



# Tomorrow International Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 760)

Annual Report

2008

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## **DIRECTORS**

### **Executive Directors**

YAU Tak Wah, Paul (*Chairman*)

LOUIE Mei Po

WONG Shin Ling, Irene

LIU Yee Nee

### **Independent Non-executive Directors**

NG Wai Hung

CHEUNG Chung Leung, Richard

WU Wang Li

## **COMPANY SECRETARY**

LIU Yee Nee

## **AUDITORS**

Grant Thornton

## **LEGAL ADVISER IN HONG KONG**

Vincent T.K. Cheung, Yap & Co.

## **LEGAL ADVISER ON BERMUDA LAW**

Conyers, Dill & Pearman

## **REGISTERED OFFICE**

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

## **HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS**

Room 1211, 12th Floor

Tower 1, New World Tower

18 Queen's Road Central

Hong Kong

## **PRINCIPAL SHARE REGISTRAR**

The Bank of Bermuda Limited

6 Front Street

Hamilton HM11

Bermuda

## **HONG KONG BRANCH SHARE REGISTRAR**

Computershare Hong Kong Investor Services Limited

Room 1901 – 1905

19th Floor

Hopewell Centre

183 Queen's Road East

Hong Kong

## **PRINCIPAL BANKERS**

Credit Suisse

Bank of East Asia Limited

Fubon Bank (Hong Kong) Limited

Hang Seng Bank Limited

LGT Bank in Liechtenstein (Singapore) Ltd.

The Hongkong and Shanghai Banking Corporation Limited

UBS



The board of directors (the "Board") of Tomorrow International Holdings Limited (the "Company") announces the 2008 audited annual results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2008.

## RESULTS

The Group's loss attributable to equity holders of the Company for the year was HK\$180.1 million (2007: loss of HK\$25.9 million). The loss was mainly due to the provision for impairment loss on an other receivable and the provision of workers' compensation arising from the new PRC labour law. The Group's operating loss in the year was HK\$6.2 million (2007: profit of HK\$17.2 million).

Loss per share amounted to HK8.01 cents, as compared with loss per share of HK1.15 cents in the previous year. As at 31 December 2008, the Group's net cash position amounted to HK\$643.9 million (2007: HK\$657.2 million) representing 87.1% (2007: 67.7%) of the equity attributable to equity holders of the Company of HK\$739.5 million.

## BUSINESS REVIEW

Electronic products division recorded operational loss of HK\$9.4 million in year 2008, after provision for additional employee's compensation and other benefits of \$10.2 million and additional amortisation of deferred development cost arising from the change of estimated useful lives from 7 years to 2 years of HK\$5.9 million. Excluding the impact of the above, the electronic products division has a segmental profit of HK\$6.7 million (2007: profit of HK\$13.7 million). Turnover of electronic products division for the year was HK\$366.2 million (2007: HK\$373.7 million), representing 2% decrease as compared with last year.

After several years of efforts, the printed circuit board ("PCB") division still remained a burden to the Group. The operational loss of the PCB division in year 2008 was HK\$12.3 million (2007: loss of HK\$10.7 million). After the balance sheet date, the Group has disposed its entire equity interests in PCB division to an independent third party. The Board was of the view that the performance of PCB division is unsatisfactory and it is no longer in the best interest of the Company to continue and further invest into the business of manufacturing and trading of PCB.

The financial tsunami has caused the global market to swing from optimism in early 2008 to pessimism by end of the year. The Group has been very cautious in the volatile investment market. Without participating in the investment market in the first three quarters in year 2008, the Group has restarted its equity investments business in the fourth quarter of 2008. The segmental profits was HK\$2.8 million (2007: profit of HK\$21.6 million).

Loan financing business remained inactive during the year. The segmental loss was HK\$4.2 million (2007: loss of HK\$11.1 million).

## FUTURE PLANS

Electronic products division will put all the efforts to stabilize the business from existing customers. Facing the turbulent worldwide economic environment, the Group is putting more marketing forces in European market that has not been fully explored before. The Group will be very cautious and pay extra attention to the sales volume in coming months. The Group has prepared to re-organize the production flow and to implement further cost saving measures to maintain its profitability. Electronic products division is developing a new product line, driving recorder, which may be fruitful in coming years.

The economy of 2009 is still challenging. To cope with the worsening economic situation, the management reassessed its businesses' operation to effectively enhance the value of the Company. Our strength in product development, well established customer base, strong financial position, and operational excellence should allow us to weather such difficult times. We remain positive about our future and believe that it is a good opportunity for the Company to grow stronger.



### LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2008, cash and bank balances (including time deposits) maintained by the Group were HK\$643.9 million (2007: HK\$657.2 million), representing a decrease of HK\$13.3 million compared with the position as at 31 December 2007. It is believed that the Group has adequate cash resources to meet the normal working capital requirements and all commitments of future development. The gearing of the Group, measured as total debts to total assets, was 13.4% as at 31 December 2008, comparing with 13.9% as at 31 December 2007.

Most of the business transactions conducted by the Group were nominated in Hong Kong Dollars, United States Dollars and Renminbi. As at 31 December 2008, there were no outstanding forward contracts in foreign currency committed by the Group that might involve it in significant foreign exchange risks and exposures.

### EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2008, the Group employed approximately 2,027 employees, with about 1,962 in the Mainland China and 65 in Hong Kong. All employees are remunerated based on industry practice and in accordance with prevailing labour law. In Hong Kong, apart from basic salary, staff benefits include medical insurance, performance related bonuses and mandatory provident fund would be provided by the Group.



### EXECUTIVE DIRECTOR

**Mr. YAU Tak Wah, Paul** — Chairman, aged 53, is the founder of the Group and is primarily responsible for corporate strategic planning. He holds a bachelor of science degree in mechanical engineering and has more than 23 years' experience in the electronics industry. Before he established the Group, Mr. Yau worked as design engineer in a renowned US electronics company operating in Hong Kong where he gained invaluable experience in production design and established close business relationships with various electronics manufacturers in Hong Kong.

**Ms. LOUIE Mei Po** — Director, aged 41, is responsible for business investment and development of the Group. Ms. Louie holds a master's degree in Business Administration and a bachelor's degree in Social Science from the Chinese University of Hong Kong. Prior to joining the Group, Ms. Louie was the executive director of two listed companies in Hong Kong specialising in mortgage loan financing, property investment and development. She has over 13 years' experience in business investment and development. She joined the Group in February 2000. She is an executive director of Yun Sky Chemical (International) Holdings Limited (Stock Code: 663), a company listed on the main board of the Hong Kong Stock Exchange.

**Ms. WONG Shin Ling, Irene** — Director, aged 48, is responsible for management and administration of the Group. Ms. Wong has over 16 years of experience in the field of property development and management. Prior to joining the Group, she was an executive director of two listed companies in Hong Kong specialising in mortgage loan financing, property investment and development. She joined the Group in February 2000.

**Ms. LIU Yee Nee** — Director, aged 43, is responsible for finance and is the company secretary of the Group. Ms. Liu holds a master degree of Business Administration from the Hong Kong University of Science & Technology and is a member of The Chartered Institute of Management Accountants, The Hong Kong Institute of Certified Public Accountants, The Association of Chartered Certified Accountants, The Institute of Chartered Secretaries & Administrators and The Hong Kong Institute of Company Secretaries and has over 20 years experience in the field of accounting and management. She joined the Group in August 2007. She is the chairman and an executive director of Yun Sky Chemical (International) Holdings Limited (Stock Code: 663), a company listed on the main board of the Hong Kong Stock Exchange.

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. NG Wai Hung** — Director, aged 45, is a practicing solicitor and a partner in Lu, Lai & Li, a Hong Kong firm of solicitors and notaries. Mr. Ng has extensive experience in the area of securities law, corporate law and commercial law in Hong Kong and has been involved in initial public offerings of securities in Hong Kong as well as corporate restructuring, mergers and acquisitions and takeovers of listed companies. He frequently advises multinational and Hong Kong corporations on private equity investments, joint ventures as well as regulatory compliance. He joined the Group in March 2000. He is an independent non-executive director of Fortune Sun (China) Holdings Limited (Stock Code: 352), HyComm Wireless Limited (Stock Code: 499), KTP Holdings Limited (Stock Code: 645) and Yun Sky Chemical International Holdings Limited (Stock Code: 663), all listed on the main board of the Hong Kong Stock Exchange.

**Mr. CHEUNG Chung Leung, Richard** — Director, aged 55, has 32 years of experience as an architect and real estate investment adviser. He graduated from the University of Hong Kong with degrees of Bachelor of Arts (Architectural Studies) and Bachelor of Architecture. He is a member of the Hong Kong Institute of Architects and a Registered Architect pursuant to the Architects Registration Ordinance. He is an executive director of Beauforte Investors Corporation Limited (Stock Code: 21), a company listed on the main board of the Hong Kong Stock Exchange. He joined the Group in March 2000.

**Mr. WU Wang Li** — Director, aged 34, has over 10 years of experience in the auditing and accounting profession and consulting services. He is a director of Skywise Consultants Limited and is admitted to the status of Certified Practising Accountant of CPA Australia. He joined the Group in September 2004. He is an independent non-executive director of HyComm Wireless Limited (Stock Code: 499) and Yun Sky Chemical International Holdings Limited (Stock Code: 663), both are listed on the main board of the Hong Kong Stock Exchange.



### SENIOR MANAGEMENT

**Mr. WEI, Andrew Yick Siu**, aged 39, is the business development director with more than 16 years experience in Japanese market. He graduated from the University of Toronto in 1992 with a bachelor degree in Arts & Science. Mr. Wei worked in various leading Japanese trading companies and buying offices in the electronics field before joining the Group in 2000.

**Mr. KIANG Shun Hung**, aged 38, is the marketing director, responsible for the sales operation and marketing activities of the Group's electronics product division and ODM/OEM product development team. He holds a bachelor of degree in social sciences and has over 15 years' sales and marketing experience in consumer electronics business. He joined the Group in 1998.

**Mr. LEUNG Hung Tat**, aged 43, is the general manager, responsible for the manufacturing operations of the Group's electronic products division. Prior to joining the Group in 1995, he worked as quality manager with an electronic manufacturer listed in Hong Kong for 5 years.

**Mr. FONG Wing Hon**, aged 43, is the R & D manager, responsible for the Group's product design and development and technical support. He holds a bachelor degree in electronic engineering and has over 12 years' experience in production engineering. He joined the Group in 1996.

The directors present their report and the audited financial statements for the year ended 31 December 2008.

## PRINCIPAL ACTIVITIES

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

## RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2008 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 16 to 84. The Board does not recommend the payment of any dividend in respect of the year (2007: Nil).

## SUMMARY FINANCIAL INFORMATION

	<b>2008</b>	2007	2006	2005	2004
	<b>HK\$'000</b>	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Assets and liabilities</b>					
Property, plant and equipment and land use rights	<b>66,984</b>	97,383	104,509	113,485	171,530
Investment properties	—	—	18,542	28,750	93,000
Negative goodwill	—	—	—	—	(27,284)
Interests and amount due from an associate	—	151,367	151,367	156,892	37,220
Prepaid rental	—	429	1,166	1,903	2,640
Deferred product development costs	<b>1,000</b>	7,880	8,387	6,819	5,861
Loans receivable	—	—	562	1,000	2,000
Available-for-sale financial assets	<b>1,901</b>	46,066	33,612	27,364	—
Current assets	<b>794,720</b>	825,204	774,051	594,650	635,798
<b>Total assets</b>	<b>864,605</b>	1,128,329	1,092,196	930,863	920,765
Current liabilities	<b>113,182</b>	156,224	135,634	132,044	155,907
Provision for long service payment	<b>2,963</b>	570	570	570	949
Deferred tax	—	—	1,319	2,053	3,122
Obligation under financial leases	<b>100</b>	132	—	—	—
<b>Total liabilities</b>	<b>116,245</b>	156,926	137,523	134,667	159,978
<b>Net assets</b>	<b>748,360</b>	971,403	954,673	796,196	760,787





### PROPERTY, PLANT AND EQUIPMENT

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

### SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 33 and 35 to the financial statements.

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

### RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 34 to the financial statements and in the consolidated statement of changes in equity, respectively.

### DISTRIBUTABLE RESERVES

At 31 December 2008, the Company's reserves available for cash distribution and/or distribution in specie, calculated in accordance with the Companies Act 1981 of Bermuda (as amended), amounted to HK\$343,128,000. In addition, there is HK\$365,359,000 in the Company's share premium account, whether appropriate to state in 2008.

### MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 56.4% (2007: 40.4%) of the total sales for the year and sales to the largest customer included therein amounted to 23.5% (2007: 19.2%) of the total sales. Purchases from the Group's five largest suppliers accounted for 24.9% (2007: 23.5%) of the total purchases for the year and purchases from the largest supplier included therein amounted to 7.8% (2007: 15.7%) of the total purchases.

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

### DIRECTORS

The directors of the Company during the year were as follows:

#### Executive directors

Mr. Yau Tak Wah, Paul (*Chairman*)  
Ms. Louie Mei Po  
Ms. Wong Shin Ling, Irene  
Ms. Liu Yee Nee

#### Independent non-executive directors

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

In accordance with the Company's bye-laws, Mr. Yau Tak Wah, Paul, Ms. Louie Mei Po and Mr. Wu Wang Li will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 5 to 6 of the annual report.

## DIRECTORS' SERVICE CONTRACTS

Mr. Wu Wang Li, an independent non-executive director, has renewed his service contract with the Company for a term of one year from 27 September 2008 and subject to rotation and re-election in accordance with the bye-laws of the Company. The annual director fee is HK\$120,000.

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

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

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

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

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

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

## DIRECTORS' AND CHIEF EXECUTIVES' RIGHT TO ACQUIRE SECURITIES

Save as disclosed in the share option scheme disclosures in note 35 to the financial statements, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse or minor children, to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## DIRECTORS' INTERESTS

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



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

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

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

Notes:

- (1) The entire issued share capital of Winspark Venture Limited is directly, beneficially and wholly owned by Mr. Chan Yuen Ming.
- (2) Prime Concept Development Limited is a wholly owned subsidiary of Hycomm Wireless Limited, which is a company listed in The Stock Exchange of Hong Kong Limited.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

## CONNECT AND RELATED PARTY TRANSACTIONS

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

## POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 47 to the financial statements.

## CORPORATE GOVERNANCE

The Company's Corporate Governance Report is set out on pages 11 to 13.

## SUFFICIENCY OF PUBLIC FLOAT

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

## AUDITORS

A resolution for the re-appointment of Grant Thornton as the auditors of the Company for the ensuing year will be proposed at the forthcoming annual general meeting.

During the year, CCIF CPA Limited resigned as auditors of the Company and Grant Thornton were appointed by the directors to fill the casual vacancy. There have been no other changes of auditors in the past three years.

For and on behalf of the Board

**Yau Tak Wah, Paul**  
Chairman

17 April 2009



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

## THE BOARD

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

During the financial year ended 31 December 2008, the Board held four regular meetings at approximately quarterly intervals according to the Code. The attendance of each director is as follows:

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

Currently, the Company does not appoint chief executive officer. In view of the operation of the Group, the Board believes that the present structure of the Board will provide a strong leadership for the Group to implement prompt decisions and to formulate efficient strategies, which is for benefits of the Group.

Moreover, the day-to-day operation of the Group’s businesses are shared among those executive directors and the management of the Company. Therefore, there should be a clear division of the responsibilities at the board level to ensure a balance of power and authority, so that power is not concentrated in any one individual.

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



During the period, two independent non-executive directors of the Company, namely Mr. Ng Wai Hung and Mr. Cheung Chung Leung, Richard, are not appointed for any specific fixed term and one independent non-executive director, Mr. Wu Wang Li, is appointed for the term of one year from 27 September 2008. In accordance with the bye-laws of the Company, at each annual general meeting of the Company one third of the directors shall retire from office by rotation. The Board considers that sufficient measures will be taken to ensure the corporate governance practices of the Company are not less exacting than those in the Code A4.1 and 4.2.

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

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

### REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

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

### ACCOUNTABILITY AND AUDIT

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

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

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

The fee payable to the Company's auditors, Grant Thornton, in respect of audit services for the year ended 31 December 2008 amounted to HK\$850,000.

### INTERNAL CONTROL

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



## DELEGATION BY THE BOARD

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

## COMMUNICATION WITH SHAREHOLDER

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

All shareholders of the Company are given at least 21 days notice of the date and venue of the annual general meeting. According to the Listing Rules, the Board will conduct voting at the forthcoming annual general meeting by vote and will amend the Bye-laws accordingly.

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

## MODEL CODE FOR SECURITIES TRANSACTIONS

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



Grant Thornton  
均富

Member of Grant Thornton International Ltd

**To the members of Tomorrow International Holdings Limited**

*(incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of Tomorrow International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 16 to 84, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

**DIRECTORS' RESPONSIBILITY FOR THE 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.

**AUDITORS' RESPONSIBILITY**

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, 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 auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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.



## INDEPENDENT AUDITORS' REPORT

### 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 2008 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

#### **Grant Thornton**

*Certified Public Accountants*  
13th Floor, Gloucester Tower  
The Landmark  
15 Queen's Road Central  
Hong Kong

17 April 2009





# CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	Notes	2008 HK\$'000	2007 HK\$'000 (Re-presented)
<b>Continuing operations</b>			
Revenue	5	<b>366,226</b>	374,042
Cost of sales		<b>(300,573)</b>	(306,120)
<b>Gross profit</b>		<b>65,653</b>	67,922
Other revenue and net income	7	<b>26,577</b>	36,371
Share-based compensation	35	—	(16,966)
Gain on disposal of available-for-sale financial assets		<b>8,000</b>	17,256
Impairment loss on a loan receivable		—	(3,500)
Impairment loss on available-for-sale financial assets	21(b)	<b>(1,549)</b>	—
Distribution costs		<b>(7,241)</b>	(8,401)
Administrative expenses		<b>(97,640)</b>	(75,504)
<b>Operating (loss)/profit</b>		<b>(6,200)</b>	17,178
Impairment loss on an other receivable	27(a)	<b>(151,367)</b>	—
<b>(Loss)/profit before income tax</b>	8	<b>(157,567)</b>	17,178
Income tax expense	11	<b>(10,181)</b>	(32,408)
<b>Loss for the year from continuing operations</b>		<b>(167,748)</b>	(15,230)
<b>Discontinued operations</b>			
Loss for the year from discontinued operations	12	<b>(12,325)</b>	(10,708)
<b>Loss for the year</b>		<b>(180,073)</b>	(25,938)
<b>Attributable to:</b>			
Equity holders of the Company	13		
— Continuing operations		<b>(167,748)</b>	(15,230)
— Discontinued operations		<b>(12,325)</b>	(10,708)
<b>Loss for the year</b>		<b>(180,073)</b>	(25,938)
<b>Basic loss per share</b>			
	14	<b>HK cents</b>	HK cents
From continuing operations		<b>(7.46)</b>	(0.68)
From discontinued operations		<b>(0.55)</b>	(0.47)
From continuing and discontinued operations		<b>(8.01)</b>	(1.15)
<b>Diluted loss per share</b>			
	14		
From continuing operations		<b>N/A</b>	N/A
From discontinued operations		<b>N/A</b>	N/A
From continuing and discontinued operations		<b>N/A</b>	N/A



# CONSOLIDATED BALANCE SHEET

As at 31 December 2008

	Notes	2008 HK\$'000	2007 HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	15	<b>57,683</b>	87,830
Leasehold land and land use rights	16	<b>9,301</b>	9,553
Interest in an associate	18	—	—
Amount due from an associate	18	—	151,367
Prepaid rental	19	—	429
Deferred product development costs	20	<b>1,000</b>	7,880
Available-for-sale financial assets	21	<b>1,901</b>	46,066
		<b>69,885</b>	303,125
<b>Current assets</b>			
Property held for sale	22	—	5,439
Financial assets at fair value through profit or loss	23	<b>4,012</b>	—
Leasehold land and land use rights	16	<b>252</b>	252
Inventories	24	<b>52,425</b>	73,810
Loans receivable	25	—	11,372
Trade and bill receivables	26	<b>32,408</b>	42,470
Prepayments, deposits and other receivables	27	<b>9,041</b>	34,661
Cash and cash equivalents	28	<b>643,884</b>	657,200
		<b>742,022</b>	825,204
Assets of a disposal group classified as held for sale	12	<b>52,698</b>	—
		<b>794,720</b>	825,204
<b>Current liabilities</b>			
Trade payables	29	<b>34,403</b>	74,326
Amount due to a related company	30	—	10,530
Accruals and other payables		<b>26,355</b>	19,269
Provision for tax		<b>1,069</b>	52,054
Obligation under finance leases	36	<b>55</b>	45
		<b>61,882</b>	156,224
Liabilities of a disposal group classified as held for sale	12	<b>51,300</b>	—
		<b>113,182</b>	156,224
<b>Net current assets</b>		<b>681,538</b>	668,980
<b>Total assets less current liabilities</b>		<b>751,423</b>	972,105



# CONSOLIDATED BALANCE SHEET

As at 31 December 2008

	Notes	2008 HK\$'000	2007 HK\$'000
<b>Non-current liabilities</b>			
Provision for long service payment	31	2,963	570
Obligation under finance leases	36	100	132
		<b>3,063</b>	702
<b>Net assets</b>			
		<b>748,360</b>	971,403
<b>EQUITY</b>			
Equity attributable to the Company's equity holders			
Share capital	33	8,991	8,991
Reserves	34	730,470	953,513
		<b>739,461</b>	962,504
Minority interests		<b>8,899</b>	8,899
<b>Total equity</b>			
		<b>748,360</b>	971,403

**Yau Tak Wah, Paul**  
Director

**Louie Mei Po**  
Director



# BALANCE SHEET

As at 31 December 2008

	Notes	2008 HK\$'000	2007 HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	15	—	—
Interests in subsidiaries	17	<b>93,316</b>	93,316
		<b>93,316</b>	93,316
<b>Current assets</b>			
Prepayments, deposits and other receivables	27	<b>976</b>	1,011
Amounts due from subsidiaries	17	<b>117,222</b>	390,579
Tax recoverables		<b>14</b>	14
Cash and cash equivalents	28	<b>534,997</b>	381,718
		<b>653,209</b>	773,322
<b>Current liabilities</b>			
Accruals and other payables		<b>2,120</b>	2,600
Amounts due to subsidiaries	17	<b>9,654</b>	9,873
		<b>11,774</b>	12,473
<b>Net current assets</b>			
		<b>641,435</b>	760,849
<b>Total assets less current liability</b>			
		<b>734,751</b>	854,165
<b>Non-current liability</b>			
Provision for long service payment	31	<b>230</b>	230
<b>Net assets</b>			
		<b>734,521</b>	853,935
<b>EQUITY</b>			
Share capital	33	<b>8,991</b>	8,991
Reserves	34	<b>725,530</b>	844,944
<b>Total equity</b>			
		<b>734,521</b>	853,935

**Yau Tak Wah, Paul**  
Director

**Louie Mei Po**  
Director



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	Equity attributable to equity holders of the Company												
	Share capital HK\$'000	Share premium* HK\$'000	Currency translation reserve* HK\$'000	Capital reserve* HK\$'000	Contributed surplus* HK\$'000	Capital redemption reserve* HK\$'000	Property revaluation reserve* HK\$'000	Fair value available-for-sale financial assets* HK\$'000	Share-based compensation reserve* HK\$'000	Retained profits* HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
At 1 January 2007	8,991	365,359	(1,033)	801	283,208	77	713	21,868	—	265,790	945,774	8,899	954,673
Arising from revaluation of leasehold buildings	—	—	—	—	—	—	3,100	—	—	—	3,100	—	3,100
Change in fair value of available-for-sale financial assets	—	—	—	—	—	—	—	22,649	—	—	22,649	—	22,649
Exchange realignment	—	—	(47)	—	—	—	—	—	—	—	(47)	—	(47)
Net income and expense recognised directly in equity	—	—	(47)	—	—	—	3,100	22,649	—	—	25,702	—	25,702
Loss for the year	—	—	—	—	—	—	—	—	—	(25,938)	(25,938)	—	(25,938)
Total recognised income and expense for the year	—	—	(47)	—	—	—	3,100	22,649	—	(25,938)	(236)	—	(236)
Share-based compensation	—	—	—	—	—	—	—	—	16,966	—	16,966	—	16,966
At 31 December 2007	8,991	365,359	(1,080)	801	283,208	77	3,813	44,517	16,966	239,852	962,504	8,899	971,403
At 1 January 2008	8,991	365,359	(1,080)	801	283,208	77	3,813	44,517	16,966	239,852	962,504	8,899	971,403
Arising from revaluation of leasehold buildings	—	—	—	—	—	—	199	—	—	—	199	—	199
Change in fair value of available-for-sale financial assets	—	—	—	—	—	—	—	(31,307)	—	—	(31,307)	—	(31,307)
Realisation of change in fair value of available-for-sale financial assets	—	—	—	—	—	—	—	(11,309)	—	—	(11,309)	—	(11,309)
Exchange realignment	—	—	(553)	—	—	—	—	—	—	—	(553)	—	(553)
Net income and expense recognised directly in equity	—	—	(553)	—	—	—	199	(42,616)	—	—	(42,970)	—	(42,970)
Loss for the year	—	—	—	—	—	—	—	—	—	(180,073)	(180,073)	—	(180,073)
Total recognised income and expense for the year	—	—	(553)	—	—	—	199	(42,616)	—	(180,073)	(223,043)	—	(223,043)
At 31 December 2008	8,991	365,359	(1,633)	801	283,208	77	4,012	1,901	16,966	59,779	739,461	8,899	748,360

\* These reserve accounts comprise the consolidated reserves of approximately HK\$730,470,000 (2007: HK\$953,513,000) in the consolidated balance sheet.



# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	Notes	2008 HK\$'000	2007 HK\$'000 (Re-presented)
(Loss)/profit before income tax			
From continuing operations		<b>(157,567)</b>	17,178
From discontinued operations	12	<b>(12,305)</b>	(10,667)
		<b>(169,872)</b>	6,511
Adjustments for :			
Interest income on financial assets carried at amortised costs	7	<b>(14,917)</b>	(27,603)
Other interest income on financial assets carried at amortised costs	7	<b>(226)</b>	(794)
Gain on disposal/deregistration of a subsidiary	7	<b>(1,000)</b>	(27)
Gain on disposal of an associate	7	<b>(5)</b>	—
Gain on disposal of available-for-sale financial assets		<b>(8,000)</b>	(17,256)
Gain on disposal of property held for sale	7	<b>(2,961)</b>	—
Unrealised loss on financial assets at fair value through profit or loss		<b>598</b>	—
Depreciation on property, plant and equipment			
— Owned assets	8	<b>17,346</b>	19,706
— Leased assets	8	<b>45</b>	45
Loss on disposal of property, plant and equipment	8	<b>2,088</b>	49
Loss on disposal of investment property	8	<b>—</b>	48
Amortisation of leasehold land and land use rights	8	<b>252</b>	252
Amortisation of prepaid rental	8	<b>429</b>	737
Amortisation of deferred product development costs	8	<b>7,848</b>	2,011
Share-based compensation		<b>—</b>	16,966
Written back of allowance for inventories	8	<b>(370)</b>	(1,764)
Impairment loss on an other receivable		<b>151,367</b>	—
Impairment loss on a loan receivable		<b>—</b>	3,500
Impairment loss on trade receivables	8	<b>967</b>	5,255
Impairment loss on available-for-sale financial assets		<b>1,549</b>	—
Operating (loss)/profit before working capital changes		<b>(14,862)</b>	7,636
Decrease/(Increase) in inventories		<b>9,489</b>	(7,487)
Decrease/(Increase) in trade and bill receivables		<b>1,893</b>	(11,708)
Decrease/(Increase) in loans receivable		<b>11,372</b>	(6,434)
Decrease/(Increase) in prepayments, deposits and other receivables		<b>12,397</b>	(7,700)
(Increase)/Decrease in financial assets at fair value through profit or loss		<b>(4,610)</b>	13,217
Decrease in trade payables		<b>(14,173)</b>	(8,573)
Increase/(Decrease) in accruals and other payables		<b>18,530</b>	(11,799)
Increase in amount due to a related company		<b>3,033</b>	10,530
Increase in provision for long service payment		<b>2,393</b>	—
Cash generated from/(used in) operations		<b>25,462</b>	(22,318)
Income tax paid		<b>(60,825)</b>	(3,381)
<b>Net cash outflow from operating activities</b>		<b>(35,363)</b>	(25,699)



# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	Notes	2008 HK\$'000	2007 HK\$'000 (Re-presented)
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	38(b)	(7,696)	(9,749)
Additions to deferred product development costs		(968)	(1,504)
Proceeds from disposal of property, plant and equipment		1,399	100
Proceeds from deregistration of a subsidiary		—	27
Proceeds from disposal of an associate		5	—
Proceeds from disposal of investment property		—	18,494
Purchase of available-for-sale financial assets		—	(1,549)
Proceeds from disposal of available-for-sale financial assets		8,000	29,000
Proceeds from disposal of property held for sale		8,400	—
Interest received on financial assets carried at amortised costs		14,917	27,603
Other interest received from financial assets carried at amortised costs		226	794
		<b>24,283</b>	<b>63,216</b>
<b>Cash flows from financing activity</b>			
Repayment of obligation under finance leases		(22)	—
		<b>(22)</b>	<b>—</b>
<b>Net cash used in financing activity</b>			
Net (decrease)/increase in cash and cash equivalents		(11,102)	37,517
Cash and cash equivalents at 1 January		657,200	619,730
Effect of foreign exchange rate changes		(553)	(47)
Cash and cash equivalents at 31 December		<b>645,545</b>	<b>657,200</b>
<b>Analysis of cash and cash equivalents</b>			
Bank balances and cash of continuing operations	28	643,884	657,200
Bank balances and cash included in assets classified as held for sale	12	1,661	—
		<b>645,545</b>	<b>657,200</b>



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 1. GENERAL INFORMATION

Tomorrow International Holdings Limited (the “Company”) is a limited liability company incorporated in Bermuda and domiciled in Hong Kong. The addresses of its registered office and principal place of business of the Company are disclosed in the corporate information section to the annual report. The Company’s shares are listed on The Stock Exchange of Hong Kong Limited.

The principal activities of the Company and its subsidiaries (collectively referred to as the “Group”) consisted of investment holding, design, development, manufacture and sale of electronic products, trading and distribution of electronic components and parts, trading of listed equity investments and provision of loan financing.

The Group disposed of its business segment of manufacture and sale of printed circuit boards (“PCBs”) after the year ended date and such business segment and the associated assets and liabilities were classified as discontinued operations and assets and liabilities of a disposal group classified as held for sale for the year ended 31 December 2008 respectively.

The financial statements on pages 16 to 84 have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

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

The financial statements for the year ended 31 December 2008 were approved for issue by the board of directors on 17 April 2009.

## 2. ADOPTION OF NEW OR AMENDED HKFRSs

In the current year, the Group has applied for the first time the following new standards, amendments and interpretations (the “new HKFRSs”) issued by the HKICPA, which are relevant to and effective for the Group’s financial statements for the annual period beginning on 1 January 2008:

HK (IFRIC) — Int 11	HKFRS 2: Group and Treasury Share Transactions
HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets

The new HKFRSs had no material impact on how the results and financial positions for the current and prior periods have been prepared and presented. Accordingly, no prior period adjustment is required.





# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 2. ADOPTION OF NEW OR AMENDED HKFRSs (Continued)

At the date of authorisation of these financial statements, the following new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.

HKAS 1 (Revised)	Presentation of Financial Statements <sup>1</sup>
HKAS 23 (Revised)	Borrowing Costs <sup>1</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>2</sup>
HKAS 1, HKAS 32, HKAS 39 & HKFRS 7 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation <sup>1</sup>
HKAS 39 (Amendment)	Eligible Hedged Items <sup>2</sup>
HKFRS 1 and HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or an Associate <sup>1</sup>
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards <sup>2</sup>
HKFRS 2 (Amendment)	Share-based Payment — Vesting Conditions and Cancellations <sup>1</sup>
HKFRS 3 (Revised)	Business Combinations <sup>2</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HK(IFRIC) — Int 2	Members' Shares in Co-operative Entities and Similar Instruments <sup>1</sup>
HK(IFRIC) — Int 9 (Amendment)	Reassessment of Embedded Derivative and HKAS 39 Financial Instruments: Recognition and Measurement – Embedded Derivatives <sup>7</sup>
HK(IFRIC) — Int 13	Customer Loyalty Programmes <sup>3</sup>
HK(IFRIC) — Int 15	Agreements for the Construction of Real Estate <sup>1</sup>
HK(IFRIC) — Int 16	Hedges of a Net Investment in a Foreign Operation <sup>4</sup>
HK(IFRIC) — Int 17	Distributions of Non-cash Assets to Owners <sup>2</sup>
HK(IFRIC) — Int 18	Transfer of Assets from Customers <sup>6</sup>
Various	Annual Improvements to HKFRS 2008 <sup>5</sup>

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

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

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

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

<sup>5</sup> Generally effective for annual periods beginning on or after 1 January 2009 unless otherwise stated in the specific HKFRSs

<sup>6</sup> Effective for transfer of assets from customers received on or after 1 July 2009

<sup>7</sup> Effective for annual periods ending on or after 30 June 2009

The directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncements.

Among these new standards and interpretations, HKAS 1 (Revised) *Presentation of Financial Statements* is expected to materially change the presentation of the Group's financial statements. The amendments affect the presentation of owner changes in equity and introduce a statement of comprehensive income. The Group will have the option of presenting items of income and expenses and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of comprehensive income). The amendment does not affect the financial positions or results of the Group but will give rise to additional disclosures.

In addition, HKFRS 8 *Operating Segments* may result in new or amended disclosures. The directors are in the process of identifying reportable operating segments as defined in HKFRS 8.

The directors are currently assessing the impact of other new and amended HKFRSs upon initial application. So far, the directors have preliminarily concluded that the initial application of these HKFRSs is unlikely to have a significant impact on the Group's results and financial positions.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 3.1 Basis of preparation

The significant accounting policies that have been used in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated.

The financial statements have been prepared on the historical cost basis except for buildings and financial instruments classified as available-for-sale financial assets or financial assets at fair value through profit or loss which are stated at fair value. Assets of a disposal group classified as held for sale are stated at the lower of their carrying amount and fair value less costs to sell.

The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

### 3.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

### 3.3 Subsidiaries

Subsidiaries are entities (including special purpose entities, if any) over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. 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 consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

Business combinations (other than for combining entities under common control) are accounted for by applying the purchase method. This involves the estimation of fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the Company's balance sheet, subsidiaries are carried at cost less any impairment loss unless the subsidiary is held for sale or included in a disposal group. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.3 Subsidiaries *(Continued)*

Minority interest represents the portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned by the Group and are not the Group's financial liabilities.

Minority interests are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the Company. Profit or loss attributable to the minority interests are presented separately in the consolidated income statement as an allocation of the Group's results. Where losses applicable to the minority exceeds the minority interests in the subsidiary's equity, the excess and further losses applicable to the minority are allocated against the minority interest to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. Otherwise, the losses are charged against the Group's interests. If the subsidiary subsequently reports profits, such profits are allocated to the minority interest only after the minority's share of losses previously absorbed by the Group has been recovered.

### 3.4 Associates

Associates are those entities over which the Group is able to exert significant influence, generally accompanying a shareholding of between 20% and 50% of voting rights but which are neither subsidiaries nor investment in a joint venture. In consolidated financial statements, investment in associates is initially recognised at cost and subsequently accounted for using the equity method. Under the equity method, the Group's interest in the associate is carried at cost and adjusted for the post-acquisition changes in the Group's share of the associate's net assets less any identified impairment loss, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associate for the year, including any impairment loss on goodwill relating to the investment in associate recognised for the year.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised 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. Where the associate uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made, where necessary, to conform the associate's accounting policies to those of the Group when the associate's financial statements are used by the Group in applying the equity method.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.5 Foreign currency translation

The financial statements are presented in Hong Kong dollars ("HK\$"), which is also the functional currency of the Company.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the balance sheet date retranslation of monetary assets and liabilities are recognised in the consolidated income statement.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into Hong Kong dollars. Assets and liabilities have been translated into Hong Kong dollars at the closing rates at the balance sheet date. Income and expenses have been converted into Hong Kong dollars at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been dealt with separately in the currency translation reserve in equity. Goodwill and fair value adjustments arising on the acquisition of a foreign operation on or after 1 January 2005 have been treated as assets and liabilities of the foreign operation and translated into Hong Kong dollars at the closing rates. Goodwill arising on the acquisitions of foreign operations before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

Other exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the consolidated income statement as part of the gain or loss on sale.

### 3.6 Revenue recognition

Revenue comprises the fair value for the sale of goods, rendering of services and the use by others of the Group's assets yielding interest and dividends, net of rebates and discounts. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

Sales of goods are recognised upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

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



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.6 Revenue recognition *(Continued)*

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

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

Management services income is recognised at the time when the service is performed.

Revenue from sales of listed investments are recognised upon transfer of the ownership to others. Trading fees and trading tariff on securities are recognised on trade date basis.

### 3.7 Property, plant and equipment

Freehold buildings and building situated on land held under operating leases are stated at revalued amounts, being fair value at the date of revaluation less subsequent accumulated depreciation and any subsequent impairment losses. Fair value is determined in appraisals by external professional valuers with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment, other than construction in progress, are stated at acquisition cost less accumulated depreciation and accumulated impairment losses.

Any surplus arising on revaluation of buildings is credited to the property revaluation reserve in equity, unless the carrying amount of that asset has previously suffered a revaluation decrease or impairment loss as described in note 3.8. To the extent that any decrease has previously been recognised in the consolidated income statement, a revaluation increase is credited to the consolidated income statement with the remaining part of the increase dealt with in the property revaluation reserve. A decrease in net carrying amount of buildings arising on revaluations or impairment testing is charged against any revaluation surplus in the property revaluation reserve relating to the same asset and the remaining decrease recognised in the consolidated income statement.

Buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease, and other items of plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Buildings held under leasing agreements are depreciated over their expected useful lives or over the term of lease, if shorter.

Depreciation is provided to write off the cost or revalued amounts less their residual values over their estimated useful lives, using the straight-line method, at the following rates per annum:

Buildings	2 – 2.5%
Leasehold improvements	5 – 50%
Plant and machinery	10 – 20%
Furniture, fixtures and office equipment	10 – 20%
Motor vehicles	20%



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.7 Property, plant and equipment *(Continued)*

The asset's residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated income statement. Any revaluation surplus remaining in equity is transferred to retained earnings on the disposal of building.

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. All other costs, such as repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

Construction in progress, which represents machineries under construction, is stated at cost less accumulated impairment losses. Cost comprises direct costs incurred during the periods of construction, installation and testing. No depreciation is provided on construction in progress. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

### 3.8 Impairment of non-financial assets

Property, plant and equipment, leasehold land and land use rights, deferred product development costs and interests in subsidiaries and associates are subject to impairment testing.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount unless the relevant asset is carried at a revalued amount under the Group's accounting policy, in which case the impairment loss is treated as a revaluation decrease according to that policy. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

### 3.9 Leases

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

#### (i) *Classification of assets leased to the Group*

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.9 Leases *(Continued)*

#### (i) *Classification of assets leased to the Group (Continued)*

- property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease; and
- land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon, at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

#### (ii) *Assets acquired under finance leases*

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligation under finance leases.

Subsequent accounting for assets held under finance lease agreements corresponds to those applied to comparable acquired assets. The corresponding finance lease liability is reduced by lease payments less finance charges.

Finance charges implicit in the lease payments are charged to the consolidated income statement over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to the consolidated income statement in the accounting period in which they are incurred.

#### (iii) *Operating lease charges as the lessee*

Where the Group has the right to use of assets held under operating leases, payments made under the leases are charged to the consolidated income statement on a straight line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the consolidated income statement as an integral part of the aggregate net lease payments made. Contingent rental are charged to the consolidated income statement in the accounting period in which they are incurred.

### 3.10 Deferred product development costs

Costs associated with research activities are expensed in the consolidated income statement as they occur. Costs that are directly attributable to the development phase are recognised as intangible assets (deferred product development costs) provided they meet the following recognition requirements :

- (i) demonstration of technical feasibility of the prospective product for internal use or sale;
- (ii) there is intention to complete the intangible assets and use or sell it;
- (iii) the Group's ability to use or sell the intangible assets is demonstrated;
- (iv) the intangible assets will generate probable economic benefits through internal use or sale;
- (v) sufficient technical, financial and other resources are available for completion; and
- (vi) the expenditure attributable to the intangible assets can be reliably measured



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.10 Deferred product development costs *(Continued)*

Direct costs include employee costs incurred on development along with an appropriate portion of relevant overheads. The costs of internally generated developments are recognised as intangible assets. They are subject to the same subsequent measurement method as externally acquired intangible assets.

All other development costs are expensed as incurred.

Deferred product development costs acquired separately are recognised initially at cost. After initial recognition, deferred product development costs with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for deferred product development costs with finite useful lives is provided on straight-line basis over their estimated useful lives as follow:

Capitalised deferred product development costs	2 years
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### 3.11 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the weighted average basis, and in the case of work in progress and finished goods, comprise direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses.

### 3.12 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

### 3.13 Financial assets

The Group's accounting policies for financial assets other than investments in subsidiaries and associates are set out below.

Financial assets other than hedging instruments are classified into the following categories:

- financial assets at fair value through profit or loss
- loans and receivables
- available-for-sale financial assets

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. Regular may purchase of financial assets are recognised on trade date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.





# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.13 Financial assets *(Continued)*

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

At each balance sheet date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

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

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term or it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit making. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or
- the assets are part of a group of financial assets which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management strategy and information about the group of financial assets is provided internally on that basis to the key management personnel; or
- the financial asset contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in the consolidated income statement. Fair value is determined by reference to active market transactions or using a valuation technique where no active market exists. Fair value gain or loss does not include any dividend or interest earned on these financial assets. Dividend and interest income is recognised in accordance with the Group's policies in note 3.6 to these financial statements.



## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.13 Financial assets *(Continued)*

#### *(ii) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

#### *(iii) Available-for-sale financial assets*

Non-derivative financial assets that do not qualify for inclusion in any of the other categories of financial assets are classified as available-for-sale financial assets.

All financial assets within this category are subsequently measured at fair value. Gain or loss arising from a change in the fair value excluding any dividend and interest income is recognised directly in equity, except for impairment losses and foreign exchange gains and losses on monetary assets, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in equity would be recycled to the consolidated income statement. Interest calculated using the effective interest method is recognised in the consolidated income statement.

The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the reporting date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in the consolidated income statement, and other changes are recognised in equity.

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

#### *Impairment of financial assets*

At each balance sheet date, financial assets other than at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.13 Financial assets *(Continued)*

#### *Impairment of financial assets (Continued)*

Loss events in respect of a group of financial assets include observable data indicating that there is a measureable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

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

(i) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in the consolidated income statement of the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in the consolidated income statement of the period in which the reversal occurs.

(ii) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, an amount is removed from equity and recognised in the consolidated income statement as impairment loss. That amount is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in the consolidated income statement.

Reversals in respect of investment in equity instruments classified as available-for-sale are not recognised in the consolidated income statement. The subsequent increase in fair value is recognised directly in equity. Impairment losses in respect of debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversal of impairment losses in such circumstances are recognised in the consolidated income statement.

(iii) Financial assets carried at cost

The amount of impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.13 Financial assets *(Continued)*

#### *Impairment of financial assets (Continued)*

##### (iii) Financial assets carried at cost *(Continued)*

Financial assets other than financial assets at fair value through profit or loss and trade receivables that are stated at amortised cost, impairment losses are written off against the corresponding assets directly. Where the recovery of trade receivables is considered doubtful but not remote, the impairment losses for doubtful receivables are recorded using an allowance account. When the Group is satisfied that recovery of trade receivables is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account in respect of that receivable are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in the consolidated income statement.

Impairment losses recognised in an interim period in respect of available for sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period.

### 3.14 Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the consolidated income statement.

Deferred tax is calculated using the liability method on temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

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

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised in the consolidated income statement or in equity if they relate to items that are charged or credited directly to equity.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.15 Share capital

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

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

### 3.16 Retirement benefit costs and short term employee benefits

Retirement benefits to employees are provided through defined contribution plans.

#### *Defined contribution plan*

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

The employees of the Group's subsidiaries which operate in the People's Republic of China (the "PRC") are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

#### *Short-term employee benefits*

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.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

### 3.17 Share-based employee compensation

All share-based payment arrangements granted after 7 November 2002 and had not vested on 1 January 2005 are recognised in the financial statements. The Group operates equity-settled share-based compensation plans for remuneration of its employees.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the share options awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions.



### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 3.17 Share-based employee compensation *(Continued)*

All share-based compensation is ultimately recognised as an expense in the consolidated income statement/ recognised as an expense at the grant date when the share options granted vest immediately, with a corresponding increase in share-based compensation reserve in equity. If vesting periods or other vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment to expense recognised in prior periods is made if fewer share options ultimately are exercised than originally vested.

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

#### 3.18 Financial liabilities

The Group's financial liabilities include trade payables, accruals and other payables, amount due to a related company and obligation under finance leases.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised as an expense in finance costs in the consolidated income statement.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in the consolidated income statement.

##### *Finance lease liabilities*

Finance lease liabilities are measured at initial value less the capital element of lease repayments.

##### *Other financial liabilities*

Trade payables, accruals and other payables and amount due to a related company are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.19 Provisions, contingent liabilities and contingent assets

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

All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

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

Contingent liabilities are recognised in the course of the allocation of purchase price to the assets and liabilities acquired in a business combination. They are initially measured at fair value at the date of acquisition and subsequently measured at the higher of the amount that would be recognised in a comparable provision as described above and the amount initially recognised less any accumulated amortisation, if appropriate.

### 3.20 Financial guarantees issued

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in the consolidated income statement on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in the consolidated income statement over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee and the amount of that claim on the Group is expected to exceed the current carrying amount i.e. the amount initially recognised less accumulated amortisation, where appropriate.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.21 Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial operating policy decisions, or has joint control over the Group;
- (ii) the Group and the party are subject to common control;
- (iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;
- (iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

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

### 3.22 Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

In respect of business segment reporting, unallocated costs include corporate expenses and other expenses that cannot be allocated on a reasonable basis to the reportable segment. Segment assets consist primarily of property, plant and equipment, leasehold land and land use rights, deferred product development costs, inventories, receivables and operating cash, and mainly exclude corporate assets and available-for-sale investment. Segment liabilities comprise operating liabilities and exclude items such as taxation.

Capital expenditure comprises additions to property, plant and equipment and deferred product development costs, including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, revenue is based on the country in which the customer is located and total assets and capital expenditure are where the assets are located.





# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.23 Non-current assets held for sale

#### (i) *Non-current assets held for sale*

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then on initial classification as held for sale and until disposal, the non-current assets, or the disposal group, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the accounts of the Group are concerned are deferred tax assets, financial assets (other than investments in subsidiaries and associates) and investment properties. These assets, even if held for sale, would continue to be measured in accordance with the policies governed with.

As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current assets is not depreciated or amortised.

#### (ii) *Discontinued operations*

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinate plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale (see (i) above), if earlier. It also occurs when the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the consolidated income statement, which comprises:

- the post-tax profit or loss of the discontinued operations; and
- the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

### 3.24 Leasehold land and land use rights

Leasehold interests in land are up-front payments to acquire the land use rights. The payments are stated at cost less accumulated amortisation and any impairment losses. Amortisation is calculated on the straight-line basis to write off the up-front payments over the lease terms.

### 3.25 Property held for sale

Property held for sale is stated at the lower of cost and net realisable value. Cost includes land cost, development cost and other direct costs attributable to the property concerned until they reach a marketable state. Net realisable value represents the estimated selling price in the ordinary course of business less all estimated costs of completion and the estimated costs necessary to make the sale.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

### (a) Critical accounting estimates and assumptions

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.

#### (i) *Depreciation, useful lives and residual values of property, plant and equipment*

The Group's management exercises its judgement in estimating the useful lives and residual values of the depreciable property, plant and equipment. The estimated useful lives and residual values reflect the management's estimate of the periods the Group intends to derive future economic benefits from the use of these assets.

The Group depreciates its property, plant and equipment other than construction in progress in accordance with the accounting policies stated in note 3.7. The carrying amount of property, plant and equipment is disclosed in note 15.

#### (ii) *Net realisable value of inventories*

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experiences of selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles. Management will reassess the estimations at the balance sheet date.

#### (iii) *Estimated impairment on receivables*

The Group's management assesses the collectability of receivables. This estimate is based on the past collection, credit history and ageing analysis of the Group's receivables, as well as the current economy and market condition. Impairment on receivables is made based on the estimation of the future cash flow expected to arise and the original effective interest rate in order to calculate the present value. The Group's management determines impairment of its receivables on a regular basis and reassesses the impairment of receivables at the balance sheet date.

#### (iv) *Impairment of interests in subsidiaries*

The Group's management follows the guidance of HKAS 36 Impairment of assets, in determining whether interests in subsidiaries are impaired requires the assumption made regarding the financial health of near-term business outlook for the investment, including factor such as industry and sector performance, changes in technology and operational and financing cash flow.

Based on the Group's assessment there is no requirement to provide for any allowance for impairment in value of interests in subsidiaries. The Company's carrying amount of interests in subsidiaries at 31 December 2008 was approximately HK\$93,316,000 (2007 : 93,316,000).



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

### 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

#### (a) Critical accounting estimates and assumptions *(Continued)*

##### (v) *Income taxes*

The Group is subject to income taxes in several jurisdictions. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax 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. In the opinion of the directors, the current tax position is a fair reflection of the judgement exercised by them with respect to such transactions.

#### (b) Critical judgements in applying the Group's accounting policies

##### (i) *Deferred product development costs*

Careful judgement by the Group's management is applied when deciding whether the deferred recognition requirements for product development costs have been met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems at the time of recognition. Judgements are based on the best information available at each balance sheet date. In addition, all internal activities related to the development of new products are continuously monitored by the Group's management.

The Group's management follows the guidance of HKAS 38 Intangible Assets, to review the estimated useful lives of its intangible assets. Based on the Group's assessment as at 31 December 2008, the estimated useful lives of the deferred product development costs was revised from 7 years to 2 years. The amortisation charges for the current financial year has been increased by approximately HK\$5,871,000 as a result of the change in accounting estimates.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 5. REVENUE AND TURNOVER

Revenue, which is also the Group's turnover, represents total invoiced value of goods supplied and income from provision of services. Revenue recognised during the year is as follows:

	2008 HK\$'000	2007 HK\$'000 (Re-presented)
<b>Continuing operations</b>		
Sales of electronic products	<b>366,225</b>	373,740
Provision of loan financing	<b>1</b>	302
	<b>366,226</b>	374,042
<b>Discontinued operations</b>		
Sale of PCBs	<b>83,658</b>	89,855
	<b>449,884</b>	463,897

## 6. SEGMENT INFORMATION

### Primary reporting format – business segments

The Group is organised into five main business segments:

- (a) Electronic products segment consists of the manufacture and sale of electronic products;
- (b) Electronic components and parts segment consists of the trading and distribution of electronic components and parts;
- (c) Equity investments segment consists of the trading of listed equity investments;
- (d) Provision of finance segment consists of the provision of loan financing services;
- (e) PCBs segment consists of the manufacture and sale of PCBs.

The manufacture and sale of PCBs segment has been classified as discontinued operations for the year (note 12).

Inter-segment sales are charged at prevailing market prices.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 6. SEGMENT INFORMATION *(Continued)* **Primary reporting format – business segments *(Continued)*** **For the year ended 31 December 2008**

	Continuing operations					Discontinued operations			Consolidated HK\$'000
	Electronic products HK\$'000	Electronic components and parts HK\$'000	Equity investments HK\$'000	Provision of finance HK\$'000	Eliminations HK\$'000	Total HK\$'000	PCBs HK\$'000	Unallocated HK\$'000	
<b>Segment revenue</b>									
Sales to external customers	366,225	—	—	1	—	366,226	83,658	—	449,884
Inter-segment sales	—	11,712	—	1,361	(13,073)	—	—	—	—
Other revenue	6,604	2	4,601	122	—	11,329	3,167	—	14,496
<b>Total</b>	<b>372,829</b>	<b>11,714</b>	<b>4,601</b>	<b>1,484</b>	<b>(13,073)</b>	<b>377,555</b>	<b>86,825</b>	<b>—</b>	<b>464,380</b>
<b>Segment results</b>	<b>(9,434)</b>	<b>174</b>	<b>2,838</b>	<b>(4,211)</b>	<b>—</b>	<b>(10,633)</b>	<b>(12,305)</b>	<b>—</b>	<b>(22,938)</b>
Unallocated income									23,248
Unallocated expenses									(18,815)
Operating loss									(18,505)
Impairment loss on an other receivable									(151,367)
Loss before income tax									(169,872)
Income tax expense									(10,201)
Loss for the year									(180,073)
<b>As at 31 December 2008</b>									
<b>Other information</b>									
<b>Segment assets</b>									
Total assets	162,351	538	51,008	—	—	213,897	52,698	598,010	864,605
<b>Segment liabilities</b>									
Total liabilities	59,754	48	10	—	—	59,812	51,300	5,133	116,245
<b>Other segment information</b>									
Capital expenditure	4,263	—	—	—	—	4,263	3,267	1,316	8,846
Depreciation on property, plant and equipment	8,727	—	—	—	—	8,727	6,864	1,800	17,391
Amortisation of leasehold land and land use rights	62	—	—	—	—	62	—	190	252
Amortisation of prepaid rental	—	—	—	—	—	—	429	—	429
Amortisation of deferred product development costs	7,848	—	—	—	—	7,848	—	—	7,848
Impairment loss on an other receivable	—	—	—	—	—	—	—	151,367	151,367
Impairment loss on trade receivables	773	—	—	—	—	773	194	—	967



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 6. SEGMENT INFORMATION *(Continued)* **Primary reporting format – business segments** *(Continued)*

For the year ended 31 December 2007 (Re-presented)

	Continuing operations					Discontinued operations			Consolidated HK\$'000
	Electronic products HK\$'000	Electronic components and parts HK\$'000	Equity investments HK\$'000	Provision of finance HK\$'000	Eliminations HK\$'000	Total HK\$'000	PCBs HK\$'000	Unallocated HK\$'000	
<b>Segment revenue</b>									
Sales to external customers	373,740	—	—	302	—	374,042	89,855	—	463,897
Inter-segment sales	—	16,016	—	1,887	(17,903)	—	—	—	—
Other revenue	6,275	247	27,196	249	(240)	33,727	3,928	—	37,655
<b>Total</b>	<b>380,015</b>	<b>16,263</b>	<b>27,196</b>	<b>2,438</b>	<b>(18,143)</b>	<b>407,769</b>	<b>93,783</b>	<b>—</b>	<b>501,552</b>
<b>Segment results</b>	<b>13,702</b>	<b>62</b>	<b>21,647</b>	<b>(11,107)</b>	<b>—</b>	<b>24,304</b>	<b>(10,667)</b>	<b>—</b>	<b>13,637</b>
Unallocated income									19,900
Unallocated expenses									(27,026)
Profit before income tax									6,511
Income tax expense									(32,449)
Loss for the year									(25,938)
<b>As at 31 December 2007</b>									
<b>Other information</b>									
<b>Segment assets</b>									
Total assets	210,056	296	217,274	160,970	—	588,596	68,283	471,450	1,128,329
<b>Segment liabilities</b>									
Total liabilities	106,780	48	142	114	—	107,084	45,381	4,461	156,926
<b>Other segment information</b>									
Capital expenditure	6,300	—	—	—	—	6,300	5,065	65	11,430
Depreciation on property, plant and equipment	9,796	—	—	—	—	9,796	9,538	417	19,751
Amortisation of leasehold land and land use rights	62	—	—	—	—	62	—	190	252
Amortisation of prepaid rental	—	—	—	—	—	—	737	—	737
Amortisation of deferred product development costs	2,011	—	—	—	—	2,011	—	—	2,011
Impairment loss on a loan receivable	—	—	—	3,500	—	3,500	—	—	3,500
Impairment loss on trade receivables	—	—	—	—	—	—	5,255	—	5,255



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 6. SEGMENT INFORMATION *(Continued)*

### Secondary reporting format – Geographical segments

The Group's operations are located in four main geographical areas. The following table provides an analysis of the Group's sales by location of customers, irrespective of the origin of the sale of goods and rendering of services.

Segment revenue by geographical markets:

	Europe (note (a))		North America (note (b))		Hong Kong		Japan		Others (note (c))		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales to external customers												
— Continuing operations	<b>36,682</b>	42,696	<b>70,094</b>	82,904	<b>58,899</b>	68,499	<b>183,205</b>	163,041	<b>17,346</b>	16,902	<b>366,226</b>	374,042
— Discontinued operations	<b>2,001</b>	1,676	<b>2,799</b>	7,193	<b>71,867</b>	79,103	—	—	<b>6,991</b>	1,883	<b>83,658</b>	89,855
	<b>38,683</b>	44,372	<b>72,893</b>	90,097	<b>130,766</b>	147,602	<b>183,205</b>	163,041	<b>24,337</b>	18,785	<b>449,884</b>	463,897

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and deferred product development costs, analysed by the geographical area in which the assets are located.

	Hong Kong		The PRC		Unallocated		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other segment information :								
Segment assets	<b>716,079</b>	745,301	<b>134,500</b>	177,778	<b>14,026</b>	53,883	<b>864,605</b>	976,962
Amount due from an associate	—	—	—	—	—	151,367	—	151,367
							<b>864,605</b>	1,128,329
Capital expenditure	<b>2,324</b>	3,499	<b>4,188</b>	6,097	<b>2,334</b>	1,834	<b>8,846</b>	11,430

Notes:

- (a) Principally included United Kingdom, France, Germany and Mainland Europe.
- (b) Principally included United States of America ("USA") and Canada.
- (c) Principally included Taiwan, Korea and elsewhere in Asia.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 7. OTHER REVENUE AND NET INCOME

	Continuing operations		Discontinued operations		Total	
	2008	2007	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Other revenue</b>						
Interest income on financial assets carried at amortised costs	<b>14,903</b>	27,591	<b>14</b>	12	<b>14,917</b>	27,603
Dividends income from listed investments	<b>622</b>	1	—	—	<b>622</b>	1
Sale of obsolete inventories and raw materials	—	—	<b>1,482</b>	1,631	<b>1,482</b>	1,631
Products development income	<b>3,136</b>	3,405	—	—	<b>3,136</b>	3,405
Other interest income on financial assets carried at amortised costs	<b>226</b>	794	—	—	<b>226</b>	794
Compensation from vendors	<b>110</b>	303	<b>1,096</b>	2,065	<b>1,206</b>	2,368
Others	<b>3,417</b>	1,378	<b>575</b>	171	<b>3,992</b>	1,549
	<b>22,414</b>	33,472	<b>3,167</b>	3,879	<b>25,581</b>	37,351
<b>Other net income</b>						
Exchange gain, net	<b>18</b>	1,493	—	50	<b>18</b>	1,543
Realised gain on financial assets at fair value through profit or loss	<b>179</b>	1,379	—	—	<b>179</b>	1,379
Gain on disposal/deregistration of a subsidiary	<b>1,000</b>	27	—	—	<b>1,000</b>	27
Gain on disposal of an associate	<b>5</b>	—	—	—	<b>5</b>	—
Gain on disposal of property held for sale	<b>2,961</b>	—	—	—	<b>2,961</b>	—
	<b>4,163</b>	2,899	—	50	<b>4,163</b>	2,949
	<b>26,577</b>	36,371	<b>3,167</b>	3,929	<b>29,744</b>	40,300





# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 8. (LOSS)/PROFIT BEFORE INCOME TAX

	Continuing operations		Discontinued operations		Total	
	2008	2007	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Loss) / profit before income tax is arrived at after charging/(crediting):						
Cost of inventories sold	<b>251,207</b>	259,057	<b>50,018</b>	56,793	<b>301,225</b>	315,850
Depreciation on property, plant and equipment						
— Owned assets	<b>10,482</b>	10,168	<b>6,864</b>	9,538	<b>17,346</b>	19,706
— Leased assets	<b>45</b>	45	—	—	<b>45</b>	45
Amortisation of leasehold land and land use rights	<b>252</b>	252	—	—	<b>252</b>	252
Amortisation of prepaid rental	—	—	<b>429</b>	737	<b>429</b>	737
Amortisation of deferred product development costs	<b>7,848</b>	2,011	—	—	<b>7,848</b>	2,011
Operating lease charges in respect of land and building	<b>7,678</b>	7,591	<b>2,305</b>	1,366	<b>9,983</b>	8,957
Written back of allowance for inventories	<b>(370)</b>	(1,764)	—	—	<b>(370)</b>	(1,764)
Auditors' remuneration	<b>814</b>	830	<b>149</b>	120	<b>963</b>	950
Impairment loss on trade receivables	<b>773</b>	—	<b>194</b>	5,255	<b>967</b>	5,255
(Gain)/Loss on disposal of property, plant and equipment	<b>(75)</b>	145	<b>2,163</b>	(96)	<b>2,088</b>	49
Loss on disposal of investment property	—	48	—	—	—	48

Depreciation expenses of approximately HK\$11,883,000 and HK\$5,508,000 (2007: HK\$15,237,000 and HK\$4,514,000) have been included in cost of sales and administrative expenses respectively.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 9. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

	Continuing operations		Discontinued operations		Total	
	2008	2007	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Wages, salaries and other benefits	<b>68,886</b>	56,793	<b>18,804</b>	14,974	<b>87,690</b>	71,767
Share options granted to directors & employees	—	16,966	—	—	—	16,966
Pension costs — defined contribution plans	<b>5,702</b>	2,557	<b>2,347</b>	2,277	<b>8,049</b>	4,834
	<b>74,588</b>	76,316	<b>21,151</b>	17,251	<b>95,739</b>	93,567

## 10. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

### 10.1 Directors' emoluments

Executive directors and non-executive directors :

#### 2008

	Directors' fees	Salaries, allowance & benefits in kind	Discretionary bonuses	Contribution to defined contribution plan	Equity compensation benefits (note 3.17)	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Executive directors</b>						
Mr. Yau Tak Wah, Paul	—	1,850	150	90	—	2,090
Ms. Louie Mei Po	—	1,798	650	122	—	2,570
Ms. Liu Yee Nee**	—	988	83	54	—	1,125
Ms. Wong Shin Ling, Irene	60	462	31	30	—	583
<b>Independent non-executive directors</b>						
Mr. Cheung Chung Leung, Richard	150	—	—	—	—	150
Mr. Ng Wai Hung	180	—	—	—	—	180
Mr. Wu Wang Li	120	—	—	—	—	120
	<b>510</b>	<b>5,098</b>	<b>914</b>	<b>296</b>	—	<b>6,818</b>



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 10. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

### 10.1 Directors' emoluments (Continued)

Executive directors and non-executive directors : (Continued)

2007

	Directors' fees	Salaries, allowance & benefits in kind	Discretionary bonuses	Contribution to defined contribution plan	Equity compensation benefits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Executive directors</b>						
Mr. Yau Tak Wah, Paul	—	1,800	120	90	—	2,010
Ms. Louie Mei Po	—	1,506	—	75	3,640	5,221
Ms. Wong Shin Ling, Irene	—	780	—	39	3,640	4,459
Mr. Tam Wing Kin*	—	621	—	25	—	646
Ms. Liu Yee Nee**	—	356	—	18	—	374
<b>Independent non-executive directors</b>						
Mr. Cheung Chung Leung, Richard	150	—	—	—	—	150
Mr. Ng Wai Hung	180	—	—	—	—	180
Mr. Wu Wang Li	120	—	—	—	—	120
	<u>450</u>	<u>5,063</u>	<u>120</u>	<u>247</u>	<u>7,280</u>	<u>13,160</u>

\* Resigned on 9 August 2007

\*\* Appointed on 9 August 2007

During the year, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office (2007: Nil).

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2007: Nil).



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 10. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

### 10.2 Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included three (2007: two) directors whose emoluments are reflected in the analysis presented in note 10.1. The emoluments payable to the remaining two (2007: three) individuals during the year are as follows :

	2008 HK\$'000	2007 HK\$'000
Salaries, allowances and benefits in kind	2,366	10,851
Contributions pensions schemes	67	58
	<b>2,433</b>	<b>10,909</b>

The emoluments fell within the following bands :

	Number of individuals	
	2008	2007
Emolument bands		
HK\$1,000,001 — HK\$1,500,000	2	—
HK\$2,000,001 — HK\$2,500,000	—	1
HK\$4,000,001 — HK\$4,500,000	—	2
	<b>2</b>	<b>3</b>



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 11. INCOME TAX EXPENSE

	Continuing operations		Discontinued operations		Consolidated	
	2008	2007	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current tax						
Hong Kong						
— Tax for the year	<b>680</b>	1,267	—	—	<b>680</b>	1,267
— Under provision in respect of prior years	<b>1,761</b>	32,264	—	—	<b>1,761</b>	32,264
	<b>2,441</b>	33,531	—	—	<b>2,441</b>	33,531
The PRC						
— Tax for the year	<b>385</b>	196	<b>20</b>	41	<b>405</b>	237
— Under provision in respect of prior years	<b>7,355</b>	—	—	—	<b>7,355</b>	—
	<b>7,740</b>	196	<b>20</b>	41	<b>7,760</b>	237
Deferred tax						
Current year (note 32)	—	(1,319)	—	—	—	(1,319)
Total income tax expense	<b>10,181</b>	32,408	<b>20</b>	41	<b>10,201</b>	32,449

Hong Kong profits tax has been provided at the rate of 16.5% (2007 : 17.5%) on the estimated assessable profits for the year. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

The Hong Kong SAR Government enacted a reduction in Profit Tax Rate from 17.5% to 16.5% with effect from the year of assessment 2008/2009. Accordingly, the relevant current and deferred tax liabilities have been calculated using the new tax rate of 16.5%.

The National People's Congress of the PRC approved the Corporate Income Tax Law of the PRC (the "New Tax Law") on 16 March 2007. With effective from 1 January 2008, the tax rate applicable to the enterprises established in the PRC will be unified at 25% with certain preferential provisions.

In accordance with the applicable enterprise income tax law of the PRC, the Group's subsidiaries, Dongguan Yifu Circuit Board Factory ("Yifu") and Gaojin Electronics (Shenzhen) Co., Ltd ("Gaojin"), were exempt from income tax for their first two profitable years of operations and were entitled to 50% relief on the income tax that would otherwise be charged for the succeeding three years. The foregoing tax concessions for Yifu and Gaojin had expired. Gaojin is currently entitled to preferential tax treatments granted by the relevant tax authorities and is subject to a lower income tax rate until the unified tax rate of 25% gradually transitioned in 2012. The income tax rate applicable to Yifu and Gaojin are 25% and 18% (2007 : 15% and 10% ) respectively.

The under provision of the PRC corporate income tax of the Group for the year ended 31 December 2008 is related to disagreement on transfer pricing arrangements of Gaojin from calendar years of 2001 to 2006 by Shenzhen Local Tax Bureau and final agreement was reached.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 11. INCOME TAX EXPENSE (Continued)

Reconciliation between tax expense and accounting (loss)/profit at applicable tax rates:

	2008 HK\$'000	2007 HK\$'000
(Loss) / profit before taxation		
Continuing operations	<b>(157,567)</b>	17,178
Discontinued operations	<b>(12,305)</b>	(10,667)
	<b>(169,872)</b>	6,511
Tax at applicable rate of 16.5% (2007: 17.5%)	<b>(28,028)</b>	1,139
Tax effect of different taxation rates in other tax jurisdictions	<b>(488)</b>	(402)
Under provision in prior years	<b>9,116</b>	32,264
Tax effect of non-taxable revenue	<b>(4,288)</b>	(3,025)
Tax effect of non-deductible expenses	<b>44,324</b>	493
Tax effect of prior year's unrecognised tax losses utilised this year	<b>(15,983)</b>	(2,632)
Tax effect of unused tax losses not recognised	<b>2,439</b>	3,739
Others	<b>3,109</b>	873
Income tax expense	<b>10,201</b>	32,449

## 12. ASSETS OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE AND DISCONTINUED OPERATIONS – GROUP

During the year, the Group decided to discontinue the operation of manufacture and sale of PCBs operated by Allied Trade Limited ("ATL") and its subsidiaries (collectively the "ATL Group").

On 5 January 2009, the Group entered into a sales and purchase agreement with an independent third party, for the disposal of its entire equity interests in ATL Group for a cash consideration of HK\$100,000. The assets and liabilities attributable to the business, which are expected to be sold in the year of 2009, have been classified as a disposal group held for sale and are presented separately in the consolidated balance sheet. The net proceed of the disposal is expected to exceed the net carrying amount of the relevant assets and liabilities after incorporated the net carrying amount of the related minority interests of the entities disposed of, accordingly, no impairment loss is recognised. The disposal was completed subsequent to the balance sheet date on 5 January 2009.

The business segment of this operation was presented as discontinued operations upon the classification of the associated assets and liabilities as assets and liabilities of a disposal group classified as held for sale.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

### 12. ASSETS OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE AND DISCONTINUED OPERATIONS – GROUP *(Continued)*

The combined results of the manufacture and sale of PCBs for the year ended have been included in the consolidated income statement as follows:

	2008 HK\$'000	2007 HK\$'000
<b>Loss for the year from discontinued operations</b>		
Revenue	<b>83,658</b>	89,855
Cost of sales	<b>(78,880)</b>	(82,504)
Gross profit	<b>4,778</b>	7,351
Other revenue and net income	<b>3,167</b>	3,929
Selling and distribution costs	<b>(1,807)</b>	(3,668)
Administrative expenses	<b>(18,443)</b>	(18,279)
Loss before income tax	<b>(12,305)</b>	(10,667)
Income tax expense	<b>(20)</b>	(41)
Loss for the year from discontinued operations	<b>(12,325)</b>	(10,708)
<b>Cash flows from discontinued operations</b>		
Net cash generated from/(used in) operating activities	<b>1,590</b>	(2,908)
Net cash used in investing activities	<b>(1,327)</b>	(4,981)
Net cash inflow/(outflow) attributable to the discontinued operations	<b>263</b>	(7,889)

The major classes of assets and liabilities of the ATL Group as at 31 December 2008, which have been presented separately in the consolidated balance sheet, are as follows:

	HK\$'000
Property, plant and equipment (note 15)	17,346
Inventories	12,266
Trade receivables (note (a))	7,202
Prepayments, deposits and other receivables	14,223
Cash and cash equivalents	1,661
Total assets of a disposal group classified as held for sale	52,698
Trade payables (note (b))	25,750
Amount due to a related company	13,563
Accruals and other payables	11,626
Provision for tax	361
Total liabilities of a disposal group classified as held for sale	51,300



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 12. ASSETS OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE AND DISCONTINUED OPERATIONS – GROUP (Continued)

Notes:

### (a) Trade receivable

Trade receivables of a disposal group classified as held for sale have credit terms ranging from 30 days to 90 days. As at 31 December 2008, ageing analysis of trade receivables of a disposal group classified as held for sale, based on the invoice date, is as follows:

	HK'000
0 – 90 days	7,202

### (b) Trade payables

As at 31 December 2008, ageing analysis of trade payables of a disposal group classified as held for sale, based on the invoice date, is as follows:

	HK'000
0 – 90 days	25,750

## 13. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Of the consolidated loss attributable to the equity holders of the Company of approximately HK\$180,073,000 (2007: HK\$25,938,000), a loss of approximately HK\$119,414,000 (2007: profit of approximately HK\$39,724,000) has been dealt with in financial statements of the Company.

## 14. LOSS PER SHARE – GROUP

### Basic loss per share from continuing and discontinued operations

The calculation of basic loss per share is based on the loss attributable to equity holders of the Company of approximately HK\$180,073,000 (2007: HK\$25,938,000) and on the weighted average of 2,247,682,010 (2007: 2,247,682,010) ordinary shares in issue during the year.

### Basic loss per share from continuing operations

The calculation of basic loss per share for continuing operations is based on the loss attributable to equity holders of the Company of approximately HK\$167,748,000 (2007 : HK\$15,230,000) and on the weighted average of 2,247,682,010 (2007 : 2,247,682,010) ordinary shares in issue during the year.

### Basic loss per share from discontinued operations

The calculation of basic loss per share for discontinued operations is based on the loss attributable to equity holders of the Company of approximately HK\$12,325,000 (2007 : HK\$10,708,000) and on the weighted average of 2,247,682,010 (2007 : 2,247,682,010) ordinary shares in issue during the year.





## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

### 14. LOSS PER SHARE – GROUP *(Continued)*

#### **Diluted loss per share from continuing and discontinued operations**

Diluted loss per share for the year ended 31 December 2008 was not presented as there is no potential ordinary share in existence during the year.

Diluted loss per share for the year ended 31 December 2007 was not presented as the exercise of share options would result in a decrease in loss per share.

#### **Diluted loss per share from continuing operations/discontinued operations**

Diluted loss per share for continuing operations/discontinued operations for the year ended 31 December 2008 was not presented as there is no potential ordinary share in existence during the year.

Diluted loss per share for continuing operations/discontinued operations for the year ended 31 December 2007 was not presented as the exercise of share options would result in a decrease in loss per share.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 15. PROPERTY, PLANT AND EQUIPMENT Group

	Buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and office equipments HK\$'000	Motor vehicles HK\$'000	Construction- in-progress HK\$'000	Total HK\$'000
At 1 January 2007							
Cost or valuation	33,700	50,063	153,737	25,871	1,633	5,756	270,760
Accumulated depreciation	—	(32,908)	(120,928)	(21,730)	(490)	—	(176,056)
<b>Net book amount</b>	<b>33,700</b>	<b>17,155</b>	<b>32,809</b>	<b>4,141</b>	<b>1,143</b>	<b>5,756</b>	<b>94,704</b>
Year ended							
31 December 2007							
Opening net book amount	33,700	17,155	32,809	4,141	1,143	5,756	94,704
Additions	—	692	6,564	1,190	—	1,480	9,926
Disposals	—	—	—	(51)	—	(98)	(149)
Depreciation	—	(4,021)	(13,467)	(1,858)	(405)	—	(19,751)
Reclassification	—	5,996	73	—	—	(6,069)	—
Surplus on revaluation	3,100	—	—	—	—	—	3,100
Closing net book amount	36,800	19,822	25,979	3,422	738	1,069	87,830
At 31 December 2007							
Cost or valuation	36,800	56,751	160,226	26,563	1,249	1,069	282,658
Accumulated depreciation	—	(36,929)	(134,247)	(23,141)	(511)	—	(194,828)
<b>Net book amount</b>	<b>36,800</b>	<b>19,822</b>	<b>25,979</b>	<b>3,422</b>	<b>738</b>	<b>1,069</b>	<b>87,830</b>
Year ended 31 December 2008							
Opening net book amount	36,800	19,822	25,979	3,422	738	1,069	87,830
Additions	—	991	3,581	893	488	1,925	7,878
Disposals	—	(1,236)	(2,211)	(33)	—	(7)	(3,487)
Depreciation	(1,999)	(3,850)	(9,522)	(1,715)	(305)	—	(17,391)
Reclassified as assets of a disposal group classified as held for sale (note 12)	—	(10,286)	(3,737)	(336)	—	(2,987)	(17,346)
Surplus on revaluation	199	—	—	—	—	—	199
Closing net book amount	35,000	5,441	14,090	2,231	921	—	57,683
At 31 December 2008							
Cost or valuation	35,000	31,946	80,187	23,353	1,102	—	171,588
Accumulated depreciation	—	(26,505)	(66,097)	(21,122)	(181)	—	(113,905)
<b>Net book amount</b>	<b>35,000</b>	<b>5,441</b>	<b>14,090</b>	<b>2,231</b>	<b>921</b>	<b>—</b>	<b>57,683</b>



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

### 15. PROPERTY, PLANT AND EQUIPMENT *(Continued)* Group *(Continued)*

The analysis of cost or valuation of property, plant and equipment at 31 December 2008 is as follows:

	Buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and office equipments HK\$'000	Motor vehicles HK\$'000	Construction- in-progress HK\$'000	Total HK\$'000
At cost	—	31,946	80,187	23,353	1,102	—	136,588
At valuation	35,000	—	—	—	—	—	35,000
	<u>35,000</u>	<u>31,946</u>	<u>80,187</u>	<u>23,353</u>	<u>1,102</u>	<u>—</u>	<u>171,588</u>

The analysis of cost or valuation of property, plant and equipment at 31 December 2007 is as follows:

	Buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and office equipments HK\$'000	Motor vehicles HK\$'000	Construction- in-progress HK\$'000	Total HK\$'000
At cost	—	56,751	160,226	26,563	1,249	1,069	245,858
At valuation	36,800	—	—	—	—	—	36,800
	<u>36,800</u>	<u>56,751</u>	<u>160,226</u>	<u>26,563</u>	<u>1,249</u>	<u>1,069</u>	<u>282,658</u>

At 31 December 2008, certain office equipments of the Group with a total net book amount of HK\$136,000 (2007: HK\$181,000) are held under finance leases.

The Group's buildings were last revalued on 31 December 2008. Valuations were made on the basis of open market value by B.I. Appraisals Limited, who have among their staff fellows of the Hong Kong Institute of Surveyors, engaged by the Group. Open market value was estimated based on recent market transactions, which were then adjusted for specific conditions relating to the buildings. The revaluation surplus net of applicable deferred income taxes, if any, was credited to property revaluation reserve in shareholders' equity.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 15. PROPERTY, PLANT AND EQUIPMENT (Continued)

### Group (Continued)

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

	2008 HK\$'000	2007 HK\$'000
Cost	<b>38,400</b>	38,400
Accumulated depreciation	<b>(16,092)</b>	(15,010)
Net book amount	<b>22,308</b>	23,390

### Company

	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Total HK\$'000
At 1 January 2007, 31 December 2007 and 2008			
Cost	13	144	157
Accumulated depreciation	(13)	(144)	(157)
Net book amount	—	—	—

## 16. LEASEHOLD LAND AND LAND USE RIGHTS – GROUP

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

	2008 HK\$'000	2007 HK\$'000
In Hong Kong held on:		
Leases of between 10 to 50 years	<b>7,387</b>	7,576
Outside Hong Kong held on:		
Leases of between 10 to 50 years	<b>2,166</b>	2,229
	<b>9,553</b>	9,805



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 16. LEASEHOLD LAND AND LAND USE RIGHTS – GROUP *(Continued)*

	2008 HK\$'000	2007 HK\$'000
Opening net carrying amount	9,805	10,057
Amortisation	(252)	(252)
Closing net carrying amount	9,553	9,805
Current portion	(252)	(252)
Non-current portion	9,301	9,553

## 17. INTERESTS IN SUBSIDIARIES — COMPANY

	2008 HK\$'000	2007 HK\$'000
Investments at costs		
Unlisted shares	93,316	93,316
Amounts due from subsidiaries	282,427	429,207
Less: Provision for impairment	(165,205)	(38,628)
	117,222	390,579
Amounts due to subsidiaries	9,654	9,873

The amounts due are in the nature of current accounts and are unsecured, interest free and have no fixed repayment terms.

Movements in provision for impairment loss on amounts due from subsidiaries during the year are as follows:

	2008 HK\$'000	2007 HK\$'000
At the beginning of the year	38,628	38,628
Impairment loss recognised	126,577	—
At the end of the year	165,205	38,628



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 17. INTERESTS IN SUBSIDIARIES — COMPANY (Continued)

Particulars of the subsidiaries at 31 December 2008 are as follows :

Name	Place/country of incorporation/ registration	Issued and fully paid share/ registered capital	Percentage of equity interest held by		Principal activities and places of operations
			Company	Subsidiary	
Account Centre Limited	Hong Kong	HK\$2	—	100%	Provision of accountancy services to group companies in Hong Kong
Allied Trade Limited (note (iii))	The British Virgin Islands ("BVI")	US\$1	—	100%	Investment holding in Hong Kong
Allied Success Inc. (note (iii))	BVI	US\$10,000	—	88%	Investment holding in Hong Kong
Art Ray Investments Limited	Hong Kong	HK\$1	—	100%	Inactive
Connion Limited	Hong Kong	HK\$2	—	100%	Securities investment and property holding in Hong Kong
Dongguan Yifu Circuit Board Factory ("Yifu") (notes (i)&(iii))	The PRC	HK\$87,500,000	—	48%	Manufacture of printed circuit boards in the PRC
E-Top PCB Limited (note (iii))	Hong Kong	HK\$100	—	57%	Trading of printed circuit boards in Hong Kong
Eastec Property Holding Limited	Hong Kong	HK\$100	—	100%	Inactive
Eastec Purchasing Limited	BVI	US\$1	—	100%	Trading of electronic components and parts in Hong Kong
Eastec Technology Limited	Hong Kong	HK\$2	—	100%	Trading of electronic components and parts in Hong Kong
Electronics Tomorrow Limited	Hong Kong	HK\$500,000	—	100%	Manufacture and sale of electronic products in Hong Kong
Electronics Tomorrow Holdings Corporation	BVI	US\$100	—	100%	Investment holding in Hong Kong



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 17. INTERESTS IN SUBSIDIARIES — COMPANY (Continued)

Name	Place/country of incorporation/ registration	Issued and fully paid share/ registered capital	Percentage of equity interest held by		Principal activities and places of operations
			Company	Subsidiary	
Electronics Tomorrow International Limited	BVI	US\$600	100%	—	Investment holding in Hong Kong
Electronics Tomorrow Manufactory Inc. (note (iii))	BVI	US\$350	—	57%	Investment holding in Hong Kong
Electronics Tomorrow Property Holdings Limited	BVI	US\$100	—	100%	Investment holding in Hong Kong
ETL (Macao) Commercial Offshore Limited	Macau	MOP500,000	—	100%	Trading of electronic components and parts in Macau and Hong Kong
Fortune Dynamic Group Corporation	BVI	US\$1	100%	—	Investment holding in Hong Kong
Fortune Overseas Investment Holdings Limited	Hong Kong	HK\$2	—	100%	Inactive
Gaojin Electronics (Shenzhen) Company Limited ("Gaojin") (note (ii))	The PRC	US\$5,000,000	—	100%	Manufacture of electronic products in the PRC
Good Order International Inc.	BVI	US\$100	—	100%	Investment holding in Hong Kong
Issegon Company Limited	Hong Kong	HK\$300,000	—	100%	Investment holding in Hong Kong
Master Base Limited	BVI	US\$1	100%	—	Investment holding in Hong Kong
Maxson Services Limited	Hong Kong	HK\$2	—	100%	Provision of accountancy and management services to group companies in Hong Kong
Merit Capital Limited	BVI	US\$1	—	100%	Inactive



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 17. INTERESTS IN SUBSIDIARIES — COMPANY (Continued)

Name	Place/country of incorporation/ registration	Issued and fully paid share/ registered capital	Percentage of equity interest held by		Principal activities and places of operations
			Company	Subsidiary	
Merit Style Development Limited	Hong Kong	HK\$1	—	100%	Inactive
Plentiful Light Limited (note (iii))	BVI	US\$100	—	57%	Manufacture of printed circuit boards in Hong Kong
Probest Holdings Inc.	BVI	US\$1	—	100%	Investment holding in Hong Kong
Sharp Legend Holdings Limited	BVI	US\$1	—	100%	Investment holding in Hong Kong
Super Fold Inc.	BVI	US\$1	—	100%	Investment holding in Hong Kong
Team Force Corporation	BVI	US\$100	—	100%	Investment holding in Hong Kong
Wealth Zone Holdings Limited	Hong Kong	HK\$1	—	100%	Inactive

### Notes:

- (i) Yifu is a Sino-foreign owned joint venture enterprise under the PRC law. The Group has the power to cast the majority of votes at meetings of the board of directors of the entity and therefore it was regarded as a subsidiary of the Company.
- (ii) Gaojin is registered as a wholly foreign owned enterprise under the PRC law.
- (iii) Subsidiaries disposed after the balance sheet date.





## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

### 18. INTEREST IN AN ASSOCIATE — GROUP

	2007 HK\$'000
Unlisted shares in Hong Kong, at cost	—
Share of net assets	—
Balance at the end of the year	—

	2007 HK\$'000
--	------------------

#### Amount due from an associate:

Balance at the beginning and at the end of the year	151,367
---	---------

The amount due from an associate represented current account balance and promissory note receivable due from Profitown Investment Corporation ("Profitown").

The Group disposed its entire equity interest in Profitown to an independent third party for a cash consideration of HK\$5,000 on 25 July 2008 and resulted for a gain on disposal of HK\$5,000. The amount due from an associate was reclassified to other receivable subsequent to the disposal (note 27).

Particulars of the associate as at 31 December 2007 were as follows :

Name	Place of incorporation/ operations	Nominal value of issued ordinary share capital/ registered share capital	Percentage of interest held
Profitown Investment Corporation	BVI/Hong Kong	US\$1,000	30%

The summary of financial information of the Group's associate extracted from its management accounts for the year ended 31 December 2007 were as follows:

	2007 HK\$'000
Total assets	202,670
Total liabilities	(203,724)



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 18. INTEREST IN AN ASSOCIATE — GROUP (Continued)

	2007 HK\$'000
Revenue	123,758
Profit	19,667

## 19. PREPAID RENTAL — GROUP

	2008 HK\$'000	2007 HK\$'000
Carrying amount at the beginning of the year	429	1,166
Amortisation	(429)	(737)
Carrying amount at the end of the year	—	429

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

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

## 20. DEFERRED PRODUCT DEVELOPMENT COSTS — GROUP

	2008 HK\$'000	2007 HK\$'000
Net carrying amount at the beginning of the year	7,880	8,387
Additions	968	1,504
Amortisation charge	(7,848)	(2,011)
Net carrying amount at the end of the year	1,000	7,880

	2008 HK\$'000	2007 HK\$'000
At 31 December		
Gross carrying amount	30,435	29,467
Accumulated amortisation	(29,435)	(21,587)
Net carrying amount at 31 December	1,000	7,880



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

### 21. AVAILABLE-FOR-SALE FINANCIAL ASSETS — GROUP

	2008 HK\$'000	2007 HK\$'000
Listed equity securities in Hong Kong, at market value (note (a))	1,901	44,517
Unlisted equity securities outside Hong Kong, at cost (note (b))	1,549	1,549
Less: Provision for impairment	(1,549)	—
	—	1,549
	1,901	46,066

Note:

- (a) Listed equity securities are stated at fair value. The fair value of the investment in listed equity securities has been determined directly by reference to their quoted bid prices at the reporting date.
- (b) Unlisted equity securities represent investment in a private company incorporated in Japan. This investment is measured at cost less accumulated impairment losses at each balance sheet date because the range of reasonable fair value estimates is so wide that the directors of the Company are of the opinion that its fair value cannot be measured reliably.

### 22. PROPERTY HELD FOR SALE — GROUP

	2008 HK\$'000	2007 HK\$'000
At cost	—	5,439
Balance at the beginning of the year	5,439	5,439
Disposal	(5,439)	—
Balance at the end of the year	—	5,439

The property held for sale was situated in Hong Kong and was held under medium term leases.

### 23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS — GROUP

	2008 HK\$'000	2007 HK\$'000
Listed equity securities held for trading in USA, at market value	4,012	—

Listed equity securities are stated at fair value. The fair value of the investment in listed equity securities has been determined directly by reference to their quoted bid prices at the reporting date.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 24. INVENTORIES — GROUP

	2008 HK\$'000	2007 HK\$'000
Raw materials	41,615	56,978
Work in progress	15,724	22,983
Finished goods	9,623	9,296
	<b>66,962</b>	89,257
Less : Allowance for inventories	<b>(14,537)</b>	(15,447)
	<b>52,425</b>	73,810

Movements in allowance account for inventories during the year are as follows :

	2008 HK\$'000	2007 HK\$'000
At the beginning of the year	15,447	17,211
Written back of allowance for inventories	(370)	(1,764)
Amount classified as assets of a disposal group held for sale	(540)	—
At the end of the year	<b>14,537</b>	15,447

## 25. LOANS RECEIVABLE — GROUP

Loans receivable as at 31 December 2007 represented certain secured and unsecured interests bearing loans receivable and debenture held by a subsidiary of the Group, Active Base Limited. These loans receivable have been subsequently settled in 2008 or disposed of followed by the disposal of the said subsidiary.

## 26. TRADE AND BILL RECEIVABLES — GROUP

	2008 HK\$'000	2007 HK\$'000
Trade receivables	32,427	59,247
Less: Provision for impairment loss on trade receivables	(773)	(17,474)
Trade receivables — net	<b>31,654</b>	41,773
Bill receivables	754	697
	<b>32,408</b>	42,470

The directors considered that the fair value of trade receivables are not materially different from their carrying amounts because these amounts have short maturity periods on their inspection.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

### 26. TRADE AND BILL RECEIVABLES — GROUP (Continued)

The majority of the Group's sales are on credit or documents against payment. According to the credit rating of different customers, the Group allows a range of credit periods ranging from 30 days to 90 days (2007: 30 days to 120 days) to its trade customers.

Based on the invoice date, the ageing analysis of the trade receivables is as follows :

	2008 HK\$'000	2007 HK\$'000
0 to 90 days	31,335	34,507
91 to 180 days	319	—
181 to 365 days	—	—
Over 365 days	—	7,266
	<b>31,654</b>	<b>41,773</b>

The movements in the provision for impairment loss on trade receivables are as follows :

	2008 HK\$'000	2007 HK\$'000
At the beginning of the year	17,474	12,219
Provision for impairment loss on trade receivables	967	5,255
Amount classified as assets of a disposal group held for sale	<b>(17,668)</b>	—
At the end of the year	<b>773</b>	17,474

At each balance sheet date, the Group reviews trade receivables for evidence of impairment on both individual and collective basis. As at 31 December 2008, impairment loss of approximately HK\$967,000 has been recognised (2007: HK\$5,255,000). The impaired trade receivables are due from customers that were in default of payments.

The Group did not hold any collateral as security or other credit enhancements over the impaired trade receivables, whether determined on individual or collective basis.

The ageing analysis of the Group's trade receivables that were past due as at the balance sheet date but not impaired, based on due date is as follows:

	2008 HK\$'000	2007 HK\$'000
Neither past due nor impaired	31,335	34,507
Less than one year past due	319	7,266
	<b>31,654</b>	<b>41,773</b>

Trade receivables that were neither past due nor impaired related to a large number of diversified customers for whom there was no recent history of default of payments.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 26. TRADE AND BILL RECEIVABLES — GROUP (Continued)

Trade receivables that were past due but not impaired related to a large number of diversified customers that had a good track record of credit with the Group. Based on past credit history, management believe that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered to be fully recoverable. The Group did not hold any collateral in respect of trade receivables that were past due but not impaired.

## 27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Deposits	2,821	13,463	534	504
Prepayments	646	1,346	436	427
Other receivables (note a)	5,574	13,755	6	80
Value-added tax refundable	—	6,097	—	—
	<b>9,041</b>	34,661	<b>976</b>	1,011

Note

- (a) During the year, approximately HK\$151,367,000 was reclassified from amount due from an associate to other receivables, as a result of the disposal of the entire equity interest in the associate of the Group as disclosed in note 18. In the opinion of the directors of the Company, due to the continued global market deterioration caused by the financial tsunami which has affected the financial ability of the other receivable to repay the debt, they consider the recoverability of such debt is slim and full provision has been made against the carrying amount of this other receivable.

## 28. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components :

	Group		Company	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Cash at bank and in hand	46,251	52,054	2,963	8,418
Short-term bank deposits	597,633	605,146	532,034	373,300
	<b>643,884</b>	657,200	<b>534,997</b>	381,718

The short-term bank deposits earn interest at 0.35% to 2.3% (2007: 3.18% to 5.18%) per annum. They have a maturity ranging from 30 days to 90 days (2007: 14 days to 30 days) and are eligible for immediate cancellation without receiving any interest for the last deposit period.

The directors of the Group considered that the fair value of the short-term bank deposits is not materially different from its carrying amount because of the short maturity period on its inception.

Included in cash and bank balances of the Group is approximately HK\$1,375,000 (2007: HK\$3,941,000) bank balances denominated in Renminbi ("RMB") placed with banks in the PRC. RMB is not a freely convertible currency. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement and Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

### 29. TRADE PAYABLES — GROUP

Based on the invoice dates, the ageing analysis of the trade payables is as follows:

	2008 HK\$'000	2007 HK\$'000
0 to 90 days	34,403	53,544
91 to 180 days	—	5,257
181 to 365 days	—	9,556
Over 365 days	—	5,969
	<b>34,403</b>	<b>74,326</b>

All amounts are short term and hence the carrying values of trade payables are considered to be a reasonable approximation of fair value.

### 30. AMOUNT DUE TO A RELATED COMPANY — GROUP

The amount due to a related company was in the nature of current account and was unsecured, interest free and repayable on demand. A director of the Group's fellow subsidiaries was a common director of the related company.

### 31. PROVISION FOR LONG SERVICE PAYMENT

Movements in the provision for long service payment during the year are as follows:

	Group		Company	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
At the beginning of the year	570	570	230	230
Provision for the year	2,393	—	—	—
At the end of the year	<b>2,963</b>	570	<b>230</b>	230

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



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 32. DEFERRED TAX — GROUP

Deferred taxation is calculated in full on temporary differences under the liability method using the applicable tax rates prevailing in the countries in which the Group operates.

The movements on the deferred tax liabilities are as follows:

	2008 HK\$'000	2007 HK\$'000
At the beginning of the year	—	1,319
Credited to income statement for the year	—	(1,319)
At the end of the year	—	—

At the balance sheet date, there was no material unrecognised deferred tax liabilities arising from any temporary differences.

The Group has tax losses arising in Hong Kong of approximately HK\$108,666,000 (2007: HK\$158,722,000), subject to the agreement of Inland Revenue Department, that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses which arose in subsidiaries with unpredictability of future profit streams.

Deferred tax liabilities in respect of the temporary differences associated with the undistributed earnings of subsidiaries have not been provided as the Group is in a position to control the timing of reversal of these differences and it is probable that such differences will not reverse in the foreseeable future.

## 33. SHARE CAPITAL

	2008		2007	
	Number of shares	HK\$'000	Number of shares	HK\$'000
Authorised:				
Ordinary shares of HK\$0.004 each (2007: HK\$0.04 each)				
At 1 January	125,000,000,000	500,000	12,500,000,000	500,000
Ordinary shares of HK\$0.004 each				
At 31 December	125,000,000,000	500,000	125,000,000,000	500,000
	Number of shares	Ordinary shares HK\$'000	Number of shares	Ordinary shares HK\$'000
Issued and fully paid:				
At 1 January, at HK\$0.004 each (2007: HK\$0.04 each)	2,247,682,010	8,991	224,768,201	8,991
Subdivision of every 1 share into 10 shares	—	—	2,022,913,809	—
At 31 December, at HK\$0.004 each	2,247,682,010	8,991	2,247,682,010	8,991





# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 34. RESERVES

### (a) Group

The amounts of the Group's reserves and the movements therein during the year are presented in the consolidated statement of changes in equity.

#### (i) Share premium and capital redemption reserve

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

#### (ii) Contributed surplus

The contributed surplus of the Group represented the surplus arising from the Group's capital reorganisation in respect of its capital reduction, share subdivision and share consolidation in 2003.

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

- the company is, or would after the payment be, unable to pay its liabilities as they become due; or
- the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 34. RESERVES (Continued)

### (b) Company

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000	Share-based compensation reserve HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1 January 2007	365,359	77	368,125	—	54,693	788,254
Share-based compensation	—	—	—	16,966	—	16,966
Profit for the year	—	—	—	—	39,724	39,724
At 31 December 2007 and 1 January 2008	365,359	77	368,125	16,966	94,417	844,944
Loss for the year	—	—	—	—	(119,414)	(119,414)
At 31 December 2008	365,359	77	368,125	16,966	(24,997)	(725,530)

The contributed surplus of the Company represented (i) the difference between the consolidated shareholders' funds of subsidiaries when they were acquired by the Company and the nominal amount of the Company's share capital issued for the acquisition and (ii) the capital reorganisation as disclosed in note 34(a)(ii).

At 31 December 2008, the aggregate amount of reserves available for distribution to equity holders of the Company, calculated in accordance with the Companies Act 1981 of Bermuda (as amended), was approximately HK\$343,128,000 (2007: HK\$462,542,000). In addition, the Company's share premium account, in the amount of approximately HK\$365,359,000 at both balance sheet dates may be distributed in the form of fully paid bonus shares.

## 35. SHARE OPTION SCHEME

As at 31 December 2008 the Company maintained a share option scheme for employee compensation.

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

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

Share-based employee compensation will be settled in equity. The Group has no legal or constructive obligation to repurchase or settle the options in cash.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

### 35. SHARE OPTION SCHEME (Continued)

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

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

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

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

The following table shows the movement of the Company's share options during the year ended 31 December 2008.

Date of share options granted	Outstanding at the beginning of the year	Granted during the year	Lapsed during the year	Outstanding at the end of the year	Subscription price	Exercise period
21 May 2007	49,050,000	—	—	49,050,000	HK\$0.30	21 May 2007 to 20 May 2012
25 September 2007	52,350,000	—	—	52,350,000	HK\$0.296	25 September 2007 to 24 September 2012

In assessing the theoretical aggregate value of the share options granted and fully accepted during the year, the Binomial option pricing model has been used. No share option expense was recognised in current year (2007: approximately HK\$16,966,000).



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 35. SHARE OPTION SCHEME (Continued)

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

Date of Grant:	21 May 2007 and 25 September 2007
Vesting Dates:	21 May 2007 and 25 September 2007
Exercise Period:	21 May 2007 to 20 May 2012 and 25 September 2007 to 24 September 2012
Exercise Price:	HK\$0.30 and HK\$0.296 per share

Grantee	Number of share options granted at	Number of share options granted	Share options value at HK\$ (note (b))	Number of share options at 31 December 2007 and 2008
Employees	21 May 2007	49,050,000	8,485,650	49,050,000
Directors	25 September 2007	44,940,000	7,280,280	44,940,000
Employees	25 September 2007	7,410,000	1,200,420	<u>7,410,000</u>
				<u>101,400,000</u>

Notes:

- (a) The closing prices of the ordinary shares of the Company immediately before the date on which the options were granted were HK\$0.3 on 21 May 2007 and HK\$0.275 on 25 September 2007.
- (b) According to the Binomial model, the theoretical aggregate value of the options was estimated at HK\$8,485,650 and HK\$8,480,700 as at 21 May 2007 and 25 September 2007 respectively (when the options were granted) with the following variables and assumptions:

Risk Free Rate: 4.164% and 4.102%, being the approximate yield of Exchange Fund Bills and Notes issued by Hong Kong government for the time to maturity of the option as at the valuation date quoted by Hong Kong Monetary Authority.

Expected Volatility: 64.44% and 69.35%, being the average annualised standard deviations of the continuously compounded rates of return on the share prices of two other comparable companies with similar business operations

Expected Life of the Options: 5 years from the date of granting

Expected Dividend Yield: Nil

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



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

### 36. OBLIGATION UNDER FINANCE LEASES — GROUP

At 31 December 2008, the total future minimum lease payments under finance leases and their present value, are as follows:

	Minimum lease payables		Present value of minimum lease payments	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Due within one year	55	45	55	45
Due in the second to fifth years	100	132	100	132
	155	177	155	177
Less: future finance charges	—	—		
Present value of lease obligations	155	177		
Less: Amount due for settlement within one year included under current liabilities			(55)	(45)
Amount due for settlement in the second to the fifth years included under non-current liabilities			100	132

The Group has entered into finance leases for certain office equipments. The leases run for the period of five years and do not have an option to review the lease terms. All leases are on a fixed repayment basis and no arrangements have been entered into for any contingent rental provisions. Under the terms of lease, the Group has the option to purchase the lease assets at the price that is expected to be sufficiently lower than the fair value of the leased asset at the end of the lease.

### 37. DISPOSAL OF A SUBSIDIARY

On 31 December 2008, the Group disposed its entire equity interest in a wholly owned subsidiary, Active Base Limited, to an independent third party at a consideration of HK\$1,000,000. Details of the net assets sold and the gain arising on the disposal are as follows:

	HK\$'000
Net assets disposed of:	
Secured loan	50,000
Less: Provision for impairment	(50,000)
	—
Gain on disposal of a subsidiary	1,000
Total consideration	1,000
Satisfied by	
Cash (consideration receivable included in other receivables)	1,000



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 38. NOTES TO CONSOLIDATED CASH FLOW STATEMENTS

### Major non-cash transactions

#### (a) Disposal of a subsidiary

During the year, proceeds from disposal of a subsidiary with consideration of HK\$1,000,000 (2007: Nil) were recorded in prepayments, deposits and other receivables as at 31 December 2008 (note 37).

#### (b) Additions to property, plant and equipment

During the year, additions to property, plant and equipment of approximately HK\$182,000 (2007: Nil) were included in the accruals and other payables as at 31 December 2008.

## 39. COMMITMENTS

### Group

	2008 HK\$'000	2007 HK\$'000
<b>Capital commitments (contracted but not provided for):</b>		
Capital contribution to an investment	—	6,239
Property, plant and equipment	<b>1,250</b>	1,045
Deferred product development costs	<b>423</b>	—
	<b>1,673</b>	7,284

### Company

The Company does not have any significant commitments as at 31 December 2007 and 2008.

## 40. OPERATING LEASE COMMITMENTS

At 31 December 2008, the total future minimum lease payments under non-cancellable operating leases are payable by the Group as follows:

	Group		Company	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Within one year	<b>8,947</b>	9,613	—	1,513
In the second to fifth years	<b>9,527</b>	13,706	—	—
After five years	—	17,359	—	—
	<b>18,474</b>	40,678	—	1,513

The Group leases a number of properties and items of office equipment under operating leases. The leases run for an initial period of one to fifteen years, with an option to renew the lease and renegotiated the terms at the expiry date as mutually agreed between the Group and respective landlords or lessors. None of the leases include contingent rental.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 41. CONTINGENT LIABILITIES

	Company	
	2008 HK\$'000	2007 HK\$'000
Guarantees of banking facilities granted to subsidiaries	<b>30,000</b>	30,000

The maximum contingent liability of the Company at the balance sheet date under the guarantees issued to subsidiaries is the outstanding amount of letter of credit of approximately HK\$1,055,000 (2007: HK\$10,032,000). Under the guarantees, the Company would be liable to pay the bank if the bank is unable to recover the amount granted. At the balance sheet date, no provision for the Company's obligation under the guarantee contract has been made as the directors consider that it is not probable that the amount granted will be in default.

## 42. RELATED PARTY TRANSACTIONS — GROUP

- (a) In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group had the following material related party transactions:

Name of the company	Relationship with the Group	Nature of transactions	2008 HK\$'000	2007 HK\$'000
Prime Star Industries Limited	Common director of fellow subsidiaries	Revenue received from sale of PCBs	<b>62,605</b>	71,189
		Service charge paid	—	131

The above transactions were conducted in the normal course of business at prices and terms no less than those charged to and contracted with other third party customers of the Group.

- (b) Key management personnel compensation:

	2008 HK\$'000	2007 HK\$'000
Short term employee benefits	<b>6,522</b>	5,633
Share-based payment	—	7,280
Contribution to defined contribution plan	<b>296</b>	247
	<b>6,818</b>	13,160



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 43. FINANCIAL RISK MANAGEMENT

The Group is exposed to financial risks through its use of financial instruments in its ordinary course of operations and in its investment activities. The financial risks include market risk (including currency risk, interest risk and other price risk), credit risk and liquidity risk.

The Group does not have written risk management policies and guidelines. Financial risk management is coordinated at the Group's headquarters, in close co-operation with the board of directors periodically. The overall objectives in managing financial risks focus on securing the Group's short to medium term cash flows by minimising its exposure to financial markets. Long term financial investments are managed to generate lasting returns with acceptable risk levels. The Group has not used any derivative or other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The most significant financial risks to which the Group is exposed are discussed below.

As at the balance sheet date, the Group's financial instruments mainly consisted of available-for-sale financial assets, financial assets at fair value through profit or loss, cash and bank balances, trade and bill receivables, deposits and other receivables, trade payables, amount due to a related company, accruals and other payables and obligation under finance leases.

### (a) Credit risk

Credit risk arises from the possibility that the counterparty to a transaction is unwilling or unable to fulfill its obligation which results in the Group suffering financial loss. The carrying amounts of trade receivables, other receivables and cash and bank balances included in the face of the balance sheet represent the Group's maximum exposure to credit risk in relation to its financial assets. The Group's trade receivables relate to a few customers and there is a concentration of credit risk with a maximum exposure equal to the carrying amounts of trade receivables.

The Group maintains its cash and cash equivalents with reputable banks in Hong Kong and the PRC, therefore the directors consider that the credit risk for such is minimal.

The Group generally has established long-term and stable relationships with its customers. The Group has policies in place to ensure that sales are made to customers with an appropriate credit history. The Group allows a range of credit periods from 30 days to 90 days to its trade customers. During the year ended 31 December 2008, the Group has provided impairment loss on trade receivables amounted to approximately HK\$967,000 (2007: HK\$5,255,000) (note 26).

The policies to manage credit risk have been followed by the Group since prior years and are considered to be effective.





# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 43. FINANCIAL RISK MANAGEMENT (Continued)

### (b) Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities. The Group is exposed to liquidity risk in respect of settlement of trade payables, amount due to a related company, accruals and other payables and obligation under finance leases, and also in respect of its cash flow management. The Group's objective is to maintain an appropriate level of liquid assets and committed lines of funding to meet its liquidity requirements in the short and longer term. The Group's liquidity is dependent upon the cash received from its customers. The directors are satisfied that the Group will be able to meet in full its financial obligations as and when they fall due in the foreseeable future.

The liquidity policies have been followed by the Group since prior years and are considered to have been effective in managing liquidity risks.

The following tables detail the remaining contractual maturities at the balance sheet date of the Group's and the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows and the earliest date the Group and the Company can be required to pay:

#### Group

	As at 31 December 2008				
	Carrying amount HK\$'000	Total contractual undiscounted cash flow HK\$'000	Within one year or on demand HK\$'000	More than one year but less than two years HK\$'000	More than two years but less than five years HK\$'000
Trade payables	34,403	34,403	34,403	—	—
Accruals and other payables	26,355	26,355	26,355	—	—
Obligation under finance leases	155	155	55	55	45
	<b>60,913</b>	<b>60,913</b>	<b>60,813</b>	<b>55</b>	<b>45</b>

	As at 31 December 2007				
	Carrying amount HK\$'000	Total contractual undiscounted cash flow HK\$'000	Within one year or on demand HK\$'000	More than one year but less than two years HK\$'000	More than two years but less than five years HK\$'000
Trade payables	74,326	74,326	74,326	—	—
Accruals and other payables	19,269	19,269	19,269	—	—
Amount due to a related company	10,530	10,530	10,530	—	—
Obligation under finance leases	177	177	45	45	87
	<b>104,302</b>	<b>104,302</b>	<b>104,170</b>	<b>45</b>	<b>87</b>



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 43. FINANCIAL RISK MANAGEMENT (Continued)

### (b) Liquidity risk (Continued) Company

	As at 31 December 2008				
	Carrying amount HK\$'000	Total contractual undiscounted cash flow HK\$'000	Within one year or on demand HK\$'000	More than one year but less than two years HK\$'000	More than two years but less than five years HK\$'000
Accruals and other payables	2,120	2,120	2,120	—	—
Amounts due to subsidiaries	9,654	9,654	9,654	—	—
	<b>11,774</b>	<b>11,774</b>	<b>11,774</b>	<b>—</b>	<b>—</b>

	As at 31 December 2007				
	Carrying amount HK\$'000	Total contractual undiscounted cash flow HK\$'000	Within one year or on demand HK\$'000	More than one year but less than two years HK\$'000	More than two years but less than five years HK\$'000
Accruals and other payables	2,600	2,600	2,600	—	—
Amounts due to subsidiaries	9,873	9,873	9,873	—	—
	<b>12,473</b>	<b>12,473</b>	<b>12,473</b>	<b>—</b>	<b>—</b>

### (c) Interest rate risk

The Group has interest-bearing assets in relation to cash at banks carried at effective interest rates with reference to the market. Details of which are disclosed in note 28. At 31 December 2008, if interest rates had been 100 basis points higher/lower, with all other variables held constant, post tax loss and retained profits would have been approximately HK\$6,439,000 (2007: HK\$6,572,000) lower/higher and higher/lower respectively, as a result of increase/decrease in interest income on bank deposits.

The Group has not used any financial instrument to hedge potential fluctuations in interest rates.

### (d) Other price risk

Other price risk relates to the risk that the fair values or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than changes in interest rates and foreign exchange rates). The policies to manage other price risk have been followed by the Group since prior years and are considered to be effective.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

### 43. FINANCIAL RISK MANAGEMENT (Continued)

#### (d) Other price risk (Continued)

##### Equity price risk

The Group is exposed to change in market prices of listed equity in respect of its investments in listed equity classified as available-for-sale financial assets and financial assets at fair value through profit or loss.

The sensitivity analyses below have been determined based on the Group's exposure to equity price risk at the reporting date. For sensitivity analysis purpose, the sensitivity rate is 50% in the current year as a result of the volatile financial market.

In respect of the investments in listed equity classified as available-for-sale financial assets, if equity prices had been 50% higher/lower, other equity component for the year ended 31 December 2008 would increase/decrease by approximately HK\$951,000 (2007: 22,259,000). This is mainly due to the changes in fair value of available-for-sale financial assets.

In respect of the investments in listed equity classified as financial assets at fair value through profit or loss, if equity prices had been 50% higher/lower, post-tax loss and retained profits for the year ended 31 December 2008 would decrease/increase and increase/decrease by approximately HK\$2,006,000 respectively (2007: Nil). This is mainly due to the changes in fair value of financial assets at fair value through profit or loss.

#### (e) Foreign currency risk

The Group is operated in Hong Kong and the PRC with most of the transactions settled in HK\$, RMB and United States Dollars ("US\$"). As HK\$ is pegged to US\$ which the directors do not expect any significant exposure to foreign currency risk in this respect.

Deposits invested into various bank deposits are mainly denominated in HK\$, US\$ and RMB. Foreign currencies were translated into HK\$ at the closing rate as at the balance sheet date. As at 31 December 2008, cash and bank balances mainly included HK\$302,200,000, US\$43,617,000 (approximately HK\$340,213,000) and RMB1,210,000 (approximately HK\$1,375,000).

By assessing the foreign currency risk on bank deposits, the effect arising from a reasonable possible change in the exchange rates of RMB against HK\$ in the next twelve months was not material to the results and retained profits for the years ended 2007 and 2008, on the basis that all other variables remain constant.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

## 43. FINANCIAL RISK MANAGEMENT (Continued)

### (f) Summary of financial assets and liabilities by category

The carrying amounts of the Group's and the Company's financial assets and liabilities recognised as at the balance sheet date may also be categorised as follows. See notes 3.13 and 3.18 for explanations about how the categorisation of financial instruments affects their subsequent measurement.

	Group		Company	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
<b>Financial assets:</b>				
Cash and bank balances	<b>643,884</b>	657,200	<b>534,997</b>	381,718
Available-for-sale financial assets	<b>1,901</b>	46,066	—	—
Financial assets at fair value through profit or loss	<b>4,012</b>	—	—	—
Loans and receivables				
— Trade and bill receivables	<b>32,408</b>	42,470	—	—
— Deposits and other receivables (note 27)	<b>8,395</b>	27,218	<b>540</b>	584
— Amounts due from subsidiaries	—	—	<b>117,222</b>	390,579
— Amount due from an associate	—	151,367	—	—
— Loans receivable	—	11,372	—	—
	<b>40,803</b>	232,427	<b>117,762</b>	391,163
	<b>690,600</b>	935,693	<b>652,759</b>	772,881

	Group		Company	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
<b>Financial liabilities:</b>				
Financial liabilities measured at amortised cost				
— Trade payables	<b>34,403</b>	74,326	—	—
— Amounts due to subsidiaries	—	—	<b>9,654</b>	9,873
— Amount due to a related company	—	10,530	—	—
— Accruals and other payables	<b>26,355</b>	19,269	<b>2,120</b>	2,600
— Obligation under finance leases	<b>155</b>	177	—	—
	<b>60,913</b>	104,302	<b>11,774</b>	12,473



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

### 44. CAPITAL MANAGEMENT

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide an adequate return to shareholders by pricing goods and services commensurately with the level of risk.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group, prevailing and projected capital expenditures and projected investment opportunities.

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 debt.

The Group regards total equity presented on the face of the balance sheet, for capital management purpose.

The Group is not subject to externally imposed capital requirements.

### 45. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation. In addition, the comparative figures related to discontinued operations have been re-presented to conform with the disclosure requirements of the discontinued operations.

### 46. ULTIMATE HOLDING COMPANY

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

### 47. POST BALANCE SHEET EVENT

On 5 January 2009, the Group entered into a sales and purchase agreement with an independent third party, for the disposal of its entire equity interests in ATL Group for a cash consideration of HK\$100,000.