

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

(Incorporated in the Cayman Islands with limited liability)  
(於開曼群島註冊成立之有限公司)  
(Stock Code 股份代號 : 2336)

Interim Report 中期報告 2008

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# Contents

Corporate Information	2
Condensed Consolidated Income Statement	3
Condensed Consolidated Balance Sheet	4
Condensed Consolidated Statement of Changes in Equity	5
Condensed Consolidated Cash Flow Statement	7
Notes to the Condensed Consolidated Financial Statements	8
Management Discussion and Analysis	17



# Corporate Information

## EXECUTIVE DIRECTORS

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

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Yeung Ming Tai  
Sun Hanxu  
Chan Kwok Ming Daniel

## COMPANY SECRETARY

Lee Chak To

## PRINCIPAL BANKERS

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

## AUDITORS

Deloitte Touche Tohmatsu

## REGISTERED OFFICE

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

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

## WEBSITE

<http://www.sunlink.biz>



# Condensed Consolidated Income Statement

For the six months ended 30 June 2008

		<b>Six months ended</b>	
	<i>NOTES</i>	<b>30.6.2008</b> <i>HK\$'000</i> <b>(unaudited)</b>	30.6.2007 <i>HK\$'000</i> (unaudited)
Revenue	3	<b>857,810</b>	483,286
Cost of sales		<b>(708,599)</b>	(417,437)
Gross profit		<b>149,211</b>	65,849
Other income	4	<b>836</b>	1,554
Selling and distribution costs		<b>(7,729)</b>	(6,538)
General and administrative expenses		<b>(25,842)</b>	(22,527)
Finance costs	5	<b>(3,818)</b>	(3,966)
Share of results of an associate		-	(5)
Profit before taxation	6	<b>112,658</b>	34,367
Income tax expenses	7	<b>(18,032)</b>	(6,964)
Profit for the period		<b>94,626</b>	27,403
Attributable to:			
Equity holders of the Company		<b>94,579</b>	27,354
Minority interests		<b>47</b>	49
		<b>94,626</b>	27,403
		<b><i>HK cents</i></b>	<i>HK cents</i>
Earnings per share	9		
Basic		<b>5.07</b>	1.72
Diluted		<b>5.05</b>	1.71



# Condensed Consolidated Balance Sheet

At 30 June 2008

	NOTES	30.6.2008 HK\$'000 (unaudited)	31.12.2007 HK\$'000 (audited)
<b>Non-current assets</b>			
Property, plant and equipment	10	28,614	9,854
Interests in associates		–	–
Club debenture		874	636
Prepayment for acquisition of property, plant and equipment		1,000	4,653
		<b>30,488</b>	15,143
<b>Current assets</b>			
Investment held for trading		55	55
Inventories		99,480	62,750
Debtors, deposits and prepayments	11	528,179	387,914
Amounts due from associates		3,800	1,526
Tax recoverable		30	259
Pledged bank deposits		–	2,000
Bank balances and cash		70,131	98,828
		<b>701,675</b>	553,332
<b>Current liabilities</b>			
Creditors and accrued charges	12	89,689	52,903
Bills payables	13	3,563	1,591
Taxation		37,185	20,821
Trust receipt loans	14	168,550	155,106
Bank borrowings	15	30,514	32,058
		<b>329,501</b>	262,479
Net current assets		<b>372,174</b>	290,853
Total assets less current liabilities		<b>402,662</b>	305,996
<b>Non-current liability</b>			
Deferred taxation		1,618	179
		<b>401,044</b>	305,817
<b>Capital and reserves</b>			
Share capital	16	186,478	186,468
Reserves		213,268	118,246
Equity attributable to equity holders of the Company		<b>399,746</b>	304,714
Minority interests		1,298	1,103
		<b>401,044</b>	305,817

# Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2008

	Attributable to equity holders of the Company							Total HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000 (Note)	Share option reserve HK\$'000	Investment revaluation reserve HK\$'000	Exchange reserve HK\$'000	Retained profits HK\$'000			
At 1 January 2007	47,300	53,529	(64,907)	1,782	366	294	80,940	119,304	838	120,142
Release of amount previously included in investment revaluation reserve and retained profits upon disposal of an available-for-sale investment	-	-	-	-	(366)	-	82	(284)	(3)	(287)
Profit for the period	-	-	-	-	-	-	27,354	27,354	49	27,403
Total recognised income for the period	-	-	-	-	(366)	-	27,436	27,070	46	27,116
Offer shares issued on open offer (note 16(a))	10,240	8,192	-	-	-	-	-	18,432	-	18,432
Bonus shares issued on open offer (note 16(a))	81,920	(62,147)	-	-	-	-	(19,773)	-	-	-
Shares issued on subscription and placing (note 16(b) & (c))	43,008	12,042	-	-	-	-	-	55,050	-	55,050
Expenses relating to issue of new shares	-	(3,796)	-	-	-	-	-	(3,796)	-	(3,796)
Recognition of equity-settled share based payment	-	-	-	4,500	-	-	-	4,500	-	4,500
Shares issued upon exercise of share options	3,900	2,358	-	(1,737)	-	-	-	4,521	-	4,521
At 30 June 2007	186,368	10,178	(64,907)	4,545	-	294	88,603	225,081	884	225,965
Exchange differences arising on translation of foreign operations recognised directly in equity	-	-	-	-	-	377	-	377	-	377
Profit for the period	-	-	-	-	-	-	73,156	73,156	71	73,227
Total recognised income for the period	-	-	-	-	-	377	73,156	73,533	71	73,604
Recognition of equity-settled share based payment	-	-	-	6,000	-	-	-	6,000	-	6,000
Shares issued upon exercise of share options	100	45	-	(45)	-	-	-	100	-	100
Partial disposal of interest in a subsidiary	-	-	-	-	-	-	-	-	148	148

# Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2008

	Attributable to equity holders of the Company						Retained profits HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000 (Note)	Share option reserve HK\$'000	Investment revaluation reserve HK\$'000	Exchange reserve HK\$'000				
At 31 December 2007	186,468	10,223	(64,907)	10,500	-	671	161,759	304,714	1,103	305,817
Exchange differences arising on translation of foreign operations recognised directly in equity	-	-	-	-	-	124	-	124	-	124
Profit for the period	-	-	-	-	-	-	94,579	94,579	47	94,626
Total recognised income for the period	-	-	-	-	-	124	94,579	94,703	47	94,750
Recognition of equity-settled share based payment	-	-	-	260	-	-	-	260	-	260
Shares issued upon exercise of share options	10	74	-	(15)	-	-	-	69	-	69
Issue of shares by a subsidiary	-	-	-	-	-	-	-	-	148	148
At 30 June 2008	186,478	10,297	(64,907)	10,745	-	795	256,338	399,746	1,298	401,044

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



# Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2008

	Six months ended	
	30.6.2008	30.6.2007
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Operating activities:		
Profit before taxation	<b>112,658</b>	34,367
Adjustments for:		
Gain on disposal of an available-for-sale investment	–	(422)
Gain on disposal of property, plant and equipment	<b>(33)</b>	–
Share based payment	<b>260</b>	4,500
Reversal of allowance for doubtful debts	<b>(98)</b>	–
Others	<b>(623)</b>	550
Operating cash flows before movement in working capital	<b>112,164</b>	38,995
Increase in inventories	<b>(36,730)</b>	(30,283)
Increase in debtors, deposits and prepayments	<b>(140,167)</b>	(25,749)
Increase (decrease) in creditors and accrued charges	<b>36,786</b>	(9,524)
Increase in bills payables	<b>1,972</b>	1,423
Net cash used in operating activities	<b>(25,975)</b>	(25,138)
Investing activities:		
Decrease in pledge bank deposits	<b>2,000</b>	37,656
Proceeds on disposal of an available-for-sale investment	–	2,373
Proceeds on disposal of property, plant and equipment	<b>57</b>	–
Purchase of property, plant and equipment	<b>(15,837)</b>	(1,295)
Prepayment for acquisition of property, plant and equipment	<b>(1,000)</b>	–
Purchase of club debenture	<b>(238)</b>	–
Others	<b>29</b>	(205)
Net cash (used in) from investing activities	<b>(14,989)</b>	38,529
Financing activities:		
New bank loans raised	<b>17,319</b>	20,301
Increase (decrease) in trust receipt loans	<b>13,444</b>	(13,774)
Proceeds from issue of shares by a subsidiary	<b>148</b>	–
Proceeds from issue of shares upon exercise of share options	<b>69</b>	4,521
Proceeds from subscription and placing agreement	–	55,050
Proceeds from issue of shares on open offer	–	18,432
Repayment of bank loans	<b>(14,204)</b>	(26,211)
Repayment of advances drawn on discounting trade debtors	<b>(4,662)</b>	(7,966)
Expenses paid relating to issue of new shares	–	(3,796)
Net cash from financing activities	<b>12,114</b>	46,557
Net (decrease) increase in cash and cash equivalents	<b>(28,850)</b>	59,948
Cash and cash equivalents at 1 January	<b>98,828</b>	28,701
Effect of change in foreign exchange rate	<b>150</b>	–
Cash and cash equivalents at 30 June	<b>70,128</b>	88,649
Analysis of the balance of cash and cash equivalents		
Bank balances and cash	<b>70,131</b>	88,649
Bank overdrafts	<b>(3)</b>	–
	<b>70,128</b>	88,649



# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2008

## 1. BASIS OF PREPARATION

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

## 2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2007.

In the current interim period, the Group has applied, for the first time, new interpretations (“new Interpretations”) issued by the Hong Kong Institute of Certified Public Accountants, which are effective for the Group’s financial year beginning on 1 January 2008.

The adoption of these new Interpretations had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

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

HKAS 1 (Revised)	Presentation of Financial Statements <sup>1</sup>
HKAS 23 (Revised)	Borrowing Costs <sup>1</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>2</sup>
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation <sup>1</sup>
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations <sup>1</sup>
HKFRS 3 (Revised)	Business Combinations <sup>2</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HK(IFRIC) – Int 13	Customer Loyalty Programmes <sup>3</sup>
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate <sup>1</sup>
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2009

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2008

<sup>4</sup> Effective for annual periods beginning on or after 1 October 2008

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2008

## 2. PRINCIPAL ACCOUNTING POLICIES (continued)

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

## 3. REVENUE AND SEGMENT INFORMATION

### Business segments

For management purposes, the Group was organised into three operating divisions: (i) semiconductors and related business; (ii) auto devices and parts business; and (iii) wireless device and solutions business. These operating divisions are the basis on which the Group reports its primary segment information.

Segment information about those businesses is presented below:

### For the six months ended 30 June 2008

	Semiconductors and related business HK\$'000	Auto devices and parts business HK\$'000	Wireless device and solutions business HK\$'000	Consolidated HK\$'000
<b>Revenue</b>				
External sales	330,011	358,385	169,414	857,810
Segment results	16,393	81,434	24,150	121,977
Unallocated corporate income				164
Unallocated corporate expense				(5,665)
Finance costs				(3,818)
Profit before taxation				112,658
Income tax expenses				(18,032)
Profit for the period				94,626

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2008

## 3. REVENUE AND SEGMENT INFORMATION (continued)

### Business segments

For the six months ended 30 June 2007

	Semiconductors and related business <i>HK\$'000</i>	Auto devices and parts business <i>HK\$'000</i>	Wireless device and solutions business <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>Revenue</b>				
External sales	290,112	109,787	83,387	483,286
Segment results	14,688	21,618	6,126	42,432
Unallocated corporate income				958
Unallocated corporate expense				(5,052)
Finance costs				(3,966)
Share of results of an associate				(5)
Profit before taxation				34,367
Income tax expenses				(6,964)
Profit for the period				27,403

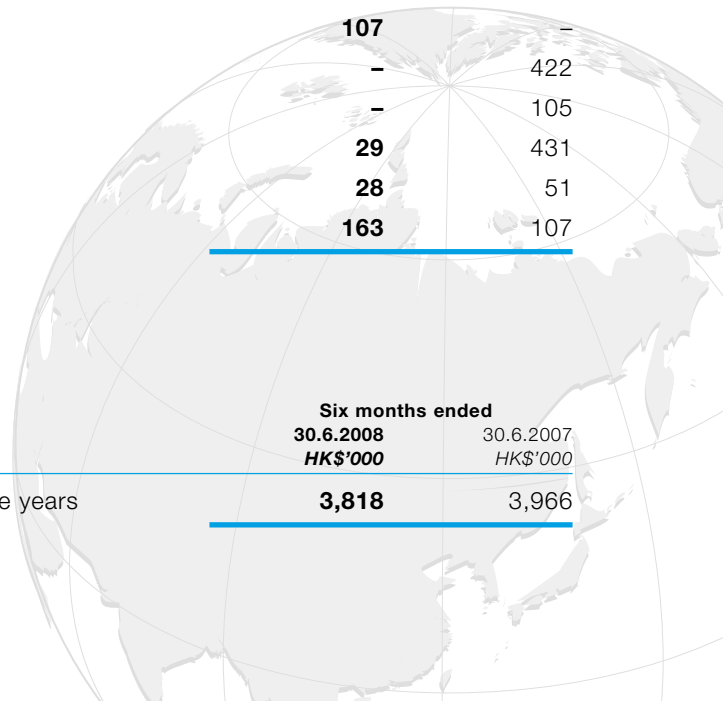
Note: No inter-segment sales is noted for both periods.

## 4. OTHER INCOME

	Six months ended	
	30.6.2008 <i>HK\$'000</i>	30.6.2007 <i>HK\$'000</i>
Included in other income are:		
Exchange gain, net	107	–
Gain on disposal of available-for-sale investment	–	422
Increase in fair value of investment held for trading	–	105
Interest income	29	431
Rental income	28	51
Technical service income	163	107

## 5. FINANCE COSTS

	Six months ended	
	30.6.2008 <i>HK\$'000</i>	30.6.2007 <i>HK\$'000</i>
Interest on bank borrowings wholly repayable within five years	3,818	3,966



# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2008

## 6. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	Six months ended	
	30.6.2008	30.6.2007
	HK\$'000	HK\$'000
Depreciation of property, plant and equipment	1,680	844
Exchange loss, net	–	477
Share based payment included in selling and distribution costs	88	–
Share based payment included in general and administrative expenses	172	4,500

## 7. INCOME TAX EXPENSES

	Six months ended	
	30.6.2008	30.6.2007
	HK\$'000	HK\$'000
The charge comprises:		
Current tax		
Hong Kong Profits Tax	13,638	7,033
People's Republic of China (the "PRC") Enterprise Income Tax	2,955	–
	<b>16,593</b>	7,033
Deferred taxation		
Current period	1,449	(69)
Attributable to change in tax rate	(10)	–
	<b>1,439</b>	(69)
	<b>18,032</b>	6,964

Hong Kong Profits Tax is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which includes the reduction in corporate profit tax rate by 1% to 16.5% effective from the year of assessment 2008-2009. The effect of such decrease has been reflected in measuring the current and deferred tax for the six months ended 30 June 2008. The estimated average annual tax rate used is 16.5% (2007: 17.5%) for the six months ended 30 June 2008.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2008

## 8. DIVIDEND

The directors have resolved not to declare any interim dividend for the six months ended 30 June 2008 (six months ended 30.6.2007: nil).

## 9. EARNINGS PER SHARE

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

	Six months ended	
	30.6.2008	30.6.2007
	HK\$'000	HK\$'000
Earnings for the purposes of basic and diluted earnings per share:		
Profit for the year attributable to equity holders of the Company	<b>94,579</b>	27,354
Number of shares:		
Weighted average number of shares for the purpose of basic earnings per share	<b>1,864,695,385</b>	1,590,837,804
Effect of dilutive potential shares – share options	<b>9,019,306</b>	5,237,593
Weighted average number of shares for the purpose of diluted earnings per share	<b>1,873,714,691</b>	1,596,075,397

## 10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired certain plant and machinery at a cost of HK\$12,283,000 and spent HK\$6,875,000 on leasehold improvements for its production and service control centre of the Group in the PRC.



# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2008

## 11. DEBTORS, DEPOSITS AND PREPAYMENTS

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

An aged analysis of trade debtors is as follows:

	<b>30.6.2008</b> <i>HK\$'000</i>	31.12.2007 <i>HK\$'000</i>
Within 30 days	<b>203,103</b>	111,063
Between 31 to 60 days	<b>124,891</b>	93,823
Between 61 to 90 days	<b>91,829</b>	84,328
Over 90 days	<b>41,315</b>	67,724
	<b>461,138</b>	356,938
Other debtors, deposits and prepayments	<b>67,041</b>	30,976
	<b>528,179</b>	387,914

Included in other debtors, deposits and prepayment are amounts of HK\$64,109,000 (31.12.2007: HK\$23,680,000) in respect of purchase prepayments made to major vendors of the Group.

## 12. CREDITORS AND ACCRUED CHARGES

An aged analysis of the trade creditors is as follows:

	<b>30.6.2008</b> <i>HK\$'000</i>	31.12.2007 <i>HK\$'000</i>
Within 30 days	<b>23,847</b>	17,645
Between 31 to 60 days	<b>10,428</b>	9,742
Over 60 days	<b>20,086</b>	4,468
	<b>54,361</b>	31,855
Other creditors and accrued charges	<b>35,328</b>	21,048
	<b>89,689</b>	52,903

Included in other creditors and accrued charges are amounts of HK\$21,661,000 (31.12.2007: HK\$3,850,000) in respect of purchase deposits received from customers.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2008

## 13. BILLS PAYABLES

Included in bills payables is an amount of HK\$3,563,000 (31.12.2007: HK\$1,591,000) aged within 30 days.

## 14. TRUST RECEIPT LOANS

The trust receipt loans carry interests at a margin over Hong Kong Inter-bank Offered Rate ("HIBOR") with an average effective interest rate of 3.8% (31.12.2007: 5.8%) per annum.

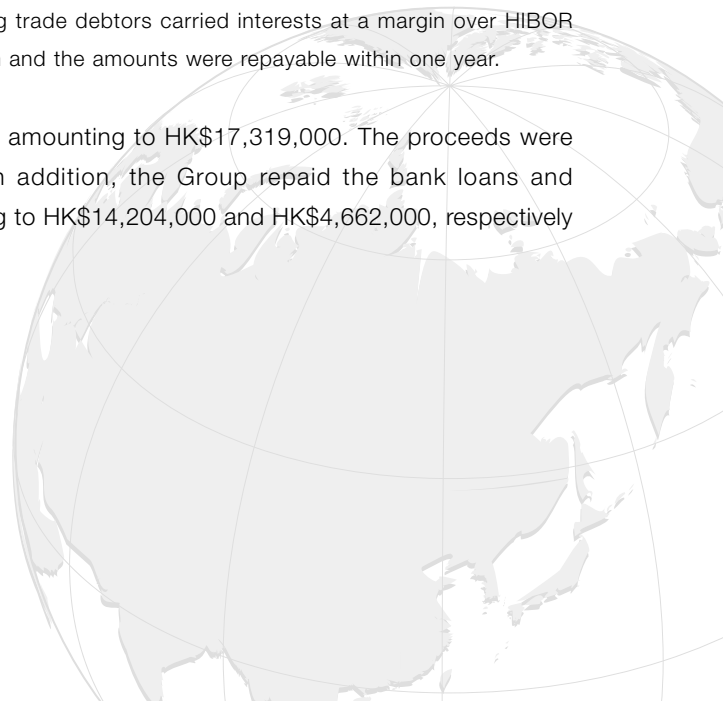
## 15. BANK BORROWINGS

	30.6.2008 HK\$'000	31.12.2007 HK\$'000
Bank overdrafts ( <i>note a</i> )	3	–
Bank loans ( <i>note a</i> )	30,511	27,396
Discounted bills with recourse ( <i>note b</i> )	–	4,662
	<b>30,514</b>	<b>32,058</b>
Analysed as:		
Secured	–	11,462
Unsecured	30,514	20,596
	<b>30,514</b>	<b>32,058</b>

Notes:

- (a) Bank overdrafts and bank loans carry interests at a margin over HIBOR with average effective interest rate of 4.65% (31.12.2007: 6.63%) per annum and the amounts are repayable within one year.
- (b) At 31 December 2007, advances drawn on discounting trade debtors carried interests at a margin over HIBOR with average effective interest rate of 6.63% per annum and the amounts were repayable within one year.

During the period, the Group obtained new bank loans amounting to HK\$17,319,000. The proceeds were used to finance the daily operation of the Group. In addition, the Group repaid the bank loans and advances drawn on discounting trade debtors amounting to HK\$14,204,000 and HK\$4,662,000, respectively during the period.



# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2008

## 16. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.1 each		
<i>Authorised:</i>		
At 1 January 2007	1,000,000,000	100,000
Increase in authorised share capital (note a)	2,000,000,000	200,000
At 31 December 2007 and 30 June 2008	3,000,000,000	300,000
<i>Issued and fully paid:</i>		
At 1 January 2007	473,000,000	47,300
Shares issued on open offer (note a)	921,600,000	92,160
Shares issued on subscription agreement (note b)	315,392,000	31,539
Shares issued on placing agreement (note c)	114,688,000	11,469
Shares issued upon exercise of share options	39,000,000	3,900
At 30 June 2007	1,863,680,000	186,368
Share issued upon exercise of share options	1,000,000	100
At 31 December 2007	1,864,680,000	186,468
Share issued upon exercise of share options	100,000	10
At 30 June 2008	1,864,780,000	186,478

### Notes:

- (a) Pursuant to the resolutions passed in the Company's extraordinary general meeting on 22 January 2007:
- (i) the authorised share capital of the Company was increased from HK\$100,000,000 to HK\$300,000,000 by the creation of an additional 2,000,000,000 new ordinary shares of HK\$0.10 each.
  - (ii) the open offer of new ordinary shares of HK\$0.10 each in the share capital of the Company on the basis of one offer share at HK\$0.18 each for every five existing shares with bonus shares to be issued on the basis of eight bonus shares for every fully paid offer share. A total number of 102,400,000 offer shares and 819,200,000 bonus shares, with an aggregate number of 921,600,000 shares were issued.
- (b) On 15 February 2007, the Company entered into a subscription agreement with a subscriber in relation to the subscription of 315,392,000 subscription shares at the subscription price of HK\$0.128 per share, representing 22.0% of the existing issued share capital of the Company as at 15 February 2007. Completion of the subscription agreement took place on 16 April 2007 and the Company had issued 315,392,000 shares of HK\$0.128 per share for a total consideration of HK\$40,370,000.



# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2008

## 16. SHARE CAPITAL (continued)

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

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

## 17. PLEDGE OF ASSETS

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

	<b>30.6.2008</b> <i>HK\$'000</i>	31.12.2007 <i>HK\$'000</i>
Bank deposits	–	2,000
Trade debtors	–	5,803
	–	7,803

## 18. RELATED PARTY TRANSACTION

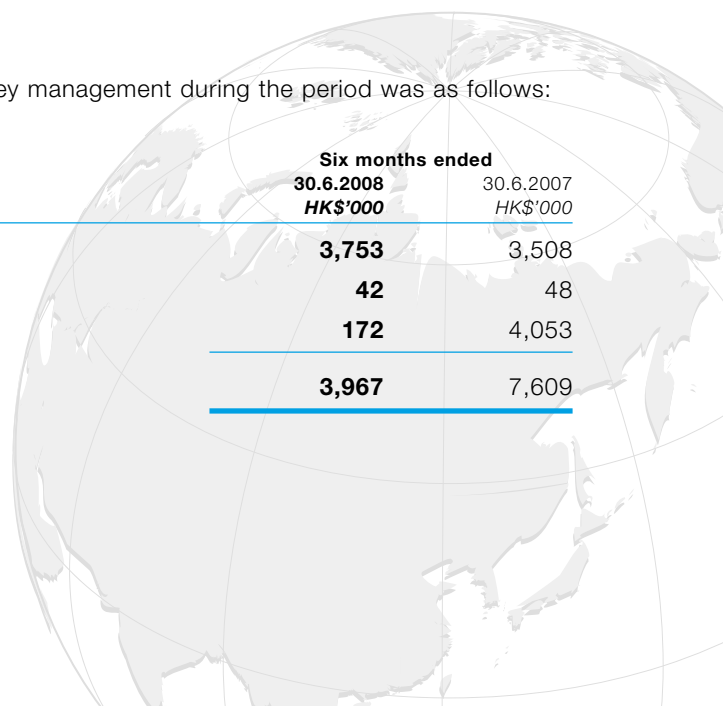
During the period, the Group had entered into the following significant transaction with an associate of the Group:

	<b>Six months ended</b>	
	<b>30.6.2008</b> <i>HK\$'000</i>	30.6.2007 <i>HK\$'000</i>
Sales of goods to an associate	<b>2,274</b>	–

### Compensation of key management personnel

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

	<b>Six months ended</b>	
	<b>30.6.2008</b> <i>HK\$'000</i>	30.6.2007 <i>HK\$'000</i>
Salaries and other short-term benefits	<b>3,753</b>	3,508
Retirement benefits scheme contributions	<b>42</b>	48
Share based payment	<b>172</b>	4,053
	<b>3,967</b>	7,609



# Management Discussion and Analysis

## FINANCIAL REVIEW

### Overall Review

In the first half of 2008, the Group recorded a significant increase in net profit of approximately 245.3% when compared with the same period last year. Turnover and net profit of the Group for the period ended 30 June 2008 amounted to approximately HK\$857.8 million and HK\$94.6 million respectively. The accomplishments were mainly attributable to the continuing effort of the Group in (i) capturing rising demand for products of its Auto Devices & Parts Business (“Auto Business”) and Wireless Devices & Solutions Business (“Wireless Business”); and (ii) implementing strategies to improve the profit margin of Semiconductor & Related Business (the “Semicon Business”).

During the review period, the turnover of Auto Business and Wireless Business (collectively known as “M2M Business”) increased significantly, by approximately 226.4% and 103.2% respectively. M2M Business and Semicon Business made turnover of approximately HK\$527.8 million (30.6.2007: HK\$193.2 million) and HK\$330.0 million (30.6.2006: HK\$290.1 million) respectively. The total turnover of the Group was approximately HK\$857.8 million (30.6.2007: HK\$483.3 million), an increase of approximately 77.5% against the same period in 2007. Gross profit margin of the Group was approximately 17.4%, an increase of approximately 3.8%.

Selling and distribution costs increased by approximately HK\$1.2 million whereas general and administrative expenses were up by approximately HK\$3.3 million. The 18.2% increase in selling and distribution costs and 14.7% increase in general and administration expenses are in line with the increased sales during the review period. Additional staff were added to existing operations to support the growth in the Auto Business.

After deducting all the relevant operating and tax expenses, the net profit of the Group for the period ended 30 June 2008 amounted to approximately HK\$94.6 million (30.6.2007: HK\$27.4 million), representing an increase of approximately 245.3% as compared with that of the same period last year.

### Financial Resources and Liquidity

As at 30 June 2008, the Group had bank balances and cash of approximately HK\$70.1 million, (31.12.2007: HK\$98.8 million). Its total assets amounted to approximately HK\$732.2 million (31.12.2007: HK\$568.5 million), which was financed by current liabilities of approximately HK\$329.5 million (31.12.2007: HK\$262.5 million), minority interest of approximately HK\$1.3 million (31.12.2007: HK\$1.1 million) and shareholders’ equity of approximately HK\$399.7 million (31.12.2007: HK\$304.7 million). The current ratio of the Group was approximately 2.1 (31.12.2007: 2.1) and gearing ratio, calculated based on the total borrowings to the sum of total shareholders’ equity and total borrowings of the Group was approximately 33.2% (31.12.2007: 38.1%).

The total loan facilities from banks available to the Group amounted to approximately HK\$223.3 million (31.12.2007: HK\$221.0 million). The management believes the Group has adequate financial resources to meet business requirements in the coming year.

# Management Discussion and Analysis

## **Treasury Policies**

The Group generally finances its operations with internally generated resources and loan facilities provided by banks in Hong Kong. The latter are mainly trust receipt loans with tenure up to 120 days from the invoice date. The interest rates of bank loans are mainly fixed by reference to either the Hong Kong Prime rate or the Hong Kong Interbank Borrowing rate for Hong Kong dollar loans.

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

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

## **Charges on Assets**

For the period under review, the Group did not maintain any charges on assets.

## **Employees and Remuneration Policies**

For the period under review, the Group had approximately 195 employees (31.12.2007: 153). The Group remunerates employees based on their performance and prevailing industry practices. The Company has set up a remuneration committee to review and determine the terms of remuneration policy, packages, bonuses and other compensation payable to the Directors and senior management on a periodical basis. Besides, the Board reviews from time to time the remuneration policy of the Group and the reward packages of staff members. Bonus and share options may be awarded to employees who deliver exceptional performance.

## **BUSINESS REVIEW**

As a result of successful execution of our strategic business strategies, the Group recorded approximately 77.5% growth in turnover, a strong double-digit increase as compared with the same period last year. While the Group's Semicon Business registered approximately 13.8% increase in turnover as compared to the same period of 2007, M2M Business grew significantly by approximately 173.2 %, in which the higher margin Auto Business registered a growth of approximately 226.4% and the Wireless Business registered a growth of approximately 103.2%. The Group delivered the best interim profit since listing on the Hong Kong Stock Exchange in 2003.

### **Auto Business**

During the period under review, the segment achieved very encouraging results. Its turnover increased from approximately HK\$109.8 million to approximately HK\$358.4 million, representing a leap of nearly 2.3 times when compared with the same period in 2007. It shipped auto devices and parts totaling approximately 380,000 units, approximately 3 times more as comparing with the same period last year. Affordable lower average unit cost caused by enhanced economy of scale and new product sales for private passengers were the principal reasons behind the improved profit margin of this segment.



# Management Discussion and Analysis

The Group appointed more sales representatives in different regions throughout China during the review period to enhance our existing sales channel. The total number of regional sales representatives appointed by the Group increased to 8 from 6 and the number of sales points increased to 108 from 104 during the period. Our newly appointed sales agents have effectively increased our sales and have given our end customers a higher degree of post-sales support. As a result, more and more logistic companies in China had selected our auto devices and parts during the period under review. We continued to win confidence among our end customers with our quality and reliability. We believe that our industrial grade solutions are one of the most reliable products currently available in the market. Our tracking and monitoring devices and solutions have enabled logistic companies to more effectively manage their assets through more efficient dispatch of their fleets, reducing idle time and encouraging more responsible driving behaviour. The solutions have therefore indirectly increased the general safety of road users. This is in line with the Chinese government policies promoted since the 10th 5 year plan and supported by both central and local governments, especially the Ministry of Transport of the People's Republic of China.

The other features of our auto devices and solutions have increasingly been used by fleet owners, as additional means to protect their assets and enhance the security of their fleets. The immobilization and intrusion alert features of our solutions complements current car alarm systems and can therefore be relied on to reduce the incidents of car thefts.

During the period under review, the Group secured trial contracts from the business partners of PICC Property and Casualty Co. Ltd. ("PICC") and China Mobile Limited to provide devices for deployment in vehicles insured by PICC. The deployment allows customers of the PICC to lower the cost of insuring their cars as well as improve the recovery rate of stolen vehicles. This partnership marked our entry into the private passenger car market leveraged on the strong customer base of our business partners.

During the period under review, the Group continued to develop solutions for different modes of transports and vehicles. The Group successfully developed customized solutions for leisure boats for our Australian customer, Vision Trak Pty Ltd, in 2007 and during the period under review, have again successfully adapted our solutions and developed customized solutions for emergency vehicles such as ambulance in Hong Kong and hazardous chemical carrying vehicles such as oil and gas transportation trucks for a major oil and gas company in China.

We believe each of our customized solutions represents new business opportunity for us as well as our asset management service provisioning ("AMS") customers.

# Management Discussion and Analysis

## Wireless Business

During the period under review, the turnover of Wireless Business increased to approximately HK\$169.4 million from approximately HK\$83.4 million in the corresponding period last year, representing an increase of approximately 103.2%.

The increase in turnover was attributable to the increased sales of wireless and related modules. During the period, the Group successfully developed and marketed solutions for new vertical markets in rail track conditions monitoring, environment monitoring and personal safety trackers. We continued to explore and develop commercially viable applications and solutions. For the utility sector, the Group has successfully developed wireless automatic solutions such as Data Terminal Units used in power metering industry.

## Semicon Business

During the period under review, the Group could still managed to maintain its level of turnover and profit margin amid fierce competition in semiconductor distribution industry by comparing with the same period of 2007. With the advent of M2M Business, the turnover of Semicon Business accounted for a less significant portion of the total turnover of the Group for the period at approximately 38.5%, versus 60.0% in the same period last year. The Group regularly reviews its strategy in Semicon Business and will increase the leverage afforded by M2M Business to distribute more semiconductor components used in M2M products so as to attain economy of scale and lower our overall purchasing price and other trading terms of our raw materials purchases. Going forward, the Group expects to see more synergies between Semicon Business and M2M Business which will ultimately increase overall profitability.

## Investor Relations

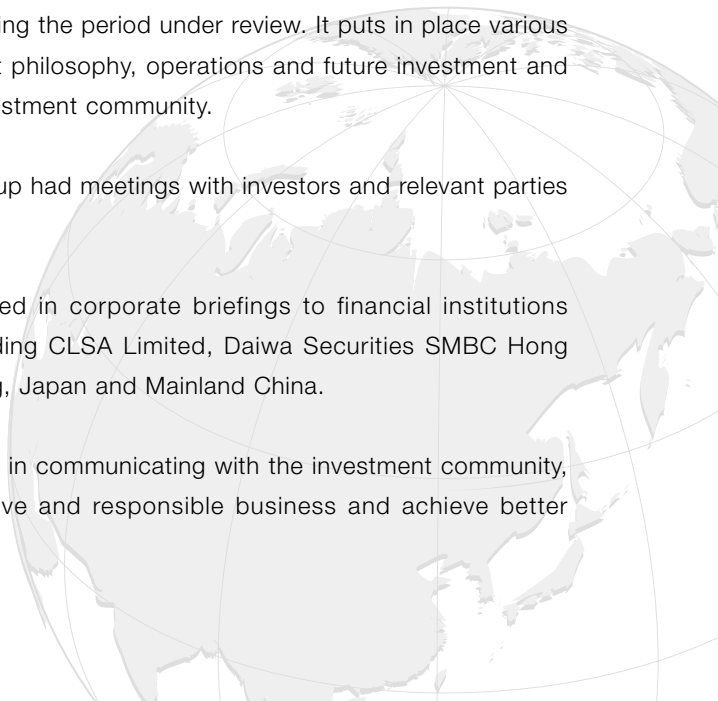
Unlike the traditional form of business operations represented in the stock markets, the Group understands that its business nature is not easily understood by the investment community in Asia. Hence, the Group has been proactive in communicating and explaining its business model and the potential of industrial and M2M wireless communication market to investors.

The Group continued to step up investor relations efforts during the period under review. It puts in place various means of communication to effectively relay its management philosophy, operations and future investment and development strategies to existing shareholders and the investment community.

During the period under review, representatives from the Group had meetings with investors and relevant parties with total attendance reaching 124.

In the first six months of 2008, the Group had participated in corporate briefings to financial institutions organized by various international securities houses, including CLSA Limited, Daiwa Securities SMBC Hong Kong Limited and Mega Capital (Asia) Co. Ltd. in Hong Kong, Japan and Mainland China.

The Board believes that by upholding a disciplined approach in communicating with the investment community, the Group will be able to enhance its image as an effective and responsible business and achieve better shareholder value.



# Management Discussion and Analysis

## PROSPECT

As expected, M2M Business has become the major source of profit for the Group. The management sees apparent potential for the two constituent businesses under M2M Business to become major turnover and profit growth drivers of the Group in the next few years.

According to industry forecast, M2M connections will expand approximately globally at a CAGR of 30% in five years between 2006 and 2011 from approximately 17.0 million units to approximately 61.9 million units, driven by cheaper data plans of mobile carriers, more economical and hence affordable devices and greater awareness of the benefits of deploying M2M technologies. The demand for global M2M application is expected to be the strongest in industrial wireless and automotive segments. The demand for devices used for automotive applications is expected to grow to approximately 42.5 million units a year in 2011 from approximately 6.2 million units in 2006.

The deployment of M2M applications in China will be driven by both government and commercial organizations. According to independent industrial wireless research reports, China has deployed M2M communications for local environment monitoring including safety at coal mines, meter reading at power grids and to aid implementation of intelligent transport systems. The business also stands well to benefit from the expansion of mobile communication networks in China.

For M2M Business, the Group has invested in building a distribution network in the past five years, in addition to developing highly reliable integrated products to enhance competitiveness of the business. The Group sells M2M applications mainly to customers in China for commercial and industrial applications. These customers are less sensitive to cost difference and put more weight on quality offers and assurance. To them, cost concern is secondary to safeguarding safety of human lives, efficient power distribution and asset tracking, and environmental monitoring etc. The management believes the Group has early mover advantage in China and is optimistic about the outlook of the different business segments in the rest of 2008. The Group will continue to actively explore and pursue different expansion possibilities.

For Semicon Business, the management will continue the proven strategy in the past year, aiming to maintain the revenue and profit margin of the segment. In additions, the management will pay special attention to boost the synergies among different business segments.



# Management Discussion and Analysis

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

At 30 June 2008, the issued share capital of the Company consisted of ordinary shares and the interests and short positions of the Directors and the Chief Executives of the Company in the shares, underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the Company's register kept under Section 352 of the SFO were as follows:

### Interest in the Company's Shares

Name	Capacity, nature of interest	Number of shares held		Percentage of the issued share capital of the Company
		Long Position	Short Position	
Wong Shu Wing ( <i>Note 1</i> )	Corporate	571,200,000	–	30.63%
Wong Shu Wing	Personal	608,400,000	–	32.63%
Choi Tat Kai	Personal	11,200,000	–	0.6%

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

Other than as disclosed above, none of the Directors or Chief Executives, nor their associates, had any interests or short positions in any shares of the Company or any of its associated corporations as at 30 June 2008.

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company, its holding company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at 30 June 2008 or at any time during the six months ended 30 June 2008.



# Management Discussion and Analysis

## SUBSTANTIAL SHAREHOLDERS

At 30 June 2008, in accordance with the register of substantial shareholders kept by the Company pursuant to Section 336 of the SFO and so far as is known to the Directors, the following persons (other than a Director or Chief Executive of the Company) were interested in the issued capital (including short positions) representing 5% or more of the issued share capital:

Name	Capacity, nature of interest	Number of shares held		Percentage of the issued share capital of the Company
		Long Position	Short Position	
Best Eagle International Limited (Note 1)	Corporate	571,200,000	–	30.63%
Wong Shu Wing (Note 1)	Personal	608,400,000	–	32.63%
Dubai Investment Group Limited	Corporate	200,704,000	–	10.76%
Full Guang Holdings Limited (Note 2)	Corporate	187,481,600	–	10.05%
Lee Yin Yee (Note 2)	Personal	187,481,600	–	10.05%
D & M International Limited (Note 3)	Corporate	168,000,000	–	9.01%
Leung Yu Ming Steven (Note 3)	Personal	168,000,000	–	9.01%

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

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

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



# Management Discussion and Analysis

Save as disclosed herein, as at 30 June 2008, no other person was recorded in the Company's register maintained by the Company pursuant to Section 336 of the SFO as having an interest in the issued share capital of the Company representing 5% or more of the issued share capital.

Save as disclosed herein, the Directors are not aware of any person other than the persons (including his personal, family and corporate interests) as aforementioned, who had, directly or indirectly, an interest in the issued share capital (including short positions) representing 5% or more of the issued share capital as at 30 June 2008.

## SHARE OPTION SCHEME

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

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

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



# Management Discussion and Analysis

## Options in respect of shares in the Company

Details of the share options granted under the share option scheme approved on 12 February 2003 (the "Scheme") remain outstanding as at 30 June 2008 are as follows:

	Options held at 1 January 2008	Options granted during the period	Options exercised during the period	Options held at 30 June 2008	Exercise price HK\$	Closing price before the date of grant	Date of grant	Exercise period
Directors:								
Wong Shu Wing	13,100,000	-	-	13,100,000	0.694	0.68	25/06/2007	25/06/2007 to 24/06/2017
Choi Tat Kai	10,800,000	-	-	10,800,000	0.694	0.68	25/06/2007	25/06/2007 to 24/06/2017
Han Yang*	500,000	-	-	500,000	0.694	0.68	25/06/2007	25/06/2007 to 24/06/2017
Liu Shun Keung*	3,000,000	-	-	3,000,000	0.694	0.68	25/06/2007	25/06/2007 to 24/06/2017
Other employees	16,900,000	-	100,000	16,800,000	0.694	0.68	25/06/2007	25/06/2007 to 24/06/2017*
	75,904,800	-	-	75,904,800	0.520	0.51	13/08/2007	13/08/2007 to 12/08/2017
Public	3,000,000	-	-	3,000,000	0.694	0.68	25/06/2007	25/06/2007 to 24/06/2017
	200,000	-	-	200,000	0.520	0.51	13/08/2007	13/08/2007 to 12/08/2017
	<u>123,404,800</u>	-	100,000	<u>123,304,800</u>				

\* Mr. Han Yang and Mr. Liu Shun Keung were appointed as the Executive Directors of the Company on 17 January 2008.

## DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

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

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2008.

# Management Discussion and Analysis

## EXPOSURE TO FOREIGN EXCHANGE RISK

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

## CORPORATE GOVERNANCE

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

The Directors consider that the Company has fully complied with the requirements under the CG Code for the six months ended 30 June 2008.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as the code of conduct regarding directors’ securities transactions. All Directors of the Company have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2008.

## AUDIT COMMITTEE

The Audit Committee comprises three Independent Non-executive Directors who have experience in fields of auditing, legal matters, business, accounting, corporate internal control and regulatory affairs.

The Audit Committee has reviewed the unaudited interim results and condensed consolidated financial statements of the Company for the six months ended 30 June 2008 and was satisfied that such statements have complied with the applicable accounting standards, the Listing Rules and other legal requirements, and that adequate disclosures have been made.

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

By Order of the Board

**Wong Shu Wing**

*Chairman*

Hong Kong, 18 September 2008

