appropriate to state in 2007.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 40.4% (2006: 37.6%) of the total sales for the year and sales to the largest customer included therein amounted to 19.2% (2006: 21.5%) of the total sales. Purchases from the Group's five largest suppliers accounted for 23.5% (2006: 24.9%) of the total purchases for the year and purchases from the largest supplier included therein amounted to 15.7% (2006: 20.1%) of the total purchases.

As far as the directors are aware, neither the directors, their associates (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) nor those shareholders (which, to the knowledge of the directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers or suppliers.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr. Yau Tak Wah, Paul *(Chairman)*
Ms. Louie Mei Po
Ms. Wong Shin Ling, Irene
Mr. Tam Wing Kin (resigned on 9/8/2007)
Ms. Lun Yee Nee (appointed on 9/8/2007)

Independent non-executive directors:

Mr. Ng Wai Hung
Mr. Cheung Chung Leung, Richard
Mr. Wu Wang Li

In accordance with the Company's bye-laws, Ms. Liu Yee Nee, Mr. Ng Wai Hung and, Mr. Cheung Chung Leung, Richard will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 6 to 7 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Mr. Wu Wang Li, an independent non-executive director, has renewed his service contract with the Company for a term of one year from 27 September 2007 and subject to rotation and re-election in accordance with the bye-laws of the Company. The annual director fee is HK$120,000.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Company within one year without payment other than statutory compensation.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

On the date of this report, the interests of the directors in the share capital of the Company or its associated corporations (within the meaning of part XV of the Securities and Future Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Director	Number of ordinary shares held	Percentage of the Company's issued share capital
Mr. Yau Tak Wah, Paul	2,000,000	0.09
Ms. Louie Mei Po (Ms. Louie)	11,785,710	0.52
Ms. Wong Shin Ling, Irene (Ms. Wong)	13,000,000	0.58

On September 2007, each of Ms. Louie and Ms. Wong was granted a share option, which both of them were entitled to 22,470,000 shares at the option price of HK$0.296 each. The option period is 25 September 2007 to 24 September 2012.

Save as disclosed above, none of the directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed in the share option scheme disclosures in note 36 to the financial statements, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse or minor children, to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

On the date of this report, the following interest of 5% or more in the issued share capital of the Company was recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name	Note	**Number of ordinary shares held**	**Percentage of the Company's issued share capital**
Winspark Venture Limited	1	1,307,024,340	58.14
Prime Concept Development Limited	2	140,386,800	6.24

Notes:

(1) The entire issued share capital of Winspark Venture Limited is directly, beneficially and wholly owned by Mr. Chan Yuen Ming.

(2) Prime Concept Development Limited is a wholly owned subsidiary of Hycomm Wireless Limited, which is a company listed in The Stock Exchange of Hong Kong Limited.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

CONNECTED AND RELATED PARTY TRANSACTIONS

Details of the connected and related party transactions are set out in note 42 to the financial statements.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 43 to the financial statements.

CORPORATE GOVERNANCE

The Company's Corporate Governance Report is set out on pages 14 to 16.

PUBLIC FLOAT

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

AUDITORS

A resolution for the re-appointment of CCIF CPA Limited as the auditor of the Company for the ensuing year will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Yau Tak Wah, Paul
Chairman

Hong Kong, 25 April 2008

The board of directors (the "Board") of the Company is committed to ensuring high standards of corporate governance in the interests of shareholders and devotes effort to identifying and formalising best practices. The Company has applied the principles and the code provisions as set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules.

THE BOARD

To protect and enhance shareholder value, the Board acts with integrity and due care for the best interests of the Company and its shareholders. The Board is collectively responsible for leadership and for promoting the success of the Company by directing and supervising its affairs. Leading the Group in a responsible and effective manner, the Board adopts formal terms of reference which detail its functions and responsibilities, including, but not limited to, ensuring competent management, approving objectives, strategies and business plans and monitoring integrity in the Company's conduct of affairs.

During the financial year ended 31 December, 2007, the Board held four regular meetings at approximately quarterly intervals according to the Code. The attendance of each director is as follows:

	The Board		**Audit Committee**	
	Number of meeting	**Attendance**	**Number of meeting**	**Attendance**
Executive Director				
Mr. Yau Tak Wah, Paul *(Chairman of the Board)*	4	4	4	N/A
Miss Louie Mei Po	4	4	4	N/A
Miss Wong Shin Ling, Irene	4	4	4	N/A
Mr. Tam Wing Kin (resigned)	2	2	2	1
Miss Liu Yee Nee	2	2	2	1
Independent non-executive Director				
Mr. Ng Wai Hung *(Chairman of the Audit Committee)*	4	4	4	4
Mr. Cheung Chung Leung, Richard	4	4	4	4
Mr. Wu Wang Li	4	4	4	4

Currently, the Company does not appoint chief executive officer. In view of the operation of the Group, the Board believes that the present structure of the Board will provide a strong leadership for the Group to implement prompt decisions and to formulate efficient strategies, which is for benefits of the Group. Moreover, the day-to-day operation of the Group's businesses are shared among those executive directors and the management of the Company. Therefore, there should be a clear division of the responsibilities at the board level to ensure a balance of power and authority, so that power is not concentrated in any one individual.

Together with a balanced of skill and experience for the business of the Group, a balanced composition of executive and independent non-executive director of the Board shall exercise effective independent judgment. The Board comprises of seven directors, of which four are executive directors, namely Mr. Yau Tak Wah, Paul, Ms. Louie Mei Po, Ms Wong Shin Ling, Irene, and Ms. Liu Yee Nee and three independent non-executive directors, namely Mr. Ng Wai Hung, Mr. Cheung Chung Leung, Richard and Mr. Wu Wang Li.

During the period, two independent non-executive directors of the Company, namely Mr. Ng Wai Hung and Mr. Cheung Chung Leung, Richard, are not appointed for any specific fixed term and one independent non-executive director, Mr. Wu Wang Li, is appointed for the term of one year from 27 September 2007. In accordance with the bye-laws of the Company, at each annual general meeting of the Company one third of the directors shall retire from office by rotation. The Board considers that sufficient measures will be taken to ensure the corporate governance practices of the Company are not less exacting than those in the Code A4.1 and 4.2.

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

The management is obliged to supply the Board with adequate information in a timely manner to enable the members to make informed decisions and to discharge their duties and responsibilities. Each director has separate and independent access to the Group's senior management to acquire more information and to make further enquiries if necessary.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Currently, there is no remuneration committee in the Board. Meanwhile, the Board conducts an informal assessment of the individual director's contribution so that no director decides his or her own remuneration and their remuneration has been relatively stable in the past years. All employees are remunerated based on industry practice and in accordance with the prevailing labour law. In Hong Kong, apart from basic salary, staff benefits include medical insurance, performance related bonuses and mandatory provident fund would be provided by the Group.

ACCOUNTABILITY AND AUDIT

The Board is responsible for the preparation of the financial statements of the Company and the Group. In preparing the financial statements, the Board has adopted Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public accountants that are relevant to its operations.

The Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern, the Board has prepared the financial statements on a going concern basis.

The audit committee comprises three independent non-executive directors (the "Audit Committee") and reports to the board of directors. The Audit Committee meets the external auditors at least once a year to discuss any areas of concerns during the audits without the presence of the management. The Audit Committee reviews the adequacy and effectiveness of the internal control systems and focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with accounting standards, the Listing Rules and the legal requirements in the review of the Company's interim and annual reports.

INTERNAL CONTROL

The Board, through the Audit Committee, has reviewed the effectiveness of the Group's internal control system covering all material controls, including financial, operational and compliance controls and risk management functions. Areas for improvement have been identified and appropriate measures taken so as to safeguard the shareholders' investment and the Company's assets.

DELEGATION BY THE BOARD

The Board is responsible for determining the overall strategy and corporate development and ensuring the business operations are properly monitored. The Board reserves the right to decide all policy matters of the Group and material transactions. The Board delegates the day-to-day operations to general managers and department heads who are responsible for different aspects of the operations of the Group.

COMMUNICATION WITH SHAREHOLDER

The Company believes in regular and timely communication with shareholders as part of its efforts to help shareholders understand its business better and the way the Company operates. To promote effective communication with the public at large, the Company maintains a website (http://www.tihl.com.hk) on which comprehensive information about the Company's major businesses, financial information and announcements, annual and interim reports and shareholders circulars are being made available.

The Board is endeavour to maintain an on-going dialogue with shareholder. The chairman of the Board and member of the Audit Committee should attend the annual general meeting to answer questions.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules for directors' securities transactions. Having make specific enquiries of all directors of the Company, they have confirmed that they complied with required standard set out in the Model Code throughout the accounting period covered by the annual report.

CCIF
CCIF CPA LIMITED
20/F Sunning Plaza
10 Hysan Avenue
Causeway Bay Hong Kong

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF TOMORROW INTERNATIONAL HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Tomorrow International Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 19 to 104, which comprise the consolidated and Company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these 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 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 financial statements based on our audit. This report is made 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 financial statements are free from material misstatement.

AUDITOR'S RESPONSIBILITY *(Continued)*

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's loss 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 Hong Kong Companies Ordinance.

CCIF CPA Limited
Certified Public Accountants

Hong Kong, 25 April, 2008

Leung Chun Wa
Practising Certificate Number P04963

Consolidated Income Statement

For the year ended 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
TURNOVER	7	**476,507**	514,396
COST OF SALES		**(399,855)**	(447,834)
GROSS PROFIT		**76,652**	66,562
Other revenue and net income	8	**38,921**	31,631
Share-based compensation	36	**(16,966)**	—
Gain on disposal of financial assets at fair value through profit or loss		**17,256**	4,710
Impairment loss on a loan receivable	23(a)	**(3,500)**	(1,500)
Distribution costs		**(12,069)**	(13,086)
Administrative expenses		**(93,783)**	(99,236)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	9	**6,511**	(10,919)
Impairment loss on amounts due from an associate	19	**—**	(5,525)
PROFIT/(LOSS) BEFORE TAXATION		**6,511**	(16,444)
TAXATION	12	**(32,449)**	(2,965)
LOSS FOR THE YEAR		**(25,938)**	(19,409)
Attributable to:			
Equity holders of the Company	13	**(25,938)**	(16,225)
Minority interests		**—**	(3,184)
		(25,938)	(19,409)
Loss per share for loss attributable to the equity holders of the Company during the year			
Basic	14	**HK(1.15) cents**	HK(1.06) cents
Diluted	14	**N/A**	N/A

The notes on pages 26 to 104 form an integral part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	15	**87,830**	94,704
Leasehold land and land use rights	16	**9,553**	9,805
Investment properties	17	**—**	18,542
Interests in associates	19	**—**	—
Amounts due from an associate	19	**151,367**	151,367
Prepaid rental	20	**429**	1,166
Deferred product development costs	21	**7,880**	8,387
Available-for-sale financial assets	22	**46,066**	33,612
Loans receivable	23	**—**	562
		303,125	318,145
Current assets			
Properties held for sale	24	**5,439**	5,439
Financial assets at fair value through profit or loss	25	**—**	13,217
Prepaid lease payment	16	**252**	252
Inventories	26	**73,810**	64,559
Accounts receivable	27	**41,773**	35,039
Bills receivable		**697**	978
Loans receivable	23	**11,372**	7,876
Interest receivable on loans		**189**	28
Prepayments, deposits and other receivables	28	**34,472**	26,933
Cash and cash equivalents	29	**657,200**	619,730
		825,204	774,051
LIABILITIES			
Current liabilities			
Accounts payable	30	**74,326**	82,899
Other payables and accruals		**19,269**	31,068
Amounts due to related parties	31	**10,530**	—
Tax payable		**52,054**	21,667
Obligation on finance lease	38	**45**	—
		156,224	135,634
Net current assets		**668,980**	638,417
Total assets less current liabilities		**972,105**	956,562
Non-current liabilities			
Provision for long service payments	32	**570**	570
Deferred tax liabilities	33	**—**	1,319
Obligation on finance lease	38	**132**	—
		702	1,889
NET ASSETS		**971,403**	954,673

Consolidated Balance Sheet

As at 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
CAPITAL AND RESERVES			
Share capital	34	**8,991**	8,991
Reserves	35(a)	**953,513**	936,783
Equity attributable to equity holder of the Company		**962,504**	945,774
Minority interests		**8,899**	8,899
Total equity		**971,403**	954,673

Approved and authorised for issue by the board of directors on 25 April 2008

On behalf of the board

Yau Tak Wah, Paul
Director

Louie Mei Po
Director

The notes on pages 26 to 104 form an integral part of these financial statements.

Balance Sheet

As at 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	15	**—**	—
Investments in subsidiaries	18	**466,022**	438,465
		466,022	438,465
Current assets			
Loan receivable	23	**8,000**	—
Prepayments, deposits and other receivables	28	**1,011**	729
Tax recoverable		**14**	14
Cash and cash equivalents	29	**381,718**	360,959
		390,743	361,702
LIABILITIES			
Current liabilities			
Other payables and accruals		**2,600**	2,692
Net current assets		**388,143**	359,010
Total assets less current liabilities		**854,165**	797,475
Non-current liabilities			
Provision for long service payments	32	**230**	230
NET ASSETS		**853,935**	797,245
CAPITAL AND RESERVES			
Share capital	34	**8,991**	8,991
Reserves	35(b)	**844,944**	788,254
Total equity		**853,935**	797,245

Approved and authorised for issue by the board of directors on 25 April, 2008

On behalf of the board

Yau Tak Wah, Paul
Director

Louie Mei Po
Director

The notes on pages 26 to 104 form an integral part of these financial statements.

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	Exchange fluctuation reserve HK$'000	Capital reserve HK$'000	Contributed surplus HK$'000	Capital redemption reserve HK$'000	Property revaluation reserve HK$'000	Fair value reserve for available-for sale financial assets HK$'000	Share-based compensation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2006	2,861	200,556	(1,031)	801	283,208	77	6	15,620	–	282,015	784,113	12,083	796,196
Arising from revaluation of leasehold buildings	–	–	–	–	–	–	707	–	–	–	707	–	707
Increase in fair value of available-for-sale financial assets	–	–	–	–	–	–	–	6,248	–	–	6,248	–	6,248
Exchange realignment	–	–	(2)	–	–	–	–	–	–	–	(2)	–	(2)
Net gains and losses not recognised in the income statement	2,861	200,556	(1,033)	801	283,208	77	713	21,868	–	282,015	791,066	12,083	803,149
Issue of shares	3,576	169,853	–	–	–	–	–	–	–	–	173,429	–	173,429
Share issue expense	–	(2,496)	–	–	–	–	–	–	–	–	(2,496)	–	(2,496)
Bonus shares	2,554	(2,554)	–	–	–	–	–	–	–	–	–	–	–
Loss for the year	–	–	–	–	–	–	–	–	–	(16,225)	(16,225)	(3,184)	(19,409)
At 31 December 2006 and 1 January 2007	8,991	365,359	(1,033)	801	283,208	77	713	21,868	–	265,790	945,774	8,899	954,673
Share-based compensation	–	–	–	–	–	–	–	–	16,966	–	16,966	–	16,966
Arising from revaluation of leasehold buildings	–	–	–	–	–	–	3,100	–	–	–	3,100	–	3,100
Increase in fair value of available-for-sale financial assets	–	–	–	–	–	–	–	22,649	–	–	22,649	–	22,649
Exchange realignment	–	–	(47)	–	–	–	–	–	–	–	(47)	–	(47)
	8,991	365,359	(1,080)	801	283,208	77	3,813	44,517	16,966	265,790	988,442	8,899	997,341
Net gains and losses not recognised in the income statement													
Loss for the year	–	–	–	–	–	–	–	–	–	(25,938)	(25,938)	–	(25,938)
At 31 December 2007	8,991	365,359	(1,080)	801	283,208	77	3,813	44,517	16,966	239,852	962,504	8,899	971,403

The notes on pages 26 to 104 form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
PROFIT/(LOSS) BEFORE TAXATION		**6,511**	**(16,444)**
Adjustments for:			
Interest income on financial assets not at fair value through profit or loss		**(27,603)**	(21,383)
Other interests income		**(794)**	(16)
Dividend income from listed investments		**(1)**	(288)
Gain on disposal of a subsidiary		**—**	(557)
Gain on deregistration of subsidiaries	39	**(27)**	—
Impairment loss on interest in associates		**—**	5,525
Gain on disposal of properties held for sale		**—**	(5)
Depreciation on property, plant and equipment		**19,751**	23,021
Loss on disposal of property, plant and equipment		**49**	356
Loss on disposal of investment properties		**48**	—
Amortisation of leasehold land and land use rights		**252**	250
Amortisation of prepaid rental		**737**	737
Amortisation of deferred product development costs		**2,011**	1,921
Share-based compensation		**16,966**	—
Write back of provision for impairment loss on against inventories		**—**	(661)
Provision for inventories		**1,764**	—
Impairment loss on a loan receivable		**3,500**	1,500
Impairment loss on accounts receivable		**5,255**	6,042
Unrealised fair value gain of financial assets at fair value through profit or loss		**—**	(987)
Gain on disposal of financial asset at fair value through profit or loss		**(17,256)**	(4,710)
Net loss arising from fair value change of investment properties		**—**	889
Effect of foreign exchange rate changes		**(47)**	—
Operating profit/(loss) before working capital changes		**11,116**	(4,810)
Additions to deferred product development costs		**(1,504)**	(3,489)
(Increase)/decrease in inventories		**(11,015)**	3,642
(Increase)/decrease in accounts receivable		**(11,989)**	21,811
Decrease/(increase) in bills receivable		**281**	(4,308)
(Increase)/decrease in loans receivable		**(6,434)**	6,323
Increase in interest receivable on loans		**(161)**	—
(Increase)/decrease in prepayments, deposits and other receivables		**(7,539)**	25,787
Decrease in financial assets at fair value through profit or loss		**13,217**	—
Decrease/(increase) in accounts payable		**(8,573)**	11,241
Decrease in other payables and accruals		**(11,799)**	(8,949)
Increase in amount due to related parties		**10,530**	—
Increase in obligation on finance lease		**177**	—
Cash (used in)/generated from operations		**(23,693)**	47,248
Income tax paid		**(3,381)**	(1,844)
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES		**(27,074)**	45,404

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(9,926)**	(14,479)
Proceeds from disposal of property, plant and equipment		**100**	281
Proceeds from deregistration of a subsidiary		**27**	—
Purchase of investment properties		**—**	(17,572)
Proceeds from disposal of investment properties		**18,494**	5,241
Purchase of available-for-sale financial assets		**(1,549)**	—
Proceeds from disposal of available-for-sale financial assets		**29,000**	—
Purchase of properties held for sale		**—**	(5,439)
Proceeds from disposal of properties held for sale		**—**	6,205
Purchase of financial assets at fair value through profit or loss		**—**	(61,089)
Proceeds from disposal of financial asset at fair value through profit and loss		**—**	56,034
Dividend received from financial assets through profit or loss		**1**	288
Interest received		**27,603**	21,383
Other Interest received		**794**	—
Net cash inflow from disposal of a subsidiary		**—**	15,765
NET CASH INFLOW FROM INVESTING ACTIVITIES		**64,544**	6,618
FINANCING ACTIVITIES			
Net cash inflow from share issue		**—**	173,429
Share issue expense		**—**	(2,496)
NET CASH INFLOW FROM FINANCING ACTIVITIES		**—**	170,933
NET INCREASE IN CASH AND CASH EQUIVALENTS		**37,470**	222,955
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**619,730**	396,775
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**657,200**	619,730

The notes on pages 26 to 104 form an integral part of these financial statements.

1. GENERAL INFORMATION

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

The principal activity of the Company is investment holding. During the year, the Group's principal activities consisted of the design development, manufacture and sale of electronic products, the manufacture and sale of printed circuit boards ("PCBs"), the trading and distribution of electronic components and parts, the trading of listed equity investments and the provision of loan financing. There were no significant changes in the nature of the Group's principal activities during the year.

These consolidated financial statements are presented in thousands of units of HK dollars (HK$'000), unless otherwise stated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 3 provides information on the changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

The consolidated financial statements for the year ended 31 December 2007 comprise the Company and its subsidiaries and the Group's interest in associates.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

— financial instruments classified, as available-for-sale investments (see note 2(x)(iii)), certain buildings (see note 2(g)), investment properties (see note 2(f)), or financial assets at fair value through profit or loss (see note 2(x)(i))

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

b) Basis of preparation of the financial statements *(Continued)*

— properties held for sales is stated at the lower of cost and net realisable value (see note 2(k).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities are not readily apparent from other sources. Actual results may differ from these estimates.

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

c) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

Intragroup balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 4.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet with equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

c) Subsidiaries *(Continued)*

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

Loans from holders of minority interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with notes 2(x)(ii) depending on the nature of the liability.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 2(l)(ii)), unless the investment is classified as held for sale.

d) Associates

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets, unless it is classified as held for sale (see note 2(x)(iii)). The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associates for the year, including any impairment loss on goodwill relating to the investment in associates recognised for the year (see note 2(l)(i)).

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

e) Other investments in debt and equity securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries and associates, are as follows:

Investments in equity securities are initially stated at cost, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends or interest earned on these investments as these are recognised in accordance with the policies set out in note 2(u)(ii) and (v).

Dated debt securities that the Group and/or the Company have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are initially recognised in the balance sheet at fair value plus transaction costs. Subsequently, they are stated in the balance sheet at amortised cost less impairment losses (see note 2(l)(i)).

Investments in equity securities that do not have a listed market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 2(l)(i)).

Other investments in securities are classified as available-for-sale equity securities and are initially recognised at fair value plus transaction costs. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity. Dividend income from these investments is recognised in profit or loss in accordance with the policy set out in note 2(u)(v) and, where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss in accordance with the policy set out in note 2(u)(ii). When these investments are derecognised or impaired (see note 2(l)(i)), the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

Investments are recognised/derecognised on the date the Group and/or the Company commits to purchase/sell the investments or they expire.

For the year ended 31 December 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

f) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income, for capital appreciation or for a currently undetermined future use.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease. Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are performed in accordance with the guidance issued by the International Valuation Standards Committee. These valuations are reviewed annually by external valuers. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognized as a liability, including finance lease liabilities in respect of land classified as investment property; others, including contingent rent payments, are not recognized in the financial statements.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred. Changes in fair values are recognized in the income statement.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes. Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is completed, at which time it is reclassified and subsequently accounted for as investment property.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

f) Investment properties *(Continued)*

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognized in equity as a revaluation of property, plant and equipment under HKAS 16. However, if a fair value gain reverses a previous impairment loss, the gain is recognized in the income statement.

Investment property held for sale without redevelopment is classified within non-current assets held for sale, under HKFRS 5.

g) Property, plant and equipment

The following items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 2(l)(ii)).

— buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease (see note 2(j)); and

— other items of plant and equipment.

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

Changes arising on the revaluation of properties held for own use are generally dealt with in reserves. The only exceptions are as follows:

— when a deficit arises on revaluation, it will be charged to profit or loss to the extent that it exceeds the amount held in the reserve in respect of that same asset immediately prior to the revaluation; and

— when a surplus arises on revaluation, it will be credited to profit or loss to the extent that a deficit on revaluation in respect of that same asset had previously been charged to profit or loss.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

g) Property, plant and equipment *(Continued)*

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net proceeds on disposal and the carrying amount of the item and are recognised in the profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits.

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

—	Building	40-50 years
—	Leasehold improvements	2 - 20 years
—	Plant and machinery	5 - 15 years
—	Furniture, fixtures and office equipment	5 - 10 years
—	Motor vehicles	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually (Note 2(l)(ii)).

h) Construction-in-progress

Construction-in-progress represents plant and properties under construction and equipment pending installation, and is stated at cost less impairment losses (see note 2(l)(ii)). Cost comprises direct costs of construction as well as interest charges during the periods of construction and installation. Capitalisation of these costs ceases and the construction-in-progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use, notwithstanding any delays in the issue of the relevant commissioning certificates by the relevant authorities in the PRC.

i) Deferred product development costs

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

i) Deferred product development costs *(Continued)*

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable. Capitalised development costs are stated at cost less accumulated amortisation and accumulated impairment losses (see note 2(l)(ii)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to income statement on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

— capitalised development costs 7 years

Both the period and method of amortisation are reviewed annually.

j) Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

i) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Company or the Group will obtain ownership of the asset, the life of the asset. Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(l)(ii). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

For the year ended 31 December 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

j) Leases *(Continued)*

ii) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are written off as an expense of the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property.

k) Properties held for sale

Properties held for sale are stated at the lower of carrying amount and net realisable value. Carrying amount is the lower of cost less impairment losses and valuation.

l) Impairment of assets

i) Impairment of investments in debt and equity securities and other receivables

Investments in debt and equity securities (other than investments in subsidiaries and associates) and other current and non-current receivables (including the amounts due from an associate, note 19) that are stated at cost or amortised cost or are classified as available-for-sale equity securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

l) Impairment of assets *(Continued)*

i) Impairment of investments in debt and equity securities and other receivables (Continued)

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

— For unlisted equity securities carried at cost, impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

— For trade receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

— If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

— For available-for-sale equity securities, when a decline in the fair value has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity shall be removed from equity and recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

l) Impairment of assets *(Continued)*

i) Impairment of investments in debt and equity securities and other receivables (Continued)

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring the impairment loss was recognized. Reversal of impairment losses in such circumstances are recognised in profit or loss.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired, an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment (other than those carried at revalued amounts);
— interest in leasehold land and land use rights for own use under operating lease;
— deferred product development costs;
— investments in subsidiaries;
— interests in associates.

If any such indication exists, the asset's recoverable amount is estimated. In addition, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

l) Impairment of assets *(Continued)*

ii) Impairment of other assets (Continued)

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating unit are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

— Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of an impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2(l)(i) and (ii)).

Impairment losses recognised in an interim period in respect of available-for-sale equity securities carried at costs are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

l) Impairment of assets *(Continued)*

iv) Impairment of investments in subsidiaries associates and non-financial assets

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

v) Share-based payment

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

m) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period in which the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

n) Trade and other receivables

Trade and the other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment losses for bad and doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment losses for bad and doubtful debts (see note 2(l)(i)).

o) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

q) Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from share premium (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

r) Employee benefits

i) Short term employee benefits and contributions to defined contribution plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

ii) Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

For the year ended 31 December 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

r) Employee benefits *(Continued)*

iii) Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Hong Kong Employment Ordinance.

A provision is recognised in respect of probable future long services payments expected to be made. The provision is based on the best estimate of the probable future payments which has been earned by the employees from their service to the Group to the balance sheet date.

iv) Retirement benefits scheme

The Group in Hong Kong operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basis salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

Subsidiary established in Mainland China maintains a defined contribution retirement plan for certain of its employees. It contributes to a state-sponsored retirement plan of approximately 17% of the basic salaries of its employees, and has no further obligations for the actual pension payments or post-retirement benefits beyond the annual contributions. The state-sponsored retirement plan is responsible for the entire pension obligations payable to retired employees. There were no forfeited contributions available to the Group to reduce its contributions in future years. The contributions are charged to the income statement as they become payable in accordance with the rules of the state-sponsored retirement plan.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

r) Employee benefits *(Continued)*

v) Share-based payment

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year under review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

s) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

For the year ended 31 December 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

s) Income tax *(Continued)*

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

s) Income tax *(Continued)*

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

— the same taxable entity; or

— different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

t) Financial guarantee issue, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(t)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

For the year ended 31 December 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

t) Financial guarantee issue, provisions and contingent liabilities *(Continued)*

ii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

u) Revenue recognition

Provided it is probable that future economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

i) Sale of goods

Revenue is recognised when goods are delivered at the customer's premises which is taken to be the point in time when the customer has accepted the goods and the related risk and rewards of ownership. Revenue excludes value added tax or other sale taxes and is after deduction of any trade discounts.

ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

iii) Sales of listed equity investments

Trading fees and trading tariff on securities are recognised on a trade date basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

u) Revenue recognition *(Continued)*

iv) Sales of properties

Revenue arising from the sale of properties held for sale is recognised upon the signing of the sale and purchase agreement or the issue of an occupation permit by the relevant government authorities, whichever is the later. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the balance sheet under forward sales deposits and instalments received.

v) Dividend

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment has been established. Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

vi) Income from provision of management services

Revenue from maintenance and other services is recognised at the time when the service is performed.

vii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal installments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

v) Transaction of foreign currency

Non-monetary assets and liabilities measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill on consolidation of foreign operations acquired on or after 1 January 2005, are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity. Goodwill on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

w) Related parties

For the purpose of these financial statements, parties are considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals; or

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals, or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

x) Financial assets

The group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise financial assets held for trading. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in the consolidated income statement in the period in which they arise.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

x) Financial assets *(Continued)*

ii) 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 accounts receivable, time deposits, staff housing loans and other receivables are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in the consolidated income statement 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. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction 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.

iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as such or not classified as any of the other categories (set out above). 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 the consolidated income statement. Any impairment losses on available-for-sale financial assets are recognised in the consolidated income statement. Impairment losses on available-for-sale equity investments will not be reversed in subsequent periods.

For available-for-sale equity investments that do not have a quotes market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in the consolidated income statement when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not be reversed in subsequent periods.

For the year ended 31 December 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

y) Financial liabilities

Financial liabilities including trade and other payables and amounts due to related companies are subsequently measured at amortised cost, using the 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.

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.

z) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include trade receivables and property, plant and equipment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financial expenses.

For the year ended 31 December 2007

3. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised HKFRSs and interpretations that are first effective or available for early adoption for the current accounting period of the Group and the Company.

There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments. However, as a result of the adoption of HKFRS 7, Financial instruments: Disclosures and the amendment to HKAS 1, Presentation of financial statements: Capital disclosures, there have been some additional disclosures provided as follows:

As a result of the adoption of HKFRS 7, the financial statements include expanded disclosure about the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32, Financial instruments: Disclosure and presentation. These disclosures are provided throughout these financial statements.

The amendment to HKAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Group's and the Company's objectives, policies and processes for managing capital. These new disclosures are set out in note 4(g).

Both HKFRS 7 and the amendment to HKAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial instruments.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4. FINANCIAL RISK MANAGEMENT

The Group's principal financial instruments, comprise cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables which arises directly from its operations. The main risks arising from the Group's financial instruments are credit risk, liquidity risk, interest rate risk, commodity price risk and foreign currency risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

(a) Credit risk

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheet.

(i) Trade and other receivables

The Group's credit risk is primarily attributable to trade and other receivables, including those loan receivables. Credit evaluations are performed on all customers requiring credit over a certain amount. These receivables are due within 90 to 180 days from the date of billing. Debtors with balances that are more than three months from the date of billing are requested to settle all outstanding balances before any further credit is granted. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent.

At the balance sheet date, the Group has a certain concentration of credit risk as 18.8% (2006: 23.4%) and 74.4% (2006: 54.5%) of the total trade receivables were due from the Group's largest customer and the five largest customers as at 31 December 2007, respectively.

In addition, the aggregate amounts receivable from an associate, in which the Group has 30% equity interest (see note 19), amounted to approximately HK$151 million (2006: approximately HK$151 million). The Group does not hold any collateral over these advances. The management continuously monitors the default risk of this associate. At each reporting date, the management critically evaluates the current financial position and operating performance of this associate in order to determine its ability to repay the amounts due to the Group. The directors believe that adequate provision had been made in the financial statements for the amounts due as referred to note 19.

(ii) Deposits with banks

The Group mitigates its exposure to credit risk by placing deposits with financial institutions with established high credit ratings. Given the high credit ratings of the banks, the management does not expect any counterparty to fail to meet its obligations.

For the year ended 31 December 2007

4. FINANCIAL RISK MANAGEMENT *(Continued)*

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Group's reputation. The following table shows that time periods after the balance sheet date during which contractual payments, presented on an undiscounted basis, are due to be made. These payments include, among others, interest payments computed using contractual rates (or fixed rate instruments) under the Group's non-derivative financial liabilities which are due to be paid.

The liquidity risk is negligible as the Group has strong liquid funds mainly in forms of cash and cash equivalents of approximately HK$657 million (2006 : approximately HK$620 million) at the balance sheet date.

Group

	2007						2006					
	Carrying Amount HK$000	Total contractual undiscounted cashflow HK$000	Within 1 year or on demand HK$000	More than 1 year but less than 2 years HK$000	More than 2 years but less than 5 years HK$000	More than 5 years HK$000	Carrying Amount HK$000	Total contractual undiscounted cashflow HK$000	More than Within 1 year or on demand HK$000	1 year but less than 2 years HK$000	More than 2 years but less than 5 years HK$000	More than 5 years HK$000
Account payable	74,326	74,326	68,357	5,969	–	–	82,899	82,899	75,319	7,580	–	–
Other payables and accruals	19,269	19,269	19,269	–	–	–	31,068	31,068	31,068	–	–	–
Tax payable	52,054	52,054	52,054	–	–	–	21,667	21,667	21,667	–	–	–
Obligation on finance lease	177	177	45	45	87	–	–	–	–	–	–	–
Deferred tax liabilities	–	–	–	–	–	–	1,319	1,319	1,319	–	–	–
Amount due to related parties	10,530	10,530	10,530	–	–	–	–	–	–	–	–	–
	156,356	156,356	150,255	6,014	87	–	136,953	136,953	129,373	7,580	–	–

For the year ended 31 December 2007

4. FINANCIAL RISK MANAGEMENT *(Continued)*

(b) Liquidity risk *(Continued)*

Company

	2007						2006					
	Carrying Amount HK$000	Total contractual undiscounted cashflow HK$000	Within 1 year or on demand HK$000	More than 1 year but less than 2 years HK$000	More than 2 years but less than 5 years HK$000	More than 5 years HK$000	Carrying Amount HK$000	Total contractual undiscounted cashflow HK$000	Within 1 year or on demand HK$000	More than 1 year but less than 2 years HK$000	More than 2 years but less than 5 years HK$000	More than 5 years HK$000
Other payables and accruals	2,600	2,600	2,600	–	–	–	2,692	2,692	2,692	–	–	–
	2,600	2,600	2,600	–	–	–	2,692	2,692	2,692	–	–	–

(c) Interest rate risk

The Group manages its interest rate exposure based on interest rate level and outlook as well as potential impact on the Group's financial position arising from volatility. The Group currently does not have any interest rate hedging policy in relation to fair value and cash flow interest rate risks. The directors monitor the Group's exposure on ongoing basis and will consider hedging the interest rate should the need arise.

The Group's fair value interest rate risk relates primarily to bank deposits carrying fixed interest rates and cash flow interest rate risk in relation to short-term deposits placed in banks and financial institutions that are interest-bearing at market interest rates. The directors consider the Group's exposure of the bank deposits to fair value interest rate risk is not significant as interest bearing bank deposits are within short maturity period.

At 31 December 2007, it is estimated that a general increase/decrease 100 basis points in interest rates, with all other variable held constant, would decrease/increase the Group's loss after tax and accumulated losses for the year approximately HK6.6 million (2006: HK$6.2 million). Other components of equity would not be affected (2006: nil) by the changes in interest rates. The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2006.

4. FINANCIAL RISK MANAGEMENT *(Continued)*

(d) Price risk

(i) Commodity Price Risk

The major raw material used in the production of the Group's products included quartz, electric capacitance, resistors, capacitors and integrated circuit chips. The Group is exposed to fluctuations in the prices of these raw materials which are influenced by global as well as regional supply and demand conditions. Fluctuations in the prices of raw materials could adversely affect the Group's financial performance. The Group historically has not entered into any commodity derivative instruments to hedge the potential commodity price changes.

(ii) Equity price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet as available-for-sales assets as disclosed in note 22.

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the value of individual securities. The Group' s listed investment is listed in Hong Kong and is valued at quoted market price at the balance sheet date.

The following table demonstrates the sensitivity to 5% increase/decrease in the fair values of the equity investments with all other variables held constant and after any impact on tax, based on their carrying amounts at the balance sheet date.

2007

	Increase/ (decrease) in carrying amount of equity investments HK$000	**Increase/ (decrease) in profit after income tax** HK$000	**Increase/ (decrease) in equity** HK$000
5% increase in fair values of the available-for-sales assets	**2,303**	**2,303**	**2,303**
5% decrease in fair values of the available-for-sales assets	**(2,303)**	**(2,303)**	**(2,303)**

For the year ended 31 December 2007

4. FINANCIAL RISK MANAGEMENT *(Continued)*

(d) Price risk *(Continued)*

(ii) Equity price risk (Continued)

2006

	Increase/ (decrease) in carrying amount of equity investments HK$000	Increase/ (decrease) in profit after income tax HK$000	Increase/ (decrease) in equity HK$000
5% increase in fair values of the available-for-sales assets	1,680	1,680	1,680
5% decrease in fair values of the available-for-sales assets	(1,680)	(1,680)	(1,680)

(e) Business risk

The Group's sales are primarily made to several major customers. The Group has a certain concentration of business risk as 40.4% (2006: 37.6%) of the total sales were made from the Group's five largest customers. In the event that these customers ceased to purchase from the Group and the Group could not secure orders from other customers, the Group's turnover and profitability would be adversely affected. The Group's purchases of raw materials are primarily from several major suppliers. Although the Group has entered into co-operative agreement with these major suppliers, there can be no assurance that they will continue to supply the Group as and when needed. The Group has a certain concentration of business risk as 23.5% (2006: 24.9%) of the total purchases were from the Group's five largest suppliers. If the Group could not purchase adequate quantities of materials from these suppliers and failed to identify alternative sources, the Group's turnover and profitability could be adversely affected.

For the year ended 31 December 2007

4. FINANCIAL RISK MANAGEMENT *(Continued)*

(f) Foreign currency risk

The Group is exposed to currency risk primarily through bank deposits that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily US dollars, Japanese Yen and Renminbi.

In respect of trade receivables and payables held in currencies other than functional currency of the operations to which they relate, the Group ensures that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

(i) Exposure to currency risk

The following table details the Group's and the Company's major exposure at the balance sheet date to currency risk arising from forecast transactions or recognized assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

	2007					2006				
	USD '000	EUR '000	JPY '000	MOP '000	RMB '000	USD '000	EUR '000	JPY '000	MOP '000	RMB '000
Trade and other receivables	**5,290**	**—**	**5,914**	**—**	**36**	3,159	—	3,745	—	323
Cash and cash equivalents	**45,330**	**7**	**—**	**19**	**3,631**	33,557	10	—	42	2,121
Trade and other payables	**(1,577)**	**—**	**(1,865)**	**—**	**(14,775)**	(1,343)	—	(13,425)	—	(20,194)
Gross exposure arising from recognised assets and liabilities	**49,043**	**7**	**4,049**	**19**	**(11,108)**	35,373	10	(9,680)	(42)	(17,750)

(ii) Sensitivity analysis

The following table indicates the approximate change in the Group's loss after tax (and accumulated losses) and other components of equity in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the balance sheet date. The sensitivity analysis includes bank deposits where the denomination of the balances is in a currency other than the functional currency.

For the year ended 31 December 2007

4. FINANCIAL RISK MANAGEMENT *(Continued)*

(f) Foreign currency risk *(Continued)*

(ii) Sensitivity analysis (Continued)

	2007			2006		
	Increase/ (decrease) in foreign exchange rates %	**Effect on loss after tax and accumulated losses HK$'000**	**Effect on other components of equity HK$'000**	Increase/ (decrease) in foreign exchange rates %	Effect on loss after tax and accumulated losses HK$'000	Effect on other components of equity HK$'000
USD	**5%**	**204**	**—**	5%	146	—
JPY	**10%**	**303**	**—**	10%	799	—
MOP	**2%**	**—**	**—**	2%	1	—
RMB	**10%**	**(917)**	**—**	10%	(1,464)	—

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to each of the Group entities' exposure to currency risk for both derivative and non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

(g) Capital management

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

The Group manages its capital structure and makes adjustments to it, in light of change in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 2006. Consistent with the industry practice, the Group monitors its capital structure on the basis of net cash-to-equity ratio, which is calculated as the Group's total cash and cash equivalents as shown in consolidated balance sheet less total debts. The Group aims at maintaining strong positive liquid funds.

Neither the Company nor any of its subsidiaries are subject to externally imposed requirements.

4. FINANCIAL RISK MANAGEMENT *(Continued)*

(g) Capital management *(Continued)*

The net cash-to-equity ratio as at 31 December 2007 and 2006 was as follows:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Current liabilities				
Accounts payable	**74,326**	82,899	**—**	—
Other payables and accruals	**19,269**	31,068	2,600	2,692
Amounts due to related parties	**10,530**	—	**—**	—
Tax payable	**52,054**	21,667	**—**	—
Obligation on finance lease	**45**	—	**—**	—
	156,224	135,634	**2,600**	2,692
Non-current liabilities				
Provision for long service payments	**570**	570	**—**	—
Deferred tax liabilities	**—**	1,319	**—**	—
Obligation on finance lease	**132**	—	**—**	—
	702	1,889	**—**	—
Total debts	**156,926**	137,523	**2,600**	2,692
Cash and cash equivalents	**657,200**	619,730	**381,718**	360,959
Net Cash	**500,274**	482,207	**379,118**	358,267
Total equity	**971,403**	954,673	**853,935**	797,245
Net cash-to-equity ratio	**51.5%**	50.5%	**44.4%**	44.9%

4. FINANCIAL RISK MANAGEMENT *(Continued)*

(g) Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments:

(i) The fair value of financial instruments traded in active markets (such as trading and available for sale services) in based on quoted market price at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques (e.g. discounted cash flows). The group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

(ii) Liquid or/and short-term assets and liabilities

For financial assets and financial liabilities that are liquid or having a short term maturity it is assumed that the carrying amounts approximate their fair values. The assumption is applied to trade and other receivables, trade and other payables, cash and cash equivalents without a specific maturity and variable rate financial instruments.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

a) Useful lives and residual values of property, plant and equipment

Useful lives of the Group's property, plant and equipment are defined as the period over which they are expected to be available for use by the Group. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment or similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated lives, and it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives; and actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciation lives and residual lives and therefore depreciable expense in future periods.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

b) Impairment of property, plant and equipment and construction in progress

Property, plant and equipment and construction in progress are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts are determined based on value-in-use calculations or market valuations. In determining the value in use, expected cash flows generated by the asset are discounted to their present values, which requires significant judgement relating to such items such as level of future revenue, and amount of operating costs and discount rates. No impairment was provided during the year.

c) Impairment of loans receivable

The Group makes allowance for impairment of loans receivables based on the evaluation of collectability and ageing analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

d) Impairment of trade and other receivables

Appropriate provision for estimated irrecoverable amounts is recognised in the income statement when there is objective evidence that the receivables are not recoverable.

Management considered detailed procedures have been in place to monitor this risk as a significant proportion of the Company's majority of working capital is devoted to accounts and other receivables. In determining whether provision on accounts and other receivables occurred, the Company takes into consideration the ageing status and the likelihood of collection. Provision for bad and doubtful debts are recognised when they are unlikely to be collected. The measurement of provision requires the Company to estimate the future cash flows expected to be collected. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. In this regard, the directors of the Company are satisfied that this risk is minimal and adequate provision has been made in the financial statements in light of the historical records of the Company and the current economic environment.

The Group makes allowance for impairment of trade and other receivables based on the evaluation of collectability and aging analysis of accounts and on management's judgement.

For the year ended 31 December 2007

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

e) Recoverability and amortisation of deferred product development costs

During the year, the management reconsidered the recoverability of its internally and externally-generated intangible asset arising from the Group's product development expenditure, which is included in its consolidated balance sheet at 31 December 2007 at HK$7,880,000 (2006: HK$8,387,000). The project continues to progress in a satisfactory manner, and customer reaction has reconfirmed management's previous estimates of anticipated revenues from the project. However, keen competition has caused management to reconsider its assumptions regarding future market shares and anticipated margins on these products. Cash flow forecasts have been carried out and management is confident that the carrying amount of the asset will be recovered in full, even if returns are reduced. This situation will be closely monitored, and adjustments made in future periods if future market activity indicates that such adjustments are appropriate.

f) Impairment of the interests in and amounts due from associates

The Group follows the guidance of HKAS 39 to determine when interests in and amounts due from associates are impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of the investment in associate is less than its cost, and the financial health of and near-term business outlook for the associate, including factors such industry and sector performance, change in technology and operational and financing cash flow. As referred to note 19 to the financial statements, the investment costs in the associate, Profitown Investment Corporation have been fully impaired and remaining maximum exposure to the associate is the carrying amount of the amounts due from the associate of HK$151, 367,000, net of the allowance for the impairment recognized of HK$15,737,000, at both balance sheet dates. In the opinion of the directors, adequate provision has been made on these amounts due from the associate at both balance sheet dates.

g) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs to completion and selling expenses. These estimates are made with reference to age analysis of inventories, projection of expected sale volume and management experience and judgement. Based on this review, write down of inventories will be made when the carrying amounts to inventories decline below their estimated net realizable value. Due to changes in market conditions, actual salability of goods may be different from estimation and profit or loss could be affected by differences in this estimation.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

h) Income taxes

The Group is subject to income taxes in several jurisdictions. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

i) Fair value of financial instruments

Financial instruments such as interest rate, foreign exchange and equity derivative instruments are carried at the balance sheet at fair value. The best evidence of fair value is quoted prices in an active market, where quoted prices are not available for a particular financial instrument, the Group uses the market values determined by independent financial institutions or internal or external valuation models to estimate the fair value. The use of methodologies, models and assumptions in pricing and valuing these financial assets and liabilities is subjective and requires varying degrees of judgment by management, which may result in significantly different fair values and results. All significant financial valuation models are strictly controlled and regularly recalibrated and vetted.

6. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating business are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business that offers products and services that are subject to risks and returns which are different from those of the other business segments.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Inter-segment sales and transfers are transacted with reference to the selling prices used for sales made to the third parties at the then prevailing market prices.

For the year ended 31 December 2007

6. SEGMENT INFORMATION *(Continued)*

Summary details of the business segments are as follows:

a) The electronic products segment consists of the manufacture and sale of electronic products;

b) The PCBs segment consists of the manufacture and sale of PCBs;

c) The electronic components and parts segment consists of the trading and distribution of electronic components and parts;

d) The listed equity investments segment consists of the trading of listed equity investments;

e) The provision of finance segment consists of the provision of loan financing services.

6. SEGMENT INFORMATION *(Continued)*

a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

Group

	Electronic products		PCBs		Electronic components and parts		Listed equity investments		Provision of finance		Eliminations		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue														
Sales to external customers	**373,740**	353,721	**89,855**	104,308	**—**	—	**12,610**	56,034	**302**	333	**—**	—	**476,507**	514,396
Inter-segment sales	**—**	—	**—**	—	**16,016**	16,860	**—**	—	**1,887**	1,561	**(17,903)**	(18,421)	**—**	—
Other revenue	**4,917**	2,094	**3,916**	5,029	**240**	253	**—**	—	**—**	—	**(240)**	(253)	**8,833**	7,123
Total	**378,657**	355,815	**93,771**	109,337	**16,256**	17,113	**12,610**	56,034	**2,189**	1,894	**(18,143)**	(18,674)	**485,340**	521,519
Segment results	**12,313**	4,646	**(10,680)**	(23,844)	**55**	97	**13,086**	2,227	**(9,440)**	(7,424)	**(1,886)**	(1,763)	**3,448**	(26,061)
Interest, dividend income and unallocated gains													**30,062**	23,946
Loss on disposal of fixed assets													**(49)**	—
Gain on disposal of properties held for sale													**—**	5
Gainon deregistration of a subsidiary													**27**	—
Gain on disposal of a subsidiary													**—**	557
Loss on disposal of investment properties													**(48)**	—
Net loss arising from fair value change of investment properties													**—**	(889)
Share-based compensation													**(16,966)**	—
Unallocated expenses													**(9,963)**	(8,477)
Profit/(Loss) from operating activities													**6,511**	(10,919)
Impairment loss on interest in associates													**—**	(5,525)
Profit/(Loss) before taxation													**6,511**	(16,444)
Taxation													**(32,449)**	(2,965)
Loss for the year													**(25,938)**	(19,409)

For the year ended 31 December 2007

6. SEGMENT INFORMATION *(Continued)*

a) Business segments *(Continued)*

Group (Continued)

	Electronic products 2007 HK$'000	Electronic products 2006 HK$'000	PCBs 2007 HK$'000	PCBs 2006 HK$'000	Electronic components and parts 2007 HK$'000	Electronic components and parts 2006 HK$'000	Listed equity investments 2007 HK$'000	Listed equity investments 2006 HK$'000	Provision of finance 2007 HK$'000	Provision of finance 2006 HK$'000	Eliminations 2007 HK$'000	Eliminations 2006 HK$'000	Consolidated 2007 HK$'000	Consolidated 2006 HK$'000
Segment assets	**211,605**	218,067	**68,283**	82,368	**296**	55	**217,274**	185,996	**9,603**	13,913	**–**	–	**507,061**	500,399
Interests in associates	**–**	–	**–**	–	**–**	–	**–**	–	**151,367**	151,367	**–**	–	**151,367**	151,367
Unallocated assets	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**469,901**	440,430
Total													**1128,329**	1,092,196
Segment liabilities	**106,780**	73,442	**45,381**	57,661	**48**	2,578	**142**	10	**114**	112	**–**	–	**152,465**	133,201
Unallocated liabilities	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**4,461**	4,322
Total Liabilities													**156,926**	137,523
Other segment information														
Depreciation on property, plant and equipment	**9,796**	10,408	**9,538**	10,317	**–**	–	**–**	–	**–**	–	**–**	–	**19,334**	20,725
Unallocated amounts													**417**	2,296
													19,751	23,021
Capital expenditure	**4,796**	3,702	**5,065**	10,048	**–**	–	**–**	–	**–**	–	**–**	–	**9,861**	13,750
Unallocated amounts													**65**	729
													9,926	14,479
Impairment loss on a loan receivable	**–**	–	**–**	–	**–**	–	**–**	–	**(3,500)**	(1,500)	**–**	–	**(3,500)**	(1,500)
Impairment loss on accounts receivable	**–**	(34)	**(5,255)**	(6,008)	**–**	–	**–**	–	**–**	–	**–**	–	**(5,255)**	(6,042)
Provision for inventories	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Unallocated amounts													**–**	–
													–	–
Net loss arising from fair value change of investment properties	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Unallocated amounts													**–**	(889)
													–	(889)

For the year ended 31 December 2007

6. SEGMENT INFORMATION *(Continued)*

b) Geographical segments

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments.

Group

	Europe		North America		Hong Kong		Japan		Others		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:												
Sales to external customers	**44,372**	34,147	**90,097**	103,186	**160,212**	179,952	**163,041**	175,908	**18,785**	21,203	**476,507**	514,396

	Hong Kong		Mainland China		Others		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Other segment information:								
Segment assets	**745,301**	754,480	**177,778**	164,980	**53,883**	21,369	**976,962**	940,829
Interests in associates	**—**	—	**—**	—	**151,367**	151,367	**151,367**	151,367
							1,128,329	1,092,196
Capital expenditure	**1,995**	941	**6,097**	11,401	**1,834**	2,137	**9,926**	14,479

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7. TURNOVER

Turnover represents the net invoiced value of goods sold and services rendered to customers less sales return and discounts, the proceeds from sales of listed equity investments and the interest income from the provision of loan financing.

An analysis of turnover is as follows:

	2007 HK$'000	2006 HK$'000
Sale of electronic products	**373,740**	353,721
Sale of PCBs	**89,855**	104,308
Trading of listed equity investments	**12,610**	56,034
Provision of loan financing	**302**	333
	476,507	514,396

8. OTHER REVENUE AND NET INCOME

	2007 HK$'000	2006 HK$'000
Other revenue		
Interest income on financial assets not at fair value through profit or loss	**27,603**	21,383
Dividends income from listed investments	**1**	288
Sales of obsolete inventories and raw materials	**1,631**	1,537
Product development income	**3,405**	2,160
Rental income	**—**	144
Other interests earned	**794**	16
Compensation from vendors	**2,368**	2,598
Others	**1,549**	2,943
	37,351	31,069
Other net income		
Exchange gain, net	**1,543**	—
Gain of disposal of properties held for sale	**—**	5
Gain on deregistration of a subsidiary	**27**	—
Gain on disposal of a subsidiary	**—**	557
	1,570	562
	38,921	31,631

9. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

The Group's profit/(loss) from operating activities is arrived at after charging/(crediting):

	2007 HK$'000	2006 HK$'000
Cost of inventories	**395,799**	397,638
Depreciation on property, plant and equipment	**19,751**	23,021
Amortisation of leasehold land and land use rights	**252**	250
Amortisation of prepaid rental	**737**	737
Amortisation of deferred product development costs	**2,011**	1,921
Minimum lease payments under operating leases:		
Land and buildings	**8,957**	5,729
Staff costs (including directors' remuneration — note 10):		
Wages and salaries	**71,767**	80,267
Share-based compensation	**16,966**	—
Pension contributions	**1,088**	1,343
	89,821	81,610
Auditors' remuneration	**950**	900
Impairment loss on accounts receivable	**5,255**	6,042
Loss on disposal of property, plant and equipment	**49**	356
Exchange gain, net	**(1,543)**	(1,063)
Net loss arising from fair value change of investment properties	**—**	889
Loss on disposal of investment properties	**48**	—

The cost of inventories sold includes HK$45,253,000 (2006: HK$45,486,000) relating to direct staff costs, provision against inventories, amortisation of prepaid rental, amortisation of deferred product development costs, operating lease rentals of land and buildings and depreciation of the manufacturing activities, which are also included in the respective total amounts disclosed above for each of these types of expenses.

At 31 December 2007, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2006: Nil).

10. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

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

Name of director	Fees	Salary	Discretionary bonuses	Employer's contribution to pension scheme	Equity compensation benefits	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive Directors						
Yau Tak Wah, Paul	—	1,800	120	90	—	2,010
Louie Mei Po	—	1,506	—	75	3,640	5,221
Wong Shin Ling, Irene	—	780	—	39	3,640	4,459
Tam Wing Kin *	—	621	—	25	—	646
Liu Yee Nee **	—	356	—	18	—	374
Independent non-executive Director						
Cheung Chung Leung, Richard	150	—	—	—	—	150
Ng Wai Hung	180	—	—	—	—	180
Wu Wang Li	120	—	—	—	—	120
	450	5,063	120	247	7,280	13,160

For the year ended 31 December 2007

10. DIRECTORS' REMUNERATION *(Continued)*

Directors' emoluments *(Continued)*

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

Name of director	Fees HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Employer's contribution to pension scheme HK$'000	Equity compensation benefits HK$'000	Total HK$'000
Executive Directors						
Yau Tak Wah, Paul	—	1,997	800	90	—	2,887
Louie Mei Po	—	1,560	—	54	—	1,614
Wong Shin Ling, Irene	—	780	—	39	—	819
Tam Wing Kin	—	819	—	37	—	856
Independent non-executive Director						
Cheung Chung Leung, Richard	150	—	—	—	—	150
Ng Wai Hung	180	—	—	—	—	180
Wu Wang Li	120	—	—	—	—	120
	450	5,156	800	220	—	6,626

* Mr. Tam Wing Kin resigned on 9 August 2007
** Ms. Liu Yee Nee was appointed on 9 August 2007

During the year, no emoluments were paid by the Group to the Directors as an inducement to join, or upon joining the Group, or as compensation for loss of office.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

For the year ended 31 December 2007

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2006: two) directors, details of whose remuneration are set out in note 10 to the financial statements. The details of the remuneration of the remaining three (2006: three) non-directors, highest paid employees for the year are as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**10,851**	3,116
Pension contributions	**58**	121
	10,909	3,237

The remuneration of the non-director, highest paid employees fell within the following bands:

	Number of employees	
	2007	2006
Nil — HK$1,000,000	**—**	—
HK$1,000,001 — HK$1,500,000	**—**	3
More than HK$1,500,000	**3**	—
	3	3

12. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2007	2006
	HK$'000	HK$'000
Current tax		
Hong Kong		
— Current year provision	**1,267**	635
— Underprovision in prior years	**32,264**	2,507
Mainland China	**237**	—
	33,768	3,142
Deferred tax (note 33)	**(1,319)**	(177)
Total tax charge for the year	**32,449**	2,965

In accordance with the applicable enterprise income tax law of the PRC, the Group's subsidiaries registered in Mainland China, Dongguan Yifu Circuit Board Factory ("Yifu") and Gaojin Electronics (Shenzhen) Co., Ltd ("Gaojin"), are exempt from income tax for their first two profitable years of operations and are entitled to 50% relief on the income tax that would otherwise be charged for the succeeding three years.

The foregoing tax concessions for Yifu and Gaojin have expired. The income tax rate applicable to Yifu is at 15% for 2007 (2006: 15%). Pursuant to a further tax concession granted to high technology enterprises, the income tax applicable rate to Gaojin is 10% for 2007 (2006: 10%).

For the year ended 31 December 2007

12. TAXATION *(Continued)*

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and , its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e. the statutory tax rates) to the effective tax rates, are as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Profit/(Loss) before taxation	**6,511**	(16,444)
Tax at the statutory tax rate	**1,139**	2,878
Effect of different taxation rates in other countries	**(402)**	(5,806)
Adjustments in respect of current tax of previous years	**32,264**	—
Income not subject to taxation	**(3,025)**	(6,275)
Expenses not deductible for taxation	**493**	6,219
Tax losses utilised from previous years	**(2,632)**	(561)
Tax losses not provided for the current year	**3,739**	4,034
Others	**873**	2,476
Tax charge for the year	**32,449**	2,965

The National People's Congress of the PRC approved the Corporate Income Tax Law of the PRC (the "New Tax Law") on 16 March 2007. With effective from 1 January 2008, the tax rate applicable to the enterprises established in the PRC will be unified at 25% with certain grandfather provisions and preferential provisions. The change in tax rate does not have any impact on the financial statements, as the New Tax Law was neither enacted nor substantially enacted by 31 December 2007.

In respect of certain disputed tax provision, the Company engaged a tax consultant to negotiate with the Inland Revenue Department of Hong Kong and subsequently a final tax assessment was issued. The additional tax provision is related to the unsuccessful claim for exemption of foreign earnings.

13. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company for the year ended 31 December 2007 dealt with in the financial statements of the Company is HK$39,724,000 (2006: HK$13,008,000).

14. LOSS PER SHARE

Included in the calculation of basic loss per share is based on the loss for the year attributable to equity holders of the Company of HK$25,938,000 (2006: HK$16,225,000) and the weighted average of 2,247,682,010 (2006: 1,533,910,040 (restated to reflect subdivision of 1 share to 10 shares)) shares in issue.

No diluted loss per share has been presented by the Company for the year ended 31 December 2007 as the exercise of share options would result a decrease in loss per share.

There were no potential dilutive shares in existence for the year ended 31 December 2006 and, accordingly, no diluted earnings per share amount was presented.

For the year ended 31 December 2007

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings		Lease hold improvements		Plant and machinery		Furniture, fixtures & office equipments		Motor vehicles		Construction-in-progress		Total	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Cost or valuation														
At 1 January	**33,700**	34,630	**50,063**	49,834	**153,737**	147,292	**25,871**	25,218	**1,633**	1,326	**5,756**	–	**270,760**	258,300
Additions	**–**	–	**692**	414	**6,564**	6,865	**1,190**	1,137	**–**	307	**1,480**	5,756	**9,926**	14,479
Disposals	**–**	–	**–**	(185)	**(148)**	(420)	**(498)**	(484)	**(384)**	–	**(98)**	–	**(1,128)**	(1,089)
Reclassification	**–**	–	**5,996**	–	**73**	–	**–**	–	**–**	–	**(6,069)**	–	**–**	–
Surplus/(Deficit) on revaluation	**3,100**	(930)	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**3,100**	(930)
At 31 December	**36,800**	33,700	**56,751**	50,063	**160,226**	153,737	**26,563**	25,871	**1,249**	1,633	**1,069**	5,756	**282,658**	270,760
Accumulated depreciation														
At 1 January	**–**	–	**32,908**	28,681	**120,928**	106,528	**21,730**	19,891	**490**	24	**–**	–	**176,056**	155,124
Provided during the year	**–**	–	**4,021**	4,279	**13,467**	14,400	**1,858**	2,239	**405**	466	**–**	–	**19,751**	21,384
Disposals	**–**	–	**–**	(52)	**(148)**	–	**(447)**	(400)	**(384)**	–	**–**	–	**(979)**	(452)
Disposals of subsidiaries	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Write-back on revaluation	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
At 31 December	**–**	–	**36,929**	32,908	**134,247**	120,928	**23,141**	21,730	**511**	490	**–**	–	**194,828**	176,056
Net book value														
At 31 December	**36,800**	33,700	**19,822**	17,155	**25,979**	32,809	**3,422**	4,141	**738**	1,143	**1,069**	5,756	**87,830**	94,704
An analysis of cost or valuation														
At cost	**–**	–	**19,822**	17,155	**25,979**	32,809	**3,422**	4,141	**738**	1,143	**1,069**	5,756	**51,030**	61,004
At valuation	**36,800**	33,700	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**36,800**	33,700
	36,800	33,700	**19,822**	17,155	**25,979**	32,809	**3,422**	4,141	**738**	1,143	**1,069**	5,756	**87,830**	94,704

For the year ended 31 December 2007

15. PROPERTY, PLANT AND EQUIPMENT

Company

	Leasehold improvements		Furniture and fixtures		Total	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Cost						
At 1 January and 31 December	**13**	13	**144**	144	**157**	157
Accumulated depreciation						
At 1 January	**13**	13	**144**	137	**157**	150
Provided during the year	**—**	—	**—**	7	**—**	7
At 31 December	**13**	13	**144**	144	**157**	157
Net book value						
At 31 December	**—**	—	**—**	—	**—**	—

The valuations were carried out by an independent firm of surveyors, B.I. Appraisals Limited, who have among their staff Fellows of the Hong Kong Institute of Surveyors, with recent experience in the location and category of property being valued. The fair value have been estimated on the Direct Comparison Approach assuming each of such properties is capable of being sold in existing state and the Depreciated Replacement Cost Approach which is based on estimate of the market value for the existing use and the costs to reproduce or replace in new conditions the buildings and structures with allowance for accrued depreciation as evidence by observed condition or obsoleteness present. Revaluation surplus of HK$3,100,000 (2006: HK$707,000) has been credited to the property revaluation reserve.

If buildings were stated on the building cost basis, the amounts would be as follows:

	2007 HK$'000	2006 HK$'000
Cost	**38,400**	38,400
Accumulated depreciation	**(15,010)**	(13,928)
Net book value	**23,390**	24,472

Depreciation expense of HK$15,237,000 (2006: HK$15,248,000) has been charged to "cost of sales".

Last year, certain of the Group's leasehold buildings were pledged to secure banking facilities granted to the Group which were released during the year. The net book value of the pledged assets included in the total amount of property, plant and equipment at 31 December 2007 amounted to HK$Nil (2006: HK$12,800,000).

16. LEASEHOLD LAND AND LAND USE RIGHTS

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book value are analysed as follows:

	2007 HK$'000	2006 HK$'000
In Hong Kong held on:		
Medium-term leases of between 10 to 50 years	**7,576**	7,766
Outside Hong Kong, held on:		
Medium-term leases of between 10 to 50 years	**2,229**	2,291
	9,805	10,057

	2007 HK$'000	2006 HK$'000
Opening	**10,057**	10,307
Amortisation	**(252)**	(250)
Net book value	**9,805**	10,057
Current portion	**(252)**	(252)
Non-current portion	**9,553**	9,805

At 31 December 2007, none of the Group's leasehold land (2006: with net book value of HK$7,766,000) was pledged to secure banking facilities granted to the Group (Note 41).

17. INVESTMENT PROPERTIES

Group

	2007 HK$'000	2006 HK$'000
At 1 January	**18,542**	28,750
Additions	**—**	17,572
Disposal	**(18,542)**	(5,241)
Disposal of a subsidiary	**—**	(21,650)
Net loss arising from fair value change	**—**	(889)
At 31 December	**—**	18,542

17. INVESTMENT PROPERTIES *(Continued)*

For 2006, the valuations were carried out by an independent firm of surveyors, B.I. Appraisals Limited, who have among their staff Fellows of the Hong Kong Institute of Surveyors, with recent experience in the location and category of property being valued. The fair value have been estimated on an open market value basis calculated by reference to net rental income allowing for reversionary income potential.

18. INVESTMENT IN SUBSIDIARIES

	Company	
	2007	2006
	HK$'000	HK$'000
Unlisted shares, at cost	**93,316**	93,316
Due from subsidiaries	**421,207**	393,671
Due to subsidiaries	**(9,873)**	(9,894)
	504,650	477,093
Provision for impairment loss	**(38,628)**	(38,628)
	466,022	438,465

The amount due from/(to) subsidiaries are unsecured, interest free and have no fixed repayment terms.

Movements on the provision for impairment of the amount due from subsidiaries are as follows:—

	2007	2006
	HK$'000	HK$'000
At 31 December 2007	**38,628**	38,628

For the year ended 31 December 2007

18. INVESTMENT IN SUBSIDIARIES *(Continued)*

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operation	Nominal value of issued ordinary share capital/registered share capital	Proportion for ownership interest			Principal activities
			group's effective interest	held by company	held by subsidiary	
Account Centre Limited	Hong Kong	HK$2	100%	—	100%	Provision of accountancy services to group companies
Active Base Limited	Hong Kong	HK$2	100%	—	100%	Provision of loan financing
Allied Trade Limited	The British Virgin Islands	US$1	100%	—	100%	Investment holding
Allied Success Inc.	The British Virgin Islands	US$10,000	88%	—	88%	Investment holding
Art Ray Investments Limited	Hong Kong	HK$1	100%	—	100%	Property holding
Connion Limited	Hong Kong	HK$2	100%	—	100%	Securities investment and property holding
Dongguan Yifu Circuit Board Factory ("Yifu") (i)	The PRC	HK$87,500,000	48%	—	48%	Manufacture of printed circuit boards
E-Top PCB Limited	Hong Kong	HK$100	57%	—	57%	Trading of printed circuit boards
Eastec Property Holding Limited	Hong Kong	HK$100	100%	—	100%	Provision of loan financing
Eastec Purchasing Limited	The British Virgin Islands/ Japan	US$1	100%	—	100%	Trading of electronic components and parts

18. INVESTMENT IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration and operation	Nominal value of issued ordinary share capital/registered share capital	Proportion for ownership interest group's effective interest	held by company	held by subsidiary	Principal activities
Eastec Technology Limited	Hong Kong	HK$2	100%	—	100%	Trading of electronic components and parts
Electronics Tomorrow Limited	Hong Kong	HK$500,000	100%	—	100%	Manufacture and sale of electronic products
Electronics Tomorrow Holdings Corporation	The British Virgin Islands	US$100	100%	—	100%	Investment holding
Electronics Tomorrow International Limited	The British Virgin Islands	US$600	100%	100%	—	Investment holding
Electronics Tomorrow Manufactory Inc.	The British Virgin Islands	US$350	57%	—	57%	Investment holding
Electronics Tomorrow Property Holdings Limited	The British Virgin Islands	US$100	100%	—	100%	Investment holding
ETL (Macao) Commercial Offshore Limited	Macau	MOP500,000	100%	—	100%	Trading of electronic components and parts
Fortune Dynamic Group Corporation	The British Virgin Islands	US$1	100%	100%	—	Investment holding
Fortune Overseas Investment Holdings Limited (Formerly known as "Maxwood Limited")	Hong Kong	HK$2	100%	—	100%	Investment holding
Gaojin Electronics (Shenzhen) Company Limited ("Gaojin") (ii)	The PRC	US$5,000,000	100%	—	100%	Manufacture of electronic products

For the year ended 31 December 2007

18. INVESTMENT IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration and operation	Nominal value of issued ordinary share capital/registered share capital	Proportion for ownership interest group effective interest	held by company	held by subsidiary	Principal activities
Good Order International Inc.	The British Virgin Islands	US$100	100%	—	100%	Investment holding
Issegon Company Limited	Hong Kong	HK$300,000	100%	—	100%	Investment holding
Master Base Limited	The British Virgin Islands	US$1	100%	100%	—	Investment holding
Maxson Services Limited	Hong Kong	HK$2	100%	—	100%	Provision of accountancy and management services to group companies
Merit Capital Limited	The British Virgin Islands	US$1	100%	—	100%	Investment holding
Merit Style Development Limited	Hong Kong	HK$1	100%	—	100%	Property holding
Plentiful Light Limited	The British Virgin Islands/ The PRC	US$100	57%	—	57%	Manufacture of printed circuit boards
Probest Holdings Inc.	The British Virgin Islands	US$1	100%	—	100%	Investment holding
Sharp Legend Holdings Limited	The British Virgin Islands	US$1	100%	—	100%	Investment holding

For the year ended 31 December 2007

18. INVESTMENT IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration and operation	Nominal value of issued ordinary share capital/registered share capital	Proportion for ownership interest: group effective interest	Proportion for ownership interest: held by company	Proportion for ownership interest: held by subsidiary	Principal activities
Super Fold Inc.	The British Virgin Islands	US$1	100%	—	100%	Investment holding
Team Force Corporation	The British Virgin Islands	US$100	100%	—	100%	Investment holding

Other than Electronics Tomorrow International Limited, Fortune Dynamic Group Corporation and Master Base Limited, which are held directly by the Company, all subsidiaries are held indirectly by the Company.

(i) Yifu is a Sino-foreign owned joint venture enterprise under the PRC law. In 2006, the Company has the power to cast the majority of votes at meetings of the board of directors of the entity and therefore it was regarded as a subsidiary of the Company.

(ii) Gaojin is registered as wholly foreign owned enterprises under the PRC law.

19. INTERESTS IN ASSOCIATES

	Group 2007 HK$'000	Group 2006 HK$'000
(a) Interests in associates		
Unlisted shares, at cost	**—**	—
Share of net assets	**—**	—
	—	—
(b) Amounts due from an associate		
Current account	**47,716**	47,716
Promissory note including accrued interest recognised of HK$7,103,000 (2006: HK$7,103,000)	**119,388**	119,388
Less: Provision for impairment	**(15,737)**	(15,737)
	151,367	151,367

19. INTERESTS IN ASSOCIATES *(Continued)*

Promissory note receivable from Profitown Investment Corporation has been extended that it is not repayable before 31 January 2009. The promissory note receivable from associate is unsecured, not repayable before 31 January 2009, and bearing interest at the rate equivalent to 1% (2006: 1%) over the prevailing HK prime rate per annum. Prior to 30 November 2007, the interest bearing on the promissory note was guaranteed by Swank International Manufacturing Co., Ltd. ("Swank"). On 30 November 2007, Probest waived its entitlement to accrued interest on the promissory note of HK$23,198,000 and the Swank guarantee in favour of the Group. After having waived the interest receivable on the promissory note, there were still approximately HK$2,489,000 unrecognised interest receivable from the associate at 31 December 2007. The directors consider this treatment prudent and reasonable.

The current account receivable from associates is unsecured, interest-bearing at the rate of 1% over Hong Kong prime rate per annum and not repayable within the next twelve months from the an balance sheet date.

	Group	
	2007	2006
	HK$'000	HK$'000
At 31 January	15,737	10,210
Provision for impairment	—	5,527
At 31 December	15,737	15,737

For the year ended 31 December 2007

19. INTERESTS IN ASSOCIATES *(Continued)*

Particulars of the principal associates are as follows:

Name	Business structure	Place of incorporation and operations	Nominal value of issued ordinary share capital/registered share capital	Effective Percentage of equity attributable to the Group 2007	2006	Principal activities
Profitown Investment Corporation	Corporate	The British Virgin Islands	US$1,000	**30%**	30%	Investment holding
Shenzhen Henggang Swank Optical Industrial Company Limited ("Henggang")	Joint Venture Enterprise	The PRC	US$30,000,000	**24%**	24%	Manufacture of optical products
Dongguan De Bao Optical Company Limited ("De Bao")	Wholly Foreign Owned Enterprise	The PRC	HK$58,550,910	**15%**	15%	Manufacture of multi-coating lenses
Dongguan Hamwell Glasses Company Limited ("Hamwell")	Joint Venture Enterprise	The PRC	HK$62,504,800	**25%**	25%	Manufacture of optical products
Prowin Commercial & Industrial Limited	Corporate	Hong Kong	HK$2	**30%**	30%	Property holding in the PRC

The interests in Profitown Investment Corporation and its subsidiaries and associates (collectively the "Profitown Group") are held by a wholly-owned subsidiary of the Company, Probest Holdings Inc.

(i) The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

(ii) De Bao is registered as a wholly foreign owned enterprise under the PRC law.

(iii) Henggang and Hamwell are registered as joint venture enterprises under the PRC law.

19. INTERESTS IN ASSOCIATES *(Continued)*

The summary of financial information in respect of the Profitown Group is set out below:

	2007 **HK$'000**	2006 HK$'000
Non-Current assets	**93,464**	100,087
Current assets	**109,206**	99,404
Total assets	**202,670**	199,491
Current liabilities	**34,258**	54,150
Non-current liabilities	**169,594**	165,980
Total liabilities	**203,852**	220,130
Net current assets	**59,206**	45,254
Net liabilities	**(1,182)**	(20,639)
Group's share of net (liabilities) of associates	**(355)**	(6,192)
Turnover	**123,758**	115,641
Profit/(Loss) for the year	**19,667**	(28,787)
Group's share of results of associates for the year	**5,900**	(8,636)

Since the Group's share of losses exceeds its interest in the associates and the Group's interest has been reduced to nil, the Group has discontinued recognition of its share of further losses of these associates in the previous years. During the year and in accordance with the agreement made with Swank and Profitown dated 3 June, 2005, the Group waived interest receivable on the promissory note amounted to HK$23,198,000 (2006 : Nil) which has been credited in the associates' income statement for the year ended 31 December, 2007. The associates' loss before this waiver gain amounted to HK$3,531,000 (2006 : HK$28,787,000) for the year. The amounts of unrecognised share of the results of those associates, extracted from the relevant audited accounts of associates, both for the year or period and cumulatively, are as follows:

	2007 **HK$'000**	2006 HK$'000
Unrecognised share of profit/(loss) of associates for the year	**5,900**	(8,636)
Accumulated unrecognised share of results of associates	**(7,766)**	(13,666)

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20. PREPAID RENTAL

	Group	
	2007	2006
	HK$'000	HK$'000
Cost		
At beginning and end of the year	**10,500**	10,500
Accumulated Amortisation		
At beginning of the year	**9,334**	8,597
Amortisation provided during the year	**737**	737
At end of the year	**10,071**	9,334
Net book value		
At end of the year	**429**	1,166

The prepaid rental represents the capital contribution made by the joint venture partner of Yifu in the form of a right to use the property owned by the joint venture partner within the terms of the joint venture.

The prepaid rental is amortised on a straight-line basis over the underlying initial term of the joint venture of 15 years.

21. DEFERRED PRODUCT DEVELOPMENT COSTS

	Group	
	2007	2006
	HK$'000	HK$'000
Cost		
At beginning of the year	**27,963**	24,474
Additions	**1,504**	3,489
At end of the year	**29,467**	27,963
Accumulated amortisation and impairment		
At beginning of the year	**19,576**	17,655
Amortisation provided during the year	**2,011**	1,921
At end of the year	**21,587**	19,576
Net book value		
At end of the year	**7,880**	8,387

21. DEFERRED PRODUCT DEVELOPMENT COSTS *(Continued)*

The deferred product development costs are amortised over a period of 7 years. In the opinion of the directors of the Company, the intangible assets are worth at least their carrying amount. The recoverable amounts are determined based on value-in-use calculations for which the key assumptions are the discount rates, and budgeted profit margin and turnover during the forecast period.

22. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	2007	2006
	HK$'000	HK$'000
Listed securities		
— Listed equity securities in Hong Kong at fair value	**44,517**	21,868
Unlisted securities		
— Unlisted equity securities outside Hong Kong at cost (note (a))	**1,549**	—
Unlisted debt securities		
— Debt securities traded on inactive market and of private issuers, at fair value (note (b))	**—**	11,744
	46,066	33,612
Market value of listed securities	**44,517**	21,868

Notes:

(a) The above unlisted equity securities represent investment in a private company incorporated in Japan. This investment is measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so wide that the directors of the Company are of the opinion that its fair value cannot be measured reliably.

(b) The unlisted debt securities had an effective interest rate of 12.5% and will mature on 29 April 2010. The unlisted debt securities not publicly traded were secured by the issued capital of the issuer on a pro rata basis. During the year, the unlisted debt securities have been disposed to an independent third party for a consideration of HK$29 million.

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23. LOANS RECEIVABLE

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Secured				
— Moulin Loan (note (a))	**50,000**	50,000	**—**	—
— Others (note (b))	**243**	4,809	**—**	—
Unsecured (note (b))	**3,129**	129	**8,000**	—
	53,372	54,938	**8,000**	—
Less: Provision for impairment (note (d))	**(50,000)**	(46,500)	**—**	—
	3,372	8,438	**8,000**	—
Debenture (note (c))	**8,000**	—	**—**	—
Less: Non-current portion	**—**	(562)	**—**	—
At 31 December	**11,372**	7,876	**8,000**	—

Notes

(a) In February 2005, Active Base Limited ("Active Base"), a subsidiary of the Company, entered into a loan agreement with Moulin Global Eyecare Holdings Limited ("Moulin") which was subsequently put into provisional liquidation in June 2005, under which, Active Base advanced HK$50 million to Moulin ("Moulin Loan") in February 2005. As security for the Moulin Loan, the following security documents, amongst the others were executed in favour of Active Base:

(i) A debenture agreement executed between Moulin and Active Base ("Moulin Debenture"), under which a first floating charge over all Moulin's undertaking, property, assets, goodwill, rights and revenues, both present and future, in favour of Active Base;

(ii) Guarantee over the liabilities of Moulin dated by Sharp Merit International Limited; and

(iii) Guarantee over the liabilities of Moulin dated by Mr. Ma Bo Kee, Mr. Ma Lit Kin and Mr. Ma Hon Kin.

On 9 June 2005, Moulin, before it went into liquidation, brought an action ("HCA 1083/2006") in the High Court of Hong Kong against Active Base, a wholly owned subsidiary of the Company, in respect of the Monlin Loan of HK$50 million and a debenture executed by Moulin. Moulin sought for a declaration that the Moulin Loan and Moulin Debenture were invalid, unenforceable or otherwise not binding on itself and/or any liquidator. After commencement of HCA 1083/2006, Moulin went into liquidation and the Court issued a Notice of Adjudication of Proof of Debt to reject Active Base's claims against Moulin as a secured creditor over the assets of Moulin under the said agreement and debenture.

Active Base has filed an appeal ("HCCW 470/2006") against such decision and the Court has already given directions for the filing of evidence by the parties. In the circumstances HCA 1083/2006 was discontinued but the subject matters of the dispute thereunder will be dealt with under HCCW 470/2006.

23. LOANS RECEIVABLE *(Continued)*

(a) *(Continued)*

However, the directors of the Company have also carefully considered the current progress on the realisation of assets by Moulin's provisional liquidators and the financial position of Moulin as released by Moulin and the bankruptcy of Mr. Ma Bo Kee up to the date of this report, and as a result, an additional impairment loss of HK$3,500,000 (2006: HK$1,500,000) has been recognised for the current year. As at 31 December 2007, the Moulin Loan of HK$50 million has been fully impaired in these financial statements. (2006: HK$46,500,000)

(b) The loans receivable from independent third parties bears interest ranging from 6.5% to 20% per annum (2006: from 3% to 20% per annum) for the year.

(c) The debenture receivable from independent third party is secured bears interest of 12% per annum for the year and with maturity date on 30 June 2008. Subsequent to the balance sheet date on 26 March 2008, the debenture was fully settled.

(d) Impairment of loans receivable

Impairment losses in respect of loans receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case impairment loss is written off against loans receivable directly.

The movements In the allowance for Moulin Loan during the year are as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
At 1 January	**46,500**	45,000
Addition	**3,500**	1,500
At 31 December	**50,000**	46,500

24. PROPERTIES HELD FOR SALE

	Group	
	2007	2006
	HK$'000	HK$'000
At cost	**5,439**	5,439

Location	Description	Existing Use	Tenure
Hong Kong	An apartment Unit	Residential	Leasehold

The properties held for sale are situated in Hong Kong and are held under medium term leases.

25. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2007	2006
	HK$'000	HK$'000
Listed equity securities held for trading at fair value	**—**	7,622
Unlisted investment in investment fund, at fair value	**—**	5,595
	—	13,217
Market value of listed equity securities	**—**	7,622

26. INVENTORIES

	Group	
	2007	2006
	HK$'000	HK$'000
Raw materials	**55,854**	43,508
Work in progress	**22,983**	14,241
Finished goods	**9,296**	24,021
Consumable stores	**1,124**	—
	89,257	81,770
Less: Provision for impairment	**(15,447)**	(17,211)
	73,810	64,559

Movement in provision for inventories during the year were as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
1 January	**17,211**	17,873
Write back of provision	**(1,764)**	(662)
31 December	**15,447**	17,211

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27. ACCOUNTS RECEIVABLE

The aging analysis of the Group's accounts receivable is as follows:

	2007		2006	
	HK$'000	**Percentage**	HK$'000	Percentage
Current to three months	**50,170**	**85**	29,817	63
Four to six months	**1,481**	**2**	1,454	3
Seven months to one year	**330**	**1**	848	2
Over one year	**7,266**	**12**	15,139	32
	59,247	**100**	47,258	100
Less: Provision for Impairment	**(17,474)**		(12,219)	
Total after provision	**41,773**		35,039	

Payment terms with customers are mainly on credit together with deposits. Invoices are normally payable from 30 to 120 days of issuance, except for certain well established customers. All of the account receivables are expected to be recovered within one year.

The fair value of the Group's accounts receivable at the balance sheet date approximated to the corresponding carrying amounts due to their short-term maturities.

Included in accounts receivable are the following amounts denominated in a currency other than the functional currency of the Group to which they relate:

	Group	
	2007	2006
	'000	'000
Renminbi ("RMB")	**36**	323
United States Dollars ("USD")	**5,290**	3,159
Japanese Yen ("JPY")	**5,914**	3,745

Impairment losses of accounts receivable are recorded using an allowance account unless the Group is satisfied that recovery of amount is remote, in which case the impairment loss is written off against accounts receivable.

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27. ACCOUNTS RECEIVABLE *(Continued)*

The movement in the impairment on accounts receivable during the year is as follows:

	Group	
	2007	2006
	HK$' 000	HK$' 000
At 1 January	**12,219**	6,177
Impairment loss recognised	**5,255**	6,042
At 31 December	**17,474**	12,219

Accounts receivable are collectively considered to be impaired in accordance with their aging.

The Group's trading terms with its customers are mainly on credit. For the electronic product segment, the credit period is generally granted to customers for a period of one month extending up to three months for major customers. For the PCB segment, the credit period is generally for a period of one month extending up to two months for major customers.

The aging analysis of accounts receivable that are neither individually nor collectively considered to be impaired are as follows:

	Group	
	2007	2006
	HK$' 000	HK$' 000
Neither past due nor impaired	**34,507**	19,900
Less than 1 year past due	**7,266**	15,139
	41,773	35,039

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

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28. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Deposits	**13,463**	4,335	**504**	504
Prepayments	**1,346**	1,589	**427**	145
Other receivables	**13,566**	14,411	**80**	80
Value-added tax refundable	**6,097**	6,598	**—**	—
	34,472	26,933	**1,011**	729

The fair values of the Group's other receivables at the balance sheet date approximate the corresponding carrying amounts due to their short-term maturities.

29. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at bank and in hand	**52,054**	96,591	**8,418**	642
Short-term bank deposits	**605,146**	523,139	**373,300**	360,317
	657,200	619,730	**381,718**	360,959

The effective interest rate of short-term bank deposits is ranging from 3.18% to 5.18% per annum (2006: from 3.65% to 4.39% per annum). They have a maturity of 7 days and are eligible for immediate cancellation without receiving any interest for the last deposit period. The directors consider that the carrying amounts of these assets approximate their fair value.

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29. CASH AND CASH EQUIVALENTS *(Continued)*

	Group	
	2007	2006
	'000	'000
RMB	**3,631**	2,121
USD	**45,330**	33,557
Euro ("EUR")	**7**	10
Macau Pataca ("MOP")	**19**	42

Other than disclosed above, cash and cash equivalents of approximately HK$292,792,000 (2006: HK$356,067,000) are denominated in HK$.

RMB is not a freely convertible currency in the international market. The exchange rate of RMB is determined by the Government of the PRC and remittance of these funds out of the PRC is subject to exchange restriction imposed by the Government of PRC.

30. ACCOUNTS PAYABLE

The aging analysis of the Group's accounts payable is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Current to three months	**53,544**	52,751
Four to six months	**5,257**	8,412
Seven months to one year	**9,556**	14,156
Over one year	**5,969**	7,580
	74,326	82,899

Accounts payable aged less than four months accounted for 72% (2006: 64%) of the total accounts payable.

The carrying amount of accounts payable approximates their fair value.

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30. ACCOUNTS PAYABLE *(Continued)*

Included in accounts payable are the following amounts denominated in a currency other than the functional currency of the Group to which they relate:

	Group	
	2007	2006
	'000	'000
RMB	**14,755**	20,194
USD	**1,577**	1,343
JPY	**1,865**	13,425

31. AMOUNTS DUE TO RELATED PARTIES

The amount due to related parties are unsecured, interest free and repayable on demand.

32. PROVISION FOR LONG SERVICE PAYMENTS

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
At beginning of year	**570**	570	**230**	230
Amount utilised during the year	**—**	—	**—**	—
At end of year	**570**	570	**230**	230

The Group provides for the probable future long service payments expected to be made to employees under the Hong Kong Employment Ordinance. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

33. DEFERRED TAX LIABILITIES

Group

	Accelerated tax depreciation 2007 HK$'000	Accelerated tax depreciation 2006 HK$'000
At 1 January	**1,319**	2,053
Credit to income statement for the year	**(1,319)**	(177)
Disposal of a subsidiary	**—**	(557)
At 31 December	**—**	1,319

The Group has tax losses arising in Hong Kong of approximately HK$158,722,000 (2006: HK$195,171,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

34. SHARE CAPITAL

	Number of shares 2007	Number of shares 2006	HK$'000 2007 HK$'000	HK$'000 2006 HK$'000
Authorised:				
At 1 January, ordinary shares of HK$0.04 each (2006: HK$0.01 each)	**12,500,000,000**	50,000,000,000	**500,000**	500,000
and at 31 December, ordinary shares of HK$0.004 each (2006: HK$0.04 each)	**125,000,000,000**	12,500,000,000	**500,000**	500,000
Issued and fully paid:				
At 1 January, at HK$0.04 each (2006: HK$0.01 each)	**224,768,201**	286,068,644	**8,991**	2,861
Issued of shares of HK$0.01 each by the open offer	**—**	357,585,805	**—**	3,576
Issue of share of HK$0.01 each by the bonus issue	**—**	255,418,355	**—**	2,554
Consolidation of every 4 share into 1 shares	**—**	(674,304,603)	**—**	—
Subdivision of every share into 10 shares	**2,022,913,809**	—	**—**	—
and at 31 December, at HK$0.004 each (2006: HK$0.04 each)	**2,247,682,010**	224,768,201	**8,991**	8,991

35. RESERVES

(a) Group

	Attributable to equity holders of the Company											
	Share premium	Exchange fluctuation reserve	Capital reserve	Contributed surplus	Capital redemption reserve	Property revaluation reserve	Fair value reserve for available-for-sale financial assets	Share-based compensation reserve	Retained profits	Sub-total	Minority interests	Total reserves
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2006	200,556	(1,031)	801	283,208	77	6	15,620	—	282,015	781,252	12,083	793,335
Arising from revaluation of leasehold buildings, net of deferred tax	—	—	—	—	—	707	—	—	—	707	—	707
Increase in fair value of available-for-sale financial assets	—	—	—	—	—	—	6,248	—	—	6,248	—	6,248
Exchange realignment	—	(2)	—	—	—	—	—	—	—	(2)	—	(2)
Net gains and losses not recognised in the income statement	200,556	(1,033)	801	283,208	77	713	21,868	—	282,015	788,205	12,083	800,288
Issue of shares	169,853	—	—	—	—	—	—	—	—	169,853	—	169,853
Expenses for issue of shares	(2,496)	—	—	—	—	—	—	—	—	(2,496)	—	(2,496)
Bonus shares	(2,554)	—	—	—	—	—	—	—	—	(2,554)	—	(2,554)
Loss for the year	—	—	—	—	—	—	—	—	(16,225)	(16,225)	(3,184)	(19,409)
At 31 December 2006 and 1 January 2007	365,359	(1,033)	801	283,208	77	713	21,868	—	265,790	936,783	8,899	945,682
Share-based compensation	—	—	—	—	—	—	—	16,966	—	16,966	—	16,966
Arising from revaluation of leasehold buildings, net of deferred tax	—	—	—	—	—	3,100	—	—	—	3,100	—	3,100
Increase in fair value of available-for-sale financial assets	—	—	—	—	—	—	22,649	—	—	22,649	—	22,649
Exchange realignment	—	(47)	—	—	—	—	—	—	—	(47)	—	(47)
Net gains and losses not recognised in the income statement	365,359	(1,080)	801	283,208	77	3,813	44,517	16,966	265,790	979,451	8,899	988,350
Loss for the year	—	—	—	—	—	—	—	—	(25,938)	(25,938)	—	(25,938)
At 31 December 2007	365,359	(1,080)	801	283,208	77	3,813	44,517	16,966	239,852	953,513	8,899	962,412

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35. RESERVES *(Continued)*

(a) Group *(Continued)*

Notes:—

i) Share premium and capital redemption reserve

The application of Share premium account is governed by section 40 of the Companies Act 1981 of Bermuda (as amended).

ii) Exchange fluctuation reserve

The exchange fluctuation reserve comprise all foreign exchange differences arising from the translation of the financial statements of foreign operations as well as the effective portion of any foreign exchange differences arising from hedges of the net investment in these foreign operations.

iii) Share-based compensation reserve

The share based compensation reserve comprises the fair value of the actual or estimated number of unexercised share options granted to employees of the company recognised.

iv) Contributed surplus

The contributed surplus of the Group represents the excess of the fair value of the shares in relation to the shares of the subsidiaries acquired pursuant to the Group's reorganization at the time of the listing of the Company's shares, over the nominal value of the Company's shares issued in exchange thereof. The contributed surplus of the Group represents the surplus arising from the group reorganisation in 2003.

Under the Companies Act 1981 of Bermuda (as amended), contributed surplus is available for distribution to shareholders. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus; if:

— the company is, or would after the payment be, unable to pay its liabilities as they become due; or

— the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

v) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the balance sheet date.

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35. RESERVES *(Continued)*

(b) Company

	Share premium HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Share-based compensation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2006	200,556	77	368,125	—	41,685	610,443
Issue of shares	169,853	—	—	—	—	169,853
Expenses for issue of shares	(2,496)	—	—	—	—	(2,496)
Bonus shares	(2,554)	—	—	—	—	(2,554)
Profit for the year	—	—	—	—	13,008	13,008
At 31 December 2006 and 1 January 2007	365,359	77	368,125	—	54,693	788,254
Share-based compensation (note 36)	—	—	—	16,966	—	16,966
Profit for the year	—	—	—	—	39,724	39,724
At 31 December 2007	365,359	77	368,125	16,966	94,417	844,944

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of subsidiaries when they were acquired by the Company and the nominal amount of the Company's share capital issued for the acquisition.

At 31 December 2007, the aggregate amount of reserves available for distribution to equity holders of the Company, calculated in accordance with the Companies Act 1981 of Bermuda (as amended), was HK$462,542,000 (2006: HK$422,818,000). In addition, the Company's share premium account, in the amount of HK$365,359,000 at both balance sheet dates may be distributed in the form of fully paid bonus shares.

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36. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Tomorrow Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Tomorrow Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, the Company's shareholders, and any minority shareholder of the Company's subsidiaries. The Tomorrow Scheme became effective on 29 May 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Tomorrow Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Tomorrow Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the company, or to any of their associates, in excess of 0.1% of the shares of the company in issue at any time or with an aggregate value (based on the price of the company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. An option may be exercised under the Tomorrow Scheme at any time during a period not exceeding five years after the date when the option is granted and expiring on the last date of such period.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of an ordinary share.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

36. SHARE OPTION SCHEME *(Continued)*

The following table shows the movement of the Company's share options during the years ended 31 December 2007.

Date of share options grated	Outstanding at the beginning of the year	Granted during the year	Lapse during the year	Outstanding at the end of the year	Subscription price	Exercise period
21 May 2007	—	71,500,000	22,450,000	49,050,000	HK$0.30	21 May 2007 — 20 May 2012
25 September 2007	—	52,350,000	—	52,350,000	HK$0.296	25 September 2007 — 24 September 2012

In assessing the theoretical aggregate value of the share options granted and fully accepted during the year, the Binomial option pricing model has been used. In current year, an amount of share option expense of HK$16,966,350 (2006: Nil) has been recognised.

Share options granted and fully accepted during year ended 31 December 2007:

Date of Grant:	21/5/2007 and 25/9/2007
Vesting Period:	21/5/2007 and 25/9/2007
Exercise Period:	21/5/2007 — 20/5/2012 and 25/9/2007 — 24/9/2012
Exercise Price:	HK$0.30 and HK$0.296 per share

Grantee	Number of share granted	Number of share options granted at	Share options value at HK$ (note b)	Number of share options at 31/12/2007
Employees	21/5/2007	49,050,000	8,485,650	49,050,000
Directors	25/9/2007	44,940,000	7,280,280	44,940,000
Employees	25/9/2007	7,410,000	1,200,420	7,410,000
				101,400,000

For the year ended 31 December 2007

36. SHARE OPTION SCHEME *(Continued)*

Notes:

(a) The closing prices of the ordinary shares of the Company immediately before the date on which the options were granted were HK$0.3 on 21 May 2007 and HK$0.275 on 25 September 2007.

(b) According to the Binomial model, the theoretical aggregate value of the options was estimated at HK$8,485,650 and HK$8,480,700 as at 21 May 2007 and 25 September 2007 respectively (when the options were granted) with the following variables and assumptions:

Risk Free Rate:	4.164% and 4.102%, being the approximate yield of Exchange Fund Bills and Notes issued by Hong Kong government for the time to maturity of the option as at the valuation date quoted by Hong Kong Monetary Authority.
Expected Volatility:	64.44% and 69.35%, being the average annualised standard deviations of the continuously compounded rates of return on the share prices of two other comparable companies with similar business operations
Expected Life of the Options:	5 years from the date of granting
Expected Dividend Yield:	Nil

Options forfeited, if any, before the expiry of the options will be treated as lapsed options which will be added back to the number of Ordinary Shares available to be issued under the relevant share options scheme.

37. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income. Contributions to the MPF Scheme vest immediately.

The Company's subsidiary established in the PRC participates in a mandatory central pension scheme organised by the PRC government for certain of its employees, the assets of which are held separately from those of the Group. Contributions made are based on a percentage of the eligible employees' salaries and are charged to the consolidated income statement as they become payable, in accordance with the rules of the scheme. The employer's contributions vest fully once they are made.

Under the above schemes, retirement benefits of existing and retired employees are payable by the relevant scheme administrators and the Group has no further obligations beyond the annual contributions.

The aggregate amounts of employer's contributions by the Group in respect of retirement benefits scheme dealt with in the consolidated income statement for the year are disclosed in note 9 to these financial statements.

The Group does not have any other pension schemes for its employees in respect of the subsidiaries outside Hong Kong and PRC. In the opinion of the directors of the Company, the Group did not have any significant contingent liabilities as at 31 December 2007 and 2006 in respect of the retirement of its employees.

38. OBLIGATIONS UNDER FINANCE LEASES

At 31 December 2007, the total future minimum lease payments under finance leases and their present value, were as follows:

The Group

			Present value of minimumlease payments	
	2007 **HK$'000**	2006 HK$'000	**2007** **HK$'000**	2006 HK$'000
Within one year	**45**	—	**45**	
In the second to fifth years inclusive	**132**	—	**132**	—
Total minimum lease payments	**177**	—	**177**	—
Future finance charges	**—**	—		
Total net finance lease payable	**177**	—		
Current portion of obligations under finance leases	**45**	—		
Non-current portion	**132**	—		

39. DEREGISTRATION OF A SUBSIDIARY

On 23 April 2007, the Group deregistered one of its subsidiaries, 兆和上海投資咨詢有限公司.

Net assets at the date of deregistration:	HK'000
Bank Balance	616
Reserve released	(589)
Gain on deregistration	27

The subsidiary deregistered during the year ended 31 December 2007 had no significant impact on the turnover and results of the Group.

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40. COMMITMENTS

(a) Capital commitments

At 31 December 2007, the Group had capital commitments not provided for the financial statements as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Property, plant and equipment — Contracted but not provided for	**1,045**	1,245
Commitments to contribute to an indirectly owned subsidiary registered in the PRC	**—**	19,696
Commitment to capital contribution to an investment	**6,239**	—
	7,284	20,941

(b) Operating lease commitments

The Group leases certain of its office properties, factory premises and warehouses under operating lease arrangements. Leases for office properties, factory premises and warehouses are negotiated for terms ranging from one to fifteen years.

At the balance sheet date, the Group and the Company had future minimum lease under non-cancellable operating leases falling committed for due as follows:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**9,613**	6,190	**1,513**	1,756
In the second to fifth years,inclusive	**13,706**	19,682	**—**	3,371
After five years	**17,359**	20,333	**—**	—
	40,678	46,205	**1,513**	5,127

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41. CONTINGENT LIABILITIES

	Company 2007 HK$'000	Company 2006 HK$'000
Guarantees of banking facilities granted to a subsidiary	**30,000**	45,300

As at the balance sheet date, the directors do not consider it probable that a claim will be made against the Company under any of the guarantees. The maximum liability of the Company at the balance sheet date under the guarantees issued is the outstanding amount of the loan is HK$10,032,000 (2006: HK$11,802,000) and the facility available to the subsidiary of HK$30,000,000 (2006: HK$45,300,000).

42. CONNECTED AND RELATED PARTY TRANSACTIONS

During the year, the Group had the following connected and related party transactions:

(a) In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

Name of related parties	Relationship with the company	Nature of transactions	Amount (received)/paid 2007 HK$'000	Amount (received)/paid 2006 HK$'000
Prime Star Industries Limited	Common director of a fellow subsidiary	Sale of PCBs	**(71,189)**	—
		Service charge	**131**	—

In the opinion of the Directors of the Company, the above related party transactions were carried out in the ordinary and usual course of business and terms mutually agreed between the Group and the respective related parties.

(b) The remuneration of key management during the year was as follows:

	2007 HK$'000	2006 HK$'000
Short-term benefits	**5,880**	6,626
Share-based payment expenses	**7,280**	—
	13,160	6,626

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43. POST BALANCE SHEET EVENTS

On 25 March 2008, the Company disposed the property held for sale at a consideration of approximately HK$8.4 million.

44. COMPARATIVE FIGURES

As a result of adopting HKFRS 7, Financial instruments: disclosures, and the amendments to HKAS 1, Presentation of financial statements: Capital disclosures, certain comparative figures have been adjusted to conform with changes in disclosures in the current year and to show separately comparative amounts in respect of items disclosed for the first time in 2007. Further details of these developments are disclosed in note 3.

45. ULTIMATE HOLDING COMPANY

The directors consider Winspark Venture Limited, which is incorporated in the British Virgin Islands, to be its ultimate holding company.