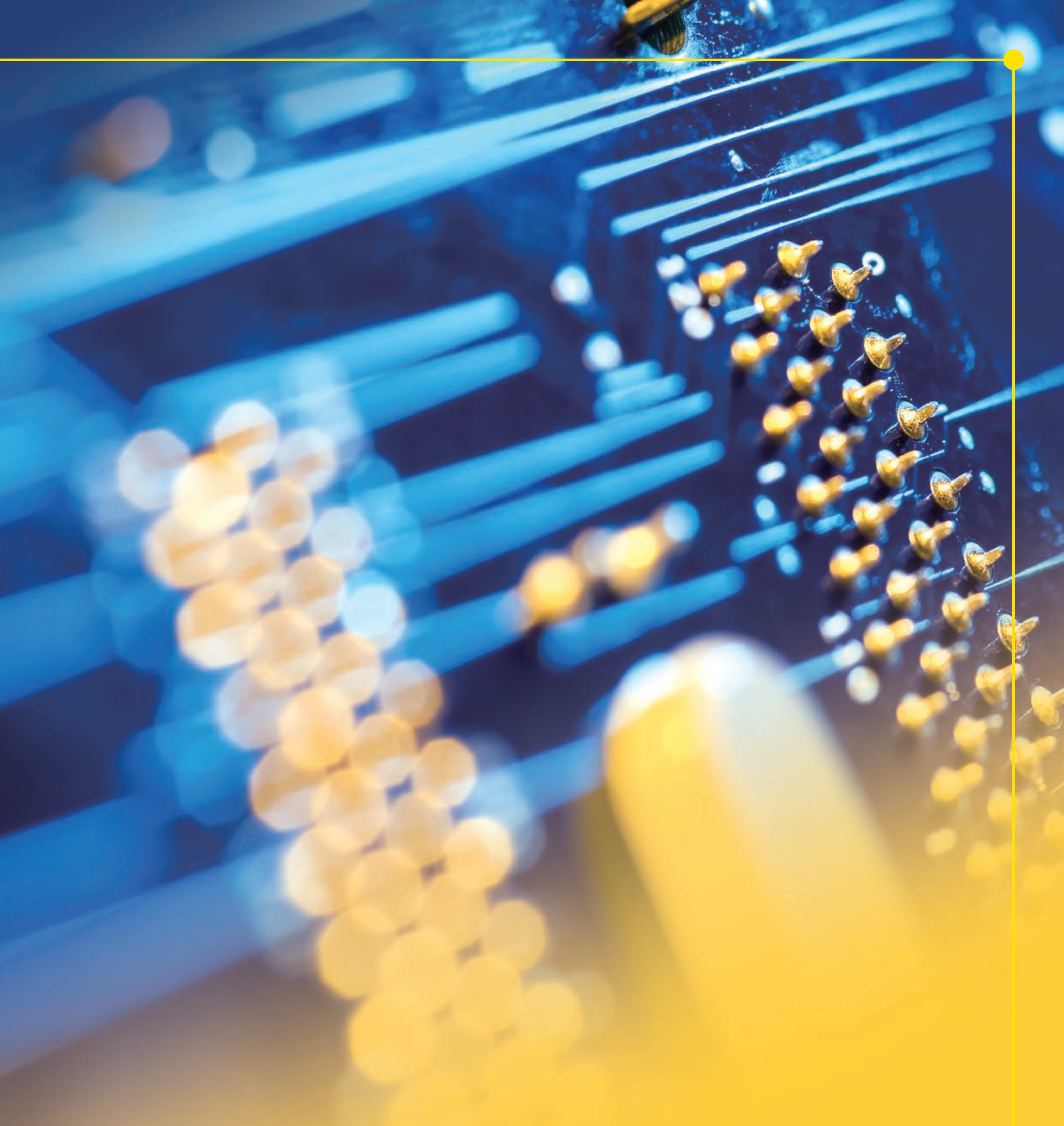

GROUP

S.A.S. Dragon Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code : 1184)

Annual Report 2008

Contents

Corporate Information

DIRECTORS

Executive Directors

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

Non-Executive Director

Dr. Chang Chu Cheng

Independent Non-Executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

COMPANY SECRETARY

Mr. Wong Wai Tai

REGISTERED OFFICE

Clarendon House
Church Street
Hamilton HM 11
Bermuda

PRINCIPAL OFFICE

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

SHARE REGISTRARS AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

Hang Seng Bank
The Hongkong and Shanghai
Banking Corporation Limited
Standard Chartered Bank (Hong Kong) Limited

LEGAL ADVISOR

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

AUDITOR

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

WEBSITE

http://www.sasdragon.com.hk

STOCK CODE

The Stock Exchange of Hong Kong Limited: 1184

TO OUR SHAREHOLDERS

On behalf of the Board of Directors of S.A.S. Dragon Holdings Limited and its subsidiaries (the "Group"), I present the annual results of the Group for the year ended 31 December 2008.

Affected by the financial tsunami and subsequent economic contraction during the latter half of 2008, the Group's sales in 2008 dropped by 13.8% to HK$3 billion and recorded a net loss attributable to shareholders of HK$18.2 million in 2008 compared with a profit of HK$45.3 million in 2007.

During the year under review, the Group put more resources into materials planning and inventory control and decreased the overall level of working capital and bank borrowings as compared with the previous year. Also, in latter half of 2008, the Group undertook a critical review of its cost structure and implemented a number of stringent cost optimization measures and effectively reduced its operating cost to maintain its competitiveness in the tough environment.

For 2009, we expect the global economy and electronic industry to remain challenging in short to medium term. With all of our fundamental competitive strength intact, we are confident that we are in a good position to embrace the recovery of economy and capture the massive opportunities on the recovery of demands for electronic products.

Finally, on behalf of the Board of Directors, I would like to thank all our employees for their contribution and sacrifices. I also wish to extend my sincere gratitude to our shareholders, customers, suppliers and business partners for their valuable support and dedication in 2008.

Yim Yuk Lun, Stanley *JP*
Chairman
Hong Kong, 24 April 2009

FINANCIAL REVIEW

For the year ended 31 December 2008, the Group's turnover decreased by 13.8% to HK$3,015,277,000 (2007: HK$3,499,789,000), gross profit declined by 25.5% to HK$150,217,000 (2007: HK$201,678,000), and EBITDA (represented gross profit plus other income minus distribution and selling expenses and administrative expenses plus depreciation and amortization) decreased by 86.2% to HK$13,799,000 (2007: HK$100,107,000).

Net loss attributable to equity holders of the Company was HK$18,159,000 compared with a profit of HK$45,282,000 in 2007. Basic loss per share was HK7.00 cents compared with basic earning per share of HK18.18 cents in 2007. It was primarily attributable to below reasons:

1. Slow down in Group's sales caused by the global financial turmoil and the economic contraction in the second half of 2008;

2. In order to maintain an optimal inventory level, profit margin was squeezed by selling at lower prices of some inventory and the Group's overall profit margin decreased to 5.0% in 2008 (2007: 5.8%);

3. In order to boost sales in difficult market environment, more sales and marketing activities were conducted by the Group and distribution and selling expenses increased to HK$27.7 million in 2008 (2007: HK$18.1 million);

4. Certain investments held since 2007 recorded mark to market losses of HK$8.6 million in 2008, which had generated mark to market gains of HK$9.7 million in 2007;

5. Net foreign exchange loss was HK$9.2 million mainly caused by the fixed time deposit held in Australian Dollars ("AUD") by the Group since 2007. Such loss was due to the fall in value of AUD in the second half of 2008.

   As of 31 December 2008, the Group was holding the fixed time deposit in AUD of AUD8 million (equivalent to HK$43.2 million), the amount included interest income accumulated of AUD475,000 (equivalent to HK$2.5 million). The Board wishes to emphasis that the intention of holding the fixed time deposit in AUD was to earn higher yield on surplus funds and the Group does not ever have any exposure to any equity or currency accumulators. As of the date of the issue of the consolidated financial statements, the amount of fixed time deposit in AUD held by the Group was AUD2.2 million and the Board considered that further exchange loss exposure on AUD was immaterial.

6. During the second half of 2008, the Group implemented a number of cost control/saving measures to reduce its overall operating cost. As a result, excluding the mark to market losses on investments and foreign exchange loss disclosed above, administrative and other expenses in 2008 was $124.0 million, compared with HK$127.7 million in 2007;

7. Finances costs in 2008 decreased to HK$20.8 million (2007: HK$36.6 million), mainly due to reduced amount of bank borrowings in 2008.

Liquidity and Financial Resources

As of 31 December 2008, the Group's current ratio was 121% (31 December 2007: 136%), net gearing ratio was 76% (31 December 2007: 92%), which was calculated based on the Group's net borrowings (calculated as total bank borrowings minus total cash and bank balances minus financial assets at fair value through profit or loss and available for sale investments) of approximately HK$314,354,000 (31 December 2007: HK$408,797,000) and total equity of HK$413,794,000 (31 December 2007: HK$444,186,000).

The Group recorded debtors turnover of approximately 33 days for the year under review (2007: 41 days) based on the amount of trade and bills receivable as at 31 December 2008 divided by sales for the year ended 31 December 2008 and multiplied by 366 days (2007: 365 days).

The Group recorded inventory turnover and average payable period of approximately 47 days and 25 days respectively for the year under review (2007: approximately 56 days and 40 days respectively) based on the amount of inventory and trade and bills payables as at 31 December 2008 divided by cost of sales for the year ended 31 December 2008 and multiplied by 366 days (2007: 365 days).

The Group generated net operating cash inflow of HK$133,786,000 and used in net repayment of bank borrowings of HK$185,821,000 in 2008, compare with net operating cash outflow of HK$57,270,000 and net bank borrowings raised of HK$79,618,000 in 2007.

Foreign Exchange Risk Management

The Group has foreign currency sales and purchases and bank deposits and borrowing in foreign currency which expose the Group to foreign currency risk.

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

EMPLOYEE AND REMUNERATION POLICY

At 31 December 2008, the Group employed approximately 350 employees in the PRC and Hong Kong. The Group ensures that their employees are offered competitive remuneration packages. Other staff benefits include share option scheme, provident fund schemes and medical insurance. Also, discretionary bonus was granted to eligible employees based on the Group's financial results and individual performance.

BUSINESS REVIEW

Distribution of Electronic Components and Semiconductor Products

During the year under review, the overall market such as mobile, consumer electronic, computer and telecom became slow down. The inventory level inside the supply chain was at high and risky level. As a result, the average selling price was decreasing sharply at Q4. For the export market such as American and Europe, the end customers just delayed the purchasing plan or even stop to buy new products. Most of the electronic manufacturers reduced their production scale; delayed the shipment for new equipment and investment plan. On the other hand, the market re-structuring enforces the risk management inside the supply chain. The inventory control, ordering practice, credit control, staff training and customer understanding become more essential and important for competitive advantages.

Consumer Electronic Products

During the year under review, the Group was benefited by providing wide range of components to those new or growing market segments of consumer electronic products like ATSC set top box, portable digital TV receiver and portable navigation devices integrated with GPS and TV receiving features.

Mobile Phone Products

In 2008, total industry shipment increased approximately 6% as compared with double-digit annual growth in pervious years. The PRC and emerging markets were the key growth areas for handsets sales. Because demand for low-priced units in these markets remained robust, the Group recorded moderate growth on distribution of CMOS image sensors and memory chips for mobile phone products.

Computer Products

The low cost netbook market was growing very fast at the end of 2008 in China. Many mobile manufacturers and consumer electronic manufacturers entered into this new market to leverage their existing market segment for balanced business development. The Group was able to capture this business opportunities in distribution of CPUs, memory chips as well as panel displays.

Communication Products

Due to the completion of telecommunication market restructuring, 3G-network installation for TD-SCDMA and CDMA/EVDO network increased the demand for the Group's analog data cards as well as their peripheral components.

Properties investment

As of 31 December 2008, the Group was holding 8 investment properties (31 December 2007: 6), including 5 commercial units and 3 residential units located at Hong Kong. The aggregate market value of investment properties amounted to HK$119.4 million (31 December 2007: HK$111.8 million). The above properties are held as long-term investment and for leasing.

During the year under review, the investment properties generated a total rental income of HK$4.2 million (2007: HK$3.7 million) with an average return of 3.6% per annum (2007: 3.3% per annum) and recognized increase in fair value in the financial statements of HK$5.4 million (2007: HK$11.4 million).

Distribution of Sports Products

During the year under review, the Group continued to focus on promoting those products under the first-tier brand names of "Wilson" and "Babolat". The distribution of sports products was able to record increased profitability in 2008 as compared to 2007.

OUTLOOK

Less affected by the financial tsunami, the China government is able to react quickly to increase government spending and implemented a serial of economic policies to stimulate consumer spending. As such, the Group will continue to focus on China market especially in the domestic market of netbook, mobile phone, digital TV and 3G telecom products to catch up the growing of these markets.

DIRECTORS

Executive Directors

Mr. Yim Yuk Lun, Stanley JP, aged 49, is the founder and the Chairman and Managing Director of the Group. He is responsible for the formulation of corporate strategies and the overall direction for the Group's management team. He is currently the Chairman of Hong Kong Trade Services Council of Federation of Hong Kong Industries, the executive committee member of the Hong Kong Electronic Industries Association, a member of HKTDC-Electronics/Electronical Appliances Industries Advisory Committee, a member of Yan Chai Hospital Advisory Board, a member of Shanghai Committee of Chinese People's Political Consultative Conference and a member of Yun Fu City Committee of Chinese People's Political Consultative Conference.

Mr. Wong Sui Chuen, aged 55, was appointed as an Executive Director of the Company in 2003. He is mainly responsible for overall administration operations in the PRC. Mr. Wong has over fifteen years experience in the PRC business affairs. He is currently appointed as the vice president of Shenzhen Association of Enterprises with Foreign Investment, the director of Shanghai Chinese Overseas Friendship Association, the consultant of Shenzhen Association for the Promotion of International Economy & Culture and the director of Dongguan Electronic Industries Association.

Mr. Lau Ping Cheung, aged 38, was appointed as an Executive Director of the Company in 2007 and is the Sales Vice President of S.A.S. Electronic Company Limited. He graduated from the University of Hong Kong with a Bachelor's degree in Electrical and Electronic Engineering and got his Master's degree in Engineering Business Management jointly awarded by The Hong Kong Polytechnic University and The University of Warwick in 2003. He is under study of Engineering Doctorate in the City University of Hong Kong. He has over ten years experience in electronic field on sales, marketing and R&D project development.

Non-Executive Director

Dr. Chang Chu Cheng, aged 65, was appointed as a Non-Executive Director of the Company in 1994. Dr. Chang gained his Doctorate in Solid State Electronics from the University of Manchester Institute of Science & Technology in 1969 and lectured in physics and electronics at the Chinese University of Hong Kong prior to the founding of Varitronix in 1978. He is presently the Chairman of iView Limited and Honorary Chairman of Varitronix International Limited. He is also currently a non-executive director of Fujikon Industrial Holdings Limited, an Honorary Advisor of Hong Kong Critical Components Manufacturers Association and an Honorary Chairman of Hong Kong Photographic and Optics Manufacturers Association.

Independent Non-Executive Directors

Dr. Lui Ming Wah SBS JP, aged 71, was appointed as an Independent Non-Executive Director of the Company in 1994. Dr. Lui holds a Master's degree in applied science from the University of New South Wales, Australia and a Doctorate in engineering from the University of Saskatchewan, Canada. Dr. Lui is currently the managing director of Keystone Electronics Company Limited. In addition to being board member of other committees, Dr. Lui is the Hon. Chairman of the Hong Kong Electronic Industries Association Limited and committee member of CMA.

Mr. Liu Chun Ning, Wilfred, aged 47, was appointed as an Independent Non-Executive Director of the Company in 2001. Mr. Liu is an Executive Director in charge of the securities business of Chong Hing Banking Group. He holds a Bachelor's degree in economics from the University of Newcastle-upon- Tyne (UK).

Mr. Wong Tak Yuen, Adrian, aged 54, was appointed as an Independent Non-Executive Director of the Company in 1999. Mr. Wong holds a Bachelor's degree in Economics and Mathematics from the University of Western Ontairo, London, Canada. Mr. Wong has over twenty years experience in the financial Industry.

Mr. Cheung Chi Kwan, aged 49, was appointed as an Independent Non-Executive Director of the Company in 2004. Mr. Cheung has over twenty years of accounting experience. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of Association of Chartered Certified Accountants. In addition, Mr. Cheung holds a Bachelor's Degree in Laws from University of Wolverhampton, United Kingdom.

SENIOR MANAGEMENT

Mr. Cheung Chin Hung, Richard, aged 53, joined the Group in 1997 as the Director of RSL Electronic Company Limited. He has a Bachelor's degree in Economics, from University of Waterloo in Ontario, Canada. Prior to joining our Group, he worked with Sunrise Technology Limited as Sales Director.

Mr. Lock Shui Cheung, aged 46, joined the Group in 1997 as the Director of RSL Electronic Company Limited. He holds a higher diploma in Marine Electronics, from Hong Kong Polytechnic University and a Master's degree in Business Administration from the University of Hull, England. He has more than twenty years sales and management experience in electronics components distribution business with various global companies.

Mr. Wang Yi, Michael, aged 42, joined the Group in 2002 as the Sales Director of SMartech Electronic Company Limited. He graduated from Shanghai University of Technology, with a Bachelor's degree in Electronic engineering. He has several years experience as Field Application Engineer in Philips Semiconductor Shanghai and ten years experience as Sales & Marketing Manager of Samsung Semiconductor in the PRC.

Mr. Chang Wei Hua, Benson, aged 44, joined the Group in January 2007 as the Director and General Manager of Hi-Level Technology Limited. He graduated from Tung-Nan Institute of Technology in Taiwan with a Bachelor's degree in Electronics Engineering. He has more than twenty years management experience in electronic field on sales, marketing and R & D project.

Mr. Su Ching Yang, Stephen, aged 42, joined the Group in 1991 as the Sales Director of S.A.S. Electronic Company Limited. He has over fifteen years experience in distribution of electronic components business.

Mr. Fu Chi Cheung, Denny, aged 36, joined the Group in 2001 as the Sales Director of S.A.S. Electronic Company Limited. He holds a Certificate in Management from the Hong Kong Haking Wong Institute. He has over eight years experience in electronic industry.

Mr. Ng Sai Wah, Tommy, aged 43, joined the Group in 2004 as the Sales Director of S.A.S. Electronic Company Limited. He holds B.Sc. (Hon.) in Communications Engineering from the University of Kent (UK) and a MBA from The Open University of Hong Kong. He is a member of IET, UK, and has more than ten years experience in liquid crystal display industry.

Mr. Wong Wai Tai, Peter, aged 37, joined the Group in 2005 as the Financial Controller of the Group. He holds a Bachelor's degree of Business Administration from Hong Kong Baptist University. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of Association of Chartered Certified Accountants. He has over ten years experience in accounting, auditing, taxation and financial management.

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

The Company complied with the applicable Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2008, except for the deviations from code provisions A.2.1 and A.4.1 which are explained in the relevant paragraphs below.

BOARD OF DIRECTORS

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

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

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

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

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

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

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

DIRECTORS' SECURITIES TRANSACTIONS

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

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

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDIT COMMITTEE

The Audit Committee consists of three non-executive directors, namely Mr. Wong Tak Yuen, Adrian, Mr. Cheung Chi Kwan and Dr. Chang Chu Cheng. Mr. Wong Tak Yuen, Adrian is the Chairman of the Audit Committee. In accordance with the terms of reference of the Audit Committee, the Audit Committee met twice in 2008 to review the interim and final results of the Company. The terms of reference of the Committee are aligned with the recommendations set out in "A Guide For Effective Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants and the code provisions set out in the Code.

The principal duties of the Audit Committee include the review and supervision of the Group's financial reporting system and internal control procedures, review of the Group's financial information and review of the relationship with the Auditors of the Company.

During the financial year ended 31 December 2008, the Group has engaged the external auditors to provide the following services and their respective fees charged are set out as below:

Type of Services	Amount HK$'000
Audit fee	1,848
Other non-audit services	143

REMUNERATION COMMITTEE

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

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

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

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

INTERNAL CONTROL

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

COMMUNICATION WITH SHAREHOLDERS

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

The Company regards the annual general meeting as an important event as it provides an important opportunity for direct communications between the Board and the Company's shareholders. All directors and senior management will make an effort to attend. All shareholders will be given at least 20 clear business days' notice of the annual general meeting and are encouraged to attend the annual general meeting and other shareholders' meetings.

The directors present their annual report and the audited consolidated financial statements of S.A.S. Dragon Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2008 are set out in the consolidated income statement on page 23.

An interim dividend of HK1.0 cent per share, amounting to approximately HK$2,595,000 was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of HK2.0 cents per share to the shareholders on the register of members on 3 June 2009.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate purchases attributable to the Group's largest supplier and five largest suppliers taken together accounted for 19% and 55% respectively of the Group's total purchases for the year.

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

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

INVESTMENT PROPERTIES

At 31 December 2008, the investment properties of the Group were revalued by an independent firm of professional property valuers on an open market value basis at HK$119,400,000. The revaluation resulted in a surplus of HK$1,109,000 and is recognised in the consolidated income statement. Details are set out in note 15 to the consolidated financial statements.

Particulars of investment properties of the Group at 31 December 2008 are set out on page 96.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 30 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2008, calculated in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, is represented by the contributed surplus and the retained profits in the aggregate amount of HK$178,066,000 as disclosed in note 38 to the consolidated financial statements.

DIRECTORS

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

Executive Directors

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

Non-Executive Director

Dr. Chang Chu Cheng

Independent Non-Executive Directors

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

In accordance with Clauses 87(1) and 87(2) of the Company's Bye-Laws, Mr. Wong Sui Chuen, Dr. Lui Ming Wah *SBS JP*, Mr. Wong Tak Yuen, Adrian retire and, being eligible, offer themselves for re-election.

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

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

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

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2008, the interests of the directors of the Company in the shares and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Future Ordinance ("SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long positions

Ordinary shares of HK$0.10 each of the Company

Name of directors	Capacity	Number of issued ordinary shares held	Percentage of issued share capital of the Company
Yim Yuk Lun, Stanley *JP*	Beneficial owner	13,990,000	5.39%
	Held by controlled corporation *(note)*	63,771,400	24.58%
		77,761,400	29.97%
Wong Sui Chuen	Beneficial owner	762,000	0.29%
Lau Ping Cheung	Beneficial owner	100,000	0.04%

Note: These shares are held by Unimicro Limited, a company incorporated in the British Virgin Islands, which is beneficially owned by Mr. Yim Yuk Lun, Stanley *JP*.

Save as disclosed above, other than certain nominee shares in subsidiaries held by certain directors in trust for the Company, none of the directors or chief executives or their associates had any interests or short position in any shares, underlying shares or debentures of the Company or any of its associated corporations at 31 December 2008.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 31 to the consolidated financial statements.

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

	Date of grant	Exercise price per share	Exercisable period	Options granted during the year ended 31 December 2007 and outstanding as at 1 January 2008	Options granted during the year	Options exercised during the year	Options lapsed during the year	Options cancelled during the year	Options outstanding and exercisable as at 31 December 2008
Director:									
Lau Ping Cheung	3 July 2007	HK$1.50	3 July 2008 to 2 July 2010	500,000	–	–	–	–	500,000
Lau Ping Cheung	3 July 2007	HK$1.50	3 July 2009 to 2 July 2010	500,000	–	–	–	–	500,000
Employees	3 July 2007	HK$1.50	3 July 2008 to 2 July 2010	2,500,000	–	–	(250,000)	–	2,250,000
Employees	3 July 2007	HK$1.50	3 July 2009 to 2 July 2010	2,500,000	–	–	(250,000)	–	2,250,000
				6,000,000	–	–	(500,000)	–	5,500,000

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

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

SUBSTANTIAL SHAREHOLDERS

At 31 December 2008, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of certain directors, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Long positions:

Ordinary shares of HK$0.10 each of the Company

Name of shareholders	Capacity	Number of issued ordinary shares held	Percentage of issued share capital of the Company
Hon Hai Precision Industry Co., Ltd. ("Hon Hai")	Held by controlled corporation *(note)*	46,000,000	17.73%
Foxconn Holding Limited ("Foxconn")	Beneficial owner	46,000,000	17.73%
CCB International Asset Management Limited	Beneficial owner	16,950,000	6.53%
Chung Shun Ming	Beneficial owner	15,343,400	5.91%

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

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company at 31 December 2008.

CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS

Save for those connected transactions for the year disclosed in note 37 to the consolidated financial statements,

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

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

In accordance with the conditions agreed with the Stock Exchange with respect to the connected transactions, the independent non-executive directors have reviewed the connected transactions set out in note 37 to the consolidated financial statements and, in their opinion, these transactions were entered into by the Group:

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

(ii) on normal commercial terms; and

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

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

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

PRE-EMPTIVE RIGHTS

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

EMOLUMENT POLICY

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

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

The Company has adopted a share option scheme as an incentive to eligible directors and employees, details of the scheme is set out in note 31 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

According to the information that is publicly available to the Company and within the knowledge of the directors, the Company has maintained a sufficient public float throughout the year ended 31 December 2008.

DONATIONS

During the year, the Group made charitable and other donations amounting to HK$1,000,500.

POST BALANCE SHEET EVENT

Details of significant events occurring after balance sheet date is set out in note 39 to the consolidated financial statements.

AUDITOR

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

On behalf of the Board

YIM YUK LUN, STANLEY *JP*
CHAIRMAN AND MANAGING DIRECTOR
Hong Kong, 24 April 2009

Deloitte.
德勤

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

We have audited the consolidated financial statements of S.A.S. Dragon Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 23 to 94, which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2008 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 the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
24 April 2009

	Notes	2008 HK$'000	2007 HK$'000
Turnover	7	3,015,277	3,499,789
Cost of sales		(2,865,060)	(3,298,111)
Gross profit		150,217	201,678
Other income		19,968	32,286
Distribution and selling expenses		(27,690)	(18,131)
Administrative and other expenses		(141,796)	(127,657)
Increase in fair value of investment properties		1,109	11,421
Share of results of associates		(76)	(21)
Finance costs	8	(20,753)	(36,603)
(Loss) profit before taxation		(19,021)	62,973
Taxation	11	2,272	(9,884)
(Loss) profit for the year	12	(16,749)	53,089
Attributable to:			
Equity holders of the Company		(18,159)	45,282
Minority interests		1,410	7,807
		(16,749)	53,089
Dividends paid	13	15,570	19,911
(Loss) earnings per share – basic	14	(HK7.00 cents)	HK18.18 cents

Consolidated Balance Sheet

At 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Non-current Assets			
Investment properties	15	119,400	111,830
Property, plant and equipment	16	156,045	145,628
Prepaid lease payments – non-current portion	17	–	1,243
Goodwill	18	16,419	16,419
Interests in associates	19	408	678
Available-for-sale investments	21	7,654	8,180
Club memberships	22	3,278	3,465
Deposits paid on acquisition of property, plant and equipment		–	20,600
		303,204	308,043
Current Assets			
Inventories	24	370,783	504,601
Trade and other receivables	25	298,630	443,407
Bills receivable	25	1,125	25,012
Prepaid lease payments – current portion	17	–	26
Financial assets at fair value through profit or loss	26	34,770	28,178
Available-for-sale investments	21	5,142	5,084
Taxation recoverable		1,104	1,878
Pledged bank deposits	23	24,757	62,543
Bank balances and cash	23	119,259	179,501
		855,570	1,250,230
Current Liabilities			
Trade and other payables	27	209,496	316,669
Bills payable	27	23,734	97,762
Derivative financial instruments	28	1,375	692
Taxation payable		3,642	3,400
Bank borrowings – due within one year	29	466,846	499,291
		705,093	917,814
Net Current Assets		150,477	332,416
		453,681	640,459

Consolidated Balance Sheet

At 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Capital and Reserves			
Share capital	30	25,949	25,949
Share premium and reserves		359,855	387,254
Equity attributable to equity holders of the Company		385,804	413,203
Minority interests		27,990	30,983
Total Equity		413,794	444,186
Non-current Liabilities			
Bank borrowings – due after one year	29	31,436	184,812
Deferred tax liabilities	32	8,451	11,461
		39,887	196,273
		453,681	640,459

The consolidated financial statements on pages 23 to 94 were approved and authorised for issue by the Board of Directors on 24 April 2009 and are signed on its behalf by:

Yim Yuk Lun, Stanley *JP*
DIRECTOR

Wong Sui Chuen
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

	Attributable to equity holders of the Company												
	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Capital reserve HK$'000	Contributed surplus HK$'000	Property revaluation reserve HK$'000	Investment revaluation reserve HK$'000	Translation reserve HK$'000	Share options reserve HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2007	24,254	10,992	1,109	11,145	85,580	24,149	450	(1,388)	–	209,869	366,160	7,681	373,841
Exchange differences arising on translation of foreign operations	–	–	–	–	–	–	–	867	–	–	867	–	867
Gain on fair value changes of available-for-sale investments	–	–	–	–	–	–	374	–	–	–	374	–	374
Total income recognised directly in equity	–	–	–	–	–	–	374	867	–	–	1,241	–	1,241
Profit for the year	–	–	–	–	–	–	–	–	–	45,282	45,282	7,807	53,089
Total recognised income for the year	–	–	–	–	–	–	374	867	–	45,282	46,523	7,807	54,330
Issue of shares	1,695	18,306	–	–	–	–	–	–	–	–	20,001	–	20,001
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	15,495	15,495
Recognition of equity-settled share-based payment expenses	–	–	–	–	–	–	–	–	430	–	430	–	430
Dividends paid *(note 13)*	–	–	–	–	(19,911)	–	–	–	–	–	(19,911)	–	(19,911)
At 31 December 2007	25,949	29,298	1,109	11,145	65,669	24,149	824	(521)	430	255,151	413,203	30,983	444,186
Exchange differences arising on translation of foreign operations	–	–	–	–	–	–	–	2,148	–	–	2,148	555	2,703
Share of reserve of an associate	–	–	–	–	–	–	–	(192)	–	–	(192)	–	(192)
Surplus on revaluation of properties	–	–	–	–	–	4,325	–	–	–	–	4,325	–	4,325
Loss on fair value changes of available-for-sale investments	–	–	–	–	–	–	(525)	–	–	–	(525)	57	(468)
Net income (expense) recognised directly in equity	–	–	–	–	–	4,325	(525)	1,956	–	–	5,756	612	6,368
Loss for the year	–	–	–	–	–	–	–	–	–	(18,159)	(18,159)	1,410	(16,749)
Total recognised income and expense for the year	–	–	–	–	–	4,325	(525)	1,956	–	(18,159)	(12,403)	2,022	(10,381)
Dividend paid to minority interests	–	–	–	–	–	–	–	–	–	–	–	(5,015)	(5,015)
Recognition of equity-settled share-based payment expenses	–	–	–	–	–	–	–	–	574	–	574	–	574
Dividends paid *(note 13)*	–	–	–	–	(15,570)	–	–	–	–	–	(15,570)	–	(15,570)
At 31 December 2008	**25,949**	**29,298**	**1,109**	**11,145**	**50,099**	**28,474**	**299**	**1,435**	**1,004**	**236,992**	**385,804**	**27,990**	**413,794**

The capital reserve of the Group represents the aggregate of:

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

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

At 31 December 2008, the property revaluation reserve includes an amount of HK$14,907,000 (2007: HK$10,582,000) relating to a property previously held as property, plant and equipment and reclassified as an investment property. On the disposal or retirement of the asset, the revaluation reserve will be transferred directly to retained profits.

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

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

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

(iii) the distribution to shareholders of HK$15,570,000 (2003 to 2008: HK$78,289,000) for the year ended 31 December 2008.

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	2008 HK$'000	2007 HK$'000
OPERATING ACTIVITIES		
(Loss) profit before taxation	(19,021)	62,973
Adjustments for:		
Interest income	(6,183)	(9,656)
Finance costs	20,753	36,603
Share of results of associates	76	21
Net foreign exchange loss	8,462	–
Dividend income from listed securities	(201)	(202)
Increase in fair value of investment properties	(1,109)	(11,421)
Decrease in fair value of derivative financial instruments	683	692
Change in fair value of financial assets designated as at FVTPL	1,095	(1,092)
Change in fair value of financial assets classified as held-for-trading	7,523	(8,581)
Depreciation of property, plant and equipment	13,100	11,931
Release of prepaid lease payments	–	26
(Reversal of) allowance for trade and other receivables	(5,332)	10,781
(Reversal of) allowance for inventories	(5,229)	16,011
Gain on disposal of property, plant and equipment	(110)	(3,054)
Equity-settled share-based payment expenses	574	430
Operating cash flows before movements in working capital	15,081	105,462
Decrease (increase) in inventories	139,047	(170,647)
Decrease (increase) in trade and other receivables	151,901	(45,979)
Decrease in bills receivable	23,887	1,386
Increase in financial assets at fair value through profit or loss	(15,210)	(6,480)
(Decrease) increase in bills payable	(74,028)	34,706
(Decrease) increase in trade and other payables	(107,170)	25,766
Cash generated from (used in) operations	133,508	(55,786)
Hong Kong Profits Tax paid	(3,075)	(3,277)
Hong Kong Profits Tax refunded	3,353	1,793
NET CASH FROM (USED IN) OPERATING ACTIVITIES	133,786	(57,270)

	Note	2008 HK$'000	2007 HK$'000
INVESTING ACTIVITIES			
Decrease in pledged bank deposits		37,786	5,950
Proceeds on disposal of investment property		8,639	–
Interest received		6,183	9,656
Proceeds from disposal of prepaid lease payments		1,269	–
Dividend received from available-for-sale investments		201	202
Proceeds from disposal of club memberships		187	–
Proceeds on disposal of property, plant and equipment		143	9,608
Payment for property, plant and equipment		(12,815)	(47,451)
Purchase of investment properties		–	(13,209)
Purchase of available-for-sale investments		–	(5,736)
Purchase of club memberships		–	(453)
Acquisition of a subsidiary (net of cash and cash equivalents acquired)	33	–	9,561
NET CASH FROM (USED IN) INVESTING ACTIVITIES		41,593	(31,872)
FINANCING ACTIVITIES			
Repayment of bank borrowings		(2,950,304)	(2,814,870)
Interest paid		(20,753)	(36,585)
Dividends paid		(15,570)	(19,911)
Dividend paid to minority interests		(5,015)	–
Bank borrowings raised		2,764,483	2,894,488
Proceeds from issue of shares		–	20,001
Repayment of obligations under finance leases		–	(167)
Interest on obligations under finance leases		–	(18)
NET CASH (USED IN) FROM FINANCING ACTIVITIES		(227,159)	42,938
NET DECREASE IN CASH AND CASH EQUIVALENTS		(51,780)	(46,204)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		179,501	225,705
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		(8,462)	–
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash		119,259	179,501

1. GENERAL

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

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

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

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

In the current year, the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

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

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

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

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible hedged items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments[2]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded Derivatives[4]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[5]
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation[6]
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners[3]
HK(IFRIC) – Int 18	Transfers of Assets from Customers[7]

1 *Effective for annual periods beginning on or after 1 January 2009 except for the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009*
2 *Effective for annual periods beginning on or after 1 January 2009*
3 *Effective for annual periods beginning on or after 1 July 2009*
4 *Effective for annual periods ending on or after 30 June 2009*
5 *Effective for annual periods beginning on or after 1 July 2008*
6 *Effective for annual periods beginning on or after 1 October 2008*
7 *Effective for transfers on or after 1 July 2009*

The application of HKFRS 3 (Revised) may affect the Group's 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 the Group's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

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

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

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

Acquisition of additional interest in a subsidiary

Additional interest in a subsidiary are measured at the aggregate of the carrying amounts of identified assets and liabilities of the subsidiary and any excess of the consideration over the net assets attributable to the additional interest acquired are accounted for as goodwill. Any excess of the net assets attributable to the additional interest acquired over the consideration is recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations

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

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

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

Goodwill

Goodwill arising on acquisitions prior to 1 January 2005

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

Goodwill arising on acquisitions on or after 1 January 2005

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

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

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

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

Interests in associates

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Interests in associates *(Continued)*

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

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

Jointly controlled entity

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

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

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

Revenue recognition

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties

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

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

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve is transferred directly to retained profits.

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

Property, plant and equipment

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

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

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

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

Leasing

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

The Group as lessor

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

The Group as lessee

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

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

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases except for those that are classified and accounted for as investment properties under the fair value model.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

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

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

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

Borrowing costs

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Retirement benefit costs

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

Taxation

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and joint ventures and interest in associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Club memberships

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

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

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

Inventories

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

Financial instruments

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

Financial assets

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

Effective interest method

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Financial assets at fair value through profit or loss

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

A financial asset is classified as held for trading if:

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Loans and receivables

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

Available-for-sale financial assets

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

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

Impairment of financial assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets *(Continued)*

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets *(Continued)*

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

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

Financial liabilities and equity

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

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities

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

Equity instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derivative financial instruments

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

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

Derecognition

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

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

Equity-settled share-based payment transactions

Share options granted to employees

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment losses (other than goodwill and club memberships)

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

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

Allowance for trade and other receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2008, the carrying value of trade and other receivables (net of allowance) is HK$298,630,000 (2007: HK$443,407,000).

Income tax

As at 31 December 2008, unused tax losses of the Group amounted to approximately HK$83,023,000 (2007: HK$57,539,000), in which approximately HK$8,425,000 (2007: HK$4,060,000) has been recognised as deferred tax asset, no deferred tax asset has been recognised in respect of the remaining approximately HK$74,598,000 (2007: HK$53,479,000) due to unpredictability of future profit streams. In addition, for the deductible temporary differences in relation to allowance for doubtful debts of the Group amounted to approximately HK$10,620,000 (2007: HK$15,952,000), a deferred tax asset has been recognised in respect of approximately HK$1,006,000 (2007: HK$1,895,000). No deferred tax asset has been recognised in respect of the remaining approximately HK$9,614,000 (2007: HK$14,057,000). In case where the actual future profits generated are more or less than expected, a material recognition or reversal of deferred tax assets may arise, which would be recognized in the consolidated income statement for the period in which such a recognition takes place.

5. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt, which includes the bank borrowings, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained profits.

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

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2008 HK$'000	2007 HK$'000
Financial assets		
Fair value through profit or loss		
Held for trading	5,943	19,316
Designated at FVTPL	28,827	8,862
Loans and receivables (including cash and cash equivalents)	428,488	684,819
Available-for-sale financial assets	12,796	13,264
Financial liabilities		
Derivative financial instruments	1,375	692
Amortised cost	709,314	1,067,598

(b) Financial risk management objectives and policies

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

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk

(i) Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases and foreign currency trade and other receivables, bills receivable, financial assets at fair value through profit or loss, available-for-sale investments, pledged bank deposits, bank balances, trade and other payables, bills payable and bank borrowings, which expose the Group to foreign currency risk.

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

	Liabilities		Assets	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
United States dollars ("USD")	**302,781**	391,306	**223,494**	375,509
Australian dollars ("AUD")	**–**	–	**43,186**	37,358
Renminbi ("RMB")	**–**	–	**1,741**	914

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

	Assets	
	2008	2007
	HK$'000	HK$'000
USD	**28,827**	8,862

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

The carrying amount of foreign exchange forward contract as at year end amounted to approximately HK$1,375,000 classified as current liabilities (2007: HK$692,000), in which the Group was in the position of buying and selling USD with aggregate notional amount of USD46,000,000 (2007: USD81,500,000).

The Group is also exposed to foreign currency risk through its investments in overseas equity listed securities, and structure deposits classified as the available-for-sale investments and financial assets designated at FVTPL respectively, of carrying amount of HK$207,000 and HK$28,827,000 (2007: HK$207,000 and HK$8,862,000). No sensitivity analysis was prepared as the directors consider the exposure is limited.

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk (Continued)

(i) Currency risk *(Continued)*

Sensitivity analysis

Non-derivative financial instruments

No sensitivity analysis is presented for USD denominated financial assets and liabilities in which the functional currency of the respective group entities is Hong Kong dollars as Hong Kong dollars is currently pegged to USD, management considers that the exposure to exchange fluctuation in respect of USD is limited.

The Group is mainly exposed to the fluctuation in HK dollars against RMB and AUD.

The following table details the Group's sensitivity to a 5% increase and decrease in relevant foreign currencies against HK dollars. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. The sensitivity analysis includes mainly trade and other receivables and bank balances, where the denomination of these balances are in currencies other than the functional currency of the relevant entities. A 5% strengthening of the HK dollars against AUD and RMB will increase/decrease the Group's loss/profit for the year by the following amount. For 5% weakening of HK dollars against AUD and RMB, there would be an equal and opposite impact on loss/profit for the year.

	AUD		RMB	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Increase in loss and decrease in profit for the year	**2,159**	1,868	**87**	46

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk (Continued)

(i) Currency risk *(Continued)*

Sensitivity analysis *(Continued)*

Derivative financial instruments

The Group's derivative financial instruments exposed the Group to market bid forward foreign exchange rates.

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

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances and bank borrowings (see notes 23 and 29 for details). It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

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

Sensitivity analysis

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

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's loss for the year ended 31 December 2008 would increase/decrease by approximately HK$2,267,000 (2007: profit for the year would decrease/increase by HK$2,639,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank balances and bank borrowings.

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk (Continued)

(iii) Other price risk

The Group is exposed to other price risk through its investments in listed equity securities and quoted equity funds. Management manages this exposure by maintaining a portfolio of investments with different risks.

<u>Sensitivity analysis</u>

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

If the market prices of the respective equity instruments and the quoted prices of the equity funds had been 20% (2007: 5%) higher/lower and all other variables were held constant:

- loss for the year would decrease/increase by approximately HK$6,954,000 (2007: profit for the year would increase/decrease by approximately HK$1,409,000) as a result of the changes in fair value of financial assets fair value through profit or loss; and

- investment revaluation reserve would increase/decrease by approximately HK$1,359,000 (2007: increase/decrease by HK$363,000) for the Group as a result of the changes in fair value of available-for-sale investments.

The sensitivity rate applied is increased to 20% in current year of which management considered that is more presentable in current volatile financial market.

Credit risk

As at 31 December 2008, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk (Continued)

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

The credit risk on structured deposits classified as financial assets at fair value through profit or loss, liquid funds and bills receivables is limited because the counterparties are banks with good reputation.

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

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Management monitors the utilisation of bank borrowings and ensures compliance with loan covenants. In event of breach of terms of bank loans, the management would negotiate with the lender for waive for the right to demand immediate repayment and seek for alternative sources of finances.

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2008, the Group has available unutilised overdraft and bank loan facilities of approximately HK$48,000,000 (2007: HK$48,500,000) and HK$867,834,000 (2007: HK$475,825,000) respectively.

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk (Continued)

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

Liquidity risk tables

	Weighted average interest rate %	Less than 1 month HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	Over 1 year HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31/12/2008 HK$'000
2008							
Non-derivative financial liabilities							
Trade and other payables	–	96,876	69,063	21,359	–	187,298	187,298
Bills payable	–	3,360	15,461	4,913	–	23,734	23,734
Bank borrowings – variable rate	2.23	278,911	139,196	59,146	32,137	509,390	498,282
		379,147	223,720	85,418	32,137	720,422	709,314
Derivatives – net settlement							
Foreign exchange forward contracts		1,375	–	–	–	1,375	1,375

	Weighted average interest rate %	Less than 1 month HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	Over 1 year HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31/12/2007 HK$'000
2007							
Non-derivative financial liabilities							
Trade and other payables	–	251,872	27,346	6,514	–	285,732	285,733
Bills payable	–	70,666	27,096	–	–	97,762	97,762
Bank borrowings – variable rate	6.65	53,200	271,053	208,240	197,101	729,594	684,103
		375,738	325,495	214,754	197,101	1,113,088	1,067,598
Derivatives – net settlement							
Foreign exchange forward contracts		692	–	–	–	692	692

6. FINANCIAL INSTRUMENTS *(Continued)*

(c) Fair value

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

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

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

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

7. TURNOVER AND BUSINESS AND GEOGRAPHICAL SEGMENTS

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

Business segments

For management purposes, the Group's operations are currently organised into three operating divisions namely distribution of electronic components and property investment and others. These divisions are the basis on which the Group reports its primary segment information.

In the previous years, the Group's operations were organised into three operating segments, namely distribution of electronics components, distribution of sports products and design, manufactures and sales of liquid crystal display modules ("LCMs"). During the year, the management has reorganised the operating segments by grouping the distribution of sports products and manufactures and sales of LCMs into one segment under "others" as a result of change in the Group's internal organisational and management structure. In addition, the management considered there are increasing rental income generated from investment properties and the reportable segment of properties investment was identified during the year. Comparative segment information has been restated accordingly.

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

Business segments *(Continued)*

Segment information about these businesses is presented below.

2008

	Distribution of electronic components and semiconductors products HK$'000	Properties investment HK$'000	Others HK$'000	Consolidated HK$'000
TURNOVER				
External sales	2,926,749	4,243	84,285	3,015,277
RESULTS				
Segment results	25,189	5,328	3,024	33,541
Interest income				6,183
Unallocated corporate expenses				(38,177)
Unallocated corporate income				261
Finance costs				(20,753)
Share of results of associates	(76)	-	-	(76)
Loss before taxation				(19,021)
Taxation				2,272
Loss for the year				(16,749)

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

2008 *(Continued)*

	Distribution of electronic components and semiconductors products HK$'000	Properties investment HK$'000	Others HK$'000	Consolidated HK$'000
CONSOLIDATED BALANCE SHEET				
ASSETS				
Segment assets	787,293	119,400	50,044	956,737
Interests in associates	408	–	–	408
Unallocated corporate assets				201,629
Total assets				1,158,774
LIABILITIES				
Segment liabilities	225,916	979	4,893	231,788
Unallocated corporate liabilities				513,192
Total liabilities				744,980

	Distribution of electronic components and semiconductors products HK$'000	Properties investment HK$'000	Others HK$'000	Consolidated HK$'000
OTHER INFORMATION				
Capital additions	32,754	–	661	33,415
Depreciation of property, plant and equipment	11,901	–	1,199	13,100
(Reversal of) allowance for trade and other receivables	(5,424)	–	92	(5,332)
(Reversal of) allowance for inventories	(5,904)	–	675	(5,229)

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

2007

	Distribution of electronic components and semiconductors products HK$'000	Properties investment HK$'000	Others HK$'000	Consolidated HK$'000
TURNOVER				
External sales	3,449,010	–	50,779	3,499,789
RESULTS				
Segment results	67,229	15,051	3,549	85,829
Interest income				9,656
Unallocated corporate expenses				(15,835)
Unallocated corporate income				19,947
Finance costs				(36,603)
Share of results of associates	(21)	–	–	(21)
Profit before taxation				62,973
Taxation				(9,884)
Profit for the year				53,089

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

2007 *(Continued)*

	Distribution of electronic components and semiconductors products HK$'000	Properties investment HK$'000	Others HK$'000	Consolidated HK$'000
CONSOLIDATED BALANCE SHEET				
ASSETS				
Segment assets	1,094,893	111,830	37,093	1,243,816
Interests in associates	678	–	–	678
Unallocated corporate assets				313,779
Total assets				1,558,273
LIABILITIES				
Segment liabilities	407,250	625	6,034	413,909
Unallocated corporate liabilities				700,178
Total liabilities				1,114,087

	Distribution of electronic components and semiconductors products HK$'000	Properties investment HK$'000	Others HK$'000	Consolidated HK$'000
OTHER INFORMATION				
Capital additions	23,784	13,209	4,475	41,468
Depreciation of property, plant and equipment	11,036	–	895	11,931
Release of prepaid lease payments	–	–	26	26
Allowance for trade and other receivables	10,680	–	101	10,781
Allowance for inventories	15,676	–	335	16,011

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

Geographical segments

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

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

	Sales revenue by geographical market	
	2008	2007
	HK$'000	HK$'000
Mainland PRC	**1,978,093**	2,215,146
Hong Kong	**711,401**	906,212
Taiwan	**278,621**	336,728
Others	**47,162**	41,703
	3,015,277	3,499,789

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

	Carrying amount of segment assets		Additions to property, plant and equipment and investment properties	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**563,318**	935,576	**3,113**	31,796
Mainland PRC	**318,792**	204,227	**30,302**	9,672
Taiwan	**71,757**	100,951	**–**	–
Others	**2,870**	3,062	**–**	–
	956,737	1,243,816	**33,415**	41,468

8. FINANCE COSTS

	2008 HK$'000	2007 HK$'000
Interest on:		
– bank borrowings wholly repayable within five years	**20,355**	35,517
– bank borrowings not wholly repayable within five years	**398**	1,068
– obligations under finance leases	**–**	18
	20,753	36,603

9. DIRECTORS' REMUNERATION

The remuneration paid or payable to each of the eight (2007: eight) directors were as follows:

2008

	Yim Yuk Lun, Stanley *JP* HK$'000	Wong Sui Chuen HK$'000	Lau Ping Cheung HK$'000	Dr. Chang Chu Cheng HK$'000	Cheung Chi Kwan HK$'000	Liu Chun Ning, Wilfred HK$'000	Dr. Lui Ming Wah, *SBS JP* HK$'000	Wong Tak Yuen, Adrian HK$'000	Total HK$'000
Fees	–	–	–	–	100	–	50	50	200
Other emoluments									
Salaries and other benefits	3,724	582	850	–	–	–	–	–	5,156
Equity-settled share-based payment expenses	–	–	96	–	–	–	–	–	96
Retirement benefits scheme contributions	224	22	23	–	–	–	–	–	269
Performance related incentive payments *(note)*	2,264	19	26	–	–	–	–	–	2,309
Total emoluments	6,212	623	995	–	100	–	50	50	8,030

9. DIRECTORS' REMUNERATION *(Continued)*

2007

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

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

During the years ended 31 December 2008 and 2007, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, during the years ended 31 December 2008 and 2007, no directors waived any emoluments.

10. EMPLOYEES' REMUNERATIONS

Of the five highest paid individuals in the Group, two (2007: two) were directors of the Company whose remunerations are set out in note 9 above. The remuneration of the remaining three (2007: three) individuals are as follows:

	2008 HK$'000	2007 HK$'000
Salaries and other benefits	**2,763**	2,868
Equity-settled share-based payment expenses	**239**	179
Performance related incentive payments	**370**	741
Retirement benefits scheme contributions	**103**	103
	3,475	3,891

The emoluments of each of the above individuals for both years were within the emoluments band of HK$1,000,001 to HK$1,500,000.

11. TAXATION

	2008 HK$'000	2007 HK$'000
The (credit) charge comprises:		
Hong Kong Profits Tax		
Current year	1,730	6,623
(Over)underprovision in prior years	(992)	564
	738	7,187
Deferred taxation *(note 32)*		
Current year	(2,354)	2,697
Attributable to change in tax rate	(656)	–
	(3,010)	2,697
	(2,272)	9,884

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profit for the year. The effect of this decrease has been reflected in the calculation of current and deferred tax balances as at balance sheet date.

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

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

11. TAXATION *(Continued)*

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

	2008 HK$'000	2007 HK$'000
(Loss) profit before taxation	(19,021)	62,973
Tax at Hong Kong Profits Tax rate of 16.5% (2007:17.5%)	(3,138)	11,020
Tax effect of expenses not deductible for tax purpose	1,657	313
Tax effect of income not taxable for tax purpose	(1,895)	(500)
(Over)underprovision in prior years	(992)	564
Tax effect of tax losses/other deferred tax assets not recognised	3,571	791
Utilisation of tax losses/other deferred tax assets previously not recognised	(819)	(2,304)
Decrease in opening deferred tax liability resulting from a decrease in applicable tax rate	(656)	–
Tax (credit) charge for the year	(2,272)	9,884

12. (LOSS) PROFIT FOR THE YEAR

	2008 HK$'000	2007 HK$'000
(Loss) profit for the year has been arrived at after charging:		
Staff costs, including directors' remunerations		
– salaries and other benefits	61,895	62,666
– equity-settled share-based payment expenses	574	430
– performance related incentive payments	3,557	1,204
– retirement benefits scheme contributions, net of forfeited contributions of nil (2007: HK$12,000)	3,314	1,942
	69,340	66,242
Auditor's remuneration	1,848	1,368
Depreciation of property, plant and equipment	13,100	11,931
Release of prepaid lease payments	–	26
Change in fair value of derivative financial instruments	683	692
Allowance for trade and other receivables	–	10,781
Allowance for inventories	–	16,011
Cost of inventories recognised as an expense	2,870,289	3,282,100
Change in fair value of financial assets designated as at FVTPL	1,095	–
Change in fair value of financial assets classified as helding-for-trading	7,523	–
Net foreign exchange loss	9,168	–
and after crediting:		
Interest income	6,183	9,656
Dividend income from listed securities	201	202
Gain on disposal of property, plant and equipment	144	3,054
Net foreign exchange gain	–	306
Change in fair value of financial assets designated as at FVTPL	–	1,092
Change in fair value of financial assets classified as held-for-trading	–	8,581
Rental income from investment properties, net of outgoings of HK$24,000 (2007: HK$37,000)	4,219	3,630
Reversal of allowance for trade and other receivables	5,332	–
Reversal of allowance for inventories *(Note)*	5,229	–

Note: The reversal of allowance for inventories arose because the subsequent sale prices for the relevant inventories were higher than the net realisable value of such inventories which were written down in prior years.

13. DIVIDENDS PAID

	2008 HK$'000	2007 HK$'000
2008 interim dividend of HK1.0 cents (2007: HK3.0 cents) per share	2,595	7,784
2007 final dividend of HK5.0 cents (2006: HK5.0 cents) per share	12,975	12,127
	15,570	19,911

A final dividend of HK2.0 cents (2007: HK5.0 cents) per share has been proposed by the board of directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

14. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share for the year is based on the loss attributable to equity holders of the Company of approximately HK$18,159,000 (2007: profit of HK$45,282,000) and on 259,490,720 (2007: the weighted average of 249,042,090) ordinary shares in issued during the year.

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

15. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1 January 2007	87,200
Additions	13,209
Increase in fair value recognised in the consolidated income statement	11,421
At 31 December 2007	111,830
Transferred from property, plant and equipment	15,100
Increase in fair value recognised in the consolidated income statement	1,109
Disposals	(8,639)
At 31 December 2008	119,400

The fair values of the Group's investment properties at 31 December 2008 have been arrived at on the basis of a valuation carried out on that date by B.I. Appraisals Limited ("B.I."). B.I. are members of the Institute of Valuers, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation was arrived at by reference to market evidence of transaction prices for similar properties or, whenever appropriate, taking into account the current rent passing and the reversionary income potential of each of the properties.

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

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

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture and fixtures HK$'000	Office equipment HK$'000	Motor vehicles and vessel HK$'000	Total HK$'000
COST OR VALUATION							
At 1 January 2007	138,272	20,942	851	22,171	21,643	14,994	218,873
Exchange adjustments	198	118	–	42	57	11	426
Additions	14,984	969	3,188	1,634	4,024	2,052	26,851
Acquired on acquisition of a subsidiary	–	499	–	–	757	152	1,408
Disposals	(6,743)	(59)	–	(15)	(29)	(638)	(7,484)
At 31 December 2007	146,711	22,469	4,039	23,832	26,452	16,571	240,074
Exchange adjustments	244	231	353	84	113	76	1,101
Additions	24,489	4,896	343	2,602	850	235	33,415
Transferred to investment properties	(11,765)	–	–	–	–	–	(11,765)
Disposals	–	–	–	(247)	(29)	(342)	(618)
At 31 December 2008	159,679	27,596	4,735	26,271	27,386	16,540	262,207
Comprising:							
At cost	114,329	27,596	4,735	26,271	27,386	16,540	216,857
At valuation – 1994	45,350	–	–	–	–	–	45,350
	159,679	27,596	4,735	26,271	27,386	16,540	262,207
DEPRECIATION							
At 1 January 2007	27,945	18,037	–	12,572	12,642	12,169	83,365
Exchange adjustments	8	27	–	40	4	1	80
Provided for the year	3,753	1,253	199	2,498	2,990	1,238	11,931
Eliminated on disposals	(270)	(9)	–	(5)	(8)	(638)	(930)
At 31 December 2007	31,436	19,308	199	15,105	15,628	12,770	94,446
Exchange adjustments	21	94	22	21	20	13	191
Provided for the year	3,864	1,303	403	2,908	3,364	1,258	13,100
Transferred to investment properties	(990)	–	–	–	–	–	(990)
Eliminated on disposals	–	–	–	(247)	(22)	(316)	(585)
At 31 December 2008	34,331	20,705	624	17,787	18,990	13,725	106,162
CARRYING VALUES							
At 31 December 2008	125,348	6,891	4,111	8,484	8,396	2,815	156,045
At 31 December 2007	115,275	3,161	3,840	8,727	10,824	3,801	145,628

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

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

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

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

	2008 HK$'000	2007 HK$'000
Land and buildings held in Hong Kong under medium term leases	59,250	72,753
Land and buildings held in Hong Kong under long term leases	623	637
Land and buildings held in the Mainland PRC under long term leases	65,475	41,885
	125,348	115,275

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

17. PREPAID LEASE PAYMENTS

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

	2008 HK$'000	2007 HK$'000
Analysed for reporting purposes as:		
Current asset	–	26
Non-current asset	–	1,243
	–	1,269

18. GOODWILL

	HK$'000
CARRYING VALUES	
At 1 January 2007 and 31 December 2007 and 31 December 2008	16,419

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

	2008 HK$'000	2007 HK$'000
Distribution of sports products	1,369	1,369
Distribution of electronic components and semiconductors products	15,050	15,050
	16,419	16,419

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

Distribution of sports products

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period using a steady 5% (2007: 5%) growth rate, and discount rate of 7% (2007: 7%). This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Another key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of this unit to exceed the aggregate recoverable amount of this unit.

18. GOODWILL *(Continued)*

Distribution of electronic components and semiconductors products

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period with no growth rate applied in the first year of projection period and 7.5% growth rate to apply from the second year of projection period thereafter (2007: 5% growth rate to apply for the whole projection period), and discount rate of 7% (2007: 7%). This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Another key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of this unit to exceed the aggregate recoverable amount of this unit.

For the year ended 31 December 2008, management of the Group determines that there is no impairment of the CGUs containing goodwill.

19. INTERESTS IN ASSOCIATES

	2008 HK$'000	2007 HK$'000
Cost of unlisted investments in associates	939	943
Share of post-acquisition losses	(531)	(265)
	408	678

Particulars of the Group's associates at 31 December 2008 and 31 December 2007 are as follows:

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

19. INTERESTS IN ASSOCIATES *(Continued)*

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

	2008 HK$'000	2007 HK$'000
Total assets	2,221	4,199
Total liabilities	(1,692)	(3,094)
Net assets	529	1,105
Group's share of net assets of associates	408	678
Revenue	10,182	1,016
Loss for the year	(335)	(534)
Group's share of results of associates for the year	(76)	(21)

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

	2008 HK$'000	2007 HK$'000
Unrecognised share of losses of associate for the year	22	138
Accumulated unrecognised share of losses of associate	378	356

20. INTEREST IN A JOINTLY CONTROLLED ENTITY

As at 31 December 2008 and 31 December 2007, the Group had interest in the following jointly controlled entity:

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

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

	2008 HK$'000	2007 HK$'000
Current assets	9,444	9,042
Non-current assets	9,681	10,321
Current liabilities	3,904	4,870
Income	58,790	22,950
Expenses	58,651	21,590

21. AVAILABLE-FOR-SALE INVESTMENTS

	2008 HK$'000	2007 HK$'000
Available-for-sale investments comprise:		
AT FAIR VALUE		
Investments in overseas listed equity securities	207	207
Investments in unlisted equity funds	6,589	7,057
	6,796	7,264
AT COST		
Investments in unlisted equity securities in Hong Kong	6,000	6,000
	12,796	13,264
Analysed for reporting purposes as:		
Current assets	5,142	5,084
Non-current assets	7,654	8,180
	12,796	13,264

Included in Group's available-for-sale investments with aggregate amount of approximately HK$5,142,000 (2007: HK$1,978,000) denominated in USD which is other than the functional currency of the relevant group entities.

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

22. CLUB MEMBERSHIPS

	2008 HK$'000	2007 HK$'000
Club memberships outside Hong Kong, at cost	3,278	3,465

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

23. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

At 31 December 2008, the pledged bank deposits represent amount pledged to banks to secure short-term banking facilities granted to the Group.

The pledged bank deposits and bank balances carry fixed interest rate of which range from 2% to 3.3% (2007: 4.5%) per annum and variable interest rate of which range from 0.1% to 7.6% (2007: 1% to 7.03%) per annum, respectively. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

The Group pledged bank deposits and bank balances and cash that are denominated in currencies other than the functional currency of the relevant group entities are set out below:

	2008 HK$'000	2007 HK$'000
USD	64,523	168,557
AUD	43,186	37,358
RMB	1,602	878
	109,311	206,793

24. INVENTORIES

	2008 HK$'000	2007 HK$'000
Raw materials	1,518	4,958
Work-in-progress	1,242	246
Finished goods	368,023	499,397
	370,783	504,601

25. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLE

	2008 HK$'000	2007 HK$'000
Trade receivables	272,927	388,623
Less: allowance for doubtful debts	(6,127)	(17,018)
	266,800	371,605
Other receivables	20,174	49,534
Prepayment and deposits paid	11,656	22,268
Total trade and other receivables	298,630	443,407
Bills receivable	1,125	25,012

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

At 31 December 2008, the carrying amount of the factored receivables with recourse is approximately HK$127,793,000 (2007: HK$188,329,000). The Group continues to recognise the full amount of the receivables and recognised the cash received on such factored receivables as bank borrowing. The carrying amount of the associated liability is approximately HK$127,793,000 (2007: HK$188,329,000).

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

	2008 HK$'000	2007 HK$'000
Current	161,080	227,717
Within 30 days	64,758	116,839
More than 30 days and within 60 days	22,085	30,787
More than 60 days and within 90 days	5,864	7,230
More than 90 days	14,138	14,044
	267,925	396,617

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$106,845,000 (2007: HK$168,900,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is 67 days (2007: 70 days).

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

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

The Group trade and other receivables and bills receivable that are denominated in currencies other than the functional currency of the relevant group entities are set out below:

	2008 HK$'000	2007 HK$'000
USD	158,971	206,952
RMB	139	35
	159,110	206,987

Ageing of trade receivables which are past due but not impaired

	2008 HK$'000	2007 HK$'000
Within 30 days	64,758	116,839
More than 30 days and within 60 days	22,085	30,787
More than 60 days and within 90 days	5,864	7,230
More than 90 days	14,138	14,044
Total	106,845	168,900

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

Movement in the allowance for doubtful debts

	2008 HK$'000	2007 HK$'000
Balance at beginning of the year	17,018	6,252
Impairment losses recognised on receivables	–	10,781
Amounts written off as uncollectible	(5,559)	(15)
Reversal of bad debt provision	(5,332)	–
Balance at end of the year	6,127	17,018

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of HK$6,127,000 (2007: HK$17,018,000) which have either been placed under liquidation or in severe financial difficulties. The Group does not hold any collateral over these balances.

26. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2008 HK$'000	2007 HK$'000
Investments held-for-trading:		
Equity securities listed in Hong Kong	1,988	5,557
Unlisted equity funds	3,955	13,759
	5,943	19,316
Financial assets designated at fair value through profit or loss:		
Structured deposits	28,827	8,862
	34,770	28,178

Included in financial assets designated at fair value through profit or loss is structured deposits of HK$28,827,000 (2007: HK$8,862,000) placed with banks. Under the relevant agreements, these structured deposits are principal protected in which contain embedded derivatives that their returns are mainly determined by reference to the change in exchange rate of certain foreign currencies. The fair value is based on the valuation amount provided by the counterparty financial institution.

Included in Group's financial assets at fair value through profit or loss are balances with aggregate amount of approximately HK$28,827,000 (2007: HK$8,862,000) denominated in USD which is other than the functional currency of the relevant group entities.

27. TRADE AND OTHER PAYABLES AND BILLS PAYABLE

	2008 HK$'000	2007 HK$'000
Trade payables	173,486	262,786
Other payables	13,812	22,947
Accruals and deposits received	22,198	30,936
Total trade and other payables	209,496	316,669
Bills payable	23,734	97,762

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

Included in Group's trade and other payables and bills payable with aggregate amount of approximately HK$134,504,000 (2007: HK$182,318,000) denominated in USD which is other than the functional currency of the relevant group entities.

27. TRADE AND OTHER PAYABLES AND BILLS PAYABLE *(Continued)*

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

	2008 HK$'000	2007 HK$'000
Current	89,730	244,531
Within 30 days	48,987	92,186
More than 30 days and within 60 days	35,228	18,118
More than 60 days and within 90 days	5,463	2,645
More than 90 days	17,812	3,068
	197,220	360,548

28. DERIVATIVE FINANCIAL INSTRUMENTS

	LIABILITIES	
	2008 HK$'000	2007 HK$'000
Derivatives not under hedge accounting		
Fair value of foreign currency forward contracts – net settled	1,375	692

As at 31 December 2008, the Group has certain outstanding structured foreign exchange forward contracts of which the Group may buy or sell of variable notional amount of US$, ranging from total of US$5,000,000 to US$183,000,000 (2007: US$41,500,000 to US$244,500,000) with various maturity dates from 25 February 2009 to 31 May 2010 (2007: from 4 January 2008 to 4 May 2009), depending on the market exchange rate at each maturity date as compared with the strike rate or/and cap strike rate of HK$/US$, ranging from 7.69 to 7.85 (2007: from 7.69 to 7.83).

29. BANK BORROWINGS

	2008 HK$'000	2007 HK$'000
Bank borrowings comprise:		
Bank import loans	266,684	381,827
Other bank loans	231,598	302,276
	498,282	684,103
Analysed as:		
Secured	489,887	652,371
Unsecured	8,395	31,732
	498,282	684,103
The bank borrowings are repayable as follows:		
Within one year or on demand	466,846	499,291
More than one year, but not exceeding two years	19,167	145,524
More than two years, but not exceeding five years	8,893	29,452
More than five years	3,376	9,836
	498,282	684,103
Less: Amount due within one year shown under current liabilities	(466,846)	(499,291)
Amount due after one year	31,436	184,812

At 31 December 2008, all of the bank borrowings bear interest at LIBOR plus a margin per annum or HIBOR plus a margin per annum with the weighted average effective interest rate is 2.23% (2007: 6.65%).

Included in Group's borrowings with aggregate amount of approximately HK$168,277,000 (2007: HK$208,988,000) denominated in USD which is other than the functional currency of the relevant group entities.

During the year, in respect of a bank loan with a carrying amount of HK$77,490,000 as at 31 December 2008, the Group breached a financial covenant of the bank loan, which are primarily related to the ratio of Earnings before Interest, Taxes, Depreciation and Amortisation of the Group. On discovery of the breach, the directors of the Company informed the lender and commenced a renegotiation of the terms of the loan with the relevant banker. As at 31 December 2008, those negotiations had not been concluded. Since the lender has not agreed to waive its right to demand immediate payment as at the balance sheet date, the loan has been classified as a current liability in the consolidated financial statement for the year ended 31 December 2008. Subsequent to 31 December 2008, the Group has received waiver letter from the banker which confirmed that it has agreed to waive the right to demand for immediate repayment of the loan balances of HK$77,490,000. Accordingly, the bank loan will be repaid in 2009 according to the agreed settlement plan with banker.

30. SHARE CAPITAL

	Number of ordinary shares	Amount
		HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January 2007, 31 December 2007 and 31 December 2008	1,454,000,000	145,400
Issued and fully paid:		
At 1 January 2007	242,540,720	24,254
Issue of shares	16,950,000	1,695
At 31 December 2007 and 31 December 2008	259,490,720	25,949

	Number of non-redeemable convertible preference shares	Amount
		HK$'000
Non-redeemable convertible preference shares of HK$0.10 each		
Authorised:		
At 1 January 2007, 31 December 2007 and 31 December 2008	46,000,000	4,600
Issued and fully paid:		
At 1 January 2007, 31 December 2007 and 31 December 2008	–	–

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

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

31. SHARE-BASED PAYMENT TRANSACTIONS

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

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

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

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

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

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

31. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

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

	Date of grant	Exercise price per share	Exercisable period	Options granted during the year ended 31 December 2007 and outstanding as at 1 January 2008	Options granted during the year	Options exercised during the year	Options lapsed during the year	Options cancelled during the year	Options outstanding and exercisable as at 31 December 2008
Director:									
Lau Ping Cheung	3 July 2007	HK$1.50	3 July 2008 to 2 July 2010	500,000	–	–	–	–	500,000
Lau Ping Cheung	3 July 2007	HK$1.50	3 July 2009 to 2 July 2010	500,000	–	–	–	–	500,000
Employees	3 July 2007	HK$1.50	3 July 2008 to 2 July 2010	2,500,000	–	–	(250,000)	–	2,250,000
Employees	3 July 2007	HK$1.50	3 July 2009 to 2 July 2010	2,500,000	–	–	(250,000)	–	2,250,000
				6,000,000	–	–	(500,000)	–	5,500,000

No share option under the Scheme was granted during the year ended 31 December 2008.

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

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

31. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

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

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

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

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

The Group recognised an expense of HK$574,000 for the year ended 31 December 2008 (2007: HK$430,000) in relation to the share options granted by the Company.

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

32. DEFERRED TAXATION

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

	Accelerated tax depreciation HK$'000	Revaluation of properties HK$'000	Tax losses HK$'000	Other deductible temporary differences HK$'000	Total HK$'000
At 1 January 2007	3,075	5,913	(224)	–	8,764
Charge (credit) for the year	1,515	1,999	(486)	(331)	2,697
At 31 December 2007	4,590	7,912	(710)	(331)	11,461
(Credit) charge for the year	(2,318)	536	(720)	148	(2,354)
Effect of change in tax rate	(262)	(452)	41	17	(656)
At 31 December 2008	2,010	7,996	(1,389)	(166)	8,451

At 31 December 2008, the Group had unused tax losses of HK$83,023,000 (2007: HK$57,539,000) available for offset against future assessable profits. A deferred tax asset has been recognised in respect of HK$8,425,000 (2007: HK$4,060,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$74,598,000 (2007: HK$53,479,000) due to the unpredictability of future profit streams. The unrecognised tax losses may be carried forward indefinitely.

At 31 December 2008, the Group had deductible temporary differences in relation to allowance for doubtful debts of HK$10,620,000 (2007: HK$15,952,000). A deferred tax asset has been recognised in respect of HK$1,006,000 (2007: HK$1,895,000) of such deductible temporary differences. No deferred tax asset has been recognised in respect of the remaining HK$9,614,000 (2007: HK$14,057,000) as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

33. ACQUISITION OF A SUBSIDIARY

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

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

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

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

The subsidiary acquired in 2007 contributed approximately HK$812,800,000 and HK$11,900,000 to the Group's turnover and results for the year.

34. RETIREMENT BENEFITS SCHEME

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

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

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

At 31 December 2008, the total amount of forfeited contributions, which arose upon employees leaving the ORSO Scheme and which are available to reduce the contributions payable in the future years, was nil (2007: HK$4,000).

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

35. PLEDGE OF ASSETS

At 31 December 2008, the following assets were pledged by the Group to banks in order to secure general banking facilities granted by these banks to the Group:

(a) investment properties and leasehold land and buildings with carrying values of HK$108,400,000 (2007: HK$106,630,000) and HK$86,846,000 (2007: HK$95,246,000), respectively;

(b) bank deposits of HK$24,757,000 (2007: HK$62,543,000);

(c) trade receivables of HK$151,680,000 (2007: HK$167,007,000);

(d) available-for-sale investments of HK$3,106,000 (2007: HK$3,106,000);

(e) structured deposits of HK$28,827,000 (2007: Nil); and

(f) inventories of HK$74,240,000 (2007: HK$100,582,000).

36. OPERATING LEASE ARRANGEMENTS

The Group as lessee

	2008 HK$'000	2007 HK$'000
Minimum lease payments paid under operating leases in respect of rented premises	2,817	2,730

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

	2008 HK$'000	2007 HK$'000
Within one year	742	1,448
In the second to fifth year inclusive	107	476
	849	1,924

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

36. OPERATING LEASE ARRANGEMENTS *(Continued)*

The Group as lessor

Property rental income earned during the year was HK$4,243,000 (2007: HK$3,667,000). The properties held have committed tenants for the next two (2007: two) years.

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

	2008 HK$'000	2007 HK$'000
Within one year	3,530	3,220
In the second to fifth year inclusive	3,360	626
	6,890	3,846

37. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES

(I) Connected parties

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

(a) Transactions

Name of party	Nature of transactions	2008 HK$'000	2007 HK$'000
Hon Hai Precision Industry Co., Ltd. ("Hon Hai") *(Note)* and its subsidiaries	Purchases of electronic products	30,735	43,641
	Sales of electronic products	446,158	347,943

37. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

(I) Connected parties *(Continued)*

(b) Balances

Name of party	Nature of transactions	2008 HK$'000	2007 HK$'000
Hon Hai and its subsidiaries	Balance at 31 December		
	– trade receivables	114,977	96,193
	– trade payables	8,675	13,102

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

(II) Related parties, other than connected parties

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

(a) Transactions

Name of party	Nature of transactions	2008 HK$'000	2007 HK$'000
Varitronix International Limited *(Note)* and its subsidiaries	Purchases of electronic products	–	111
	Sales of electronic products	–	8,574
Venturers of Kitronix Limited	Purchases of electronic products	3	–
	Sales of electronic products	10,368	16,496
Associates:			
Bestime Technology Development Limited	Sales of electronic products	–	95
Now Electron Inc.	Sales of electronic products	4,993	5,069

Note: In 2007, Dr. Chang Chu Cheng, a director of the Company, has a beneficial interest in this company.

37. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

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

(b) Balances

Name of party	Nature of transactions	2008 HK$'000	2007 HK$'000
Venturers of Kitronix Limited	Balance at 31 December – trade receivables	731	3,410
Associates:			
Bestime Technology Development Limited	Balance at 31 December – trade receivables	659	760
Now Electron Inc.	Balance at 31 December – trade receivables	879	969

(c) Compensation of key management personnel

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

38. BALANCE SHEET OF THE COMPANY

The balance sheet of the Company at 31 December 2008 are as follows:

	2008 HK$'000	2007 HK$'000
Total assets	358,754	434,766
Total liabilities	123,328	183,749
Net assets	235,426	251,017
Capital and reserves		
Share capital	25,949	25,949
Share premium and reserves *(Note)*	209,477	225,068
Total equity	235,426	251,017

Note:

	Share premium HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Share options reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2007	10,992	1,109	177,857	–	37,328	227,286
Issue of shares	18,306	–	–	–	–	18,306
Recognition of equity-settled share-based payment expenses	–	–	–	430	–	430
Loss for the year	–	–	–	–	(1,043)	(1,043)
Dividends paid	–	–	(19,911)	–	–	(19,911)
At 31 December 2007	29,298	1,109	157,946	430	36,285	225,068
Recognition of equity-settled share-based payment expenses	–	–	–	574	–	574
Loss for the year	–	–	–	–	(595)	(595)
Dividends paid	–	–	(15,570)	–	–	(15,570)
At 31 December 2008	29,298	1,109	142,376	1,004	35,690	209,477

39. POST BALANCE SHEET EVENT

Subsequent to 31 December 2008, the Group entered into preliminary sale and purchase agreements with independent third parties to dispose two investment properties at considerations of HK$10,800,000 and HK$4,000,000 on 24 February 2009 and 17 March 2009 respectively. The carrying amounts of these properties at 31 December 2008 is HK$13,500,000 and HK$5,200,000 respectively.

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 December 2008 and 31 December 2007 are as follows:

Name of subsidiary	Place of incorporation/ operations	Nominal value of issued and paid up share capital/ registered capital	Proportion of issued share capital held by the Company 2008 %	2007 %	Principal activities
Dragon Trading Limited	British Virgin Islands	Ordinary US$40,000	**100**	100	Investment holding
Hi-Level Technology Limited	Hong Kong	Ordinary HK$25,000,000	**51**	51	Distribution of electronic products
HAS Electronic Company Limited	Hong Kong	Ordinary HK$1,000,000	**100**	85	Distribution of electronic products
RSL Electronic Company Limited	Hong Kong	Ordinary HK$5,000,000	**100**	100	Distribution of electronic products
RSL Microelectronics Company Limited	Hong Kong	Ordinary HK$500,000	**100**	100	Distribution of electronic products
S.A.S. Electronic Company Limited	Hong Kong	Ordinary HK$1,000,000	**100**	100	Distribution of electronic products

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ operations	Nominal value of issued and paid up share capital/ registered capital	Proportion of issued share capital held by the Company 2008 %	2007 %	Principal activities
S.A.S. Enterprises Company Limited	Hong Kong	Ordinary HK$100	100	100	Distribution of electronic products
		Non-voting deferred* HK$1,000,000	100	100	
S.A.S. Investment Company Limited	Hong Kong	Ordinary HK$100	100	100	Property and investment holding
		Non-voting deferred* HK$1,000,000	100	100	
SMartech Electronic Company Limited	Hong Kong	Ordinary HK$1,000,000	70	70	Distribution of electronic products
Sportline Limited	Hong Kong	Ordinary HK$200,000	100	100	Distribution of sports products
時捷電子科技(深圳)有限公司**	Mainland PRC	Registered capital HK$20,000,000	100	100	Distribution of electronic products

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

** *Foreign wholly-owned enterprise*

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

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

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

RESULTS

	For the year ended 31 December				
	2004	2005	2006	2007	**2008**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Turnover	2,407,088	2,453,638	2,301,140	3,499,789	**3,015,277**
(Loss) profit before taxation	52,256	50,891	27,521	62,973	**(19,021)**
Taxation	(7,929)	(8,126)	(5,149)	(9,884)	**2,272**
(Loss) profit for the year	44,327	42,765	22,372	53,089	**(16,749)**
Attributable to:					
Equity holders of the Company	35,108	40,110	18,201	45,282	**(18,159)**
Minority interests	9,219	2,655	4,171	7,807	**1,410**
	44,327	42,765	22,372	53,089	**(16,749)**

ASSETS AND LIABILITIES

	At 31 December				
	2004	2005	2006	2007	**2008**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total Assets	983,642	1,214,528	1,196,686	1,558,273	**1,158,774**
Total Liabilities	(636,550)	(843,381)	(822,845)	(1,114,087)	**(744,980)**
Net Assets	347,092	371,147	373,841	444,186	**413,794**
Equity attributable to equity holders of the Company	340,237	364,637	366,160	413,203	**385,804**
Minority interests	6,855	6,510	7,681	30,983	**27,990**
Total Equity	347,092	371,147	373,841	444,186	**413,794**

Particulars of Investment Properties

Location	Lot No.	Category of lease	Use
Units 1 and 2 on Ground Floor and Carparking spaces Nos. B20, B21 and B22 on Basement Floor, Peninsula Square, Sung On Street, Hunghom, Kowloon, Hong Kong	11623/588444 shares of Kowloon Inland Lot No. 10985	Medium term	Commercial
Flat B on 17th Floor of Block 5 Royal Peninsula, No. 8 Hung Lai Road, Kowloon, Hong Kong	176/380954 shares of Kowloon Inland Lot No. 11084	Medium term	Residential
Flat B on 19th Floor of Block 5 Royal Peninsula, No. 8 Hung Lai Road, Kowloon, Hong Kong	176/380954 shares of Kowloon Inland Lot No. 11084	Medium term	Residential
Unit No.12 on 6th Floor of Tower B, Hunghom Commercial Centre, No. 37 Ma Tau Wai Road, Kowloon, Hong Kong	21/12841 shares of the remaining portion of section O of Kowloon Marine Lot No. 40	Medium term	Commercial
Unit No.5 on 8th Floor of Tower B, Hunghom Commercial Centre, No. 37 Ma Tau Wai Road, Kowloon, Hong Kong	21/12841 shares of the remaining portion of section O of Kowloon Marine Lot No. 40	Medium term	Commercial
Unit No.8 on 11th Floor of Tower A, Hunghom Commercial Centre, No. 37 Ma Tau Wai Road, Kowloon, Hong Kong	25/12841 shares of the remaining portion of section O of Kowloon Marine Lot No. 40	Medium term	Commercial
Unit No.10 on 5th Floor of Block B, Po Lung Centre, No.11 Wang Chiu Road, Kowloon, Hong Kong	10/1936 shares of Kowloon Inland Lot No. 5850	Medium term	Commercial
House C1 of Stage II, Marina Cove, 380 Hiram Highway, Hebe Haven, Sai Kung, Hong Kong	1318/1000000 shares of Lot No.526	Medium term	Residential

The Group has 100% interest in the above properties.