Alltronics Holdings Limited
華訊股份有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 833

Annual Report 2007

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CORPORATE INFORMATION

DIRECTORS

Executive Directors
Mr. LAM Yin Kee *(Chairman)*
Ms. YEUNG Po Wah
Mr. Toshio DAIKAI

Non-executive Director
Mr. FAN, William Chung Yue

Independent non-executive Directors
Mr. Barry John BUTTIFANT
Mr. LEUNG Kam Wah
Ms. YEUNG Chi Ying

REGISTERED OFFICE

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P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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Eastwood Centre
No. 5 A Kung Ngam Village Road
Shau Kei Wan
Hong Kong

COMPANY SECRETARY

Mr. LEUNG Fuk Cheung

STOCK CODE

833

AUDITOR

PricewaterhouseCoopers

AUDIT COMMITTEE

Mr. Barry John BUTTIFANT *(Chairman)*
Mr. LEUNG Kam Wah
Ms. YEUNG Chi Ying

PRINCIPAL BANKERS

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

SHARE REGISTRARS AND TRANSFER OFFICE

In Hong Kong
Tricor Tengis Limited
26/F, Tesbury Centre
28 Queen's Road East
Hong Kong

In Cayman Islands
Butterfield Fund Services (Cayman) Limited
P. O. Box 705
Butterfield House
68 Fort Street, George Town
Grand Cayman, Cayman Islands

WEBSITES

http://www.irasia.com/listco/hk/alltronics/index.htm
http://www.alltronics.com.hk

On behalf of the Board of Directors (the "Board"), I am pleased to present to you the annual report of Alltronics Holdings Limited (the "Company", and together with its subsidiaries, the "Group") for the year ended 31 December 2007.

BUSINESS REVIEW

The Group recorded a turnover of HK$575 million in the current year (2006: HK$592 million), representing a decrease of 2.9% from the previous year. Profit attributable to equity shareholders of the Company was HK$49 million, representing an increase of 11.7% over the previous year. Basic earnings per share for the year was HK15.97 cents (2006: HK14.60 cents).

2007 was another tough year for many of the manufacturing companies in Hong Kong and China. Since the Group's manufacturing facilities are based in China, the increase in general price levels in China and the consistent appreciation in the value of Renminbi during 2007 against the Hong Kong dollars and other major currencies of our customers and suppliers, have resulted in increases in overall manufacturing costs and overhead. Furthermore, the sub-prime lending debacle and the downturn of the property market in the United States have also led to a drop in the demand for certain of the Group's products sold to the United States. Despite all the above adverse factors, the Group achieved a moderate growth in the net profit attributable to equity holders for the year. The improvement in profitability is mainly as a result of the Group's effort to tighten its control over cost and overhead; to focus resources on higher margin products; and reducing the sales of lower margin products such as moulds and plastic components.

The products of the Group can be broadly classified into three categories, namely electronic products; components for electronic products and plastic moulds and plastic components. During the year 2007, the sales of electronic products have remained fairly stable, whereas the sales for component products and plastic moulds and plastic components have dropped.

ELECTRONIC PRODUCTS

Sales of electronic products for the year were HK$464 million, compared to HK$466 million for the previous year. The demand for the Group's electronic products during the year remained strong, especially the sales of the Group's major product, irrigation controllers, which increased by HK$17 million to HK$262 million. However, we expect the sales for irrigation controllers will drop in the year 2008 due to the downturn of the property market in the United States. Our sales team will explore new products, new markets and new customers to recover the expected loss in revenue in the United States market.

COMPONENTS FOR ELECTRONIC PRODUCT

Regarding the electronic product components operation, turnover dropped from HK$75 million to HK$72 million during the year. The sales of components for electronic products accounted for approximately 12.5% of the Group's total turnover. As the market competition for component products is very keen and the margin is comparatively lower than electronic products, the Group does not expect that there will be significant growth in the turnover of component products in the near future.

PLASTIC MOULDS AND PLASTIC COMPONENTS

The Group's plastic and moulds operation is carried out through its 51% owned subsidiary, Southchina Engineering and Manufacturing Limited ("Southchina"). Total turnover for plastic and moulds operation for the year was approximately HK$39 million, a drop of 23.5% from HK$51 million in 2006. Total turnover for plastic and moulds operation only accounted for 6.8% (2006: 8.6%) of the total turnover of the Group. Due to the consistent rise in costs of plastic resins and keen competition in China, the margin for plastic products and moulds is reducing and it is the Group's intention to reduce the scale of the plastic and moulds operation so that more resources can be focused on other higher margin products.

GROSS PROFIT MARGIN

The gross profit margin for the year was 23.2%, compared to 22.1% for the year 2006. The increase in gross profit margin was mainly due to the change in product mix, with the proportion of sales of higher margin electronic products increasing from 78.7% to 80.8%. During the year, the Group also adjusted its product prices to compensate part of the increased material costs and overhead.

PROSPECTS

The year 2008 will continue to be challenging. With the surge of oil and commodity prices, unit prices for plastic resins, copper and other metal parts may be subject to more significant fluctuations than in 2007. The consistent increasing of labour costs and growing pressure of inflation in China, added with the continuing appreciation of Renminbi against our major operating currencies is certain to put pressure on the profit margins of the Group. The enactment of the new Labour Contract Law in China will further push up labour costs. On the other hand, the unstable economy in the United States will affect the demand for certain of the Group's products, especially the irrigation controllers which are sold to a United States customer. However, the Group has confidence to overcome all these challenges and will continue to tighten its controls over production costs and overhead so as to maintain gross profit margins. The Group will strive to improve its product and service quality in order to maintain its competitive edge.

In terms of market, we expect the sales to the United States market may drop further during 2008. Indeed, the proportion of sales to the United States market has reduced from 68.7% to 62.9% during the year 2007. We will continue to devote significant efforts to explore new markets and new customers in Europe, China and other Asian countries so that the turnover by geographical locations can be spread more evenly. In terms of products, the Group will continue the development of medical health care products; environmental protection products and energy savings products. We believe that there will be consistently high demand for these products in the future. With regard to currency exchange risk, the Group will consider making appropriate hedging arrangement to mitigate the effect of fluctuation in exchange rates, especially the appreciation of Renminbi.

Although the business environment is full of uncertainty and challenges, it is also full of opportunity. In view of the available funds on hand and in order to diversify its operations to broaden its profit base, the Group is actively looking for investment opportunities so as to bring a higher return to all shareholders.

FINAL DIVIDEND

In appreciation of the support from our shareholders, the Board proposed the payment of a final dividend of HK4.0 cents per share. Together with the interim dividend of HK5.0 cents per share paid in November 2007, the total dividends paid for the year 2007 will be HK9.0 cents per share, which represents a dividend payout of 57.6% on the net profit of the year 2007. The Group intends to maintain an annual dividend payout policy in the range of 40% to 60% of annual attributable earnings in future, subject to the Group's overall financial position, funding requirements and business plans.

All dividends are paid out from funds generated from the Group's operations. The Group has sufficient funds to meet its future expansion plans after the payment of dividends.

APPRECIATION

Finally, on behalf of the Board, I would like to thank all of those who contributed to the Group's successful performance in 2007. I also wish to express my sincere gratitude to all our shareholders, customers, business partners and staff for their continuing support.

Lam Yin Kee
Chairman

Hong Kong, 23 April 2008

FINANCIAL REVIEW

Turnover

During the year ended 31 December 2007, the turnover of the Group decreased slightly by 2.9% to HK$575 million, as compared to HK$592 million for the year 2006. The table below shows the turnover analysis by electronic products; components for electronic products; and plastic moulds and plastic components for the two years ended 31 December 2007 and 2006 respectively:

	2007	2006
	HK$'000	*HK$'000*
Sales of electronic products	**464,359**	465,921
Sales of components for electronic products	**71,607**	75,265
Sales of plastic moulds and plastic components	**39,114**	51,132
	575,080	592,318

The turnover for electronic products dropped slightly by HK$2 million to HK$464 million whereas the turnover for components for electronic products dropped by HK$3 million to HK$72 million. The decreases were mainly due to the reduction of sales to the United States market, especially during the second half of 2007. Total sales of plastic moulds and plastic components dropped by HK$12 million during the year.

During the year 2007, the sales of the Group's major product, irrigation controllers, remained strong and achieved a total turnover of HK$262 million as compared to HK$245 million last year. However, the increase in sales of irrigation controllers was cancelled out by the drop in sales of other electronic products sold to the United States market, such as carbon monoxide detectors. As a result, the overall sales of electronic products dropped slightly by HK$2 million.

The decrease in turnover for the Group's components for electronic products was mainly due to the fall in sales to the United States market as a result of keen competition and the downturn in the United States economy. The drop in sales of plastic moulds and plastic components was mainly due to the Group's intention to reduce the scale of the plastic and moulds operations so that more resources can be focused on other higher margin products.

Gross Profit

Despite the reduction in overall turnover, the increase in labour costs and overhead and the consistent appreciation in the value of Renminbi during the year, gross profit margin for the year improved from 22.1% for the year 2006 to 23.2%. The increase was mainly due to the change in product mix with the proportion of sales of electronic products increased from 78.7% to 80.8%. During the year, the Group also adjusted its product prices to compensate part of the increased material costs and overhead.

Operating Expenses

During the year ended 31 December 2007, distribution costs were at approximately 1.0% of turnover. This is the same as that for previous year. Total administrative expenses dropped by HK$2 million to HK$61 million during the year. The fall was mainly due to the Group's continued effort to tighten its control over costs and overhead. During the year, salary costs increased by HK$6 million as a result of annual salary review in January. On the other hand, provision for impairment on trade receivables and directors' emoluments were lowered by HK$5 million and HK$3 million respectively.

As a result of improvement in overall liquidity position due to cash inflow from operations, the Group reduced its utilisation of banking facilities granted by our bankers. This has resulted in a reduction in finance costs from HK$10 million to HK$8 million. On the other hand, bank interest income for the year increased by HK$1 million as a result of the increase in bank balances.

Net Profit

The net profit margin for the year has increased from 7.6% for the year 2006, to 8.8% for the year 2007. The increase in net profit margin was mainly due to the improvement in gross profit margin and the drop in administrative expenses, as explained above.

PRODUCTION FACILITIES

The Group currently has three production plants located in Shenzhen, the People's Republic of China ("PRC"), for the production of electronic products; components for electronic products and plastic moulds and plastic components respectively. During the year 2007, the Group spent HK$7 million to acquire new plant and machinery and HK$5 million on leasehold improvements to enhance its production capacity to cope with the demand from customers. The Group believes that the current production facilities are sufficient for its production requirements in the near future.

LIQUIDITY AND FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The financial position of the Group remains strong and healthy. At 31 December 2007, total cash and cash equivalents, net of current bank overdrafts, amounted to HK$95 million. The net funds are sufficient to finance the Group's working capital and capital expenditure plans.

At 31 December 2007, the total borrowings of the Group amounted to HK$48 million, comprising bank overdrafts of HK$10 million, bank loans of HK$19 million, bills payable and trust receipt loans of HK$14 million and obligations under finance leases of HK$5 million, all of which are denominated in Hong Kong dollars. The average effective interest rates for each of these borrowings at 31 December 2007 ranged from 5.9% to 7.3%.

The Group's trade receivable turnover, inventory turnover and trade payable turnover were 41 days, 69 days and 61 days respectively for the year 2007. The turnover periods are consistent with the respective policies of the Group on credit terms granted to customers and obtained from suppliers.

At 31 December 2007, the Company had in issue a total of 312,990,000 ordinary shares of HK$0.01 each.

CASH FLOWS

Total balance of cash and cash equivalents at 31 December 2007, net of current bank overdrafts, was HK$95 million, which increased by HK$50 million compared to the balance at 31 December 2006.

The net cash generated from operating activities for the year was HK$70 million. The net cash generated from investing activities in 2007 amounted to HK$7 million, which was mainly due to the net cash received from purchases and disposals of financial assets at fair value through profit or loss of HK$13 million; interest income of HK$4 million; less the amount of HK$14 million spent on the addition of property, plant and equipment.

There was a net cash outflow of HK$27 million from financing activities in 2007. During the year, HK$14 million was received from issues of new shares upon exercise of share options granted. New borrowings of HK$24 million were obtained. On the other hand, HK$38 million was used to repay bank borrowings and finance leases, and HK$27 million was paid to shareholders as dividend.

PLEDGE OF ASSETS

At 31 December 2007, the Group had total bank borrowings of HK$43 million, out of which HK$29 million were secured by bank deposits of HK$2 million, available-for-sale financial assets of HK$3 million and trade receivables of HK$2 million.

GEARING RATIO

At 31 December 2007, total borrowings, excluding trade related debts, were HK$34 million and the total equity was HK$210 million. The gearing ratio of the Group was therefore 16.2%, which has improved significantly from 27.9% recorded at 31 December 2006. It is to be noted that total cash and cash equivalents balances at 31 December 2007 were HK$105 million and, after deduction of total borrowings of HK$48 million, the Group had a net cash position of HK$57 million.

CONTINGENT LIABILITIES

At both 31 December 2006 and 31 December 2007, the Group did not have any material contingent liabilities.

EMPLOYEES

At 31 December 2007, the Group had 3,262 employees, of which 79 were employed in Hong Kong and 3,183 were employed in the PRC. Salaries of employees are maintained at competitive levels. The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme for all its employees in Hong Kong, and provides its PRC employees with welfare schemes as required by the applicable laws and regulation in the PRC. The Group also offers discretionary bonuses to its employees by reference to the performance of individual employees and the overall performance of the Group. Total staff costs, excluding Directors' emoluments, incurred by the Group for 2007 amounted to HK$90 million.

The Company has also adopted a share option scheme on 22 June 2005. During the year, a total of 600,000 share options were granted to two senior staff of the Group. These share options do not have any vesting period and are exercisable within a period of two years to 5 July 2009 at an exercise price of HK$2.94 per share. Details of the principal terms and conditions of the scheme are set out in the Report of the Directors on page 23.

The Group did not experience any significant labour disputes or substantial changes in the number of its employees that led to any disruption of its normal business operations. The Board believes that the Group's management and employees are the most valuable asset of the Group and have contributed to the success of the Group.

FOREIGN EXCHANGE EXPOSURE

Most of the Group's sales are denominated in United States dollars and Hong Kong dollars and most of the purchases of raw materials are denominated in United States dollars, Hong Kong dollars and Renminbi. Furthermore, as most of the Group's monetary assets are denominated in Hong Kong dollars, United States dollars and Renminbi, the exchange rate risk of the Group for the time being is not considered to be significant.

However, in view of the consistent appreciation in the value of Renminbi, the management is considering making arrangement to hedge against fluctuation in the value of Renminbi. Other than this, it is not necessary for the Group to have any kind of financial instruments for hedging purposes or to adopt any formal hedging policy.

OUTLOOK

In view of the challenges and adverse global economic environment in 2008, the Group will pursue a more cost effective operational structure and will continue to tighten its controls over production costs and overhead so as to maximize the gross profit margins. The Group will continue the development of medical health care products; environmental protection products and energy savings products in order to broaden its product base to attract new customers.

In terms of markets, the recent sub-prime lending debacle and the downturn of the property market in the United States will have an adverse effect on the Group's products sold to the United States. However, the Group will continue to devote significant effort to explore other markets in Europe, the PRC and other Asian countries, so that the turnover by geographic locations will be spread more evenly in future periods.

Although there are challenges ahead in terms of competition and rising production costs, management is confident that it will meet these challenges because it has a well balanced worldwide customer base; consistently high quality products; and timely delivery, strong engineering and development support to its customers allied with an experienced and dedicated management team and its highly skilled and efficient workforce.

DIVIDENDS

In appreciation of the support from our shareholders, the Board proposes the payment of a final dividend of HK4.0 cents per share. Together with the interim dividend of HK5.0 cents per share paid in November 2007, the total dividends paid for the year 2007 will be HK9.0 cents per share, representing a dividend payout of 57.6% of the profit attributable to equity holders for the year 2007. All dividends are paid in cash from funds generated from the Group's operations. The Group has sufficient funds for its future expansion after the payment of dividends.

The proposed final dividend of HK4.0 cents per share will be payable to shareholders whose names appear on the register of members of the Company on Friday, 23 May 2008. The register of members will be closed from Tuesday, 20 May 2008 to Friday, 23 May 2008, both days inclusive, and the proposed final dividend will be paid on or about Tuesday, 10 June 2008. The payment of dividend shall be subject to the approval of the shareholders at the forthcoming Annual General Meeting.

DIRECTORS

Executive Directors

Mr. Lam Yin Kee (林賢奇), aged 61, is an executive Director and the Chairman of the Company. Being the founder of the Group, Mr. Lam has over 37 years of marketing experience in the electronic industry and he is responsible for the Group's overall strategic planning and business development. He is also responsible for overseeing the overall operation in the sales and marketing and administration management of the Group. Prior to establishing the Group in 1997, Mr. Lam was the vice-chairman of a listed group in Hong Kong engaging in the manufacture and sales of electronic products for over 20 years.

Ms. Yeung Po Wah (楊寶華), aged 58, is an executive Director of the Company and the wife of Mr. Lam Yin Kee. Ms. Yeung is a co-founder of the Group and is responsible for the overall administrative functions and strategic planning of the Group. From 1967 to 1984, Ms. Yeung worked at the Bank of Tokyo with the last position being assistant manager of the remittance department.

Mr. Toshio Daikai (大海敏生), aged 65, is an executive Director of the Company. Mr. Daikai has over 37 years of experience in the electronic industry in Japan and is responsible for the sales and marketing of the Group's products in Japan. Mr. Daikai graduated from the Keiou Gijyuku University of Japan in 1965 and holds a Bachelor Degree of Commercial Science. Prior to joining the Group in April 2003, he has worked for Matsushita Electric Industrial Co., Ltd. ("Matsushita") in Japan for 37 years and was the Director of Battery Appliance Division and Director of Power Supply Equipment Division at the time he left Matsushita.

Non-executive Director

Mr. Fan, William Chung Yue (范仲瑜), aged 67, is a non-executive Director appointed by the Group in June 2005. Mr. Fan is a solicitor in Hong Kong and a consultant to Fan & Fan, Solicitors. He has been a director of Hon Kwok Land Investment Company Limited from 1985 to 2005 and he is also a director of Chinney Investments Limited starting from 1985, the shares of these two companies are listed on the Stock Exchange.

Independent non-executive Directors

Mr. Barry John Buttifant, aged 63, is an independent non-executive Director appointed by the Group in June 2005. He joined the Hsin Chong Construction Group and Mission Hills Group as their executive director in February 2008, with primary responsibilities for finance, corporate finance and group planning. Prior to joining the Hsin Chong Construction Group and Mission Hills Group, he was the managing director of Hsin Chong International Holdings Limited ("HCIH") from December 2004 to December 2007. HCIH is a private limited company which controlled a property construction company publicly listed in Hong Kong, Hsin Chong Construction Group Ltd. (which HCIH sold to the Mission Hills Group in November 2007) and a management service company, Synergis Holdings Limited. Mr. Buttifant was also an alternate director for both of these companies. Prior to joining HCIH, Mr. Buttifant was the managing director and corporate advisor to the board of directors of Wo Kee Hong (Holdings) Limited and was previously the managing director of IDT International Limited for over 8 years. He had worked for Sime Darby Hong Kong Limited and Polly Peck Far East Limited for more than 11 years in the capacity of finance director and managing director respectively during the period. He has over 30 years of experience in corporate and financial management. Currently Mr. Buttifant is also an independent non-executive director of Giordano International Limited; Daiwa Associates Holdings Limited; and two NYSE public companies, Global-Tech Appliances Inc. and China Nepstar Chain Drugstore Limited. Mr. Buttifant is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. He is also a fellow member of the Chartered Management Institute; the Hong Kong Management Association and the Hong Kong Institute of Directors.

Mr. Leung Kam Wah (梁錦華), aged 61, is an independent non-executive Director appointed by the Group in June 2005. Mr. Leung has over 30 years of experience in the legal sector. He had worked as a judicial clerk in the Judiciary Department and a legal executive in Legal Aid Department of Hong Kong. Mr. Leung is now practicing as a law costs draftsman and operating a legal costing firm in Hong Kong.

Ms. Yeung Chi Ying (楊芷櫻), aged 43, is an independent non-executive Director appointed by the Group in June 2005. Ms. Yeung is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. She is a practicing certified public accountant in Hong Kong and has over 18 years of experience in auditing and accounting.

SENIOR MANAGEMENT

Mr. Ieong Kin San, Sunny (楊建燊), aged 57, is a co-founder of Southchina and currently is the marketing director and general manager of Southchina. He is responsible for overseeing the sales and marketing activities of Southchina and has over 27 years of management experience in manufacturing field.

Mr. Lam On Bong (林安邦), aged 56, is a co-founder of Southchina and currently is the operation director of Southchina. He is responsible for the overall management of Southchina's production facilities in the PRC and has over 27 years of management experience in manufacturing field.

Mr. Leung Hon Kwong, Jackson (梁漢光), aged 55, is a co-founder of Southchina and is currently the financial and purchasing director of Southchina. He is responsible for overseeing the purchasing and financial functions of Southchina and has over 27 years of management experience in manufacturing field.

Mr. So Kin Hung (蘇健鴻), aged 51, is the general manager of Alltronics Tech. Mftg. Limited and is responsible for the marketing and engineering operation. Mr. So has over 20 years of experience in the electronic industry and worked for a Hong Kong listed company as the assistant general manager before joining the Group in 1997. He obtained a Bachelor of Science degree from NorthEast London Polytechnic in the United Kingdom in 1982.

Mr. Leung Fuk Cheung (梁福祥), aged 44, is the company secretary and qualified accountant of the Group. Mr. Leung is responsible for the Group's overall financial administration. He has extensive experience in finance, accounting, auditing and company secretarial practice and is currently a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. Mr. Leung has worked for international accounting firms for over 12 years. Prior to joining the Group in August 2002, Mr. Leung worked as the financial controller for a jewelry manufacturing company.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board is committed to ensuring high standards of corporate governance in the interests of the shareholders of the Company. During the year ended 31 December 2007, the Company has applied the principles and complied with all applicable code provisions as set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), except as mentioned below that the Company does not have a separate Chairman and Chief Executive as required under Code Provision A.2.1 of the Code. The Board will review and update the current practices regularly to ensure compliance with the latest practices in corporate governance so as to protect and maximize the interests of shareholders.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the code of conduct regarding Directors' securities transactions as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors, all Directors have confirmed that they have complied with the required standards as set out in the Model Code throughout the year ended 31 December 2007.

In addition, the Board also established written guidelines on no less exacting terms than the Model Code for relevant senior management of the Company in respect of their dealings in the securities of the Company.

THE BOARD OF DIRECTORS AND BOARD MEETINGS

The Board's primary responsibilities are to formulate the Group's long-term corporate strategy, to oversee the management of the Group and to evaluate the performance of the Group. The Board is also responsible for the approval of annual and interim results, risk management, major acquisitions, and other significant operational and financial matters. Matters not specifically reserved to the Board and necessarily relate to the daily operations of the Group are delegated to the management under the supervision of the respective Directors and the leadership of the Chairman.

On 1 January 2007, an executive Director, Mr. William Peter Shelley has resigned from the Board due to retirement. Other than this, there was no change in the composition of the Board during the year ended 31 December 2007. The Board currently comprises three executive Directors, one non-executive Director and three independent non-executive Directors as follows:

Executive Directors	:	Mr. Lam Yin Kee, *(Chairman and Chief Executive)* Ms. Yeung Po Wah Mr. Toshio Daikai
Non-executive Director	:	Mr. Fan, William Chung Yue
Independent non-executive Directors	:	Mr. Barry John Buttifant Mr. Leung Kam Wah Ms. Yeung Chi Ying

Mr. Lam Yin Kee is the Chairman and Chief Executive of the Group. Ms. Yeung Po Wah is an executive Director of the Group and the wife of Mr. Lam Yin Kee. Apart from this, there is no other direct family relationship amongst members of the Board.

The background and qualification of the Chairman of the Company and the other Directors are set out on pages 11 to 12. All Directors have sufficient experience to hold their positions so as to carry out their duties effectively and efficiently, and all of them have given sufficient time and attention to the affairs of the Group.

The non-executive Director and the three independent non-executive Directors are persons of high caliber with academic and professional qualifications in the fields of accounting, law and business management. They bring a broad range of financial, regulatory and commercial experience and skills to the Board, which contribute to the effective strategic management of the Group. The non-executive Director and independent non-executive Directors are appointed for a term of one year commencing from 17 June 2005, and such appointments shall continue thereafter from year to year until terminated by either party with one month's written notice served to the other party.

Each of the independent non-executive Directors has given a written confirmation to the Company confirming that he/she has met the criteria set out in Rule 3.13 of the Listing Rules regarding the guidelines for the assessment of independence of Directors.

The Board schedules to hold at least four full board meetings a year at approximately quarterly intervals. During the year ended 31 December 2007, four full board meetings were held and the attendance of the Board of Directors is set out as follows:

Name of Director	Number of board meetings attended	Attendance rate
Mr. Lam Yin Kee	4/4	100%
Ms. Yeung Po Wah	4/4	100%
Mr. Toshio Daikai	4/4	100%
Mr. Fan, William Chung Yue	4/4	100%
Mr. Barry Buttifant	4/4	100%
Mr. Leung Kam Wah	4/4	100%
Ms. Yeung Chi Ying	4/4	100%

Every Board member has a duty to act in good faith, with due diligence and care, and in the best interests of the Company and its shareholders. Apart from the above regular meetings of the year, the Board will meet on other occasions when a board-level decision on a particular matter is required. Directors shall have full access to information on the Group and are able to obtain independent professional advice whenever deemed necessary by the Directors. No request was made by any Director for such independent professional advice in 2007. The Company Secretary shall prepare minutes and keep record of matters discussed and decisions resolved at all Board meetings, which will be available for inspection by Directors upon request.

The Company has arranged for appropriate liability insurance to indemnify its directors and officers for their liabilities arising out of corporate affairs. The insurance coverage is reviewed annually.

CHAIRMAN AND CHIEF EXECUTIVE

Under Code Provision A.2.1 of the Code, the role of Chairman and Chief Executive should be separated and ought not be performed by the same individual. The Company does not have a separate Chairman and Chief Executive and Mr. Lam Yin Kee currently holds both positions. The Board believes that vesting the roles of both Chairman and Chief Executive in the same person provides the Group with strong and consistent leadership and allows for more effective planning and execution of long term business strategies. However, the Board will review the roles of Mr. Lam Yin Kee acting as the Chairman and Chief Executive regularly, and may segregate the roles to two Directors, if the Board believes that it is for the best interest of the Company and the shareholders.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

In accordance with the Company's Articles of Association, at each annual general meeting one-third of the Directors for the time being (or, if the number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation.

Ms. Yeung Po Wah, Mr. Leung Kam Wah and Ms. Yeung Chi Ying had been re-appointed at the last Annual General Meeting held on 23 May 2007. Pursuant to Article 86(3) of the Company's Articles of Association, Mr. Lam Yin Kee, Mr. Toshio Daikai and Mr. Fan, William Chung Yue shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

NOMINATION OF DIRECTORS

The Company does not have a nomination committee. The Board is responsible for considering the suitability of a candidate to act as a Director, and approving and terminating the appointment of a Director. The Chairman is responsible for identifying suitable candidates for members of the Board when there is vacancy or an additional Director is considered necessary. The Chairman will propose the appointment of such candidates to each member of the Board for consideration and each member of the Board will review the qualifications of the relevant candidates for determining the suitability to the Group on the basis of their qualifications, experience and background. The decision of appointing a Director must be approved unanimously by the members of the Board and make recommendation to the shareholders' meeting for approval.

All Directors (including executive, non-executive and independent non-executive Directors) are subject to election for appointment by shareholders at the annual general meeting once every three years. None of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within three years without payment of compensation (other than statutory compensation).

The notice period for the termination of the service contracts with executive Directors by either party is not less than three months. The notice period for the termination of appointment of non-executive Director and independent non-executive Directors by either party is not less than one month.

REMUNERATION COMMITTEE

According to the Code, the Company has set up a Remuneration Committee on 22 June 2005. The Remuneration Committee has a minimum of five members, comprising a majority of independent non-executive Directors. The Chairman of the Remuneration Committee is Mr. Lam Yin Kee and other current members include Ms. Yeung Po Wah, Mr. Barry John Buttifant, Mr. Leung Kam Wah and Ms. Yeung Chi Ying. The Remuneration Committee schedules to meet at least once every year and the quorum necessary for the transaction of business is two.

The duties of the Remuneration Committee include:

(a) to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;

(b) to have the delegated responsibility to determine the specific remuneration packages of all executive Directors and senior management, including benefits in kind, pension rights and compensation payments (including any compensation payable for loss or termination of their office or appointment) and make recommendations to the Board of the remuneration of non-executive Directors. The Remuneration Committee shall consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration;

(c) to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

(d) to review and approve the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;

(e) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;

(f) to ensure that no Director or any of his associates is involved in deciding his own remuneration;

(g) to advise shareholders on how to vote with respect to any service contracts of Directors that required shareholders' approval under rule 13.68 of the Listing Rules; and

(h) to consider other topics, as defined by the Board.

The Remuneration Committee had two meetings in 2007 which were attended by all members of the Remuneration Committee to discuss and review the bonus payment policy and the pay trend.

The Company has adopted a share option scheme on 22 June 2005, which serves as an incentive to attract, retain and motivate talented eligible staff, including Directors. Details of the share option scheme are set out in the Report of the Directors on pages 23 to 25. The emoluments payable to Directors will depend on their respective contractual terms under employment contracts. Details of the Directors' emoluments are set out in note 10 to the financial statements.

AUDIT COMMITTEE

The Company established an Audit Committee on 22 June 2005 with written terms of reference in compliance with the Listing Rules. The Audit Committee must comprise members of independent non-executive Directors only, namely Mr. Barry John Buttifant, Mr. Leung Kam Wah and Ms. Yeung Chi Ying. Mr. Barry John Buttifant is the chairman of the Audit Committee.

The Audit Committee meets at least twice every year and the quorum necessary for the transaction of business is two. Two meetings were held during the year under review. Details of the attendance of the Audit Committee meetings are as follows:

Name of Member	Number of meetings attended	Attendance rate
Mr. Barry John Buttifant *(Chairman)*	2/2	100%
Mr. Leung Kam Wah	2/2	100%
Ms. Yeung Chi Ying	2/2	100%

The primary duties of the Audit Committee are as follows:

Relationship with the Company's independent auditor

(a) to be primarily responsible for making recommendation to the Board on the appointment, re-appointment and removal of the independent auditor, and to approve the remuneration and terms of engagement of the independent auditor, and any questions of resignation or dismissal of that auditor;

(b) to review and monitor the independent auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The Audit Committee should discuss with the independent auditor the nature and scope of the audit and reporting obligations before the audit commences;

(c) to develop and implement policy on the engagement of an independent auditor to supply non-audit services. The Audit Committee shall ensure that the provision by an independent auditor of non-audit services does not impair the independent auditor's independence or objectivity;

Review of financial information of the Company

(d) to monitor integrity of financial statements of the Company and the Company's annual reports and accounts, interim reports and, if prepared for publication, quarterly reports, and to review significant financial reporting judgements contained therein, before submission to the Board;

(e) In regard to (d) above:

 (i) members of the Audit Committee must liaise with the Company's Board, senior management and the person appointed as the Company's qualified accountant. The Audit Committee must meet, at least once a year, with the Company's independent auditor;

 (ii) the Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the Company's qualified accountant, compliance officer or independent auditor; and

 (iii) the Audit Committee should discuss problems and reservation arising from the financial statements, annual reports and accounts, interim reports and quarterly reports (if applicable) and any other matters the independent auditor may wish to discuss (in the absence of management of the Company where necessary);

Oversight of the Company's financial reporting system and internal control procedures

(f) to review the Company's financial controls, internal control and risk management systems, and its statement in relation thereto prior to endorsement by the Board;

(g) to discuss with management the system of internal control and ensure that management has discharged its duty to have an effective internal control system;

(h) to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;

(i) to review the Company and its subsidiaries' financial and accounting policies and practices;

(j) to review the independent auditor's management letter, any material queries raised by the independent auditor to management in respect of the accounting records, financial accounts or systems of control and management's response;

(k) to ensure that the Board will provide a timely response to the issues raised in the independent auditor's management letter;

(l) to review arrangements by which employees of the Company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. The Audit Committee should ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action;

(m) to act as the key representative body for overseeing the Company's relation with the independent auditor;

(n) to report to the Board on the matters set out in the written term of reference; and

(o) to consider other topics, as defined by the Board.

The Group's interim results and annual results for the year ended 31 December 2007 have been reviewed by the Audit Committee, which was of the opinion that the preparation of such results complied with applicable accounting standards and requirements and that adequate disclosures have been made.

During the year ended 31 December 2007, the Audit Committee has met with the independent auditor with no executive Directors present.

INDEPENDENT AUDITOR

The Group's independent auditor is PricewaterhouseCoopers ("PwC"). PwC is responsible for auditing and forming an independent opinion on the Group's annual consolidated financial statements. Apart from the statutory audit of the annual consolidated financial statements, PwC was also engaged to advise the Group on tax compliance and related matters.

The fees paid and payable by the Group to PwC in respect of audit and non-audit services for the year ended 31 December 2007 are HK$1,289,000 and HK$341,000 respectively.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR FINANCIAL STATEMENTS

The Directors are responsible for overseeing the preparation of financial statements of each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the financial statements for the year ended 31 December 2007, the Directors have selected suitable accounting policies and have applied them consistently, adopted appropriate Hong Kong Financial Reporting Standards ("HKFRS") and Hong Kong Accounting Standards ("HKAS") which are pertinent to its operations and relevant to the financial statements, made judgements and estimates that are prudent and reasonable, and have prepared the accounts on the going concern basis.

The Directors' responsibilities for the financial statements and the responsibilities of the independent auditor to the shareholders are set out on in the Independent Auditor's Report on pages 30 and 31.

The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

INTERNAL CONTROLS

Internal control system has been designed to allow Directors to monitor the Group's overall financial position, safeguard its assets, provide reasonable assurance against fraud and errors, and to manage the risks in failing to achieve the Group's objectives. Executive Directors monitor the business activities closely and review monthly financial results. The Group from time to time updates and improves the internal controls.

The Group conducts a review of its system of internal control periodically to ensure the effective and adequate internal control system. The Group convenes management meeting periodically to discuss financial, operational and risk management control. The Audit Committee also reviews the internal control system and evaluates its adequacy, effectiveness and compliance on a regular basis. During 2007, the Board has reviewed the effectiveness of the Group's internal control system and considered that the system was effective.

INVESTOR RELATIONS

The Company has disclosed all necessary information to the shareholders in compliance with the Listing Rules and uses a number of formal communication channels to account to shareholders and investors of the Company. These include (i) the publication of interim and annual reports; (ii) the annual general meeting or extraordinary general meeting providing a forum for shareholders of the Company to raise comments and exchange views with the Board; (iii) meetings are held with media and investors periodically; (iv) the Company replies to enquiries from shareholders timely; and (v) the Company's share registrar in Hong Kong serves the shareholders regarding all share registration matters.

The Company's annual general meeting provides a good opportunity for communications between the Board and its shareholders. Shareholders are encouraged to attend the annual general meeting. Notice of the annual general meeting and related papers are sent to shareholders at least 21 days before the meeting and the said notice is also published on the Stock Exchange's website and the Company's website. The Chairman and Directors will answer questions on the Group's business at the meeting.

LOOKING FORWARD

The Company's shareholders' rights are at all times highly regarded by the Group. The Group will make sure the Company's shareholders know how to exercise their rights.

The Group will keep on reviewing its corporate governance standards on a timely basis and the Board endeavours to take necessary actions to ensure compliance with the required practices and standards including the provisions of the Code introduced by the Stock Exchange.

REPORT OF THE DIRECTORS

The Directors have pleasure in submitting their annual report together with the audited financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The Company acts as an investment holding company and provides corporate management services to its group companies. The activities of the subsidiaries set out in note 19 to the financial statements are primarily manufacturing and trading of electronic products, plastic moulds, plastic and other components for electronic products.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 5 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 32.

During the year, an interim dividend of HK5.0 cents per share, totalling HK$15,634,000, was paid by the Company. The Directors recommend the payment of a final dividend of HK4.0 cents per share, totalling HK$12,520,000. The proposed final dividend of HK4.0 cents per share is to be approved by shareholders at the 2008 Annual General Meeting scheduled to be held on 23 May 2008.

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in note 31 to the financial statements.

DONATIONS

Charitable and other donations made by the Group during the year amounted to HK$1,003,000.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 29 to the financial statements.

DISTRIBUTABLE RESERVES

Under the Companies Law of the Cayman Islands, share premium is distributable to shareholders, subject to the condition that immediately following the date on which the distribution or dividend is proposed to be made, the Company is able to pay its debts as they fall due in the ordinary course of business. Distributable reserves of the Company at 31 December 2007, calculated according to the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to HK$71,139,000 (2006: HK$55,597,000).

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws and there was no restriction against such rights under the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years ended 31 December is set out on page 92.

PURCHASE, SALE OR REDEMPTION OF COMPANY'S LISTED SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

SHARE OPTIONS

Pursuant to a written resolution of the shareholders of the Company passed on 22 June 2005, a share option scheme (the "Share Option Scheme") was approved and adopted.

The purpose of the Share Option Scheme is to enable the Group to grant options to selected participants as incentive or rewards for their contributions or potential contributions to the Group.

For the purpose of the Share Option Scheme, participants include (i) any Executive, Non-Executive or Independent Non-Executive Director of the Group; (ii) any employee (whether full time or part time) of the Group; and (iii) any supplier and/or sub-contractor of the Group.

The total number of shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10 per cent. (the "General Scheme Limit") of the total number of shares on 15 July 2005, the date on which the shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company may seek approval of the shareholders in general meeting to refresh the General Scheme Limit such that the total number of shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company shall not exceed 10 per cent. of the issued share capital of the Company at the date of approval to refresh such limit.

Notwithstanding the above, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company shall not exceed 30 per cent. of the total number of shares of the Company in issue from time to time. No option may be granted under the Share Option Scheme and any other share option schemes of the Company if this will result in the aforesaid 30 per cent. limit being exceeded.

Unless with the approval of the shareholders in general meeting, the maximum number of shares issued and to be issued upon the exercise of the options granted to each participant (including both exercised and outstanding options) under the Share Option Scheme and other share option schemes of the Company in any twelve-month period shall not exceed 1 per cent. of the shares in issue.

An option must be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence from the date of the offer for the grant of the option is made, but shall end in any event not later than 10 years from the date on which the offer for the grant of the option is made, subject to the provisions for early termination thereof. The amount payable on acceptance of the grant of an option is HK$1.

Unless otherwise determined by the Directors and stated in the offer for the grant of options to a grantee, there is neither any performance target that needs to be achieved by a grantee before an option can be exercised nor any minimum period for which an option must be held before it can be exercised.

The subscription price in respect of each share issued under the Share Option Scheme shall be a price solely determined by the Directors but shall not be less than the highest of:

(i) the nominal value of a share;

(ii) the closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange on the date upon which the relevant option is accepted and deemed to be granted (the "Commencement Date"), which must be a business day;

(iii) the average closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the Commencement Date.

The Share Option Scheme shall be valid and effective for a period of 10 years commencing from 22 June 2005, being the date on which the Share Option Scheme is adopted.

Details of the share options granted and a summary of the movements of the outstanding share options during the year ended 31 December 2007 are as follows:

	Number of share options					
	Held at 1 January 2007 *(Note 1)*	**Granted during the year** *(Note 2)*	**Exercised during the year** *(Note 3)*	**Cancelled or lapsed during the year**	**Held at 31 December 2007**	**Exercise price per share** *(HK$)*
Executive Directors						
Mr. Lam Yin Kee	3,000,000	–	(3,000,000)	–	–	1.11
Ms. Yeung Po Wah	3,000,000	–	(3,000,000)	–	–	1.11
Mr. Toshio Daikai	300,000	–	(300,000)	–	–	1.11
	6,300,000	–	(6,300,000)	–	–	
Other employees	7,200,000	–	(6,690,000)	–	510,000	1.11
Other employees	–	600,000	–	–	600,000	2.94
	13,500,000	600,000	(12,990,000)	–	1,110,000	

Notes:

(1) The outstanding share options held at 1 January 2007 were granted on 27 September 2006 with an exercisable period of two years from 27 September 2006 to 26 September 2008. There are no vesting period for these share options.

(2) During the year, a total of 600,000 share options were granted on 6 July 2007 to certain employees. The share options are exercisable within a period of two years from 6 July 2007 and there are no vesting periods for these share options. The closing market price per share at the date preceding the date on which the share options were granted was HK$2.94.

(3) During the year, a total of 12,990,000 share options were exercised by certain Directors and employees of the Group, generating a total proceeds from issue of shares of HK$14,418,900.

(4) There were no share options granted, exercised, lapsed or cancelled subsequent to 31 December 2007.

The value of the 600,000 share options granted during the year is HK$353,000, based on the Black-Scholes valuation model. The significant inputs into the model were share price of HK$2.94 at the grant date, exercise price shown above, standard deviation of expected share price returns of 34.61%, expected life of options of 2 years, expected dividend paid out rate of 2.38% and annual risk-free interest rate of 4.298%. The volatility measured as the standard deviation of expected share price returns is based on statistical analysis of daily share prices over two years from the grant date. The Black-Scholes model is developed to estimate the fair value of European share options. The fair values calculated are inherently subjective and uncertain due to the assumptions made and the limitations of the model used. The value of an option varies with different variables of certain subjective assumptions. Any change in variables so adopted may materially affect the estimation of the fair value of an option.

DIRECTORS

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

Executive Directors
Mr. Lam Yin Kee *(Chairman and Chief Executive)*
Ms. Yeung Po Wah
Mr. Toshio Daikai
Mr. William Peter Shelley (resigned on 1 January 2007)

Non-executive Director
Mr. Fan, William Chung Yue

Independent non-executive Directors
Mr. Barry John Buttifant
Mr. Leung Kam Wah
Ms. Yeung Chi Ying

In accordance with Articles 86(3) and 87 of the Company's Articles of Association, Mr. Lam Yin Kee, Mr. Toshio Daikai and Mr. Fan, William Chung Yue shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Lam Yin Kee, Ms. Yeung Po Wah and Mr. Toshio Daikai has entered into a service contract with the Company. Particulars of these contracts, except as indicated, are in all material respects identical and are summarised as follows:

(i) each service contract is of an initial term of three years commencing on 15 July 2005 and shall continue thereafter until terminated in accordance with the terms of the contracts. Under the contract, either party may terminate the contract at any time by giving to the other not less than three months' prior notice in writing;

(ii) the current monthly salary for each of Mr. Lam Yin Kee, Ms. Yeung Po Wah and Mr. Toshio Daikai are HK$176,299, HK$57,380 and HK$63,000 respectively, subject to annual increment of not more than 10% and discretionary bonus of not more than 10% of the Group's profit in aggregate;

(iii) the Group provides Directors' accommodation to Mr. Lam Yin Kee and Mr. Toshio Daikai at a current monthly rental of HK$100,000 and HK$14,250 respectively.

The non-executive Director and independent non-executive Directors were appointed for an initial term of one year commencing from 17 June 2005 and such appointment shall continue thereafter from year to year until terminated by either party with one month's notice in writing.

Save as disclosed above, none of the Directors has entered or has proposed to enter into any service contract with the Company or any member of the Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in this annual report, no contracts of significance in relation to the Group's business to which the Company, any of its fellow subsidiaries or its parent company was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management are set out on pages 11 to 13.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

At 31 December 2007, the interests and short positions of each Director and Chief Executive in the shares and underlying shares of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept by the Company under Section 352 of Part XV of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 of the Listing Rules were as follows:

(a) Ordinary shares of HK$0.01 each of the Company at 31 December 2007

		Number of shares held				
		Personal interests	Family interests	Corporate interests	Total	% of the Issued Share Capital of the Company
Mr. Lam Yin Kee	Long positions	1,317,000	–	*210,000,000	211,317,000	67.5
Ms. Yeung Po Wah	Long positions	–	*210,000,000	–	210,000,000	67.1
Mr. Toshio Daikai	Long positions	1,101,000	–	–	1,101,000	0.4

* These shares are owned by Profit International Holdings Limited, a company incorporated in the British Virgin Islands and is owned as to 95% by Mr. Lam Yin Kee and 5% by Ms. Yeung Po Wah. Ms. Yeung Po Wah is an executive Director of the Company and the spouse of Mr. Lam Yin Kee.

(b) Share options of the Company at 31 December 2007

None of the Directors and Chief Executives has held any share option as at 31 December 2007.

(c) Interests in associated corporation, Profit International Holdings Limited (Ordinary shares of US$1 each)

		Number of shares held				
		Personal interest	Family interests	Corporate interests	Total	% of the Issued Share Capital of the associated corporation
Mr. Lam Yin Kee	Long positions	950	–	–	950	95.0
Ms. Yeung Po Wah	Long positions	50	–	–	50	5.0

Saved as disclosed above, at no time during the year, the Directors and Chief Executives (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares (or warrants or debentures, if applicable) of the Company and its associated corporations required to be disclosed pursuant to the SFO.

Other than those interests and short positions disclosed above, the Directors and Chief Executives also hold shares of certain subsidiaries solely for the purpose of ensuring that the relevant subsidiary has more than one member.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OF THE COMPANY

The register of substantial shareholders required to be kept under section 336 of Part XV of the SFO shows that at 31 December 2007, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors and Chief Executives.

		Number of shares			
Name		**Personal interests**	**Nature of interest**	**Total**	**% of the Issued Share Capital of the Company**
Profit International Holdings Limited	Long positions	210,000,000	Beneficially owned	210,000,000	67.1
Galaxy China Opportunities Funds	Long positions	32,980,000	Beneficially owned	32,980,000	10.5

Save as disclosed above and so far as the Directors and Chief Executives of the Company are aware of, at 31 December 2007, there were no other person, other than the Directors or Chief Executives of the Company, who had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company in accordance with the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR SUPPLIERS AND CUSTOMERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases	
– the largest supplier	3.4%
– five largest suppliers combined	13.6%
Sales	
– the largest customer	45.5%
– five largest customers combined	62.5%

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

CONNECTED TRANSACTIONS

Certain related party transactions as disclosed in note 37 to the financial statements also constituted connected transactions under the Listing Rules, required to be disclosed in accordance with Chapter 14A of the Listing Rules. The following transactions between a connected party (as defined in the Listing Rules) and the Company have been entered into and/or are ongoing for which relevant announcements, if necessary, had been made by the Company in accordance with the requirements of the Listing Rules.

Continuing connected transaction

The Group has rented a quarter as Directors' accommodation from Profit Home Investments Limited ("Profit Home") at a monthly rental of HK$80,000 since 1 October 2004. The monthly rental has been increased to HK$100,000 since 1 April 2007. Ms. Yeung Po Wah holds 60% of shareholding and is a director of Profit Home. Ms. Yeung Po Wah is an executive Director of the Company and the spouse of Mr. Lam Yin Kee. Therefore, the lease for renting the quarter constitutes a continuing connected transaction of the Group under Chapter 14A of the Listing Rules. The Company had made an announcement in respect of this continuing connected transaction on 4 April 2007.

The aforesaid continuing connected transaction has been reviewed by the independent non-executive Directors of the Company. The independent non-executive Directors confirmed that the aforesaid connected transaction was entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; (c) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

In accordance with paragraph 14A.38 of the Listing Rules, the Board of Directors engaged the independent auditor of the Company to perform certain factual finding procedures on the above continuing connected transaction on a sample basis in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The independent auditor reported the factual findings on the selected samples based on the agreed procedures to the Board of Directors.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, it is confirmed that there is sufficient public float of more than 25% of the Company's issued shares at the date of this report.

INDEPENDENT AUDITOR

The financial statements for the year ended 31 December 2007 have been audited by PricewaterhouseCoopers, Certified Public Accountants, who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Lam Yin Kee
Chairman

Hong Kong, 23 April 2008

PRICEWATERHOUSECOOPERS

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TO THE SHAREHOLDERS OF ALLTRONICS HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Alltronics Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 32 to 91, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

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

OPINION

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 April 2008

CONSOLIDATED INCOME STATEMENT

Year ended 31 December

	Note	2007 HK$'000	2006 HK$'000
Revenue	5	**575,080**	592,318
Cost of sales	6	**(441,582)**	(461,263)
Gross profit		**133,498**	131,055
Distribution costs	6	**(5,456)**	(5,820)
Administrative expenses	6	**(61,052)**	(63,180)
Other losses – net	7	**(1,533)**	(1,000)
Operating profit		**65,457**	61,055
Finance costs – net	8	**(3,565)**	(6,281)
Share of loss of an associate	20	**–**	(188)
Profit before income tax		**61,892**	54,586
Income tax expense	12	**(11,163)**	(9,439)
Profit for the year		**50,729**	45,147
Attributable to:			
Equity holders of the Company		**48,917**	43,785
Minority interest		**1,812**	1,362
		50,729	45,147
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in HK cents per share)			
– basic	14	**15.97**	14.60
– diluted	14	**15.92**	14.43
Dividends	15	**28,154**	21,000

The notes on pages 38 to 91 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December

	Note	2007 HK$'000	2006 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	16	**57,528**	56,061
Leasehold land and land use rights	17	**2,122**	2,172
Intangible asset	18	**11,672**	11,672
Available-for-sale financial assets	21	**3,482**	3,238
Prepayment for non-current assets		**1,683**	4,822
Deferred income tax assets	33	**54**	53
Total non-current assets		**76,541**	78,018
Current assets			
Inventories	22	**83,447**	88,237
Trade receivables	23	**64,516**	84,634
Prepayments, deposits and other receivables		**3,774**	23,403
Amount due from an associate	20	**–**	2
Amount due from a related company	24	**509**	919
Amount due from ultimate holding company	25	**29**	29
Amount due from minority shareholders of a subsidiary	25	**1,522**	1,640
Other financial assets at fair value through profit or loss	26	**–**	10,458
Pledged bank deposits	36	**2,376**	2,432
Cash and cash equivalents	27	**104,634**	55,511
Total current assets		**260,807**	267,265
Total assets		**337,348**	345,283
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	29	**3,130**	3,000
Reserves			
Proposed final dividend	15	**12,520**	11,400
Others	31(a)	**187,668**	149,444
		203,318	163,844
Minority interest		**6,956**	4,840
Total equity		**210,274**	168,684

CONSOLIDATED BALANCE SHEET

As at 31 December

	Note	2007 HK$'000	2006 HK$'000
LIABILITIES			
Non-current liabilities			
Borrowings	*32*	**7,205**	15,695
Deferred income tax liabilities	*33*	**1,568**	1,522
Total non-current liabilities		**8,773**	17,217
Current liabilities			
Trade payables	*28*	**51,253**	56,474
Accruals and other payables		**24,261**	18,153
Current income tax liabilities		**1,983**	22,912
Borrowings	*32*	**40,804**	61,843
Total current liabilities		**118,301**	159,382
Total liabilities		**127,074**	176,599
Total equity and liabilities		**337,348**	345,283
Net current assets		**142,506**	107,883
Total assets less current liabilities		**219,047**	185,901

Approved by the Board of Directors on 23 April 2008

Director
Lam Yin Kee

Director
Yeung Po Wah

The notes on pages 38 to 91 are an integral part of these consolidated financial statements.

BALANCE SHEET

As at 31 December

	Note	2007 HK$'000	2006 HK$'000
ASSETS			
Non-current assets			
Investments in subsidiaries	19	**1,590**	1,237
Current assets			
Prepayment, deposits and other receivables		**39**	182
Amount due from a subsidiary	19	**72,000**	55,000
Cash and cash equivalents	27	**1,554**	4,118
Total current assets		**73,593**	59,300
Total assets		**75,183**	60,537
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	29	**3,130**	3,000
Reserves			
Proposed final dividend	15	**12,520**	11,400
Others	31(b)	**59,033**	45,811
Total equity		**74,683**	60,211
LIABILITIES			
Current liabilities			
Accruals and other payables		**500**	326
Total current liabilities		**500**	326
Total equity and liabilities		**75,183**	60,537
Net current assets		**73,093**	58,974
Total assets less current liabilities		**74,683**	60,211

Approved by the Board of Directors on 23 April 2008

Director
Lam Yin Kee

Director
Yeung Po Wah

The notes on pages 38 to 91 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December

	Note	Attributable to equity holders of the Company					
		Share capital	Other reserves	Retained earnings	Proposed final dividend	Minority interest	Total
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 January 2006		3,000	51,960	72,354	4,500	3,258	135,072
Fair value gain on available-for-sale financial assets	21	–	171	–	–	164	335
Currency translation differences		–	560	–	–	56	616
Employee share option scheme – value of employee services	30	–	1,614	–	–	–	1,614
Profit for the year		–	–	43,785	–	1,362	45,147
Final dividend relating to 2005		–	–	–	(4,500)	–	(4,500)
Interim dividend paid	15	–	–	(9,600)	–	–	(9,600)
Proposed final dividend	15	–	(11,400)	–	11,400	–	–
Balance at 31 December 2006		3,000	42,905	106,539	11,400	4,840	168,684
Balance at 1 January 2007, as per above		3,000	42,905	106,539	11,400	4,840	168,684
Fair value gain on available-for-sale financial assets	21	–	124	–	–	120	244
Currency translation differences		–	2,790	–	–	180	2,970
Contribution by minority shareholders of a subsidiary		–	–	–	–	4	4
Employee share option scheme – issues of shares upon exercise of share options	30	130	14,289	–	–	–	14,419
Employee share option scheme – value of employee services	30	–	353	–	–	–	353
Profit for the year		–	–	48,917	–	1,812	50,729
Final dividend relating to 2006	15	–	(95)	–	(11,400)	–	(11,495)
Interim dividend paid	15	–	–	(15,634)	–	–	(15,634)
Proposed final dividend	15	–	–	(12,520)	12,520	–	–
Allocation to statutory reserve		–	3,314	(3,314)	–	–	–
Balance at 31 December 2007		**3,130**	**63,680**	**123,988**	**12,520**	**6,956**	**210,274**

The notes on pages 38 to 91 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December

	Note	2007 HK$'000	2006 HK$'000
Cash flows from operating activities			
Cash generated from operations	34	**94,997**	23,158
Interest paid		**(7,602)**	(9,504)
PRC income tax paid		**(3,028)**	(1,751)
Hong Kong profits tax paid		**(14,374)**	(2,328)
Net cash generated from operating activities		**69,993**	9,575
Cash flows from/(used in) investing activities			
Decrease/(Increase) in prepayment for non-current assets		**3,139**	(2,434)
Purchase of property, plant and equipment		**(13,681)**	(16,054)
Proceeds from disposals of property, plant and equipment	34	**261**	24
Purchase of other financial assets at fair value through profit or loss		**(25,391)**	(31,381)
Proceeds from sale of other financial assets at fair value through profit or loss		**38,371**	31,668
Interest income from bank deposits		**4,037**	3,223
Interest income on other financial assets at fair value through profit or loss		**–**	1,318
Dividends received from available-for-sale financial assets		**22**	–
Dividends received from other financial assets at fair value through profit or loss		**–**	14
Net cash generated from/(used in) investing activities		**6,758**	(13,622)
Cash flows used in financing activities			
Proceeds from issuance of shares upon exercise of share options		**14,419**	–
Contribution by minority shareholders of a subsidiary		**4**	–
Capital element of finance lease payments		**(3,077)**	(3,434)
Dividends paid to Company's shareholders		**(27,129)**	(14,100)
Repayments of borrowings		**(35,042)**	(44,669)
Proceeds from borrowings		**23,807**	54,085
Decrease in pledged bank deposits		**56**	2,501
Net cash used in financing activities		**(26,962)**	(5,617)
Net increase/(decrease) in cash, cash equivalents and bank overdrafts		**49,789**	(9,664)
Cash, cash equivalents and bank overdrafts at beginning of year		**44,859**	54,238
Exchange translation difference		**442**	285
Cash, cash equivalents and bank overdrafts at end of the year	27	**95,090**	44,859

The notes on pages 38 to 91 are an integral part of these consolidated financial statements.

1 GENERAL INFORMATION

Alltronics Holdings Limited (the "Company") was incorporated in the Cayman Islands on 24 July 2003 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (together the "Group") are the manufacturing and trading of electronic products, plastic moulds, plastic and other components for electronic products. Details of the activities of principal subsidiaries and an associate are set out in Notes 19 and 20 to the financial statements.

The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 15 July 2005. The principal place of business of the Company is at Room 1108, 11/F, Eastwood Centre, No. 5 A Kung Ngam Village Road, Shau Kei Wan, Hong Kong.

These consolidated financial statements are presented in thousands of units of Hong Kong dollars (HK$'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 23 April 2008.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(i) *Standards, amendments to standards and interpretations effective in 2007*

A number of new standards, amendments to standards and interpretations are mandatory for the financial year ended 31 December 2007. The Group adopted those which are relevant to its operations.

- HKFRS 7, "Financial instruments: Disclosures", and the complementary amendment to HKAS 1, "Presentation of financial statements – Capital disclosures", introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group's financial instruments, or the disclosures relating to taxation and accounts payables.

- HK(IFRIC) – Int 8, "Scope of HKFRS 2", requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of HKFRS 2. This standard does not have any impact on the Group's financial statements.

- HK(IFRIC) – Int 10, "Interim financial reporting and impairment", prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the Group's financial statements.

(ii) *Standards, amendments and interpretations effective in 2007 but not relevant*

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Group's operations:

- HK(IFRIC) – Int 7, "Applying the restatement approach under HKAS 29, Financial reporting in hyper-inflationary economies"; and

- IFRIC/HK(IFRIC) – Int 9, "Re-assessment of embedded derivatives".

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(iii) *Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group*

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods, but the Group has not early adopted them:

- HKAS 1 (Revised), "Presentation of Financial Statements" (effective from 1 January 2009). HKAS 1 (Revised) requires all owner changes in equity to be presented in a statement of changes in equity. All comprehensive income is presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). It requires presentation of a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when there are retrospective adjustments or reclassification adjustments. However, it does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRSs. The Group will apply HKAS 1 (Revised) from 1 January 2009.

- HKAS 23 (Amendment), "Borrowing costs" (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply HKAS 23 (Amended) from 1 January 2009 but is currently not applicable to the Group as there are no qualifying assets.

- HKFRS 8, "Operating segments" (effective from 1 January 2009). HKFRS 8 replaces HKAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, "Disclosures about segments of an enterprise and related information". The new standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply HKFRS 8 from 1 January 2009. The expected impact is still being assessed in detail by management, but it appears likely that the number of reportable segments, as well as the manner in which the segments are reported, will change in a manner that is consistent with the internal reporting provided to the chief operating decision-maker.

- HK(IFRIC) – Int 11, "HKFRS 2 – Group and treasury share transactions" (effective from 1 March 2007). HK(IFRIC) – Int 11 provides guidance on whether share-based transactions involving treasury shares or involving Group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash settled share-based payment transactions in the stand-alone accounts of the parent and group companies. The Group is in the process of assessing the impact of this interpretation, but it is not expected to have any material impact on the Group's consolidated financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(iii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (Continued)

- HK(IFRIC) – Int 14, "HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction" (effective from 1 January 2008). HK(IFRIC) – Int 14 provides guidance on assessing the limit in HKAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Group will apply HK(IFRIC) – Int 14 from 1 January 2008, but it is not expected to have any impact on the Group's financial statements.

- HKAS 27 (Revised) "Consolidated and Separate Financial Statements" (effective from annual period beginning on or after 1 July 2009). The amendment requires non-controlling interests (i.e. minority interests) to be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity. When control of a subsidiary is lost, the assets and liabilities and related equity components of the former subsidiary are derecognised. Any gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost. The Group will apply HKAS 27 (Revised) from 1 January 2010.

- HKFRS 3 (Revised) "Business Combination" (effective for business combinations with acquisition date on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The amendment may bring more transactions into acquisition accounting as combinations by contract alone and combinations of mutual entities are brought into the scope of the standard and the definition of a business has been amended slightly. It now states that the elements are "capable of being conducted" rather than "are conducted and managed". It requires considerations (including contingent consideration), each identifiable asset and liability to be measured at its acquisition-date fair value, except leases and insurance contracts, reacquired right, indemnification assets as well as some assets and liabilities required to be measured in accordance with other HKFRSs. These include income taxes, employee benefits, share-based payment and non current assets held for sale and discontinued operations. Any non-controlling interest in an acquiree is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. The Group will apply HKFRS 3 (Revised) from 1 January 2010.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(iii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (Continued)

- HKFRS 2 Amendment "Share-based Payment Vesting Conditions and Cancellations" (effective from 1 January 2009). The amendment clarifies the definition of "vesting conditions" and specifies the accounting treatment of "cancellations" by the counterparty to a share-based payment arrangement. Vesting conditions are service conditions (which require a counterparty to complete a specified period of service) and performance conditions (which require a specified period of service and specified performance targets to be met) only. All "non-vesting conditions" and vesting conditions that are market conditions shall be taken into account when estimating the fair value of the equity instruments granted. All cancellations are accounted for as an acceleration of vesting and the amount that would otherwise have been recognised over the remainder of the vesting period is recognised immediately. The Group will apply HKFRS 2 Amendment from 1 January 2009, but it is not expected to have any impact on the Group's financial statements.

(iv) Interpretations to existing standards that are not yet effective and not relevant for the Group's operations

The following interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods but are not relevant for the Group's operations:

- HK(IFRIC) – Int 12, "Service concession arrangements" (effective from 1 January 2008). HK(IFRIC) – Int 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. HK(IFRIC) – Int 12 is not relevant to the Group's operations because none of the Group's companies provide public sector services.

- HK(IFRIC) – Int 13, "Customer loyalty programmes" (effective from 1 July 2008). HK(IFRIC) – Int 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. HK(IFRIC) – Int 13 is not relevant to the Group's operations because none of the Group's companies operate any loyalty programmes.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

(a) *Subsidiaries*

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement (see Note 2.6).

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary in the consolidated financial statements to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses (see Note 2.7). The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(b) *Transactions with minority interests*

The Group adopts a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the consolidated income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation (Continued)

(c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses in associates are recognised in the consolidated income statement.

In the Company's balance sheet the investments in associates are stated at cost less provision for impairment losses (Note 2.7). The results of associated companies are accounted for by the Company on the basis of dividends received and receivable.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those segments operating in other economic environments.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars (HK dollars), which is the Company's functional and presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation difference on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the exchange reserve in equity.

(c) *Group companies*

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings, are taken to shareholders' equity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Property, plant and equipment

Property, plant and equipment comprises mainly buildings, furniture and fixtures, office equipment, plant and machinery, leasehold improvements and motor vehicles. All property, plant and equipment is stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Buildings	2% – 20% or over the lease terms, whichever is shorter
Furniture and fixtures	9% – 20%
Office equipment	8% – 20%
Plant and machinery	9% – 20%
Leasehold improvements	16.67% – 20%
Motor vehicles	9% – 20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other losses – net, in the income statement.

2.6 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible asset. Goodwill on acquisitions of associates is included in investments in associates and is tested annually for impairment as part of the overall balance. Separately recognised goodwill is tested for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or Groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Impairment of investments in subsidiaries, associates and non-financial assets

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

2.8 Financial assets

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

(a) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets.

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as "trade and other receivables" and "cash and cash equivalents" in the balance sheet (Note 2.10 and 2.11).

(c) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Financial assets (Continued)

(c) Available-for-sale financial assets (Continued)

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the income statement within "other losses – net", in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in equity. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as "gains and losses from available-for-sale financial assets".

Interest on available-for-sale financial assets calculated using the effective interest method is recognised in the income statement as part of other income. Dividends on available-for-sale financial assets are recognised in the income statement as part of other income when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group established fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets are impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in Note 2.10.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.10 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within "administrative expenses". When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited to "administrative expenses" in the income statement.

2.11 Cash and cash equivalents

Cash and cash equivalents include cash in hand, bank deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown in current liabilities on the balance sheet.

2.12 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.13 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs are charged to the income statement in the year in which they are incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.14 Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.15 Employee benefits

(a) Pension obligations

The Group operates defined contribution retirement schemes for its Hong Kong employees based on local laws and regulations. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit schemes' costs expensed in the income statement represent contributions paid or payable by the Group to the schemes.

The Group's contributions to the defined contribution retirement schemes in Hong Kong are expensed as incurred and are reduced by contributions forfeited by those employees who leave the schemes prior to vesting fully in the contributions. The assets of the schemes are held separately from those of the Group in independently administered funds.

Pursuant to the relevant local regulations in the People's Republic of China (the "PRC"), the PRC subsidiaries of the Company participate in respective government retirement benefit schemes are required to contribute to the schemes to fund the retirement benefits of the eligible employees. Contributions made to the schemes are calculated based on certain percentages of the applicable payroll costs or fixed sums for each employee with reference to a salary scale, as stipulated under the requirements in the PRC. The Group has no further obligation beyond the required contributions. The contributions under the schemes are expensed in the income statement as incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15 Employee benefits (Continued)

(b) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(c) Bonus plans

The expected bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(d) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2.16 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provision are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that the outflow becomes probable, it will then be recognised as a provision.

2.18 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods

Sales of goods are recognised when a Group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

(b) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

(c) Dividend income

Dividend income is recognised when the right to receive payment is established.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Leases

(a) *Operating lease*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor), including up-front prepayments made for leasehold land and land use rights, are charged to the income statement on a straight-line basis over the period of the lease.

(b) *Finance lease*

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. The interest element of the finance cost is recognised in the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

2.20 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.21 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest risk, cash flow interest-rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is mainly carried out by the finance and accounts department (the "Finance and Accounts Department") under policies approved by the Board of Directors. The Finance and Accounts Department identifies and evaluates financial risks in close co-operation with the Group's operating units to cope with overall risk management, as well as specific areas, such as foreign exchange risk, interest-rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investing of excess liquidity.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States dollars (US dollars) and Renminbi (RMB). Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

To manage their foreign exchange risk arising from future commercial transactions, recognised assets and liabilities, entities in the Group engage in transactions mainly in HK dollars, US dollars and RMB to the extent possible. The Group currently does not hedge transactions undertaken in foreign currencies but manages its exposure through constant monitoring to limit as much as possible the amount of its foreign currencies exposures. Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The Finance and Accounts Department of the Group is responsible for monitoring and managing the net position in each foreign currency.

The Group has certain investments in PRC operations, the net assets of which are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's operations in the PRC is managed primarily through operating liabilities denominated in RMB.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

The exchange rates between HK dollars and US dollars have remained relatively stable among each other for the years ended 31 December 2007 and 2006. As such the directors consider that the foreign exchange risk in this regard is minimal.

At 31 December 2007, if HK dollars had weakened/strengthened by 10% against RMB with all other variables held constant, post tax profit for the year would have been HK$218,000 (2006: HK$425,000) lower/higher, mainly as a result of foreign exchange gains/losses on translation of RMB-denominated trade receivables, trade and other payables and cash and bank balances. Equity would have been HK$279,000 (2006: HK$56,000) higher/lower, arising mainly from the investments in the subsidiaries in PRC.

(ii) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets except its bank deposits, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arose from bills payable, finance lease liabilities and bank borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk. During the years ended 31 December 2007 and 2006, the Group's borrowings were denominated in HK dollars.

The Group regularly seeks out the most favourable interest rates available for its bank deposits and borrowings. Information relating to interest rates of the Group's bank balances, deposits and borrowings are disclosed in Notes 27 and 32, respectively.

At 31 December 2007, if interest rates on borrowings had been 100 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been HK$480,000 (2006: HK$775,000) lower/higher, mainly as a result of higher/lower interest expense on borrowings.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(iii) Price risk

The Group is exposed to equity securities price risk because investment held by the Group is classified in the consolidated balance sheet as available-for-sale. The Group is not exposed to commodity price risk.

The Group's equity investments held as available-for-sale are capital guaranteed funds which are not publicly traded. The Group does not actively traded in equity investments and in the opinion of the directors, the price risk related to trading activities to which the Group is exposed is not material. Accordingly, no quantitative market risk disclosures for price risk have been prepared.

(b) Credit risk

Credit risk arises from credit exposures to customers. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, the Finance and Accounts Department assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits for each customer are set based on internal or external ratings in accordance with limits set by the Board. The utilisation of credit limits is regularly monitored. As at 31 December 2007, the Group's largest customer accounted for approximately 6.5% of total trade receivables (2006: 24.6%). This customer has a good credit history and the Group does not consider there to be any significant credit risk in this regard.

Certain customers have exceeded their respective credit limits during the reporting period. However, management does not expect any significant losses from non-performance by these counterparties.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature and continuous growth in business, the Group maintains flexibility in funding by maintaining available facilities under committed credit lines.

Management monitors rolling forecasts of the Group's liquidity reserve, comprising undrawn borrowing facilities (Note 36) and cash and cash equivalents (Note 27) on the basis of expected cash flow.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year	**Between 1 and 5 years**	**Over 5 years**
	HK$'000	*HK$'000*	*HK$'000*
The Group			
At 31 December 2007			
Bank borrowings	**38,385**	**4,793**	**–**
Obligations under finance leases	**2,659**	**2,568**	**–**
Trade and other payables	**53,721**	**27**	**–**
At 31 December 2006			
Bank borrowings	58,996	12,974	–
Obligations under finance leases	3,169	2,927	–
Trade and other payables	59,398	–	–

3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debts.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated balance sheet, less trade related debt). Total capital is calculated as "equity", as shown in the consolidated balance sheet.

The gearing ratios at 31 December 2007 and 2006 were as follows:

	2007	2006
	HK$'000	*HK$'000*
Total borrowings	**48,009**	77,538
Less: trade related debt	**(14,038)**	(30,487)
Net debt	**33,971**	47,051
Total equity	**210,274**	168,684
Gearing ratio	**16.2%**	27.9%

The decrease in the gearing ratio during 2007 resulted primarily from the issues of share capital as part of employee benefit and cash generated from operations during the year.

3.3 Fair value estimation

The fair value of available-for-sale financial assets that are not traded in an active market is determined with reference to indicative market values provided by the issuers (Note 21).

The carrying value less impairment provision of trade receivables and trade payables are reasonable approximation of their fair values.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

(a) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.7. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 18).

No impairment charge has been recognised during the years ended 31 December 2007 and 2006.

If the budgeted gross margin used in the value-in-use calculation had been 10% lower than management's estimates at 31 December 2007 (for example, 13.9% instead of 15.5%), or if the estimated pre-tax discount rate applied to the discounted cash flows for the cash-generating unit had been 1% higher than management's estimates (for example, 10.5% instead of 9.5%), the value-in-use amount would still exceed the carrying value of goodwill.

(b) Income taxes

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

(c) Estimated impairment of property, plant and equipment

The Group assesses annually whether property, plant and equipment have suffered an impairment, in accordance with the accounting policy stated in Notes 2.5 and 2.7. The recoverable amounts of property, plant and equipment are determined based on value-in-use calculations. These calculations require the use of judgment and estimates.

(d) Estimated impairment provision for impaired receivables

The Group makes impairment provision for doubtful debts based on an assessment of the recoverability of trade receivables. Provisions are applied to trade receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of trade receivables and provision for impaired receivables in the year in which such estimate has been changed.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(d) Estimated impairment provision for impaired receivables (Continued)

Were the impairment provision for impaired receivables to differ by 10% from management's estimates, the carrying value of trade receivables would be HK$101,000 higher/lower.

(e) Estimated impairment provision for inventory

The Group makes provision for inventory based on consideration of obsolescence of raw materials and the net realisable value of finished goods. The identification of inventory obsolescence and estimated selling price in the ordinary course of business require the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of inventory and impairment provision in the year in which such estimate has been changed.

Were the impairment provision for inventory to differ by 10% from management's estimates, the carrying value of inventory would be HK$432,000 higher/lower.

5 REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the manufacturing and trading of electronic products, plastic moulds, plastic and other components for electronic products.

	2007	2006
	HK$'000	*HK$'000*
Turnover		
Sale of goods	**575,080**	592,318
Other income		
Interest income on other financial assets at fair value through profit or loss	**–**	1,318
Dividends from other financial assets at fair value through profit or loss	**–**	14
Dividends from available-for-sale financial assets	**22**	–
	575,102	593,650

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format in these consolidated financial statements because this is more relevant to the Group in making operating and financial decisions.

5 REVENUE AND SEGMENT INFORMATION (Continued)

(a) Primary reporting format – business segment

During the year, the Group has been operating in one single business segment, namely the manufacturing and trading of electronics products, plastic moulds, plastic and other components for electronic products.

(b) Secondary reporting format – geographical segment

The Group's business segment operates in five main geographical areas, even though they are managed on a worldwide basis.

The Group's revenue arises mainly in places/countries within Hong Kong, the United States, Europe and PRC. Revenue is allocated based on the places/countries in which the customers are located.

Revenue

	2007	2006
	HK$'000	*HK$'000*
The United States	**361,781**	406,798
Europe	**50,695**	39,245
PRC	**16,163**	25,297
Hong Kong	**125,159**	93,305
Other countries	**21,282**	27,673
	575,080	592,318

Capital expenditure is allocated based on where the assets are located.

Capital expenditure

	2007	2006
	HK$'000	*HK$'000*
PRC	**13,403**	18,977
Hong Kong	**2,618**	2,780
	16,021	21,757

5 REVENUE AND SEGMENT INFORMATION (Continued)

(b) Secondary reporting format – geographical segment (Continued)

Total assets are allocated based on where the assets are located.

Total assets

	2007	2006
	HK$'000	*HK$'000*
PRC	**148,029**	151,347
Hong Kong	**189,319**	193,936
	337,348	345,283

6 EXPENSES BY NATURE

	2007	2006
	HK$'000	*HK$'000*
Cost of inventories sold *(Note 22)*	**307,285**	326,732
Provision for impairment of inventories	**2,639**	622
Employee benefit expense – excluding Directors' emoluments *(Note 9)*	**89,723**	83,977
Employee benefit expense – Directors' emoluments *(Note 10)*	**6,094**	9,083
Depreciation *(Note 16)*		
– Owned fixed assets	**13,319**	11,841
– Leased fixed assets	**1,626**	2,498
Provision for impairment of receivables *(Note 23)*	**469**	5,531
Impaired receivables written off	**113**	1,370
Amortisation of prepaid operating lease payments *(Note 17)*	**50**	50
Operating lease payments	**10,530**	8,933
Auditor's remuneration	**1,289**	1,152
Other expenses	**74,953**	78,474
Total of cost of sales, distribution costs and administrative expenses	**508,090**	530,263

7 OTHER LOSSES – NET

	2007 HK$'000	2006 HK$'000
Gain on disposals of other financial assets at fair value through profit or loss	**2,522**	660
Other financial assets at fair value through profit or loss – fair value gain	**–**	458
Interest income on other financial assets at fair value through profit or loss	**–**	1,318
Dividends from other financial assets at fair value through profit or loss	**–**	14
Dividends from available-for-sale financial assets	**22**	–
Net foreign exchange loss	**(3,136)**	(3,118)
Loss on disposals of property, plant and equipment *(Note 34)*	**(1,187)**	(25)
Others	**246**	(307)
	(1,533)	(1,000)

The interest income and dividends from other financial assets at fair value through profit or loss for the year ended 31 December 2006 were derived from listed investments.

8 FINANCE COSTS – NET

	2007 HK$'000	2006 HK$'000
Interests on bank loans and bank overdrafts	**7,242**	9,137
Interest element of finance leases	**360**	367
Total finance costs	**7,602**	9,504
Less: Interest income from bank deposits	**(4,037)**	(3,223)
Finance costs – net	**3,565**	6,281

9 EMPLOYEE BENEFIT EXPENSE – EXCLUDING DIRECTORS' EMOLUMENTS

	2007 HK$'000	2006 HK$'000
Wages and salaries	**80,371**	76,147
Pension costs – defined contribution plans *(Note 11)*	**803**	923
Staff welfare and allowances	**8,196**	6,046
Share-based payment expenses *(Note 30)*	**353**	861
	89,723	83,977

10 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

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

Name	Fees	Salary	Discretionary bonuses	Other benefits*	Share-based payment expenses	Employer's contribution to pension scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive Directors							
Lam Yin Kee	**–**	**2,210**	**–**	**1,140**	**–**	**12**	**3,362**
Yeung Po Wah	**–**	**751**	**–**	**–**	**–**	**12**	**763**
Toshio Daikai	**–**	**816**	**–**	**140**	**–**	**5**	**961**
Non-executive Directors							
Fan, William Chung Yue	**252**	**–**	**–**	**–**	**–**	**–**	**252**
Barry John Buttifant	**252**	**–**	**–**	**–**	**–**	**–**	**252**
Leung Kam Wah	**252**	**–**	**–**	**–**	**–**	**–**	**252**
Yeung Chi Ying	**252**	**–**	**–**	**–**	**–**	**–**	**252**

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

Name	Fees	Salary	Discretionary bonuses	Other benefits*	Share-based payment expenses	Employer's contribution to pension scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive Directors							
Lam Yin Kee	–	2,061	650	960	359	12	4,042
Yeung Po Wah	–	646	500	–	358	12	1,516
Toshio Daikai	–	799	50	132	36	12	1,029
William Peter Shelley**	–	827	553	144	–	12	1,536
Non-executive Directors							
Fan, William Chung Yue	240	–	–	–	–	–	240
Barry John Buttifant	240	–	–	–	–	–	240
Leung Kam Wah	240	–	–	–	–	–	240
Yeung Chi Ying	240	–	–	–	–	–	240

* Other benefits represent quarters and housing allowances for the Directors.

** William Peter Shelly resigned as Director of the Group on 1 January 2007.

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

Save as above, there has been no arrangement under which a director has waived or agreed to waive any emoluments for the years ended 31 December 2007 and 2006.

10 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2006: four) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2006: one) individuals during the year are as follows:

	2007	2006
	HK$'000	*HK$'000*
Basic salaries, housing allowances, other allowances and benefits in kind	**2,843**	1,028
Share-based payment expenses	**–**	72
Pension costs – defined contribution plan	**32**	12
Bonus	**–**	100
	2,875	1,212

The emoluments fell within the following bands:

	Number of individuals	
	2007	2006
Emolument bands		
Nil to HK$1,000,000	**2**	–
HK$1,000,001-HK$1,500,000	**1**	1

11 PENSIONS – DEFINED CONTRIBUTION PLANS

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Hong Kong incorporated companies within the Group and their employees makes monthly contributions to the scheme at 5% of the employees' earnings up to a maximum of HK$1,000 per month per employee as defined under the Mandatory Provident Scheme Ordinances.

For the year ended 31 December 2007, the aggregate amount of the Group's contributions to the MPF Scheme was approximately HK$832,000 (2006: HK$971,000). As at 31 December 2007, the Group was not entitled to any forfeited contributions to reduce the Group's future contributions under the MPF Scheme.

As stipulated by the rules and regulations in the PRC, the Group contributes to a state-sponsored retirement plan for its employees in the PRC as determined by the local governments, which is a defined contribution plan. The Group and its employees contribute approximately 10% and 8%, respectively, of the salary as specified by the relevant local governments, and the Group has no further obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions. The state-sponsored retirement plan is responsible for the entire pension obligations payable to retired employees.

12 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

	2007	2006
	HK$'000	*HK$'000*
Current income tax		
– Hong Kong profits tax	**7,911**	7,132
– PRC enterprise income tax *(Note a)*	**3,172**	2,052
Under-provision in prior years	**35**	28
Deferred income tax *(Note 33)*	**45**	227
	11,163	9,439

Note:

(*a*) PRC enterprise income tax has been calculated on the estimated assessable profits at the rates of taxation prevailing in the PRC. The Company has four subsidiaries operating in the PRC, namely Shenzhen Allcomm Electronic Co. Ltd. ("Shenzhen Allcomm"), Alltronics Tech. Mftg. Limited ("ATM"), Southchina Engineering and Manufacturing Limited ("Southchina") and 南盈科技發展(深圳)有限公司("南盈"). During the year, Shenzhen Allcomm, ATM, Southchina and 南盈 are subject to a standard income tax rate of 15% in accordance with the relevant applicable tax laws. 南盈 is entitled to full exemption of PRC income tax for the two years ended 31 December 2005, followed by a 50% reduction of PRC income tax (i.e. 7.5%) for the three years ending 31 December 2008.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the Company's home country tax rate as follows:

	2007	2006
	HK$'000	*HK$'000*
Profit before share of loss of an associate	**61,892**	54,774
Calculated at a taxation rate of 17.5%	**10,831**	9,585
Effect of different taxation rates in other countries	**(60)**	(19)
Income not subject to taxation	**(836)**	(1,312)
Expenses not deductible for tax purposes	**1,037**	1,323
Under-provision in prior years	**35**	28
Tax losses for which no deferred income tax asset was recognised	**202**	(157)
Temporary differences not recognised	**–**	(96)
Others	**(46)**	87
	11,163	9,439

The weighted average applicable tax rate for the year was 16.8% (2006: 16.9%).

13 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$26,829,000 (2006: HK$16,572,000).

14 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2007	2006
Profit attributable to equity holders of the Company (HK$'000)	**48,917**	43,785
Weighted average number of ordinary shares in issue (thousand)	**306,388**	300,000
Basic earnings per share (HK cents per share)	**15.97**	14.60

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has only one category of dilutive potential ordinary shares: share options. A calculation is made in order to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2007 ***HK$'000***	2006 *HK$'000*
Profit attributable to equity holders of the Company	**48,917**	43,785
Weighted average number of ordinary shares in issue (thousand)	**306,388**	300,000
Adjustments for share options (thousand)	**825**	3,514
Weighted average number of ordinary shares for diluted earnings per share (thousand)	**307,213**	303,514
Diluted earnings per share (HK cents per share)	**15.92**	14.43

15 DIVIDENDS

	2007	2006
	HK$'000	*HK$'000*
Interim dividend paid of HK5.0 cents (2006: HK3.2 cents) per ordinary share	**15,634**	9,600
Proposed final dividend of HK4.0 cents (2006: HK3.8 cents) per ordinary share *(Note a)*	**12,520**	11,400
	28,154	21,000

Note:

(a) A final dividend in respect of 2007 of HK4.0 cents per share, amounting to a total of HK$12,520,000 is to be proposed at the Annual General Meeting to be held on 23 May 2008. These financial statements do not reflect this as dividend payable but account for it as proposed final dividend in reserves (Note 31).

16 PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	**Furniture and fixtures**	**Office equipment**	**Plant and machinery**	**Leasehold improvements**	**Motor vehicles**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2006							
Cost	8,581	11,597	9,533	48,665	23,503	4,533	106,412
Accumulated depreciation	(1,060)	(7,272)	(5,892)	(31,074)	(10,335)	(2,418)	(58,051)
Net book amount	7,521	4,325	3,641	17,591	13,168	2,115	48,361
Year ended 31 December 2006							
Opening net book amount	7,521	4,325	3,641	17,591	13,168	2,115	48,361
Exchange differences	–	64	30	80	146	11	331
Additions	–	1,757	3,078	9,146	5,512	2,264	21,757
Disposals *(Note 34)*	–	–	(15)	(34)	–	–	(49)
Depreciation	(174)	(998)	(1,243)	(7,171)	(3,726)	(1,027)	(14,339)
Closing net book amount	7,347	5,148	5,491	19,612	15,100	3,363	56,061

16 PROPERTY, PLANT AND EQUIPMENT (Continued)

Group

	Buildings	Furniture and fixtures	Office equipment	Plant and machinery	Leasehold improvements	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2007							
Cost	8,581	13,497	12,675	57,891	29,300	6,826	128,770
Accumulated depreciation	(1,234)	(8,349)	(7,184)	(38,279)	(14,200)	(3,463)	(72,709)
Net book amount	7,347	5,148	5,491	19,612	15,100	3,363	56,061
Year ended 31 December 2007							
Opening net book amount	**7,347**	**5,148**	**5,491**	**19,612**	**15,100**	**3,363**	**56,061**
Exchange differences	**–**	**309**	**207**	**509**	**752**	**62**	**1,839**
Additions	**–**	**522**	**1,039**	**6,929**	**4,607**	**2,924**	**16,021**
Disposals *(Note 34)*	**–**	**(294)**	**(316)**	**(774)**	**(8)**	**(56)**	**(1,448)**
Depreciation	**(173)**	**(981)**	**(1,471)**	**(6,760)**	**(4,379)**	**(1,181)**	**(14,945)**
Closing net book amount	**7,174**	**4,704**	**4,950**	**19,516**	**16,072**	**5,112**	**57,528**
At 31 December 2007							
Cost	**8,581**	**11,615**	**11,140**	**62,448**	**35,192**	**9,238**	**138,214**
Accumulated depreciation	**(1,407)**	**(6,911)**	**(6,190)**	**(42,932)**	**(19,120)**	**(4,126)**	**(80,686)**
Net book amount	**7,174**	**4,704**	**4,950**	**19,516**	**16,072**	**5,112**	**57,528**

In 1998, the Group entered into an arrangement with two independent third parties (the "Partners") for the development of certain manufacturing premises for the Group's use and staff quarters in Shenzhen and the Group's attributable interest in these buildings is 60%. These buildings are accounted for as jointly controlled assets of the Group.

As at 31 December 2007, the aggregate cost and accumulated depreciation of property, plant and equipment held by the Group under finance leases amounted to HK$10,273,000 (2006: HK$13,775,000) and HK$3,764,000 (2006: HK$5,917,000), respectively.

Depreciation expense of HK$13,328,000 (2006: HK$12,469,000) has been charged in cost of sales and HK$1,617,000 (2006: HK$1,870,000) in administrative expenses.

17 LEASEHOLD LAND AND LAND USE RIGHTS

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

	Group	
	2007	2006
	HK$'000	*HK$'000*
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	**2,122**	2,172

	2007	2006
	HK$'000	*HK$'000*
Opening net book amount	**2,172**	2,222
Amortisation of prepaid operating lease payments *(Note 6)*	**(50)**	(50)
Closing net book amount	**2,122**	2,172

18 INTANGIBLE ASSET

Goodwill:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Cost and net book amount	**11,672**	11,672

The goodwill relates to the excess of consideration paid for and the fair value of net assets acquired from the acquisition of Southchina Engineering and Manufacturing Limited ("Southchina"). The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2.7. Management considers Southchina as one cash-generating unit (the "CGU"). The recoverable amount of the CGU is determined based on a value-in-use calculation. This calculation uses pre-tax cash flow projections based on financial budgets of Southchina, approved by management covering a five-year period. Based on the impairment testing of goodwill, in the opinion of the Directors, no impairment provision is considered necessary for the balance of the goodwill.

The key assumptions used for the value-in-use calculation are as follows:

Gross margin	15.5%
Average growth rate	4.5%
Discount rate	9.5%

18 INTANGIBLE ASSET (Continued)

The following describes each key assumptions on which management has based its cash flow projections to undertake impairment testing of goodwill:

(a) Budgeted turnover, operating expenses and finance costs were projected with reference to the expected earnings from manufacturing of plastic moulds, plastic and electronic accessories.

(b) For the business environment, there will be no change in the existing political, legal, regulatory, fiscal or economic conditions, bases or rates of taxation or duties in Hong Kong, or any other countries in which Southchina operates.

(c) Management determined budgeted gross margin based on past performance and its expectations for the market development. The discount rates used are pre-tax and reflect specific risks relating to the business.

19 INVESTMENTS IN SUBSIDIARIES AND AMOUNT DUE FROM A SUBSIDIARY

	Company	
	2007	2006
	HK$'000	*HK$'000*
Unlisted investments, at cost *(Note a)*	**1,590**	1,237
Due from a subsidiary *(Note b)*	**72,000**	55,000

Notes:

(a) The following is a list of subsidiaries as at 31 December 2007:

Name	**Place of incorporation and kind of legal entity**	**Principal activities and place of operation**	**Particulars of issued/registered share capital and debt securities**	**Interest held**
Alltronics (BVI) Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	100 ordinary shares of US$1 each	*100%
Alltronics Tech. Mftg. Limited	Hong Kong, limited liability company	Research and development, manufacturing and trading of electronic products in Hong Kong and PRC	500,000 ordinary shares of HK$1 each	100%

19 INVESTMENTS IN SUBSIDIARIES AND AMOUNT DUE FROM A SUBSIDIARY (Continued)

Notes: (Continued)

(a) (Continued)

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued/registered share capital and debt securities	Interest held
Allcomm (H.K.) Limited	Hong Kong, limited liability company	Investment holding and trading of electronic products in Hong Kong	2 ordinary shares of HK$1 each	100%
Shenzhen Allcomm Electronic Co. Ltd.	PRC, limited liability company	Manufacturing of electronic products in PRC	Registered capital of US$1,728,397	100%
WT Technology Development Company Limited	Hong Kong, limited liability company	Research and development of telecommunication products	10,000 ordinary shares of HK$1 each	65%
Southchina Engineering and Manufacturing Limited	Hong Kong, limited liability company	Manufacturing of plastic moulds, plastic and electronic accessories in the PRC	1,000,000 ordinary shares of HK$1 each	51%
南盈科技發展(深圳)有限公司 (formerly known as "南盈塑膠實業(深圳)有限公司")	PRC, limited liability company	Manufacturing of plastic moulds, plastic and electronic accessories in the PRC	Registered capital of HK$7,700,000	51%
Quant Electronics (HK) Limited	Hong Kong, limited liability company	Dormant	180,000 ordinary shares of HK$1 each	51%

* Shares held directly by the Company

(b) The amount due from a subsidiary is unsecured, interest-free and repayable on demand.

(c) During the year, 南盈塑膠實業(深圳)有限公司 has changed its name to 南盈科技發展(深圳)有限公司. The registered capital has also been increased from HK$1,700,000 to HK$7,700,000.

(d) During the year, a wholly-owned subsidiary established in the PRC, Actronics Manufacturing Limited, had been deregistered and dissolved. The subsidiary has not commenced operation since its establishment.

20 INTERESTS IN AN ASSOCIATE AND AMOUNT DUE FROM AN ASSOCIATE

	Group	
	2007	2006
	HK$'000	*HK$'000*
Beginning of the year	–	188
Share of loss	–	(188)
	–	–
Due from an associate *(Note a)*	–	2

As at 31 December 2007, the Group's interest in an associate, which is unlisted, was as follows:

Name	**Particulars of issued shares**	**Country of incorporation**	**Assets**	**Liabilities**	**Revenue**	**Loss for the year**	**Interest indirectly held**
			HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	
TSC Manufacturing Limited ("TSC") *(Note b)*	3,000,000 ordinary shares of HK$1 each	Hong Kong	104	1,615	–	14	20.4%

Notes:

(a) The amount represented amount due from TSC and has been fully repaid during the year.

(b) TSC has ceased business and remained dormant since 1 July 2006 and is in the process of voluntarily winding up.

21 AVAILABLE-FOR-SALE FINANCIAL ASSETS

Unlisted capital guaranteed funds in Hong Kong:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Beginning of the year	**3,238**	2,903
Net gains transferred to equity	**244**	335
End of the year	**3,482**	3,238

There was no disposal or impairment provision on available-for-sale financial assets in 2007 and 2006.

As at 31 December 2007, available-for-sale financial assets with an aggregate carrying amount of HK$3,482,000 (2006: HK$3,238,000) were pledged to a bank to secure loan and overdraft facilities granted to Southchina (Note 36). Available-for-sale financial assets are denominated in United States ("US") dollars.

As these capital guaranteed funds are not publicly traded and in the absence of readily available information to determine the fair values of these capital guaranteed funds, the Group has adopted the indicative market value provided by the issuers as its best estimate of the fair values of these capital guaranteed funds.

22 INVENTORIES

	Group	
	2007	2006
	HK$'000	*HK$'000*
Raw materials	**50,078**	55,087
Work in progress	**15,958**	15,702
Finished goods	**17,411**	17,448
	83,447	88,237

The cost of inventories recognised as an expense and included in cost of inventories sold amounted to HK$307,285,000 (2006: HK$326,732,000).

23 TRADE RECEIVABLES

	Group	
	2007	2006
	HK$'000	*HK$'000*
Trade receivables	**65,528**	90,318
Less: provision for impairment of receivables	**(1,012)**	(5,684)
	64,516	84,634

As at 31 December 2006 and 2007, the fair values of trade receivables approximated their carrying amounts.

The Group's sales to corporate customers are entered into on credit terms of up to 90 days, except for certain credit worthy customers to whom a longer credit period is allowed. The ageing analysis of trade receivables at the balance sheet dates is as follows:

	2007	2006
	HK$'000	*HK$'000*
0 – 30 days	**36,203**	49,872
31 – 60 days	**16,787**	19,931
61 – 90 days	**5,657**	9,750
91 – 120 days	**4,310**	4,727
121 – 365 days	**1,116**	5,736
Over 365 days	**1,455**	302
	65,528	90,318
Less: provision for impairment of receivables	**(1,012)**	(5,684)
	64,516	84,634

23 TRADE RECEIVABLES (Continued)

As of 31 December 2007, trade receivables of HK$25,823,000 (2006: HK$32,253,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2007	2006
	HK$'000	*HK$'000*
Up to 30 days	**3,299**	2,999
31 – 60 days	**11,151**	13,412
61 – 90 days	**5,503**	9,173
91 – 120 days	**4,311**	3,911
Over 120 days	**1,559**	2,758
	25,823	32,253

As of 31 December 2007, trade receivables of HK$1,012,000 (2006: HK$5,684,000) were impaired. The amount of the provision was HK$1,012,000 as of 31 December 2007 (2006: HK$5,684,000). The individually impaired receivables mainly relate to customers which are in unexpected difficult economic situations. It was assessed that a portion of the receivables is expected to be recovered. The ageing of these receivables is as follows:

	2007	2006
	HK$'000	*HK$'000*
0 – 30 days	**–**	777
31 – 60 days	**–**	476
61 – 90 days	**–**	310
91 – 120 days	**–**	816
121 – 365 days	**–**	3,152
Over 365 days	**1,012**	153
	1,012	5,684

23 TRADE RECEIVABLES (Continued)

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	2007	2006
	HK$'000	*HK$'000*
US dollars	**52,326**	72,622
HK dollars	**8,727**	8,680
Japanese Yen	**2,076**	2,072
RMB	**1,387**	1,240
Other currencies	**–**	20
	64,516	84,634

Movements on the provision for impairment of trade receivables are as follows:

	2007	2006
	HK$'000	*HK$'000*
At 1 January	**5,684**	153
Provision for impairment on receivables *(Note 6)*	**469**	5,531
Written off during the year as uncollectible	**(5,141)**	–
At 31 December	**1,012**	5,684

The creation and release of provision for impaired receivables have been included in administrative expenses in the income statement (Note 6). The maximum exposure to credit risk at the reporting date is the fair value of receivables mentioned above. The Group does not hold any collateral as security.

24 AMOUNT DUE FROM A RELATED COMPANY – GROUP

The balance represented trade receivable from a related company, Maruman Products Co. Ltd. ("Maruman") which is unsecured, interest-free and with a credit term of 60 days. Mr. Lam Yin Kee, the Chairman and an executive Director of the Group, has a 24.7% equity interest in Maruman.

25 AMOUNTS DUE FROM ULTIMATE HOLDING COMPANY AND DUE FROM MINORITY SHAREHOLDERS OF A SUBSIDIARY

The balances due from ultimate holding company and due from minority shareholders of a subsidiary are unsecured, interest-free and repayable on demand.

26 OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2007	2006
	HK$'000	*HK$'000*
Listed securities:		
Equity securities – Hong Kong, at market values	–	10,458

The carrying amounts of the above financial assets are classified as follows:

	2007	2006
	HK$'000	*HK$'000*
Held for trading	–	10,458

Changes in fair values of other financial assets at fair value through profit or loss were recorded in other losses – net, in the income statement (Note 7). The fair value of all equity securities was based on their current bid prices in an active market.

27 CASH AND CASH EQUIVALENTS

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash at bank and on hand	**104,634**	40,556	**1,554**	4,118
Short-term bank deposits	–	14,955	–	–
	104,634	55,511	**1,554**	4,118
Maximum exposure to credit risk	**104,144**	54,239	**1,554**	4,118
Denominated in:				
US dollars	**88,721**	25,159	–	–
HK dollars	**8,236**	24,691	**1,554**	4,118
RMB	**7,605**	4,904	–	–
Other currencies	**72**	757	–	–
	104,634	55,511	**1,554**	4,118

The Group did not have any short-term bank deposits at 31 December 2007. The effective interest rate on short-term bank deposits at 31 December 2006 was 3.75%. These deposits had a maturity period of 30 days to 3 months.

27 CASH AND CASH EQUIVALENTS (Continued)

Cash and cash equivalents and bank overdrafts include the following for the purposes of the cash flow statement:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and cash equivalents	**104,634**	55,511	**1,554**	4,118
Bank overdrafts *(Note 32)*	**(9,544)**	(10,652)	**–**	–
	95,090	44,859	**1,554**	4,118

The Group's bank balances and cash of approximately HK$7,605,000 and HK$4,904,000 as at 31 December 2007 and 2006, respectively, were denominated in RMB and kept in the PRC. The remittance of these funds out of the PRC is subject to the foreign exchange restrictions imposed by the PRC government.

28 TRADE PAYABLES

The ageing analysis of the trade payables is as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
0 – 30 days	**24,154**	23,551
31– 60 days	**19,777**	20,122
61– 90 days	**5,649**	7,911
91 – 120 days	**941**	2,570
121 – 365 days	**587**	2,200
Over 365 days	**145**	120
	51,253	56,474

The credit period granted by the creditors generally ranged from 30 to 60 days.

29 SHARE CAPITAL

	Group and Company	
	Number of shares	**Nominal value**
		HK$'000
Authorised share capital		
At 31 December 2006 and 2007	10,000,000,000	100,000

	Number of shares	**Nominal value**
		HK$'000
Issued and fully paid		
At 1 January 2006 and 31 December 2006	300,000,000	3,000
Issue of shares upon exercise of share options under the share option scheme *(Note 30 and Note a)*	12,990,000	130
At 31 December 2007	312,990,000	3,130

Note:

(a) During the year, a total of 12,990,000 share options had been exercised and a total of 12,990,000 shares were issued and fully paid.

30 SHARE-BASED PAYMENT TRANSACTIONS

On 22 June 2005, the Company adopted a share option scheme (the "Share Option Scheme") for the primary purpose of providing incentives or rewards to employees and Directors of the Company or any of its subsidiaries and any supplier and/or sub-contractor of the Group (the "Participants") for their contributions or potential contributions to the Group. The Share Option Scheme shall be valid and effective for a period of 10 years commencing from the date on which the Share Option Scheme is adopted.

The total number of shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10 per cent. (the "General Scheme Limit") of the total number of shares on 15 July 2005, the listing date. The Company may seek approval of the shareholders in general meeting to refresh the General Scheme Limit such that the total number of shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company shall not exceed 10 per cent. of the issued share capital of the Company at the date of approval to refresh such limit.

30 SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Notwithstanding the above, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company shall not exceed 30 per cent. of the total number of shares of the Company in issue from time to time. No option may be granted under the Share Option Scheme and any other share option schemes of the Company if this will result in the aforesaid 30 per cent. limit being exceeded. Unless with the approval of the shareholders in general meeting, the maximum number of shares issued and to be issued upon the exercise of the options granted to each participant (including both exercised and outstanding options) under the Share Option Scheme and other share option schemes of the Company in any twelve-month period shall not exceed 1 per cent. of the shares in issue.

An option must be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence from the date of the offer for the grant of the option is made, but shall end in any event not later than 10 years from the date on which the offer for the grant of the option is made, subject to the provisions for early termination thereof. The amount payable on acceptance of the grant of an option is HK$1. Unless otherwise determined by the Directors and stated in the offer for the grant of options to a grantee, there is neither any performance target that needs to be achieved by a grantee before an option can be exercised nor any minimum period for which an option must be held before it can be exercised.

The subscription price in respect of each share issued under the Share Option Scheme shall be a price solely determined by the Directors but shall not be less than the highest of:

(i) the nominal value of a share;

(ii) the closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange on the date upon which the relevant option is accepted and deemed to be granted (the "Commencement Date"), which must be a business day; and

(iii) the average closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the Commencement Date.

On 6 July 2007, 600,000 share options were granted to certain employees with an exercisable period of two years from 6 July 2007 to 5 July 2009. There are no vesting periods for these share options. The closing market price per share at the date preceding the date on which the share options were granted was HK$2.94. The estimated fair value of the options granted during the year was approximately HK$353,000 and has been recognised in the consolidated income statement for the year ended 31 December 2007, with a corresponding increase in share option reserve in equity. The amount recognised was shown as staff costs (Note 9).

Share option expenses in relation to the share options attributable to Directors and employees of the Company recognised by the Company and the main operating subsidiaries of the Company were HK$nil (2006: HK$753,000) and HK$353,000 (2006: HK$861,000) respectively.

30 SHARE-BASED PAYMENT TRANSACTIONS (Continued)

The fair values of the share options granted during the year ended 31 December 2007 and 2006 were determined using the Black-Scholes valuation model. The significant inputs into the model are as follows:

Year of grant	**2007**	2006
Exercise price	**HK$2.94**	HK$1.11
Closing share price on date of grant	**HK$2.94**	HK$1.10
Expected life	**Two years**	Two years
Expected volatility	**34.61%**	20.50%
Expected dividend yield	**2.38%**	3.18%
Risk free rate	**4.30%**	3.70%

The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the period from the listing date to the date of grant.

As at 31 December 2007, the number of shares in respect of which options had been granted and remained outstanding under the Share Option Scheme was 1,110,000 (2006:13,500,000), representing 0.35% (2006: 4.50%) of the total number of shares of the Company in issue at that date.

The following table discloses details of the Company's share options held by employees and Directors and movements in such holding during the year:

	Number of share options					
	Held at 1 January 2007	**Granted during the year**	**Exercised during the year**	**Cancelled or lapsed during the year**	**Held at 31 December 2007**	**Exercise price per share** *(HK$)*
Executive Directors						
Lam Yin Kee	3,000,000	–	(3,000,000)	–	–	1.11
Yeung Po Wah	3,000,000	–	(3,000,000)	–	–	1.11
Toshio Daikai	300,000	–	(300,000)	–	–	1.11
	6,300,000	–	(6,300,000)	–	–	
Other employees	7,200,000	–	(6,690,000)	–	510,000	1.11
Other employees	–	600,000	–	–	600,000	2.94
	7,200,000	600,000	(6,690,000)	–	1,110,000	
Total	13,500,000	600,000	(12,990,000)	–	1,110,000	

31 RESERVES

(a) Group

	Share premium	Capital reserve	Statutory reserve	Exchange reserve	Revaluation reserve	Share option reserve	Retained earnings	Proposed final dividend	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 January 2006	45,810	5,799	–	557	(206)	–	72,354	4,500	128,814
Fair value gain on available-for-sale financial assets *(Note 21)*	–	–	–	–	171	–	–	–	171
Currency translation differences	–	–	–	560	–	–	–	–	560
Employee share option scheme – value of employee services *(Note 30)*	–	–	–	–	–	1,614	–	–	1,614
Profit for the year	–	–	–	–	–	–	43,785	–	43,785
Final dividend relating to 2005	–	–	–	–	–	–	–	(4,500)	(4,500)
Interim dividend paid	–	–	–	–	–	–	(9,600)	–	(9,600)
Proposed final dividend	(11,400)	–	–	–	–	–	–	11,400	–
Balance at 31 December 2006	34,410	5,799	–	1,117	(35)	1,614	106,539	11,400	160,844
Balance at 1 January 2007, as per above	34,410	5,799	–	1,117	(35)	1,614	106,539	11,400	160,844
Fair value gain on available-for-sale financial assets *(Note 21)*	–	–	–	–	124	–	–	–	124
Currency translation differences	–	–	–	2,790	–	–	–	–	2,790
Employee share option scheme – issue of shares upon exercise of share options *(Note 30)*	15,842	–	–	–	–	(1,553)	–	–	14,289
Employee share option scheme – value of employee services *(Note 30)*	–	–	–	–	–	353	–	–	353
Profit for the year	–	–	–	–	–	–	48,917	–	48,917
Final dividend relating to 2006	(95)	–	–	–	–	–	–	(11,400)	(11,495)
Interim dividend paid	–	–	–	–	–	–	(15,634)	–	(15,634)
Proposed final dividend	–	–	–	–	–	–	(12,520)	12,520	–
Allocation to statutory reserve *(note a)*	–	–	3,314	–	–	–	(3,314)	–	–
Balance at 31 December 2007	**50,157**	**5,799**	**3,314**	**3,907**	**89**	**414**	**123,988**	**12,520**	**200,188**

Note:

(a) The statutory reserve of the Group refers to the PRC statutory reserve fund. Appropriations to such reserve fund are made out of profit after tax as recorded in the statutory financial statements of the PRC subsidiary. The amount should not be less than 10% of the profit after tax as recorded in the statutory financial statements unless the aggregate amount exceeds 50% of the registered capital of the PRC subsidiaries.

31 RESERVES (Continued)

(b) Company

	Share premium *HK$'000*	Share option reserve *HK$'000*	Retained earnings *HK$'000*	Proposed final dividend *HK$'000*	Total *HK$'000*
Balance at 1 January 2006	45,810	–	2,815	4,500	53,125
Employee share option scheme – value of employee services	–	1,614	–	–	1,614
Profit for the year	–	–	16,572	–	16,572
Final dividend relating to 2005	–	–	–	(4,500)	(4,500)
Interim dividend paid	–	–	(9,600)	–	(9,600)
Proposed final dividend	(11,400)	–	–	11,400	–
Balance at 31 December 2006	34,410	1,614	9,787	11,400	57,211
Balance at 1 January 2007, as per above	34,410	1,614	9,787	11,400	57,211
Employee share option scheme – issue of shares upon exercise of share options *(Note 30)*	15,842	(1,553)	–	–	14,289
Employee share option scheme – value of employee services *(Note 30)*	–	353	–	–	353
Profit for the year	–	–	26,829	–	26,829
Final dividend relating to 2006	(95)	–	–	(11,400)	(11,495)
Interim dividend paid	–	–	(15,634)	–	(15,634)
Proposed final dividend	–	–	(12,520)	12,520	–
Balance at 31 December 2007	**50,157**	**414**	**8,462**	**12,520**	**71,553**

32 BORROWINGS

	Group 2007 HK$'000	Group 2006 HK$'000
Bank loans, secured *(Note a)*	**19,596**	30,831
Obligations under finance leases *(Note b)*	**4,831**	5,568
Bills payable, secured	**12,990**	30,487
Trust receipt loans, secured	**1,048**	–
Bank overdrafts, secured	**9,544**	10,652
Total borrowings, wholly repayable within five years	**48,009**	77,538
Current portion of borrowings	**(40,804)**	(61,843)
Long-term borrowings	**7,205**	15,695

Notes:

(a) Details of the available banking facilities and securities given in respect of the above secured borrowings are set out in Note 36.

The Group's bank loans were repayable as follows:

	2007 HK$'000	2006 HK$'000
Within one year	**14,803**	17,857
In the second year	**3,187**	10,845
In the third to fifth year	**1,606**	2,129
	19,596	30,831

(b) The Group's finance lease liabilities were repayable as follows:

	2007 HK$'000	2006 HK$'000
Within one year	**2,660**	3,169
In the second year	**1,425**	2,024
In the third to fifth year	**1,142**	903
	5,227	6,096
Future finance charges on finance leases	**(396)**	(528)
Present value of finance lease liabilities	**4,831**	5,568

32 BORROWINGS (Continued)

Notes: (Continued)

The present value of finance lease liabilities is as follows:

	2007	2006
	HK$'000	*HK$'000*
Within one year	**2,419**	2,847
In the second year	**1,313**	1,865
In the third to fifth year	**1,099**	856
	4,831	5,568

(c) The effective interest rates at the balance sheet date were as follows:

	2007	2006
Bank loans	**6.3%**	7.1%
Obligations under finance leases	**5.9%**	7.2%
Bills payable	**7.0%**	7.6%
Trust receipt loans	**7.3%**	N/A
Bank overdrafts	**7.1%**	8.6%

33 DEFERRED INCOME TAX

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% for the year.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Deferred tax assets:		
– Deferred tax asset to be recovered after more than 12 months	**(54)**	(53)
Deferred tax liabilities:		
– Deferred tax liabilities to be settled after more than 12 months	**1,568**	1,522

33 DEFERRED INCOME TAX (Continued)

The gross movement on the deferred income tax account is as follows:

	2007	2006
	HK$'000	*HK$'000*
Beginning of the year	**1,469**	1,242
Charged to the consolidated income statement *(Note 12)*	**45**	227
End of the year	**1,514**	1,469

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax assets

	Tax losses	**Other**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2006	(235)	(96)	(331)
Charged to the income statement	235	43	278
At 31 December 2006	–	(53)	(53)
Credited to the income statement	–	(1)	(1)
At 31 December 2007	**–**	**(54)**	**(54)**

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. As at 31 December 2007 and 2006, the Group has no unrecognised tax losses to carry forward against future taxable income.

Deferred tax liabilities

	Accelerated tax depreciation
	HK$'000
At 1 January 2006	1,573
Credited to the income statement	(51)
At 31 December 2006	1,522
Charged to the income statement	46
At 31 December 2007	**1,568**

34 CASH GENERATED FROM OPERATIONS

	2007	2006
	HK$'000	*HK$'000*
Profit before income tax	**61,892**	54,586
Adjustments for:		
Depreciation *(Note 16)*	**14,945**	14,339
Amortisation of prepaid operating lease payments *(Note 17)*	**50**	50
Loss on disposals of property, plant and equipment *(Note 7)*	**1,187**	25
Gain on disposals of other financial assets at fair value through profit or loss *(Note 7)*	**(2,522)**	(660)
Fair value gain on other financial assets at fair value through profit or loss *(Note 7)*	**–**	(458)
Provision for impairment of trade receivables *(Note 23)*	**469**	5,531
Share-based payments *(Note 30)*	**353**	1,614
Interest income on other financial assets at fair value through profit or loss *(Note 7)*	**–**	(1,318)
Dividends from available-for-sale financial assets *(Note 7)*	**(22)**	–
Dividends from other financial assets at fair value through profit or loss *(Note 7)*	**–**	(14)
Finance costs – net *(Note 8)*	**3,565**	6,281
Share of loss of an associate *(Note 20)*	**–**	188
	79,917	80,164
Changes in working capital:		
Trade receivables	**19,649**	(27,558)
Prepayments, deposits and other receivables	**4,984**	(16,416)
Inventories	**4,790**	(13,836)
Amount due from an associate	**2**	89
Amount due from minority shareholders of a subsidiary	**118**	(300)
Amount due from a related company	**410**	(112)
Bills payable and trust receipt loans	**(16,449)**	(13,542)
Amount due to an associate	**–**	(650)
Trade payables	**(4,532)**	11,973
Accruals and other payables	**6,108**	3,346
Cash generated from operations	**94,997**	23,158

34 CASH GENERATED FROM OPERATIONS (Continued)

In the cash flow statement, proceeds from disposals of property, plant and equipment comprise:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Net book amount *(Note 16)*	**1,448**	49
Loss on disposal of property, plant and equipment *(Note 7)*	**(1,187)**	(25)
Proceeds from disposals of property, plant and equipment	**261**	24

During the year ended 31 December 2007, non-cash transactions included the offsetting of the prepayments, deposits and other receivables and the current income tax liabilities of HK$14,645,000 upon the finalisation of the tax assessments from Inland Revenue Department for previous years.

35 COMMITMENTS – GROUP

(a) Capital commitments

Capital expenditure at the balance sheet date but not yet incurred is as follows:

	2007	2006
	HK$'000	*HK$'000*
Property, plant and equipment		
Contracted but not provided for	**408**	3,012
Authorised but not contracted for	**–**	716
	408	3,728

(b) Operating lease commitments

The Group leases various offices, warehouses and quarters under non-cancellable operating lease agreements. These leases have varying terms, escalation clauses and renewal rights.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2007	2006
	HK$'000	*HK$'000*
Not later than 1 year	**11,160**	10,809
Later than 1 year and not later than 5 years	**12,782**	19,542
Later than 5 years	**–**	119
	23,942	30,470

36 BANKING FACILITIES

As at 31 December 2007, the Group's total available banking facilities amounted to approximately HK$329 million (2006: HK$261 million), of which approximately HK$286 million (2006: HK$189 million) was unutilised. The facilities were secured by the following:

(a) corporate guarantees given by the Company;

(b) pledge of the Group's fixed deposits of HK$2.4 million (2006: HK$2.4 million);

(c) available-for-sale financial assets with carrying value totaling approximately HK$3.5 million (2006: HK$3.2 million); and

(d) the Group's trade receivables of HK$2,022,000 (2006: HK$815,000).

The banking facilities granted to Southchina are also secured by personal guarantees given by Mr. Lam Yin Kee, a Director of the Company and other minority shareholders of Southchina.

37 RELATED PARTY TRANSACTIONS

The Group is controlled by Profit International Holdings Limited (incorporated in the British Virgin Islands), which owns 67.1% of the Company's shares as at 31 December 2007. In the opinion of the Directors, Profit International Holdings Limited is the ultimate holding company of the Company. The remaining 32.9% of the shares are widely held.

(a) Significant related party transactions, which were carried out in the normal course of the Group's business and at terms negotiated between the Group and the respective parties, were as follows:

	2007	2006
	HK$'000	*HK$'000*
Sales of goods to Maruman *(i)*	**1,765**	6,772
Rental expenses paid to Profit Home Investments Limited *(ii)*	**1,140**	960
Purchases of property, plant and equipment from TSC *(iii)*	**–**	2,160

(i) Maruman Products Co. Ltd. ("Maruman") is a company incorporated in Japan and owned as to 24.7% by Mr. Lam Yin Kee, the chairman and an executive Director of the Company. Maruman is engaged in the business of trading in general merchandise.

(ii) Ms. Yeung Po Wah is an executive Director of the Company, and has a 60% equity interest in Profit Home Investments Limited.

(iii) TSC is a 20.4% associate of the Group (Note 20).

37 RELATED PARTY TRANSACTIONS (Continued)

(b) Year end balances arising from the related parties transactions as disclosed in note (a) above were as follows:

	2007	2006
	HK$'000	*HK$'000*
Amount due from a related company *(Note 24)*	**509**	919

Amount due from a related company is aged less than one year and is unsecured, non-interest bearing and with normal credit terms of 60 days.

(c) **Key management compensation**

	2007	2006
	HK$'000	*HK$'000*
Directors' fees	**1,008**	960
Salaries and other short-term employee benefits	**12,095**	13,666
Share-based payments	**353**	1,614
Post-employment benefits	**122**	144
	13,578	16,384

FIVE-YEAR FINANCIAL SUMMARY

The following table summarises the results, assets and liabilities of the Group for each of the five years ended 31 December 2007:

	Year ended 31 December				
	2007	2006	2005	2004	2003
Results	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				Restated	Restated
Revenue	**575,080**	592,318	316,903	292,447	252,760
Profit before income tax	**61,892**	54,586	33,945	47,149	44,193
Income tax expense	**(11,163)**	(9,439)	(7,010)	(8,479)	(14,056)
Profit for the year	**50,729**	45,147	26,935	38,670	30,137
Minority interest	**(1,812)**	(1,362)	–	–	–
Profit attributable to equity holders of the Company	**48,917**	43,785	26,935	38,670	30,137
Assets and liabilities					
Total assets	**337,348**	345,283	319,939	163,266	167,200
Total liabilities	**127,074**	176,599	184,867	(111,223)	(126,272)
Total equity	**210,274**	168,684	135,072	52,043	40,928

Notes:

(1) The results of the Group for each of the two years ended 31 December 2004 and its assets and liabilities as at 31 December 2004 and 2003 have been prepared on a combined basis as if the current group structure had been in existence throughout the years concerned.

(2) The results of the Group for each of the two years ended 31 December 2004 have been restated as a result of the adoption of the new/revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants.

(3) The results of the Group for each of the two years ended 31 December 2007 and 2006 and its assets and liabilities as at 31 December 2007 and 2006 are those set out on pages 32 to 34 of this report and are presented on the basis as set out in note 2 to the financial statements.