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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional advisers.

**If you have sold or transferred** all your shares in HKC International Holdings Limited, you should hand this circular at once to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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This circular is not and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities of the Company.

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**HKC INTERNATIONAL HOLDINGS LIMITED**

**香港通訊國際控股有限公司\***

*(incorporated in the Cayman Islands with limited liability)*

(Stock Code: 248)

**MAJOR TRANSACTION:**

**IN RELATION TO THE ACQUISITION OF 70% INTERESTS IN  
EACH OF WAVEX INNOVATIONS AND WAVEX TECHNOLOGIES**

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A letter from the Board is set out on pages 4 to 18 of this circular.

\* *For identification purposes only*

14th November 2007

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## DEFINITIONS

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*In this circular, the following expressions shall, unless the context otherwise requires, have the following meanings:*

“Acquisition”	the acquisition of the Sales Shares by the Purchaser on the terms and conditions of the Acquisition Agreement
“Acquisition Agreement”	the conditional agreement dated 22nd October, 2007 entered into between the Vendors and the Purchaser relating to the Acquisition
“associate”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	HKC International Holdings Limited, a company incorporated in the Cayman Islands, the shares of which are listed on the Stock Exchange
“Completion”	the completion of the Acquisition in accordance with the Acquisition Agreement
“Completion Date”	the date on which Completion is to take place
“Consideration”	the consideration that the Purchaser has to pay for the purchase of the Sale Shares
“Consideration Shares”	14,045,454 new Shares to be issued by the Company to the Vendors pursuant to the Acquisition Agreement, each at the Issue Price
“Directors”	the directors of the Company
“Enlarged Group”	the Group following completion of the Acquisition
“Group”	the Company and its subsidiaries from time to time
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Shareholders”	Shareholders other than the Vendors and their respective associates
“independent third party”	party who is independent of and not connected with the Company and any of the directors, chief executive and substantial shareholders of the Company or any of its subsidiaries, or any of their respective associates

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## DEFINITIONS

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“Issue Price”	HK\$0.385 per Consideration Share, (determined at the agreed exchange rate of S\$1 to HK\$5.15), being the average closing price of the Shares for the five trading days as quoted on the Stock Exchange immediately prior the date of the Acquisition Agreement
“Latest Practicable Date”	12th November 2007, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
“Listing Committee”	the Listing Committee of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Major Shareholders”	collectively:  (a) Matrix World Group Limited, a company wholly owned by Mr Chan Chung Yee, Hubert, an executive Director, which as at the Latest Practicable Date directly and beneficially owned 225,615,727 Shares, representing 47.39% of the issued share capital of the Company; and  (b) Star Global International Limited, a company wholly-owned by Mr Chan Chung Yin, Roy, an executive Director, which as at the Latest Practicable Date directly and beneficially owned 67,417,400 Shares, representing 14.16% of the issued share capital of the Company
“PRC”	The People’s Republic of China excluding, for the purposes of this circular, Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Purchaser”	Singapore Communications Equipment Co. (Pte) Ltd., a company incorporated in Singapore and a wholly owned subsidiary of the Company
“Sale Shares”	(a) in regard to Wavex Innovations, 35,000 ordinary shares in the issued share capital of Wavex Innovations, representing 70% of the entire issued share capital of Wavex Innovations; and  (b) in regard to Wavex Technologies, 140,000 ordinary shares in the issued share capital of Wavex Technologies, representing 70% of the entire issued share capital of Wavex Technologies

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## DEFINITIONS

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“SFO”	The Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“Shareholders”	the holders of the Shares
“Share(s)”	ordinary share(s) of par value of HK\$0.01 each in the share capital of the Company
“Singapore”	the Republic of Singapore
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Vendors”	Chong Ser Ann Leslie, Lee Sheng Weng (Li Chengrong), Lew Chee Kin (Liao Zhijian), Eddie Foong Wai Keong (Eddie Feng Weiqiang) and Koh Sze Yon (Xu Zhirong)
“Vendors’ Proportion”	18% to Chong Ser Ann Leslie, 23% to Lee Sheng Weng (Li Chengrong), 5% to Lew Chee Kin (Liao Zhijian), 11% to Eddie Foong Wai Keong (Eddie Feng Weiqiang) and the remaining 43% to Koh Sze Yon (Xu Zhirong)
“Wavex Innovations”	WAVEX INNOVATIONS PTE. LTD, a company incorporated in Singapore with limited liability and 100% owned by the Vendors in the Vendors’ Proportion prior to Completion
“Wavex Technologies”	WAVEX TECHNOLOGIES PTE. LTD, a company incorporated in Singapore with limited liability and 100% owned by the Vendors in the Vendors’ Proportion prior to Completion
Wavex Technologies Group”	Wavex Technologies and its subsidiary
“Wavex Group”	Wavex Innovations and Wavex Technologies and their subsidiaries
“HK\$” or “HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“S\$”	Singapore dollars, the lawful currency of Singapore
“%”	per cent.

*In this circular, unless the context otherwise requires, translations of S\$ into HK\$ are made in this circular, for illustration purposes only, at the rate of S\$1.00 = HK\$5.30.*

*No representation is made in this circular that any amounts in HK\$ or S\$ could have been or could be converted at the above rate or any other rates at all.*

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## LETTER FROM THE BOARD

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### HKC INTERNATIONAL HOLDINGS LIMITED

香港通訊國際控股有限公司\*

*(incorporated in the Cayman Islands with limited liability)*

*Executive Directors:*

Chan Chung Yee, Hubert (*Chairman*)  
Chan Chung Yin, Roy  
Chan Man Min  
Chan Ming Him, Denny  
Tsui Hon Wing  
Wu Kwok Lam

*Registered Office:*

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

*Non-executive Director:*

Ng Ching Wah

*Principal place of business  
in Hong Kong:*

25th Floor  
Oxford House  
Taikoo Place  
979 King's Road  
Quarry Bay  
Hong Kong

*Independent non-executive Directors:*

Chu Chor Lup  
Chiu Ngar Wing  
Leung Tai Wai, David

14th November 2007

*To the Shareholders*

Dear Sir or Madam

### MAJOR TRANSACTION:

#### IN RELATION TO THE ACQUISITION OF 70% INTERESTS IN EACH OF WAVEX INNOVATIONS AND WAVEX TECHNOLOGIES

#### 1. INTRODUCTION

By the announcement dated 24th October, 2007, the Company announced that the Purchaser entered into the Acquisition Agreement with the Vendors pursuant to which the Vendors have conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Sale Shares at S\$3,500,000 (equivalent to HK\$18,550,000) (subject to adjustment). The Acquisition is on terms and conditions set out in the Acquisition Agreement.

\* For identification purposes only

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## LETTER FROM THE BOARD

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The Acquisition constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is conditional on approval by the Independent Shareholders.

The purposes of this circular are to provide you with further information relating to the Acquisition.

### 2. THE ACQUISITION AGREEMENT

#### a. Date

22nd October, 2007

#### b. Parties

Vendor: The Vendors (as vendors); and

Purchaser: The Purchaser (as purchaser), a company incorporated in Singapore and a wholly owned subsidiary of the Company

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, each of the Vendors is an independent third party (as such term is defined in the section headed "Definitions" in this circular).

#### c. Assets to be acquired

The Sale Shares, representing 70% the entire issued share capital of each of Wavex Innovations and Wavex Technologies.

Following completion of the Acquisition, each of Wavex Innovations and Wavex Technologies will become a 70% indirectly owned subsidiary of the Company held through the Purchaser.

#### d. Completion

Subject to fulfilment (or waiver) of all the conditions on or before 23rd November, 2007 set out in the paragraph headed "Conditions precedent" below, completion of the Acquisition is scheduled to take place on 30th November, 2007 (or such other date as the Vendors and the Purchaser may agree in writing).

#### e. Consideration

The consideration for the Sale Shares is S\$3,500,000 (equivalent to HK\$18,550,000) (subject to adjustment as referred to below in the paragraph headed "Adjustment to the Consideration") and is to be satisfied by the Purchaser as follows:

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## LETTER FROM THE BOARD

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- (1) Upon Completion:
  - (a) S\$1,050,000 (representing 30% of the Consideration) is to be paid by the Company by the issue and allotment of the Consideration Shares, each credited as fully paid at the Issue Price (at the agreed exchange rate of S\$1 to HK\$5.15), to the Vendors in accordance with the Vendors' Proportion;
  - (b) S\$1,400,000 (representing 40% of the Consideration) in cash or in immediately available funds (or in such other manner as may be acceptable to the Vendors) is to be paid by the Purchaser to the Vendors in accordance with the Vendors' Proportion upon Completion; and
- (2) subject to (3) below, the remaining balance of S\$1,050,000 (representing 30% of the Consideration) ("**Consideration Balance**") (after adjustment as referred to below in the paragraph headed "*Adjustment to the Consideration*" as may be necessary) is to be paid in cash by the Purchaser to the Vendors in accordance with the Vendors' Proportion on the 45th calendar day after the last of the audited financial statements of the Wavex Group for the three successive years commencing from 1st October, 2007 are made available to the Purchaser ("**Consideration Balance Payment Date**", which is expected to be no earlier than 30th September, 2010).
- (3) Subject to Completion, if the shareholdings of the Group in Wavex Innovations and Wavex Technologies shall both fall below 50% as a result of sale and/or transfer of the Sale Shares by the Group within three (3) years from 1st October, 2007 (i.e., on or before 30th September, 2010), the date of payment of the Consideration Balance will be accelerated to within 45 calendar days after the production of the audited financial statements of the Wavex Group for the period ("**Period**") from 1st October, 2007 to the date ("**Record Date**") when the Group's shareholdings in Wavex Innovations and Wavex Technologies shall both fall below 50% as aforesaid and:
  - (a) if the audited results of the Wavex Group for the Period is not at a loss, the whole of the Consideration Balance will become payable and there will not be any adjustment to the Consideration; and
  - (b) if the audited results of the Wavex Group for the Period is at a loss, the Consideration Balance will be adjusted and paid as follows:
    - (i) if the Record Date is within one year from 1st October, 2007 (i.e., on or before 30th September, 2008), only two-thirds (2/3) of the Consideration Balance will be payable to the Vendors;
    - (ii) if the Record Date is more than one year but within two years from 1st October, 2007 (i.e., from 1st October, 2008 to 30th September, 2009), only half (1/2) of the Consideration Balance will be payable to the Vendors; or



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## LETTER FROM THE BOARD

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- (iii) if the Record Date is more than two years but within three years from 1st October, 2007 (i.e., from 1st October, 2009 to 30th September, 2010), only one-third (1/3) of the Consideration Balance will be payable to the Vendors.

The Consideration was determined after arm's length negotiation between the Vendors and the Purchaser and taking into account of various factors, including the potential revenue contribution of the Wavex Group to the Group, the growth prospects of Group and earnings potential and synergy opportunity with the Group. The cash portion of the Consideration in the amount of S\$2,450,000 (equivalent to HK\$12,985,000) (subject to adjustment as referred to below in the paragraph headed "*Adjustment to the Consideration*") is to be funded by the internal resources of the Group.

The Directors (including the independent non-executive Directors) were of the view that the terms of the Acquisition Agreement were on normal commercial terms and were fair and reasonable and in the interests of the Shareholders as a whole.

The issue price of the Consideration Shares of HK\$0.385 represents:

- (1) a premium of 10% over the average closing price of the Shares for the five trading days as quoted on the Stock Exchange immediately prior to the date of the Acquisition Agreement; and
- (2) a premium of 10% over the closing price of HK\$0.35 of the Shares as quoted on the Stock Exchange as at the date of the Acquisition Agreement.

The Consideration Shares will be allotted and issued pursuant to the general mandate granted to the Directors at the annual general meeting of the Company held on 7th September, 2007 and shall rank *pari passu* among themselves and with all other Shares in issue at the date of their issue and allotment. The Directors were authorised to issue new Shares up to 95,213,520 Shares under such mandate and the Company has not allotted and issued any new Shares pursuant to such mandate prior to the entering of the Acquisition Agreement. As at the Latest Practicable Date, the authorised share capital of the Company is HK\$20,000,000 divided into 2,000,000,000 Shares of which 476,067,603 Shares have been allotted and issued.

Based on the 476,067,603 Shares currently in issue as at the Latest Practicable Date, the Consideration Shares represent approximately 2.95% of the existing issued Shares of the Company as at the Latest Practicable Date and approximately 2.87% of the total issued Shares of the Company as enlarged by the issue of the Consideration Shares. The Directors confirmed that there would not be change in control of the Company as a result of the issue and allotment of the Consideration Shares.

Each of the Vendors has irrevocably and unconditionally undertakes to the Purchaser that, without the prior written consent of the Purchaser, he/she will not (and, where applicable, will procure that the person nominated by him/her to accept the allotment of the Consideration Shares will not), within a period of 12 months from the Completion Date, sell or otherwise dispose of any

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## LETTER FROM THE BOARD

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of his/her Consideration Shares or any interests therein (or any other shares or securities of or interest in the Company arising or deriving therefrom).

An application has been made to the Listing Committee of the Stock Exchange by the Company for the listing of and permission to deal in the Consideration Shares.

**f. Adjustment to the Consideration**

The Consideration is subject to adjustment as follows:

- (1) Where the aggregate audited net profits (under the Singapore Financial Reporting Standards) of the Wavex Group for the three successive years commencing from 1st October, 2007 (“**Wavex Group Results**”) is no less than S\$2,400,000, no adjustment will be made to the Consideration.
- (2) Where the Wavex Group Results is less than S\$2,400,000 and not at a loss, the Consideration will be reduced as follows:

$$\begin{array}{l} \text{Amount of reduction to} \\ \text{the Consideration} \end{array} = \text{S\$2,400,000 - Wavex Group Results}$$

provided that the maximum amount of reduction in such event shall not be more than the amount of the Consideration Balance of S\$1,050,000.

- (3) Where the Wavex Group Results is at a loss, the Consideration will be reduced by an amount equal to the Consideration Balance.

In the event of a reduction of the Consideration and the amount of reduction is:

- (1) less than the amount of the Consideration Balance (i.e. S\$1,050,000), the Consideration Balance shall be reduced by an amount equal to the amount of the reduction and only the balance of the amount after such deduction shall be payable by the Purchaser on the Consideration Balance Payment Date; or
- (2) equal to the amount of the Consideration Balance (i.e. S\$1,050,000), no Consideration Balance shall be payable by the Purchaser on the Consideration Balance Payment Date.

**g. Conditions precedent**

Completion of the Acquisition Agreement is conditional upon the following:

- (1) Shareholders’ approval to the Acquisition Agreement and the transactions contemplated thereby, either by way of Shareholders’ approval at an extraordinary general meeting of the Company or by way of Shareholders’ written approval as permitted under the Listing Rules;

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## LETTER FROM THE BOARD

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- (2) the granting of the approval for the listing of, and permission to deal in, the Consideration Shares by the Listing Committee of the Stock Exchange and any conditions which may be imposed for the grant are acceptable to the Vendors;
- (3) if necessary, all approvals, consents, authorisations and licences (or as the case may be, waivers) of any kind, which may be required to be obtained by each of the Vendors and the Purchaser, in relation to the sale and purchase of the Sale Shares, the entering into and performance of the terms and conditions of the Acquisition Agreement and all transactions as contemplated by the Acquisition Agreement having been obtained by the Vendors and/or the Purchaser from the requisite government or regulatory authorities or any third parties;
- (4) all the warranties given by the Vendors in the Acquisition Agreement being true and correct in all material respects as at the Completion Date;
- (5) the legal opinion in such form and substance to the satisfaction of the Purchaser covering such matters relevant to the transactions contemplated under the Acquisition Agreement (including without limitation (a) the due incorporation, legal status, qualification to carry on the business as carried on by each of member of the Wavex Group; (b) the Vendors' title to the Sale Shares; (c) the legal and valid title of each member of the Wavex Group to its assets free from encumbrances; and (d) the legality and validity of the sale and purchase of the Sale Shares and of all transactions contemplated under the Acquisition Agreement) having been obtained; and
- (6) the Purchaser being satisfied with the results of its due diligence review of the Wavex Group.

Except for conditions referred to in (1), (2) and (3) above which cannot be waived, the Purchaser may at any time by notice in writing to the Vendors waive the conditions (4), (5) and (6) above in whole or in part in its absolute discretion.

If any of the above conditions has not been satisfied (or, as the case may be, waived by the Purchaser) at or before 5:00 p.m. on 23rd November, 2007, or such later date as the Vendors and the Purchaser may agree, the Acquisition Agreement shall cease and determine and none of the parties shall have any obligations and liabilities thereunder nor have any claim against the other (save for any prior breaches of the terms thereof).

### **h. Other principal terms**

In order to facilitate and ensure the smooth operations of the Wavex Group after completion of the Acquisition, one of the current directors of the Wavex Group, Lee Sheng Weng (Li Chengrong), who is also one of the Vendors, will remain in office as director of both Wavex Innovations and Wavex Technologies for three years after completion of the Acquisition. In the event that he shall cease to be a director due to his fault, he is liable to pay compensation to the Purchaser of up to one year of his director's basic salary. His termination of directorship by the Purchaser otherwise than due to his fault would entitle him to compensation of not more than one year of his director's basic salary.

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## LETTER FROM THE BOARD

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### 3. CHANGE IN SHAREHOLDING STRUCTURE

Set out below is the shareholding structure of the Company immediately following the issue and allotment of the Consideration Shares to the Vendors upon Completion (assuming that there is no change in the shareholding structure of the Company from the Latest Practicable Date to the date of issue and allotment of the Consideration Shares):

<i>Name of Shareholder</i>	<b>As at the Latest Practicable Date</b>		<b>Immediately following the issue and allotment of the Consideration Shares to the Vendors upon Completion</b>	
	<i>No. of Shares held</i>	<i>Approximate percentage shareholdings</i>	<i>No. of Shares held</i>	<i>Approximate percentage shareholdings</i>
Chan Chung Yee, Hubert <i>(a Director)</i>	242,700,575 <i>(note 1)</i>	50.98%	242,700,575 <i>(note 1)</i>	49.52%
Chan Chung Yin, Roy <i>(a Director)</i>	68,417,400 <i>(note 2)</i>	14.37%	68,417,400 <i>(note 2)</i>	13.96%
Chan Man Min <i>(a Director)</i>	25,709,650 <i>(note 3)</i>	5.40%	25,709,650 <i>(note 3)</i>	5.25%
Tsui Hon Wing <i>(a Director)</i>	2,639,200	0.55%	2,639,200	0.54%
Chan Ming Him, Denny <i>(a Director)</i>	1,000,000	0.21%	1,000,000	0.20%
Chong Ser Ann Leslie <i>(one of the Vendors)</i>	–	–	2,528,182	0.51%
Lee Sheng Weng (Li Chengrong) <i>(one of the Vendors)</i>	–	–	3,230,454	0.66%
Lew Chee Kin (Liao Zhijian) <i>(one of the Vendors)</i>	–	–	702,273	0.14%
Eddie Foong Wai Keong (Eddie Feng Weiqiang) <i>(one of the Vendors)</i>	–	–	1,545,000	0.31%

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## LETTER FROM THE BOARD

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<i>Name of Shareholder</i>	<b>As at</b>		<b>Immediately following</b>	
	<b>the Latest Practicable Date</b>		<b>the issue and allotment</b>	
	<b>of the Consideration Shares</b>		<b>to the</b>	
	<i>No. of</i>	<i>Approximate</i>	<i>No. of</i>	<i>Approximate</i>
	<i>Shares held</i>	<i>percentage</i>	<i>Shares held</i>	<i>percentage</i>
		<i>shareholdings</i>		<i>shareholdings</i>
Koh Sze Yon (Xu Zhirong) (one of the Vendors)	–	–	6,039,545	1.23%
Public	135,600,778	28.49%	135,600,778	27.68%
<b>Total:</b>	<b>476,067,603</b>	<b>100%</b>	<b>490,113,057</b>	<b>100%</b>

*Notes:*

- (1) Among these Shares, (a) 8,600,000 Shares were held in the name of Mr. Chan Chung Yee, Hubert; (b) 8,484,848 Shares were held by Light Emotion Limited, a company wholly owned by Matrix World Group Limited and (c) 225,615,727 Shares were held by Matrix World Group Limited, a company wholly owned by Mr. Chan Chung Yee, Hubert. By virtue of the provisions of Divisions 7 and 8 of Part XV of the SFO, Matrix World Group Limited is deemed to be interested in the Shares held by Light Emotion Limited and Mr. Chan Chung Yee, Hubert is deemed to be interested in the Shares in which Matrix World Group Limited is interested.
- (2) Among these Shares, (a) 1,000,000 Shares were held in the name of Mr. Chan Chung Yin, Roy; and (b) 67,417,400 Shares were held by Star Global International Limited, a company wholly owned by Mr. Chan Chung Yin, Roy. By virtue of the provisions of Divisions 7 and 8 of Part XV of the SFO, Mr. Chan Chung Yin, Roy is deemed to be interested in the Shares held by Star Global International Limited.
- (3) Among these Shares, (a) 1,000,000 Shares were held in the name of Mr. Chan Man Min; and (b) 24,709,650 Shares were held by Ocean Hope Group Limited, a company wholly owned by Mr. Chan Man Min. By virtue of the provisions of Divisions 7 and 8 of Part XV of the SFO, Mr. Chan Man Min is deemed to be interested in the Shares held by Ocean Hope Group Limited.
- (4) Mr. Chan Chung Yee, Hubert is the brother of Mr. Chan Chung Yin, Roy and they are deemed to be acting in concert with each other for the purposes of the Hong Kong Code on Takeovers and Mergers.

#### 4. INFORMATION ON THE WAVEX GROUP

Wavex Innovations and Wavex Technologies are limited liability companies incorporated in Singapore on 22nd November, 2004 and 23rd January, 2001 respectively.

Other than a 60% interest in Wavetech Sdn Bhd, a company incorporated in Malaysia on 5th January, 2007, currently held by Wavex Technologies, the Wavex Group does not have any other subsidiary. The remaining 40% interests in Wavetech Sdn Bhd is held by an independent third party (as such term is defined in the section headed “Definitions” in this circular).

The Wavex Group is principally engaged in Radio Frequency Identification products and solutions development for library, tracking and biomedical industries in Singapore.

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## LETTER FROM THE BOARD

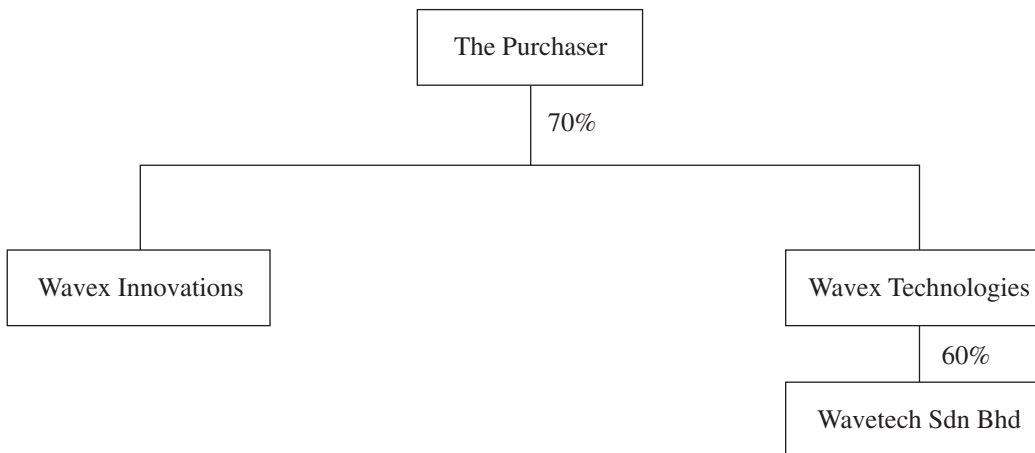
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The shareholding structures of the Wavex Group immediately before and after Completion are diagrammatically as shown below respectively:

**Immediately before Completion:**



**Immediately after Completion:**



The table below set out the audited financial information of each of Wavex Innovations and Wavex Technologies for the two financial years immediately preceding the date of the Acquisition Agreement:

**Wavex Innovations**

	<b>Year ended</b> <b>30th September, 2006</b>	<b>Year ended</b> <b>30th September, 2005</b>
	S\$	S\$
Net profit before taxation and extraordinary items	127,911	81,568
Net profit after taxation and extraordinary items	121,826	80,541

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## LETTER FROM THE BOARD

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### Wavex Technologies

	Year ended 31st December, 2006	Year ended 31st December, 2005
	S\$	S\$
Net profit before taxation and extraordinary items	260,394	456,587
Net profit after taxation and extraordinary items	220,001	379,642

As at 30th June, 2007, the unaudited net assets value of each of Wavex Innovations and Wavex Technologies Group were S\$448,000 and S\$1,404,000 respectively.

For the period from 5th January, 2007 (i.e., the date of incorporation of Wavetech Sdn Bhd) to 30th June, 2007, the unaudited net profit before and after taxation and extraordinary items respectively of Wavetech Sdn Bhd were approximately Malaysian dollar 22,000 and Malaysian dollar 16,000 respectively (equivalent to approximately HK\$48,000 and HK\$35,000 respectively at the exchange rate of one Malaysian dollar to HK\$2.2).

Immediately after Completion, each of Wavex Innovations and Wavex Technologies will become a 70% owned subsidiary of the Company with the remaining 30% interests to be held by the Vendors as to 5.4% by Chong Ser Ann Leslie, 6.9% by Lee Sheng Weng (Li Chengrong), 1.5% by Lew Chee Kin (Liao Zhijian), 3.3% by Eddie Foong Wai Keong (Eddie Feng Weiqiang) and the remaining 12.9% by Koh Sze Yon (Xu Zhirong).

After the Completion, the Company will consolidate 100% of the financial results of the Wavex Group with the Group's financial results.

An employee of Wavex Technologies is currently seconded to a company ("**Eastern Light**") which is owned as to approximately 33.33% by one of the Vendors, Koh Sze Yon (Xu Zhirong) ("**Secondment**"). Immediately following Completion, Koh Sze Yon (Xu Zhirong) will become a connected person of the Company for the purposes of Chapter 14A of the Listing Rules as he will be holding 12.90% interests in each of Wavex Innovations and Wavex Technologies. As Eastern Light is an associate of Koh Sze Yon (Xu Zhirong), Eastern Light is a connected person of the Company for the purposes of Chapter 14A of the Listing Rules. The Secondment will immediately following Completion constitute continuing connected transaction of the Company under Rule 14A.14 of the Listing Rules. As the amount payable by Eastern Light (excluding levy and tax collected by Wavex Technologies from Eastern Light on behalf of the relevant government authority of Singapore) on an annual basis is less than 0.1% of all the applicable percentage ratios, the Secondment is not subject to any disclosure, reporting and independent Shareholders' approval requirement pursuant to Rule 14A.33(3) of the Listing Rules immediately following Completion. The Secondment is to be terminated within 3 months from Completion.

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## LETTER FROM THE BOARD

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### 5. MANAGEMENT DISCUSSION AND ANALYSIS OF THE WAVEX GROUP

Set out in Appendix II to this circular is the accountants' reports on (a) Wavex Innovations for the period from 22nd November, 2004 (the date of its incorporation) to 30th September, 2005, the year ended 30th September, 2006 and the nine months ended 30th June, 2007 ("reporting period"); and (b) Wavex Technologies Group for the three years ended 31st December, 2006 and the six months ended 30th June, 2007. Below is the management discussion and analysis on the performance of each of Wavex Innovations and Wavex Technologies Group during the period reported on.

#### **Wavex Innovations**

##### *Results*

The turnover was HK\$516,000 for the period from 22nd November, 2004 (the date of its incorporation) to 30th September, 2005, HK\$3,899,000 for the year ended 30th September, 2006 and HK\$522,000 for the nine months period ended to 30th June, 2007. The net profit was HK\$378,000 for the period from 22nd November, 2004 (the date of its incorporation) to 30th September, 2005, HK\$2,747,000 for the year ended 30th September, 2006 and the loss was HK\$1,003,000 for the nine months period ended 30th June, 2007. The loss was because substantial resources were placed on research and development and the decrease in turnover was due to unfavourable market conditions and decrease in demand.

##### *Liquidity and financial resources*

The company maintains a strong and sound financial position. The company's cash and bank balances as at 30th September, 2005, 30th September, 2006 and 30th June, 2007 amounted to HK\$ 354,000, HK\$1,005,000 and HK\$1,858,000 respectively and there was no borrowing.

##### *Significant investments held, their performance during the financial year and their future prospects*

During the reporting period, the company did not hold any significant investments.

##### *Material acquisitions and disposals of subsidiaries and associated companies in the course of the financial year*

During the reporting period, there was no material acquisitions and disposals of subsidiaries and associated companies.



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## LETTER FROM THE BOARD

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### *Employees and remuneration policies*

The total number of employees and the aggregate remuneration of employees (excluding directors' emoluments) were as follows :

	<b>Number of employees</b>	<b>Remuneration HK\$</b>
22nd November, 2004 (date of incorporation) to 30th September, 2005	0	0
Year ended 30th September, 2006	3	79,604
Nine months ended 30th June, 2007	3	493,000

The remuneration and bonus packages are based on the individual merits and performance and are reviewed at least annually. The company maintains a good relationship with its employees.

### *Pledge of assets*

During the reporting period, no assets have been pledged.

### *Future plans for material investments or capital assets and their expected sources of funding in the coming year*

While the company is constantly looking for investment opportunities, no concrete new investment projects have been identified.

### *Gearing ratio*

The company had no borrowing, with nil gearing as at 30th September, 2005, 30th September, 2006 and 30th June, 2007.

### *Foreign exchange risk management*

As substantial portion of transactions of the company are dominated in Singapore dollar, the company's exposure to fluctuations in exchange rates is low.

## **Wavex Technologies Group**

### *Results*

The turnover was HK\$14,657,000 for the year ended 31st December, 2005, HK\$18,447,000 for the year ended 31st December, 2006 and HK\$6,417,000 for the six months period ended 30th June, 2007. The net profit was HK\$1,780,000 for the year ended 31st December, 2005, HK\$1,072,000 for the year ended 31st December, 2006 and HK\$2,511,000 for the six months period ended 30th June, 2007.

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## LETTER FROM THE BOARD

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### *Liquidity and financial resources*

The company maintains a strong and sound financial position. The company's cash and bank balances as at 31st December, 2004, 31st December, 2005, 31st December, 2006 and 30th June, 2007 amounted to HK\$299,000, HK\$3,874,000, HK\$4,882,000 and HK\$5,310,000 respectively and there was no borrowing.

### *Significant investments held, their performance during the financial year and their future prospects*

During the three years ended 31st December, 2006 and the six months ended 30th June, 2007, the company did not hold any significant investments.

### *Material acquisitions and disposals of subsidiaries and associated companies in the course of the financial year*

During the three years ended 31st December, 2006 and the six months ended 30th June, 2007, there was no material acquisitions and disposals of subsidiaries and associated companies.

### *Employees and remuneration policies*

The total number of employees and the aggregate remuneration of employees (excluding directors' emoluments) were as follows:

	<b>Number of employees</b>	<b>Remuneration</b> <i>HK\$</i>
Year ended 31st December, 2004	4	630,177
Year ended 31st December, 2005	11	3,927,715
Year ended 31st December, 2006	12	2,408,058
Six months ended 30th June, 2007	14	1,150,000

The remuneration and bonus packages are based on the individual merits and performance and are reviewed at least annually. The company maintains a good relationship with its employees.

### *Pledge of assets*

As at 31st December, 2006 and 30th June, 2007, fixed deposits of HK\$1,014,000 and HK\$1,024,000 had been pledged to bank to secure the general banking facilities respectively. However, no banking facilities have been utilized.

### *Future plans for material investments or capital assets and their expected sources of funding in the coming year*

While the company is constantly looking for investment opportunities, no concrete new investment projects have been identified.

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## LETTER FROM THE BOARD

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### *Gearing ratio*

The company had no borrowing, with nil gearing as at 31st December, 2004, 31st December 2005, 31st December, 2006 and 30th June, 2007.

### *Foreign exchange risk management*

As substantial portion of transactions of the company are dominated in Singapore dollar, the company's exposure to fluctuations in exchange rates is low.

## **6. FINANCIAL EFFECT OF THE ACQUISITION**

### *Net assets value*

Set out in Appendix III to this circular is the unaudited pro forma financial information on the Enlarged Group which illustrates the financial impact of the Acquisition on the assets and liabilities of the Group, assuming the Acquisition had been taken place on 31st March, 2007.

As set out in the unaudited pro forma statement of assets and liabilities of the Enlarged Group in Appendix III to this circular, the total assets and total liabilities of the Enlarged Group were increased by HK\$9,880,000 and HK\$1,884,000 respectively, resulting in increase in net assets of HK\$7,996,000.

### *Earnings*

Upon completion of the Acquisition, each of Wavex Innovations and Wavex Technologies will become a 70% indirectly owned subsidiary of the Company held through the Purchaser and the Company will consolidate 100% of the financial results of the Wavex Group with the Group's financial results.

## **7. REASONS FOR AND BENEFIT OF THE ACQUISITION**

The Directors consider that the Acquisition will enable the Group to leverage on the expertise and experience of the Wavex Group on Radio Frequency Identification products and solutions development in Singapore which will be acting as the platform for the furtherance of the Group's business in this regard in other regions, including Asia and Middle East.

The Directors (including the independent non-executive Directors) are of the view that the Acquisition is on normal commercial terms to the Company and the terms of the Acquisition are fair and reasonable to and in the interests of the Company and its Shareholders as a whole.

## **8. REQUIREMENTS OF THE LISTING RULES**

Since the applicable percentage ratio is more than 25% but less than 100%, the Acquisition constitutes a major transaction for the Company and is conditional on approval by the Independent Shareholders. Such condition was fulfilled by the Major Shareholders having given their written approval for the Acquisition as mentioned below.

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## LETTER FROM THE BOARD

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Under Rule 14.44 of the Listing Rules, Shareholders' approval for the Acquisition may be obtained by written Shareholders' approval without the need of convening a general meeting if (a) no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Acquisition; and (b) written approval has been obtained from one or more Shareholders who together hold more than 50% in nominal value of the issued share capital of the Company giving the right to attend and vote at general meetings.

So far as the Directors are aware after making reasonable enquiries, none of the Vendors and their respective associates was a Shareholder as at the Latest Practicable Date and would be required to abstain from voting if the Company were to convene a general meeting for approving the Acquisition.

The Major Shareholders, consisting of a closely allied group of Shareholders, were directly and beneficially interested in approximately 61.55% of the issued share capital of the Company as at the Latest Practicable Date and have given their written approval to the Acquisition. Therefore, no physical general meeting of the Company will be convened for considering the Acquisition.

### **9. GENERAL**

The Group is principally engaged in the sale and distribution of mobile phones and business solutions.

### **10. ADDITIONAL INFORMATION**

Your attention is also drawn to the additional information as set out in the appendices to this circular.

Yours faithfully,  
By order of the Board  
**HKC International Holdings Limited**  
**Chan Chung Yee, Hubert**  
*Chairman*

## 1. FINANCIAL SUMMARY

The following is a summary of the published audited consolidated results and the assets and liabilities of the Group (as extracted from the Financial Summary of the Company's annual report for the year ended 31st March, 2007).

	<b>Results of the Group for the year ended 31st March,</b>		
	<b>2007</b> <i>HK\$'000</i>	<b>2006</b> <i>HK\$'000</i>	<b>2005</b> <i>HK\$'000</i>
<b>RESULTS</b>			
Turnover	<u>869,232</u>	<u>1,002,490</u>	<u>974,056</u>
Profit before taxation	6,860	78,075	18,157
Tax expense	<u>(2,322)</u>	<u>(5,775)</u>	<u>(7,003)</u>
Profit for the year	<u>4,538</u>	<u>72,300</u>	<u>11,154</u>
Attributable to:			
Equity holders of the Company	5,071	72,174	11,304
Minority interests	<u>(533)</u>	<u>126</u>	<u>(150)</u>
	<u>4,538</u>	<u>72,300</u>	<u>11,154</u>
		<b>As at 31st March,</b>	
	<b>2007</b> <i>HK\$'000</i>	<b>2006</b> <i>HK\$'000</i>	<b>2005</b> <i>HK\$'000</i>
<b>ASSETS/(LIABILITIES) AND MINORITY INTERESTS</b>			
Total assets	351,680	326,864	290,874
Total liabilities	(82,532)	(65,901)	(82,301)
Minority interests	<u>–</u>	<u>(533)</u>	<u>(407)</u>
	<u>269,148</u>	<u>260,430</u>	<u>208,166</u>

## 2. INDEBTEDNESS

As at 31st August, 2007, being the latest practicable date for the purpose of ascertaining information contained in this indebtedness statement prior to the printing of this circular, the Enlarged Group had outstanding borrowings of approximately HK\$169,000, comprising secured bank loans of approximately HK\$86,000 and hire purchase commitments of approximately HK\$83,000. The secured borrowings and certain general banking facilities granted by the banks are secured by certain of the Group's investment properties and leasehold land and buildings.

Save as aforesaid and apart from intra-group liabilities, the Enlarged Group did not have any mortgages, charges, debentures, loan capital, bank loan and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptances creditors, or any guarantees, or other material contingent liabilities outstanding at the close of business on 31st August, 2007.

For the purpose of the indebtedness statement, foreign currency amounts have been translated into Hong Kong dollars at the approximate rates of exchange prevailing as at 31st August, 2007.

### **3. WORKING CAPITAL**

The Directors are of the opinion that in the absence of unforeseen circumstances and after taking into account the current cash balances and resources of the Enlarged Group and the available banking facilities and the fund which will be used for the Acquisition, the Enlarged Group has sufficient working capital for its present requirements for at least 12 months from the date of this circular.

### **4. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors confirmed that there was no material adverse change in the financial or trading position of the Group since 31st March, 2007, being the date to which the latest published audited accounts of the Group have been made up.

### **5. MANAGEMENT DISCUSSION AND ANALYSIS**

#### **Results analysis**

For the year ended 31st March, 2007, the Group's turnover decreased by 13 % to HK\$869 million (2006: HK\$ 1,002 million) and net profit was HK\$5 million (2006 : HK\$72 million ). The drastic drop in profit was due to the disposal of certain properties recording a profit of HK\$69 million in previous year. By excluding this item, profit increased by 31%.

#### *Sales of mobile phones*

The sale of mobile phones continued to be the Group's major core business for the year. The turnover decreased to HK\$772 million (2006: HK\$ 916 million) due to the cessation of mobile phone business of overseas subsidiaries. The profit decreased from HK\$10 million to HK\$8 million when compared with last year.

*Sales of business solutions*

During the year under review, the turnover was HK\$99 million, an improvement of 14% from last year (2006: HK\$86 million). However, the division suffered loss of HK\$6.4 million compared with the loss of HK\$2.6 million last year. The downturn in performance was due to substantial resources being input into the research and development of network telephone system, Radio Frequency Identification (“RFID”) project and software development.

*Property Investment*

The loss increased from HK\$0.1 million to HK\$1.3 million when compared with last year. This was mainly caused by the interest on mortgage loan. Due to the sale of relevant properties in April 2007, we expect that the loss will be significantly reduced in the coming year.

**Prospects**

The sale of mobile phones continues to be the Group’s major core business. With the substantial efforts and resources put on product development, RFID projects and software development in the past few years, we are well placed for the bidding of some projects. By possessing cash and bank balances of approximately HK\$91 million, our capital base is strong and we will continue to identify suitable investment opportunities to increase the return.

**Liquidity and financial Resources**

The Group continues to maintain a strong financial position. As at 31st March, 2007, the Group’s bank balances and cash amounted to approximately HK\$91 million (2006: HK\$66 million) while bank borrowing was HK\$26 million (2006: HK\$28 million). The long term bank borrowing was denominated in Hong Kong dollars. The gearing ratio was 10% (2006: 11%) which is expressed as a percentage of total borrowings to shareholders’ funds.

As substantial portion of transactions are dominated in Hong Kong Dollar, the Group’s exposure to exchange fluctuation is low.

**Capital Expenditure**

The Group invested HK\$2 million in investment properties, leasehold land and property, plant and equipment during the year.

**Employees**

As at 31st March, 2007, the total number of employees of the Group was approximately 380 (2006: 380) and the aggregate remuneration of employees (excluding directors’ emoluments) amounted to HK\$48 million (2006: HK\$49 million). The remuneration and bonus packages of the employees are based on the individual merits and performance and are reviewed at least annually. There is a share option scheme in place designed to award employees for their performance at the discretion of the Directors. In addition to the share option scheme, the Company had on 8th

September, 2006 adopted a share award plan which the directors of the Company may, in their absolute discretion, make awards of share of the Company to any full time employees (including any directors) of the Company, any of its subsidiaries or any entity in which any member of the Group holds an equity interest. The Group maintains a good relationship with its employees.

**Pledge of Assets**

As at 31st March, 2007, the group's general banking facilities were secured by (1) first legal charge on certain leasehold land and buildings and investment properties with aggregate net book value of HK\$75,930,000 (2006: HK\$76,760,000), (2) bank deposit of HK\$7,798,000 (2006: HK\$7,798,000) and (3) available-for-sale financial assets of HK\$12,976,000 (2006: HK\$3,417,000).

**Contingent liabilities**

As at 31st March, 2007, the Company had provided corporate guarantees of HK\$49 million (2006: HK\$74 million) to secure banking facilities granted to the subsidiary companies.

**6. EXTRACT OF AUDITED CONSOLIDATED FINANCIAL STATEMENTS**

Set out below are the audited consolidated financial statements of the Group for the year ended 31st March, 2007 together with the relevant notes as extracted from the Company's 2007 annual report.



**CONSOLIDATED INCOME STATEMENT***For the year ended 31st March, 2007*

	<i>Notes</i>	<b>2007</b> <i>HK\$'000</i>	<b>2006</b> <i>HK\$'000</i>
<b>TURNOVER</b>	7	869,232	1,002,490
Cost of sales		<u>(770,368)</u>	<u>(888,526)</u>
<b>GROSS PROFIT</b>		98,864	113,964
Other income and gains	8	10,214	6,768
Gain on disposal of leasehold land and buildings and investment properties		–	68,843
Loss on disposal of other property, plant and equipment		(12)	(63)
Other losses	8	(570)	(1,244)
Selling and distribution expenses		(14,775)	(14,635)
Administrative and other operating expenses		(85,336)	(90,909)
Impairment losses recognised in respect of goodwill		–	(3,601)
Finance costs	9	<u>(1,525)</u>	<u>(1,048)</u>
<b>PROFIT BEFORE TAXATION</b>	10	6,860	78,075
<b>TAX EXPENSE</b>	13	<u>(2,322)</u>	<u>(5,775)</u>
<b>PROFIT FOR THE YEAR</b>		<u>4,538</u>	<u>72,300</u>
Attributable to			
Equity holders of the company		5,071	72,174
Minority interests		<u>(533)</u>	<u>126</u>
		<u>4,538</u>	<u>72,300</u>
<b>DIVIDEND</b>	15	<u>4,621</u>	<u>23,098</u>
<b>EARNINGS PER SHARE – (HK CENTS)</b>			
– basic	16	<u>1.1 cents</u>	<u>15.6 cents</u>
– diluted	16	<u>1.1 cents</u>	<u>15.6 cents</u>

## BALANCE SHEETS

As at 31st March, 2007

	Notes	The group		The company	
		2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
<b>NON-CURRENT ASSETS</b>					
Property, plant and equipment	17	10,921	13,300	–	–
Investment properties	18	15,485	15,911	–	–
Leasehold land	19	63,877	64,460	–	–
Interests in subsidiaries	20	–	–	204,853	202,207
Interest in associate	21	349	–	–	–
Available-for-sale financial assets	22	20,793	13,619	–	3,878
Financial assets at fair value through profit or loss	23	4,146	–	–	–
Long-term bank deposits	24	15,596	7,798	–	–
Deferred tax assets	34	36	41	–	–
		<u>131,203</u>	<u>115,129</u>	<u>204,853</u>	<u>206,085</u>
<b>CURRENT ASSETS</b>					
Inventories	25	54,850	58,415	–	–
Debtors, deposits and prepayments	26	58,100	56,663	–	–
Available-for-sale financial assets	22	9,101	–	–	–
Financial assets at fair value through profit or loss	23	4,551	27,669	–	–
Amounts due from related companies	27	1,516	1,516	–	–
Derivative financial instruments	28	–	194	–	–
Tax recoverable		890	846	–	–
Cash and bank balances	29	91,469	66,432	690	729
		<u>220,477</u>	<u>211,735</u>	<u>690</u>	<u>729</u>
<b>CURRENT LIABILITIES</b>					
Creditors and accrued charges	30	49,233	34,336	–	8
Derivative financial instruments	28	–	992	–	–
Deposit received	31	6,850	–	–	–
Tax payable		68	1,253	–	–
Obligations under finance leases	32	31	29	–	–
Bank borrowings	33	2,430	2,495	–	–
		<u>58,612</u>	<u>39,105</u>	<u>–</u>	<u>8</u>
<b>NET CURRENT ASSETS</b>		<u>161,865</u>	<u>172,630</u>	<u>690</u>	<u>721</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>					
		<u>293,068</u>	<u>287,759</u>	<u>205,543</u>	<u>206,806</u>
<b>NON-CURRENT LIABILITIES</b>					
Obligations under finance leases	32	59	84	–	–
Bank borrowings	33	23,498	25,984	–	–
Deferred tax liabilities	34	363	728	–	–
		<u>23,920</u>	<u>26,796</u>	<u>–</u>	<u>–</u>
		<u>269,148</u>	<u>260,963</u>	<u>205,543</u>	<u>206,806</u>

**BALANCE SHEETS** *(continued)**As at 31st March, 2007*

	<i>Notes</i>	<b>The group</b>		<b>The company</b>	
		<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>CAPITAL AND RESERVES</b>					
Share capital	35	4,621	4,621	4,621	4,621
Reserves	37	264,527	255,809	200,922	202,185
Equity attributable to equity holders of the company		269,148	260,430	205,543	206,806
Minority interests		–	533	–	–
Total equity		<u>269,148</u>	<u>260,963</u>	<u>205,543</u>	<u>206,806</u>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st March, 2007

	Attributable to equity holders of the company										
	Share capital	Share premium	Share option reserve	Capital reserve	Leasehold land and buildings revaluation reserve	Investment revaluation reserve	Translation reserve	Retained profits	Total	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st April, 2005	4,608	31,339	-	28,325	44,935	1,471	343	98,616	209,637	407	210,044
Exchange differences on translation of overseas operations	-	-	-	-	-	-	105	-	105	-	105
Equity-settled share-based transactions	-	-	1,047	-	-	-	-	-	1,047	-	1,047
Release to retained profits upon disposal of leasehold land and buildings	-	-	-	-	(44,935)	-	-	44,935	-	-	-
Increase in fair value of available-for-sale financial assets	-	-	-	-	-	311	-	-	311	-	311
Exercise of share options	13	241	-	-	-	-	-	-	254	-	254
Net profit for the year	-	-	-	-	-	-	-	72,174	72,174	126	72,300
Dividend paid	-	-	-	-	-	-	-	(23,098)	(23,098)	-	(23,098)
At 31st March, 2006	4,621	31,580	1,047	28,325	-	1,782	448	192,627	260,430	533	260,963
Exchange differences on translation of overseas operations	-	-	-	-	-	-	272	-	272	-	272
Increase in fair value of available-for-sale financial assets	-	-	-	-	-	7,996	-	-	7,996	-	7,996
Transfer upon cancellation of share options	-	-	(108)	-	-	-	-	108	-	-	-
Net profit/(loss) for the year	-	-	-	-	-	-	-	5,071	5,071	(533)	4,538
Dividend paid	-	-	-	-	-	-	-	(4,621)	(4,621)	-	(4,621)
At 31st March, 2007	4,621	31,580	939	28,325	-	9,778	720	193,185	269,148	-	269,148

**CONSOLIDATED CASH FLOW STATEMENT***For the year ended 31st March, 2007*

	<b>2007</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>OPERATING ACTIVITIES</b>		
Profit before taxation	6,860	78,075
Adjustments for:		
Depreciation	4,905	4,121
Amortisation of prepaid operating lease payments	610	609
Loss on disposal of other property, plant and equipment	12	63
Gain on disposal of leasehold land and buildings and investment properties	–	(68,843)
Impairment losses recognised in respect of goodwill	–	3,601
Dividend income from listed investments	(99)	(162)
Allowances for inventories	2,360	4,829
Deposits paid written off	–	3,725
Provision for impairment of trade debtors	354	9,025
Bad debts written off	16	424
Net realised and unrealised gains and interest income on financial assets at fair value through profit or loss	(2,147)	(3,095)
(Gain)/losses from dealing in foreign currency contracts, options and other derivative financial instruments	(716)	1,244
Interest income	(3,150)	(1,240)
Finance costs	1,525	1,048
Equity-settled share-based payment expenses	–	1,047
	<hr/>	<hr/>
Operating cash inflows before movements in working capital	10,530	34,471
Decrease/(increase) in inventories	1,205	(10,431)
Increase in debtors, deposits and prepayments	(1,807)	(22,039)
Increase in amount due from related companies	–	(500)
Increase/(decrease) in creditors and accrued charges	14,897	(3,016)
Exchange adjustments	(303)	39
	<hr/>	<hr/>
Net cash from/(used in) operations	24,522	(1,476)
Interest received	3,150	1,240
Interest paid	(1,520)	(1,043)
Interest on obligations under finance leases	(5)	(5)
Tax paid:		
Hong Kong	(3,911)	(9,085)
Overseas	–	(275)
	<hr/>	<hr/>
<b>NET CASH FROM/(USED IN) OPERATING ACTIVITIES</b>	<b>22,236</b>	<b>(10,644)</b>
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>

	<i>Notes</i>	<b>2007</b> <i>HK\$'000</i>	<b>2006</b> <i>HK\$'000</i>
<b>INVESTING ACTIVITIES</b>			
Purchase of leasehold land and buildings and investment properties		–	(61,708)
Purchase of other property, plant and equipment		(1,920)	(8,563)
Purchase of available-for-sale financial assets		(8,279)	–
Purchase of financial assets at fair value through profit or loss		(73,592)	(26,870)
Deposit received for disposal of investment properties		6,850	–
Net proceeds from disposal of leasehold land and buildings and investment properties		–	160,700
Proceeds from disposal of other property, plant and equipment		84	190
Dividend income from listed investments		99	162
Proceeds from disposal of financial assets at fair value through profit or loss		94,711	3,095
Payments to settle foreign currency contracts, options and other derivative financial instruments		(82)	(1,244)
Increase in long-term bank deposits		(7,798)	(7,798)
Acquisition of a subsidiary	39	–	(5,045)
Advances to an associate		(349)	–
<b>NET CASH FROM INVESTING ACTIVITIES</b>		<u>9,724</u>	<u>52,919</u>
<b>FINANCING ACTIVITIES</b>			
New bank loan obtained		–	30,000
Proceeds from issue of shares on exercise of share options		–	254
Dividend paid		(4,621)	(23,098)
Repayment of bank loans		(2,483)	(23,746)
Repayment of obligations under finance leases		(23)	(33)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>		<u>(7,127)</u>	<u>(16,623)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		24,833	25,652
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		66,364	40,651
Effect of foreign exchange rates changes		272	61
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<u>91,469</u>	<u>66,364</u>
<b>ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	29	91,469	66,432
Bank overdrafts		–	(68)
		<u>91,469</u>	<u>66,364</u>

**NOTES TO THE FINANCIAL STATEMENTS***For the year ended 31st March, 2007***1. GENERAL**

The company is a public limited company incorporated in the Cayman Islands and its shares are listed on the Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The addresses of the registered office and principal place of business of the company are disclosed in the section headed “corporate information” to this annual report.

The principal activity of the company is that of investment holding. The principal activities of the subsidiaries are set out in note 45.

**2. BASIS OF PREPARATION**

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which also include Hong Kong Accounting Standards (“HKASs”) and Interpretations (“HK-Int”)), issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain financial instruments, which have been measured at fair values. These financial statements are presented in Hong Kong dollars (“HK\$”) and all values are rounded to the nearest thousand except where otherwise indicated.

**3.1 IMPACT ON NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS**

The group has adopted the following new and revised HKFRSs for the first time for the current year’s financial statements and applicable to its operations:

HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 & HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HK(IFRIC) – Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC) – Int 7	Applying the restatement approach under HKAS29 Financial Reporting in Hyperinflationary Economies

The adoption of the above new and revised HKFRSs have had no material impact on the accounting policies of the group and the company and the methods of computation in the group’s and company’s financial statements.

### 3.2 APPLICATION OF NEW AND REVISED HKFRS

The group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective for the accounting period ended 31st March, 2007.

HKAS 1 (Amendment)	Capital Disclosures <sup>1</sup>
HKFRS 7	Financial Instruments: Disclosures <sup>1</sup>
HKFRS 8	Operating Segments <sup>2</sup>
HK(IFRIC) – INT 8	Scope of HKFRS 2 <sup>3</sup>
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives <sup>4</sup>
HK(IFRIC) – INT 10	Interim Financial Reporting and Impairment <sup>5</sup>
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions <sup>6</sup>
HK(IFRIC) – INT 12	Service Concession Arrangements <sup>7</sup>

<sup>1</sup> Effective for accounting periods beginning on or after 1st January, 2007.

<sup>2</sup> Effective for accounting periods beginning on or after 1st January, 2009.

<sup>3</sup> Effective for accounting periods beginning on or after 1st May, 2006.

<sup>4</sup> Effective for accounting periods beginning on or after 1st June, 2006.

<sup>5</sup> Effective for accounting periods beginning on or after 1st November, 2006.

<sup>6</sup> Effective for accounting periods beginning on or after 1st March, 2007.

<sup>7</sup> Effective for accounting periods beginning on or after 1st January, 2008.

The group has begun to consider the potential impact of the above standards and amendments, but is not yet in a position to determine whether these HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These standards and amendments may result in changes in the future as to how the results and financial position are prepared and presented.

## 4. SIGNIFICANT ACCOUNTING POLICIES

### a) Subsidiaries:

A subsidiary is a company whose financial and operating policies the company controls, directly or indirectly, so as to obtain benefits from its activities.

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

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

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the company. Minority interests in the results of the group are presented on the face of the consolidated income statements as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the company.



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

In the company's balance sheet, investments in subsidiaries are stated at cost less any impairment losses. The results of subsidiaries are accounted for by the company on the basis of dividends declared or approved during the company's financial year.

**b) Associates:**

Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. The group's interest in associate is accounted for using the equity method of accounting and is initially recognised at cost. The group's investment in associate includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The group's share of its associate's post-acquisition profit or loss is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the group's share of loss in an associate equals or exceeds its investment in the associate, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

**c) Goodwill:**

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the group's interest in the net fair values of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

*Goodwill on acquisition for which the agreement date is on or after 1st January, 2005*

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of associate, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purposes of impairment test, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the group's cash-generating units, or group of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the group are assigned to those units or group of units. Each unit or group of units to which the goodwill is allocated.

- represents the lowest level within the group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the group's primary or the group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit, or group of cash-generating units to which the goodwill relates. Where the recoverable amount of the cash-generating unit, or group of cash-generating units is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit, or group of cash-generating units and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

*Goodwill previously eliminated against the consolidated reserves*

Prior to the adoption of SSAP 30 “Business Combinations” in 2001, goodwill arising on acquisition was eliminated against the consolidated reserves in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against the consolidated reserves and is not recognised in consolidated income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

*Excess over the cost of business combinations*

Any excess of the group’s interest in the net fair value of the acquirees’ identifiable assets, liabilities and contingent liabilities over the cost of the acquisition of subsidiaries, (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

The excess for the associate is included in the group’s share of the associate’s profit or loss in the period in which the investment is required.

**d) Property, plant and equipment:**

Property, plant and equipment, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, the expenditure is capitalised as an additional cost of that asset.

Depreciation on property, plant and equipment is calculated on the straight-line basis to allocate cost to their residual value over their estimated useful lives as follows:

Buildings	Over the shorter of the term of the lease or 40 years
Motor vehicles	20% p.a.
Computer equipment	33 <sup>1</sup> / <sub>3</sub> % p.a.
Office equipment	10% – 20% p.a.
Leasehold improvements	20% p.a.
Furniture and fixtures	10% – 20% p.a.
Moulds	20% p.a.
Plant and machinery	20% p.a.

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

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

**e) Investment properties:**

Investment properties are land and buildings which are owned or held under a leasehold interest to earn rental income.

Investment properties are stated in the balance sheet at cost less accumulated depreciation and any impairment loss. Depreciation is calculated to write-off the cost of investment properties, less their residue values, if any, using the straight-line method over the shorter of the term of the lease or 40 years.

**f) Financial instruments:**

*i) Classification*

Financial assets at fair value through profit or loss

This category comprises financial assets held for trading and those designated as fair value through profit or loss at inception. A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short-term. Bank deposits with embedded derivatives for yield enhancement whose economic characteristics and risks are not closely related to the host deposits are designated as financial assets at fair value through profit or loss.

Available-for-sale financial assets

This category comprises financial assets which are non-derivatives and are designated as available-for-sale financial assets or not classified under other investment categories.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments, that are not quoted in an active market, and with no intention of trading the receivables. Bank deposits are treated as loans and receivables and are disclosed as cash and bank balances.

*ii) Recognition and initial measurement*

Purchases and sales of investments are recognised on trade-date – the date on which the group commits to purchase or sell the assets. Investments at fair value through profit or loss are initially recognised at fair value with transaction costs recognised as expenses in the income statement. Investments not designated as fair value through profit or loss are initially recognised at fair value plus transaction costs.

*iii) Derecognition*

Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the company has transferred substantially the risk and rewards of ownership.

*iv) Gains or losses on subsequent measurement and interest income*

Financial assets at fair value through profit or loss

- Investments under this category are carried at fair value. Unrealised gains and losses arising from changes in the fair value are included in the income statement in the period in which they arise. Upon disposal, the difference between the sale proceeds and the carrying value is included in the income statement.
- Interest income is recognised using the effective interest method and included as net realised and unrealised gains and losses and interest income from these investments.

Available-for-sale financial assets

- Available-for-sale financial assets are carried at fair value. Unrealised gains and losses arising from changes in the fair value are recognised in investment revaluation reserve, except for monetary securities whose exchange differences resulting from changes in amortised costs are recognised in the income statement. When the securities are sold, the difference between the sale proceeds and the carrying value, and the accumulated fair value adjustments in the investment revaluation reserve are treated as gains or losses on disposal.
- Interest income recognised using the effective interest method and disclosed as interest income.

Loans and receivables

- Loans and receivables are carried at amortised cost using the effective interest method less any impairment losses for bad and doubtful debts except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less any impairment losses.
- Interest income is recognised using the effective interest method and disclosed as interest income.

*v) Fair value measurement principles*

Fair values of quoted investments are based on bid prices. For unlisted securities or financial assets without an active market, the group establishes the fair value by using valuation techniques including the use of recent arm's length transactions, reference to other instruments that are substantially the same, and discounted cash flow analysis.

*vi) Impairment*

The group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets are impaired. If any such evidence exists for the available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on the financial assets previously recognised in the profits or loss – is removed from investment revaluation reserve and recognised in the income statement.

In case of equity securities classified as available-for-sale financial assets, a significant or prolonged decline in the fair value of the securities below their cost is considered in determining whether the securities are impaired. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

A provision of impairment for loans and receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of receivables. The amount of provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of provision is recognised in the income statement.

**g) Derivative financial instruments:**

The group invests in certain derivative financial instruments, such as forward currency contracts and currency options, for trading purposes. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives are taken directly to net profit or loss for the year.

**h) Inventories:**

Inventories are stated at the lower of cost, on the first-in, first-out basis, and net realisable value. Costs comprise direct materials and the related purchase costs. In the case of finished goods and work in progress, costs also include direct labour and an appropriate proportion of manufacturing overheads. Net realisable value is based on estimated selling prices less all costs to be incurred to completion and disposal.

**i) Leases:**

Leases that transfer substantially all the rewards and risks of ownership of assets to the group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease term and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the group is the lessor, assets leased by the group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease term. Where the group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the relevant lease terms.

Prepaid operating lease payments are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of properties as a finance lease.

**j) Cash and cash equivalents:**

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the group's cash management.

**k) Payables:**

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

**l) Revenue recognition:**

Sales of goods are recognised when goods are delivered and title has passed.

Service fee income, arising from repairs installation, maintenance and connection services, are recognised when the relevant services are rendered.

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

Interest income is accrued on a time proportion basis by reference to the principal outstanding and at the effective interest rate applicable.

**m) Employee benefits:**

**Share-based payment**

The fair value of share options granted to employees is recognised as employee costs with a corresponding increase in a share option reserve within equity. The fair value is measured at grant date using the Black-Scholes Option Pricing Model, taking into account the terms and conditions upon which the options are granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period taking into account the probability that the options will vest. Otherwise, the fair value of options is recognised in the period in which the options are granted.

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

Share-based payment transactions in which the company grants share options to subsidiaries' employees are accounted for as an increase in value of investment in subsidiaries in the company's balance sheet which is eliminated on consolidation.

#### **Employment Ordinance long service payments**

Certain of the group's employees have completed the required number of years of service to the group in order to be eligible for long service payments under the Hong Kong Employment Ordinance and the relevant labour laws of the respective countries in which the overseas subsidiaries operate in the event of the termination of their employment. The group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Hong Kong Employment Ordinance and the relevant labour laws.

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

#### **Pension schemes and other retirement benefits**

The group joins defined contribution retirement benefits schemes in Hong Kong and overseas for those employees who are eligible and have elected to participate in the schemes. Contributions are made based on a percentage of the participating employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the schemes. The assets of the schemes are held separately from those of the group in independently administered funds. In respect of the Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme"), the group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a specific amount for the employees in Mainland China, pursuant to the local municipal government regulations. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

#### **n) Borrowing costs:**

Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

**o) Income tax expense:**

Income tax expense comprises current and deferred tax. Income tax is recognised in the income statement or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Deferred tax is provided, using the balance sheet liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences except where the deferred tax liabilities arise from the initial recognition of assets or liabilities and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and unused tax losses, to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax assets and unused tax losses can be utilised except where the deferred tax assets relating to the deductible temporary differences arises from the initial recognition of assets or liabilities and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred tax assets to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient future taxable profit will be available to allow all or part of the deferred tax assets to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the assets are realised or the liabilities are settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

**p) Impairment:**

*i) Impairment of receivables*

Current and non-current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

- For current receivables that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial assets and the estimated future cash flows, discounted at the current market rate of return for a similar financial assets where the effect of discounting is material. Impairment losses for current receivables are reversed if in a subsequent period the amount of the impairment loss decreases.
- For financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets).

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



ii) *Impairment of other assets*

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

- Property, plant and equipment; and
- Other tangible assets.

If any such indication exists, the asset's recoverable amount is estimated.

- Calculation of recoverable amount

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

- Recognition of impairment losses

An impairment loss is recognised in the income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount.

- Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment loss is credited to the income statement in the year in which the reversal is recognised.

q) **Foreign currency transaction:**

i) Functional and presentation currency

Items included in the financial statements of the group and the company are measured using the currency of the primary economic environment in which the group and the company operate ("the functional currency"). The financial statements are presented in Hong Kong dollars, which is the group's and the company's functional and presentation currency.

ii) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the year-end exchange rates. All exchange differences are recognised in the income statement.

- iii) Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets are included in the fair value reserve in equity.

**r) Related parties:**

For the purposes of these financial statements, parties are considered to be related to the group if the group has the ability, directly or indirectly, to control the parties or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the group and the parties are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the group where those parties are individuals, and post-employment benefit plans which are for the benefits of employees of the group or of any entity that is a related party of the group.

**s) Contingent liabilities:**

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

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

**t) Segment reporting:**

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

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 as the secondary reporting format.

xUnallocated costs represent corporate expenses. Segment assets consist primarily of property, plant and equipment, investment properties, leasehold land, available-for-sale financial assets, financial assets at fair value through profit or loss, receivables and operating cash excluding taxation. Segment liabilities comprise operating liabilities excluding taxation. Capital expenditure comprises additions to property, plant and equipment, leasehold land and investment properties.

In respect of geographical segment reporting, turnover, operating results, total assets and capital expenditure are based on the country in which the relevant assets are located.

**5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

Exposure to credit, liquidity, interest rate, foreign currency and price risks arises in the normal course of the group's business. These risks are limited by the group's financial management policies and practices described below.

**a) Credit risk**

The group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st March, 2007 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the balance sheet. In order to minimize the credit risk, the group has been monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regards, the directors consider that the group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings.

**b) Liquidity risk**

The group's policy is to regularly monitor current and expected liquidity level to ensure that it maintains sufficient reserves of cash and bank balances and readily realisable marketable securities for its daily operation and investment purposes.

**c) Interest rate risk**

In respect of income-earning financial assets and interest-bearing liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice or the maturity dates, if earlier.

	2007				2006			
	Effective	One year	More		Effective	One year	More	
	interest rate	or less	2-5years	than	interest rate	or less	2-5years	than
	%	HK\$'000	HK\$'000	5 years	%	HK\$'000	HK\$'000	5 years
				HK\$'000				HK\$'000
Repricing dates for assets/ (liabilities) which reprice before maturity								
Cash at bank	0.5% – 2.6%	16,731	-	-	0.5% – 2.42%	5,998	-	-
Deposits with banks	6.5%	-	7,798	-	-	-	-	-
Bank loans	5.4% – 5.75%	(25,928)	-	-	5.4% – 5.75%	(28,411)	-	-
Bank overdrafts	-	-	-	-	8%	(68)	-	-
		<u>          </u>	<u>          </u>	<u>          </u>		<u>          </u>	<u>          </u>	<u>          </u>
Maturity dates for assets which do not reprice before maturity								
Deposits with banks	2.5% – 6.125%	74,738	-	7,798	6% – 6.5%	38,695	-	7,798
		<u>          </u>	<u>          </u>	<u>          </u>		<u>          </u>	<u>          </u>	<u>          </u>

**d) Foreign currency risk**

The group's significant activities have been operated locally and are exposed to limited foreign exchange risks as most debtors and creditors are denominated in Hong Kong Dollars and United States Dollars.

**e) Price risk**

The group is exposed to equity securities price risk because investments held by the group are classified on the consolidated balance sheet either as available-for-sale financial assets or as financial assets at fair value through profit or loss. The group is not exposed to commodity price risk.

**6. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

In the process of applying the group's accounting policies which are described in note 4, management has made the following estimates that have significant effect on the amounts recognised in the financial statements. The key assumptions concerning the future, and other key sources of estimation and judgements at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

**Useful lives of property, plant and equipment**

The group's management determines the estimate useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previous estimation, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

**Allowances for inventories**

The management of the group makes allowance for obsolete and slow-moving inventories that are identified as no longer salable. The management estimates the net realisable value of its inventories based primarily on the latest invoice prices and current market conditions. The group carries out review of inventories on a product-by-product basis at each balance sheet date and makes allowance for obsolete and slow-moving items.

**Provision for impairment of debtors**

The policy for impairment of debtors of the group is based on the evaluation of collectibility and aging analysis of debtors and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these debtors including the current creditworthiness and the past collection history of each customer, if the financial conditions of customers of the group were to deteriorate, resulting in an impairment of their ability to make payments, additional provision may be required.

**Provision for long service payments**

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

**7. TURNOVER/SEGMENTAL INFORMATION**

Turnover represents sales of mobile phone, business solutions and gross rental income.

For management purposes, the group is currently organised into three operations divisions – sales of mobile phone, sales of business solutions and property investment, segment information about the group's business is presented below:

i) **Primary reporting format – business segments:**

For the year ended 31st March, 2007:

	Sales of mobile phones <i>HK\$'000</i>	Sales of business solutions <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>TURNOVER</b>					
External sales	770,143	98,615	474	–	869,232
Inter-segment sales	1,834	–	–	(1,834)	–
Total turnover	<u>771,977</u>	<u>98,615</u>	<u>474</u>	<u>(1,834)</u>	<u>869,232</u>

Inter-segment sales were charged at prevailing market prices.

**RESULTS**

Segment results	<u>7,586</u>	<u>(6,448)</u>	<u>(1,332)</u>	<u>–</u>	(194)
Interest income from bank deposits					2,992
Unallocated other income and gains					5,587
Finance costs					<u>(1,525)</u>
Profit before taxation					6,860
Tax expense					<u>(2,322)</u>
Profit for the year					<u>4,538</u>

For the year ended 31st March, 2007:

**Balance sheet**

	<b>Sales of mobile phones</b> <i>HK\$'000</i>	<b>Sales of business solutions</b> <i>HK\$'000</i>	<b>Property investment</b> <i>HK\$'000</i>	<b>Consolidated</b> <i>HK\$'000</i>
<b>ASSETS</b>				
Segment assets	158,543	60,899	78,050	297,492
Unallocated corporate assets				54,188
				<u>351,680</u>
Consolidated total assets				<u><u>351,680</u></u>
<b>LIABILITIES</b>				
Segment liabilities	38,922	10,810	6,995	56,727
Unallocated corporate liabilities				25,805
				<u>82,532</u>
Consolidated total liabilities				<u><u>82,532</u></u>
<b>OTHER INFORMATION</b>				
Capital expenditures	1,480	440	–	1,920
Depreciation and amortisation	2,339	2,254	922	5,515
				<u><u>5,515</u></u>

Segment information about the group's business is presented below:

For the year ended 31st March, 2006:

	Sales of mobile phones HK\$'000	Sales of business solutions HK\$'000	Property investment HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
TURNOVER					
External sales	914,889	86,347	1,254	-	1,002,490
Inter-segment sales	1,278	-	-	(1,278)	-
Total turnover	<u>916,167</u>	<u>86,347</u>	<u>1,254</u>	<u>(1,278)</u>	<u>1,002,490</u>
Inter-segment sales were charged at prevailing market prices.					
RESULTS					
Segment results	<u>9,831</u>	<u>(2,616)</u>	<u>(102)</u>	<u>-</u>	7,113
Interest income from bank deposits					1,170
Unallocated other income and gains					5,598
Gain on disposal of leasehold land and buildings and investment properties	-	-	68,843	-	68,843
Impairment losses recognised in respect of goodwill	(3,601)	-	-	-	(3,601)
Finance costs					<u>(1,048)</u>
Profit before taxation					78,075
Tax expense					<u>(5,775)</u>
Profit for the year					<u>72,300</u>



At 31st March, 2006:

**Balance sheet**

	<b>Sales of mobile phones</b>	<b>Sales of business solutions</b>	<b>Property investment</b>	<b>Consolidated</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>ASSETS</b>				
Segment assets	132,608	63,475	81,500	277,583
Unallocated corporate assets				49,281
Consolidated total assets				<u>326,864</u>
<b>LIABILITIES</b>				
Segment liabilities	26,818	10,081	3,117	40,016
Unallocated corporate liabilities				25,885
Consolidated total liabilities				<u>65,901</u>
<b>OTHER INFORMATION</b>				
Capital expenditures	4,340	3,963	73,366	81,669
Depreciation and amortisation	2,197	1,588	945	4,730
Impairment loss recognised in respect of goodwill	3,601	–	–	<u>3,601</u>

ii) **Secondary reporting format – geographical segments**

During the years ended 31st March, 2007 and 2006, more than 90% of the group's turnover, profit from operations, assets and liabilities were derived from and located in Hong Kong and, therefore, no geographical segments for the relevant years are presented in the financial statements.

## 8. OTHER INCOME AND GAINS

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Dividend income		
– listed available-for-sale financial assets	–	80
– listed financial assets at fair value through profit or loss	99	82
Interest income		
– bank deposits	2,992	1,170
– others	158	70
Computer service fee income	59	–
Commission income	127	543
Bad debts recovered	765	190
Net gains from forward currency contracts and other derivative financial instruments	716	–
Net realised and unrealised gains and interest income on financial assets at fair value through profit or loss		
– bank deposits with embedded derivatives	140	2,346
– listed securities	2,007	743
– exchange differences	–	6
Management income	–	724
Net exchange gains	1,816	6
Rental income for application software provider	396	–
Others	939	808
	<u>10,214</u>	<u>6,768</u>

**OTHER LOSSES**

Net losses from forward currency contracts, options and other derivative financial instruments	–	1,244
Penalty for early termination of bank deposit	570	–
	<u>570</u>	<u>1,244</u>

## 9. FINANCE COSTS

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on:		
– Bank borrowings wholly repayable within five years	9	13
– Bank borrowings with instalments repayable after five years	1,507	1,030
– Interest on obligations under finance leases	5	5
– Others	4	–
	<u>1,525</u>	<u>1,048</u>

## 10. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Auditors' remuneration	430	429
Operating lease rentals in respect of rented premises		
– Minimum lease payment	9,205	7,736
– Contingent rent	1,545	1,624
	10,750	9,360
Depreciation		
– Owned assets	4,872	4,090
– Leased assets	33	31
	4,905	4,121
Amortisation of prepaid operating lease payments	610	609
Employee benefits expenses (including directors' remuneration <i>note (11)</i> )		
– Salaries, allowances and benefits in kind	49,534	50,864
– Retirement benefit scheme contributions	2,776	2,573
– Equity-settled share option expenses	–	1,047
Total staff costs	52,310	54,484
Donation	246	495
Deposits paid written off	–	3,725
Provision for impairment of trade debtors	354	9,025
Bad debts written off	16	424
	<u>16</u>	<u>424</u>
and after crediting:		
Gross rental income from investment properties under operating leases	474	1,426
	<u>474</u>	<u>1,426</u>

## 11. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and section 161 of the Hong Kong Companies Ordinance, is as follows:

	2007					Total remuneration HK\$'000
	Fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Employee share option benefits	Retirement benefit scheme contributions	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
<b>Executive directors:</b>						
Chan Chung Yee, Hubert	-	533	645	-	7	1,185
Chan Chung Yin, Roy	-	698	-	-	12	710
Chan Man Min	-	36	-	-	-	36
Chan Ming Him, Denny	-	151	-	-	8	159
Tsui Hon Wing	-	643	37	-	24	704
Wu Kwok Lam	-	657	161	-	24	842
Yeh Yui Fong	-	508	-	-	4	512
	-	3,226	843	-	79	4,148
<b>Independent non-executive directors:</b>						
Chiu Ngar Wing	25	-	-	-	-	25
Chu Chor Lup	25	-	-	-	-	25
Leung Tai Wai, David	20	-	-	-	-	20
	70	-	-	-	-	70

	2006					Total remuneration HK\$'000
	Fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Employee share option benefits	Retirement benefit scheme contributions	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
<b>Executive directors:</b>						
Chan Chung Yee, Hubert	-	630	1,429	222	10	2,291
Chan Chung Yin, Roy	-	345	-	103	9	457
Chan Man Min	-	36	-	52	-	88
Chan Ming Him, Denny	-	148	-	52	8	208
Tsui Hon Wing	-	648	83	52	24	807
Wu Kwok Lam	-	660	372	52	24	1,108
Yeh Yui Fong	-	487	15	52	4	558
	-	2,954	1,899	585	79	5,517
<b>Independent non-executive directors:</b>						
Chiu Ngar Wing	25	-	-	-	-	25
Chu Chor Lup	25	-	-	-	-	25
Leung Tai Wai, David	20	-	-	-	-	20
	70	-	-	-	-	70

At the balance sheet date, certain directors held share options of the company, the details of which are set out in note 36 to the financial statements. The fair value of the share options granted in prior year, which had been charged to the income statement, was determined as at the date of the grant and was included in the above disclosure of directors' emoluments for the year ended 31st March, 2006.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year ended 31st March, 2007 and 2006.

## 12. EMPLOYEES' EMOLUMENTS

The five highest paid individuals of the group include four directors (2006: three directors), details of whose emoluments are included in the amounts disclosed in note 11 above. The emoluments of the remaining highest paid employees, other than directors of the company, are as follows:

	2007 HK\$'000	2006 HK\$'000
Salaries and allowances	911	1,842
Employee share option benefits	-	52
Retirement benefit schemes contributions	12	36
	923	1,930

Their emoluments were within the following band:

	<b>2007</b>	<b>2006</b>
	<b>Number of employees</b>	<b>Number of employees</b>
Nil to HK\$1,000,000	<u>1</u>	<u>2</u>

### 13. TAX EXPENSE

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

	<b>2007</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current – Hong Kong		
Charge for the year	2,780	5,790
Overprovision in respect of prior years	(26)	(4)
Tax refunded	(162)	–
Current – Elsewhere		
Charge for the year	90	398
Deferred tax ( <i>note 34</i> )	<u>(360)</u>	<u>(409)</u>
Tax expense for the year	<u>2,322</u>	<u>5,775</u>

The tax expense for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	<b>2007</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before taxation	<u>6,860</u>	<u>78,075</u>
Tax at the domestic income tax rate of 17.5% (2006: 17.5%)	1,200	13,663
Overprovision of profits tax in respect of prior years	(16)	(4)
Tax effect of income not taxable	(2,264)	(15,760)
Tax effect of expenses that are not deductible in determining taxable income	863	4,728
Tax effect of unrecognised tax losses	2,935	2,832
Tax effect of different tax rate in other jurisdiction	(890)	226
Tax effect of utilisation of tax losses previously unrecognised	(337)	(131)
Others	<u>831</u>	<u>221</u>
Tax expense for the year	<u>2,322</u>	<u>5,775</u>

**14. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY**

The profit attributable to equity holders of the company includes a profit of HK\$3,374,000 (2006: HK\$18,847,000) which has been dealt with in the financial statements of the company.

**15. DIVIDEND**

	<b>2007</b> <i>HK\$'000</i>	<b>2006</b> <i>HK\$'000</i>
Final dividend for the year 2006 of HK\$0.01 per ordinary share (2006: final dividend for the year 2005 of HK\$0.01 per ordinary share)	4,621	4,621
Special dividend for the year 2007 of HK\$Nil (2006: HK\$0.04) per ordinary share	–	18,477
	<u>4,621</u>	<u>23,098</u>

Final dividend of HK\$0.01 (2006: HK\$0.01) per ordinary share for the year ended 31st March, 2007 has been proposed by the directors and is subject to the approval by the shareholders in general meeting.

**16. EARNINGS PER SHARE**

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

	<b>The group</b>	
	<b>2007</b> <i>HK\$'000</i>	<b>2006</b> <i>HK\$'000</i>
Profit attributable to equity holders of the company	<u>5,071</u>	<u>72,174</u>
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purposes of calculating basic earnings per share	462,069,603	462,005,624
Effect of dilutive potential ordinary shares:		
Options	–	885,322
Weighted average number of ordinary shares for the purposes of calculating diluted earnings per share	<u>462,069,603</u>	<u>462,890,946</u>

No diluted earnings per share for the year ended 31st March, 2007 is presented because the exercise price of the company's options was higher than the average market price of the shares for the year.

## 17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold buildings HK\$'000	Motor vehicles HK\$'000	Computer equipment HK\$'000	Office equipment, leasehold improvements and furniture and fixtures HK\$'000	Moulds HK\$'000	Plant and machinery HK\$'000	Total HK\$'000
<b>The group</b>							
Net book value at							
1st April, 2005 ( <i>note iii</i> )	56,678	683	1,357	2,981	1,662	676	64,037
Currency realignment	(3)	4	3	(1)	-	(1)	2
Transfer	-	-	(151)	151	-	-	-
Acquisition of a subsidiary	-	-	32	84	-	-	116
Additions	-	193	3,649	4,289	-	432	8,563
Disposals	(55,419)	-	(5)	(299)	-	-	(55,723)
Depreciation	(47)	(183)	(1,174)	(1,414)	(477)	(400)	(3,695)
Net book value at 31st March, 2006	<u>1,209</u>	<u>697</u>	<u>3,711</u>	<u>5,791</u>	<u>1,185</u>	<u>707</u>	<u>13,300</u>
At 31st March, 2006							
Cost	1,893	1,618	8,180	13,186	2,384	1,510	28,771
Accumulated depreciation	(684)	(921)	(4,469)	(7,395)	(1,199)	(803)	(15,471)
Net book value	<u>1,209</u>	<u>697</u>	<u>3,711</u>	<u>5,791</u>	<u>1,185</u>	<u>707</u>	<u>13,300</u>
Net book value at 1st April, 2006	1,209	697	3,711	5,791	1,185	707	13,300
Currency realignment	85	26	5	155	-	5	276
Additions	-	135	524	1,225	-	36	1,920
Disposals	-	-	(74)	(22)	-	-	(96)
Depreciation	(34)	(212)	(1,632)	(1,744)	(477)	(380)	(4,479)
Net book value at 31st March, 2007	<u>1,260</u>	<u>646</u>	<u>2,534</u>	<u>5,405</u>	<u>708</u>	<u>368</u>	<u>10,921</u>
At 31st March, 2007							
Cost	1,979	1,811	8,703	14,727	2,384	1,571	31,175
Accumulated depreciation	(719)	(1,165)	(6,169)	(9,322)	(1,676)	(1,203)	(20,254)
Net book value	<u>1,260</u>	<u>646</u>	<u>2,534</u>	<u>5,405</u>	<u>708</u>	<u>368</u>	<u>10,921</u>
Net book value of property, plant and equipment held under finance leases							
At 31st March, 2007	<u>-</u>	<u>100</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>100</u>
At 31st March, 2006	<u>-</u>	<u>127</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>127</u>



*Note:*

- i) The group's leasehold buildings comprise:

	2007 HK\$'000	2006 HK\$'000
Properties held under long lease		
– in Hong Kong	523	538
– overseas	737	671
	<u>1,260</u>	<u>1,209</u>

- ii) At 31st March, 2007, the group had pledged its leasehold buildings with aggregate net book value of HK\$1,260,000 (2006: HK\$1,209,000) to secure the group's general banking facilities.

- iii) The analysis of net book value as at 1st April, 2005 was as follows:

	Leasehold buildings HK\$'000	Motor vehicles HK\$'000	Computer equipment HK\$'000	Office equipment, leasehold improvements and furniture and fixtures HK\$'000	Moulds HK\$'000	Plant and machinery HK\$'000	Total HK\$'000
At 1st April, 2005							
Cost	57,316	1,578	4,801	9,037	2,384	1,078	76,194
Accumulated depreciation	(638)	(895)	(3,444)	(6,056)	(722)	(402)	(12,157)
Net book value	<u>56,678</u>	<u>683</u>	<u>1,357</u>	<u>2,981</u>	<u>1,662</u>	<u>676</u>	<u>64,037</u>

- iv) The total cost of property, plant and equipment disposed of or written off during the year ended 31st March, 2007 was HK\$380,000 (2006: HK\$56,149,000).

## 18. INVESTMENT PROPERTIES

	<b>The group</b> <i>HK\$'000</i>
Cost	
At 1st April, 2005	21,588
Additions	10,050
Disposals	(14,603)
	<u>17,035</u>
At 31st March, 2006	----- 17,035
Accumulated depreciation	
At 1st April, 2005	3,770
Charge for the year	426
Written back on disposal	(3,072)
	<u>1,124</u>
At 31st March, 2006	----- 1,124
Net book value at 31st March, 2006	<u>15,911</u>
Fair value at 31st March, 2006	<u>15,800</u>
Cost	
At 1st April, 2006 and 31st March, 2007	17,035
	-----
Accumulated depreciation	
At 1st April, 2006	1,124
Charge for the year	426
	<u>1,550</u>
At 31st March, 2007	----- 1,550
Net book value at 31st March, 2007	<u>15,485</u>
Fair value at 31st March, 2007	<u>16,790</u>

The fair value of the group's investment properties at 31st March, 2007 and 2006 has been arrived based on the valuations carried out by LCH (Asia-Pacific) Surveyors Limited, an independent firm of professional property valuer. Valuations were made on the basis of investment approach by capitalising the net rental income receivable from the existing tenancies and the reversionary rental income potentials.

The group's investment properties comprise:

	<b>The group</b>	
	<b>2007</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Properties in Hong Kong		
– Long lease	14,298	14,692
– Medium-term lease	434	446
	<u>14,732</u>	<u>15,138</u>
Property in Mainland China		
– Medium-term lease	753	773
	<u>15,485</u>	<u>15,911</u>

The investment properties of the group are rented out under operating leases.

The group has pledged some of its investment properties with aggregate carrying value of HK\$14,298,000 (2006: HK\$14,692,000) to secure the group's general banking facilities.

#### 19. LEASEHOLD LAND

	<b>The group</b>
	<i>HK\$'000</i>
At 1st April, 2005	45,480
Currency realignment	(2)
Additions	63,056
Disposals	(42,856)
Amortisation of prepaid operating lease payments	<u>(609)</u>
At 31st March, 2006	<u>65,069</u>
At 1st April, 2006	65,069
Currency realignment	28
Amortisation of prepaid operating lease payments	<u>(610)</u>
At 31st March, 2007	<u>64,487</u>

	<b>The group</b>	
	<b>2007</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Leasehold land in Hong Kong		
Long lease	60,034	60,543
Medium-term lease	191	196
Leasehold land in Mainland China		
Medium-term lease	3,924	4,014
Leasehold land in Overseas		
Long lease	338	316
	<u>64,487</u>	<u>65,069</u>

The interests in leasehold land represent prepaid operating lease payments. Leasehold land with aggregate carrying value of HK\$60,372,000 (2006: HK\$60,859,000) are pledged to secure the group's general banking facilities.

	<b>The group</b>	
	<b>2007</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Analysed for reporting purposes as		
Non-current portion	63,877	64,460
Current portion included in debtors, deposits and prepayments	610	609
	<u>64,487</u>	<u>65,069</u>

## 20. INTERESTS IN SUBSIDIARIES

	<b>The company</b>	
	<b>2007</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	163,654	163,654
Amounts due from subsidiaries	54,000	38,553
	<u>217,654</u>	<u>202,207</u>
Amounts due to subsidiaries	(12,801)	–
	<u>204,853</u>	<u>202,207</u>

The amounts due from/(to) subsidiaries are non-interest bearing, unsecured and have no fixed terms of repayment.

The fair values of amounts due from/(to) subsidiaries have not been determined as the timing of expected cash flows of this balance cannot be reasonably determined because of the relationship.

Particulars of the subsidiaries as at 31st March, 2007 are set out in note 45.

## 21. INTEREST IN ASSOCIATE

	<b>The group</b>	
	<b>2007</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of net assets	–	–
Amount due from an associate	349	–
	<u>349</u>	<u>–</u>

The amount due from an associate is unsecured, interest-free and have no fixed terms of repayment. The carrying amount of this amount approximates its fair value.

Particulars of the associate which is held indirectly through subsidiary, are as follows:

Name	Place of incorporation and operation	Issued and fully paid ordinary share capital	Percentage of effective interest attributable to the group	Principal activity
Singcomm Technology Pte. Ltd.	Singapore	S\$160,000	50%	Business not yet commenced

The following table sets out the summarised financial information of the group's associate.

	<b>The group</b>	
	<b>2007</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Assets	11	–
Liabilities	(362)	–
Revenue	–	–
Loss	<u>(351)</u>	<u>–</u>

## 22. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	The group		The company	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial assets stated at fair value				
Equity securities listed in				
Hong Kong	13,860	5,989	–	–
Unlisted investment fund	3,598	3,417	–	–
Unlisted debt securities	12,101	3,878	–	3,878
	<u>29,559</u>	<u>13,284</u>	<u>–</u>	<u>3,878</u>
Financial assets stated at cost				
Unlisted debt securities	335	335	–	–
	<u>335</u>	<u>335</u>	<u>–</u>	<u>–</u>
	<u>29,894</u>	<u>13,619</u>	<u>–</u>	<u>3,878</u>

The debt securities have effective interest rates ranging from 3.34% to 11.5% (2006: 3.37%) per annum.

	The group		The company	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Equity securities				
Corporate entities	<u>13,860</u>	<u>5,989</u>	<u>–</u>	<u>–</u>
Unlisted investment fund				
Bank	<u>3,598</u>	<u>3,417</u>	<u>–</u>	<u>–</u>
Unlisted debt securities				
Bank	12,101	3,878	–	3,878
Club debenture	<u>335</u>	<u>335</u>	<u>–</u>	<u>–</u>
Analysis for reporting purpose				
Current assets	<u>9,101</u>	<u>–</u>	<u>–</u>	<u>–</u>
Non-current assets	<u>20,793</u>	<u>13,619</u>	<u>–</u>	<u>3,878</u>

The club debenture is accounted for at cost less accumulated impairment losses as such investment does not have a quoted market price in active markets and the range of reasonable fair value estimated is so significant that the directors are of the opinion that whose fair value cannot be reliably measured.

Unlisted investment fund and certain unlisted debt securities with aggregate value of HK\$12,976,000 (2006: HK\$3,417,000) have been pledged to secure the group's general banking facilities.

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

	The group	
	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Analysis of financial assets at fair value through profit or loss:		
Held for trading		
– Equity securities listed in Hong Kong	985	5,239
– Equity securities listed elsewhere	3,566	–
	4,551	5,239
Designated as financial assets at fair value through profit or loss		
– Bank deposits with embedded derivatives	4,146	22,430
	8,697	27,669
Analysis for reporting purpose		
Current assets	4,551	27,669
Non-current assets	4,146	–

## 24. LONG-TERM BANK DEPOSITS

	The group	
	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Pledged bank deposit	7,798	7,798
Other bank deposit	7,798	–
	15,596	7,798

The pledged bank deposit is placed for 10 years and earns interest at 6.125% (2006: 6.125%) per annum. The other bank deposit is also placed for 10 years and earns interest at 6.5% (2006: Nil) per annum.

## 25. INVENTORIES

	The group	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Office telephone system, mobile phones and other electronic products and accessories	54,850	58,415

The inventories stated at net realisable value amounted to HK\$2,863,000 (2006: HK\$Nil).

The cost of inventories recognised in the consolidated income statement during the year amounted to HK\$768,933,000 (2006: HK\$887,242,000).

The analysis of the amount of inventories recognised as an expense is as follows:

	The group	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Carrying amount of inventories sold	766,573	882,413
Write-down of inventories	2,360	4,829
	<u>768,933</u>	<u>887,242</u>

## 26. DEBTORS, DEPOSITS AND PREPAYMENTS

The group has a policy of allowing average credit period ranging from seven days to one month to its customers. In addition, for certain customers with long-established relationship and have good credit worthiness, a longer credit period may be granted.

The aged analysis of trade debtors of HK\$43,358,000 (2006: HK\$40,509,000) which are included in the group's debtors, deposits and prepayments is as follows:

	The group	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 30 days	28,991	27,173
31 – 60 days	3,169	4,836
61 – 90 days	1,753	2,885
91 – 120 days	737	1,265
Over 120 days	8,708	4,350
	<u>43,358</u>	<u>40,509</u>

The directors consider that the carrying amounts of debtors, deposits and prepayments approximate to their fair values.



## 27. AMOUNTS DUE FROM RELATED COMPANIES

**The group**

Particulars of the amount due from related companies are as follows:

Name of related companies	2007	2006	Maximum amount outstanding during the year
	HK\$'000	HK\$'000	HK\$'000
BIA Technology Limited	500	500	500
Hong Kong Communications Holdings Limited	1,016	1,016	1,016
	<u>1,516</u>	<u>1,516</u>	<u>1,016</u>

The directors' interests in BIA Technology Limited are set out in note 43.

Messrs. Chan Chung Yee, Hubert, Chan Chung Yin, Roy and Chan Man Min have beneficial interests in Hong Kong Communications Holdings Limited.

The amounts due from related companies are unsecured, interest free and repayable on demand.

The directors consider that the carrying amounts of the amounts due from related companies approximate to their fair values.

## 28. DERIVATIVE FINANCIAL INSTRUMENTS

	The group			
	As at 31st March, 2007		As at 31st March, 2006	
	Assets	Liabilities	Assets	Liabilities
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Equity contracts	–	–	150	128
Options	–	–	44	321
Forward currency contracts	–	–	–	543
	<u>–</u>	<u>–</u>	<u>194</u>	<u>992</u>

The carrying amounts of equity contracts, options and forward currency contracts as at 31st March, 2006 were the same as their fair values.

Major terms of the derivative financial instruments were as follows:

#### Equity contracts

As at 31st March, 2006, the group had entered into certain derivative contracts for purchase of various equity with notional amount of HK\$16,696,000 in aggregate. These equity contracts matured from 18th July, 2006 to 22nd March, 2007.

#### Options

As at 31st March, 2006, the group had written various currency options with notional amount of HK\$19,313,000 in aggregate and the expiry dates of which ranged from 7th April, 2006 to 7th July, 2007.

As at 31st March, 2007, the group did not enter into any equity contracts and currency options.

#### Forward currency contracts outstanding as at 31st March, 2006 were as follows:

Notional amount	Maturity	Exchange rate
Buy JPY229,200,000	31st May, 2006	USD/JPY114.60
Buy JPY101,000,000	31st May, 2006	USD/JPY101.00
Buy EUR500,000	8th August, 2006	EUR/USD1.2085
Buy EUR1,000,000	8th August, 2006	EUR/USD1.2085
Buy JPY23,450,000	5th April, 2006	USD/JPY117.25
Buy JPY23,450,000	5th July, 2006	USD/JPY117.25

As at 31st March, 2007, the group did not enter into any forward currency contracts.

## 29. CASH AND BANK BALANCES

	The group		The company	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Time deposits with banks	90,334	46,493	–	–
Cash and bank balances	16,731	27,737	690	729
	107,065	74,230	690	729
Less: Long-term bank deposits (see note 24)	15,596	7,798	–	–
	<u>91,469</u>	<u>66,432</u>	<u>690</u>	<u>729</u>

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits earn interest at the respective short-term time deposits rates. The directors consider that the carrying amounts of the time deposits with banks and cash and bank balances approximate to their fair values.

Included in the amounts of HK\$107,065,000 (2006: HK\$74,230,000) are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	2007	2006
United States Dollars	US\$3,664,000	US\$5,805,000
Japanese Yen	<u>JPY 406,000</u>	<u>JPY2,855,000</u>

### 30. CREDITORS AND ACCRUED CHARGES

The aged analysis of trade creditors of HK\$39,938,000 (2006: HK\$25,102,000) which are included in the group's creditors and accrued charges is as follows:

	The group	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 30 days	35,476	18,411
31 – 60 days	395	1,751
61 – 90 days	339	480
Over 90 days	<u>3,728</u>	<u>4,460</u>
	<u>39,938</u>	<u>25,102</u>

The directors consider that the carrying amounts of creditors and accrued charges approximate to their fair values.

### 31. DEPOSIT RECEIVED

On 9th February, 2007, a subsidiary of the company entered into an agreement with a third party for the disposal of one of its investment properties for a cash consideration of HK\$68,500,000. A deposit of HK\$6,850,000 was received by the subsidiary upon signing the agreement. This transaction had been completed and the consideration was fully received on 30th April, 2007.

The directors consider that the carrying amount of deposit received approximates to its fair value.

## 32. OBLIGATIONS UNDER FINANCE LEASES

	The group			
	Minimum lease payments		Present value of minimum lease payments	
	2007	2006	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Amounts payable under finance leases				
Within one year	36	34	31	29
In the second year	36	34	31	29
In the third to fifth years	32	63	28	55
	<u>104</u>	<u>131</u>	90	113
Less: Future finance charges	(14)	(18)		
Present value of finance leases	<u>90</u>	<u>113</u>		
Less: Amount due for settlement within one year shown under current liabilities			(31)	(29)
Amount due for settlement after one year			<u>59</u>	<u>84</u>

The directors consider that the carrying amounts of obligations under finance leases approximate to their fair values.

## 33. BANK BORROWINGS

	The group	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank borrowings comprise:		
Bank overdrafts (unsecured)	–	68
Bank loans (secured)	25,928	28,411
	<u>25,928</u>	<u>28,479</u>

The directors consider that the carrying amounts of bank borrowings approximate to their fair values.

The maturity of the bank borrowings is as follows:

	<b>The group</b>	
	<b>2007</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Due within one year	2,430	2,495
Due more than one year, but not exceeding two years	2,346	2,383
Due more than two years, but not exceeding five years	6,978	7,042
Due more than five years	14,174	16,559
	<u>25,928</u>	<u>28,479</u>
Less: Amount due within one year shown under current liabilities	<u>2,430</u>	<u>2,495</u>
Amount due after one year	<u><u>23,498</u></u>	<u><u>25,984</u></u>

#### 34. DEFERRED TAX

The followings are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior years:

Deferred tax liabilities:

	<b>The group</b>		
	<b>Accelerated tax depreciation</b>	<b>Tax losses</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 31st March, 2005	1,706	(563)	1,143
(Credited)/charged to consolidated income statement	<u>(702)</u>	<u>287</u>	<u>(415)</u>
At 31st March, 2006 and 1st April, 2006	1,004	(276)	728
(Credited)/charged to consolidated income statement	<u>(473)</u>	<u>108</u>	<u>(365)</u>
At 31st March, 2007	<u><u>531</u></u>	<u><u>(168)</u></u>	<u><u>363</u></u>

Deferred tax assets:

	<b>The group Deductible temporary differences</b> <i>HK\$'000</i>
At 1st April, 2005	47
Charged to consolidated income statement	(6)
At 31st March, 2006 and 1st April, 2006	41
Charged to consolidated income statement	(5)
At 31st March, 2007	<u>36</u>

At the balance sheet date, the group has unused tax losses of HK\$46,078,000 (2006: HK\$34,795,000) available to offset against future profits. A deferred tax asset has been recognised in respect of HK\$1,569,000 (2006: HK\$1,580,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$44,509,000 (2006: HK\$33,215,000) due to the unpredictability of future profit streams.

At the balance sheet date, the company has unused tax losses of HK\$3,725,000 (2006: HK\$2,927,000) available to offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

The tax losses can be carried forward to offset against the taxable profits of subsequent years. There is no restriction on their expiry except the unused tax losses of PRC subsidiaries can only be carried forward for five years from the year of the incurrence.

### 35. SHARE CAPITAL

	<b>Number of shares</b>		<b>Amount</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
			<i>HK\$'000</i>	<i>HK\$'000</i>
Ordinary shares of HK\$0.01 each				
Authorised:				
At beginning of the year and at end of the year	<u>2,000,000,000</u>	<u>2,000,000,000</u>	<u>20,000</u>	<u>20,000</u>
Issued and fully paid:				
At beginning of the year	462,069,603	460,773,603	4,621	4,608
Exercise of share options	<u>—</u>	<u>1,296,000</u>	<u>—</u>	<u>13</u>
At end of the year	<u>462,069,603</u>	<u>462,069,603</u>	<u>4,621</u>	<u>4,621</u>

Details of the company's share option scheme are set out in note 36 to the financial statements.

**36. SHARE OPTION SCHEME**

The company's share option scheme (the "Scheme") was adopted by a written resolution passed on 23rd October, 2001 for the purpose of providing incentives or rewards to selected participants for their contribution to the group. Under the Scheme, the directors may, at their discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for shares of the company:

- i) any eligible employee of the company, any of its subsidiaries or any entity ("Invested Entity");
- ii) any non-executive director (including independent non-executive directors ) of the company, any of its subsidiaries or any Invested Entity;
- iii) any supplier of goods or services to any member of the group or any Invested Entity;
- iv) any customer of the group or any Invested Entity;
- v) any person or entity that provides research, development or other technological support to the group or any Invested Entity;
- vi) any shareholder of any member of the group or any Invested Entity or any holder of any securities issued by any member of the group or any Invested Entity; and
- vii) any other group or classes of participants from time to time determined by the directors as having contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the group,

and for the purposes of the Scheme, the options may be granted to any company wholly-owned by one or more persons belonging to any of the above classes of participants. For the avoidance of doubt, the grant of any options by the company for the subscription of shares of the company or other securities of the group to any person who fall within any of the above classes of participants shall not, by itself, unless the directors otherwise determined, be construed as a grant of option under the Scheme.

The eligibility of any of the above class of participants to the grant of any options shall be determined by the directors from time to time.

An option may be accepted by a participant upon payment of HK\$1 per option and within such time as may be specified in the offer for grant of the option, which shall not be later than 21 days of the date of the offer. An option may be exercised in accordance with the terms of the Scheme at any time during a period to be determined and notified by the directors at the time of such grant to each grantee, which period may commence on the date of acceptance of the offer for the grant of option but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions of early termination thereof. The subscription price for shares under the Scheme shall be a price determined by the directors, but shall not be less than the higher of (i) the closing price of shares as stated in daily quotations sheet of the Stock Exchange on the date of the offer for grant; (ii) the average closing price of shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of the offer of grant; and (iii) the nominal value of the shares.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme of the group must not in aggregate exceed 30% of the relevant class of securities of the company (or any of its subsidiaries) in issue from time to time. The total number of shares in respect of which options may be granted under the Scheme and any other share option scheme of the group shall not exceed 10% of the shares of the company in issue as at the date of which dealing in the shares of the company on the Stock Exchange, without prior approval from the company's shareholders. The number of shares in respect of which options may be granted to any participant in any 12 month period is not permitted to exceed 1% of the shares of the company in issue at any point in time, without prior approval from the company's shareholders. Options granted to directors, chief executives or substantial shareholders of the company or any of their respective associates (as defined under Listing Rules) must be approved by independent non-executive directors of the company (excluding any independent non-executive director who is the grantee of the options). Options granted to substantial shareholders or independent non-executive directors or any of their respective associates in the 12 month period up to and including the date of such grant in excess of 0.1% of the shares of the company in issue and with a value in excess of HK\$5 million must be approved in advance by the company's shareholders. As at 31st March, 2007, the total number of shares available for issue under the Scheme was approximately 18,200,000 shares which represented approximately 4% of the total issued share capital of the company as at the date of this annual report.

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

The life of the Scheme is 10 years commencing from 23rd October, 2001 and will be end on 22nd October, 2011.



Movements in the options to subscribe for shares for the year ended 31st March, 2007 are as follows:

	Date of grant	Exercisable period	Exercise price per share HK\$	Outstanding at 1st April, 2006	Lapsed during the year	Cancelled during the year	Outstanding at 31st March, 2007	Price of company's shares		
								At date of grant HK\$	Immediate before exercise HK\$	At date of exercise HK\$
<b>Directors</b>										
Chan Chung Yee, Hubert	17.6.2005	17.12.2005 - 16.6.2007	0.284	4,300,000	-	-	4,300,000	0.280	-	-
Chan Chung Yin, Roy	17.6.2005	17.12.2005 - 16.6.2007	0.284	2,000,000	-	-	2,000,000	0.280	-	-
Chan Man Min	17.6.2005	17.12.2005 - 16.6.2007	0.284	1,000,000	-	-	1,000,000	0.280	-	-
Chan Ming Him, Denny	17.6.2005	17.12.2005 - 16.6.2007	0.284	1,000,000	-	-	1,000,000	0.280	-	-
Tsui Hon Wing	17.6.2005	17.12.2005 - 16.6.2007	0.284	1,000,000	-	-	1,000,000	0.280	-	-
Wu Kwok Lam	17.6.2005	17.12.2005 - 16.6.2007	0.284	1,000,000	-	-	1,000,000	0.280	-	-
Yeh Yui Fong	17.6.2005	17.12.2005 - 16.6.2007	0.284	1,000,000	-	-	1,000,000	0.280	-	-
				<u>11,300,000</u>	<u>-</u>	<u>-</u>	<u>11,300,000</u>			
<b>Employees</b>										
	4.5.2004	4.11.2004 - 3.5.2006	0.196	2,564,000	(2,564,000)	-	-	0.200	-	-
	17.6.2005	17.12.2005 - 16.6.2007	0.284	9,000,000	-	(2,100,000)	6,900,000	0.280	-	-
				<u>11,564,000</u>	<u>(2,564,000)</u>	<u>(2,100,000)</u>	<u>6,900,000</u>			
				<u>22,864,000</u>	<u>(2,564,000)</u>	<u>(2,100,000)</u>	<u>18,200,000</u>			

Movements in the options to subscribe for shares for the year ended 31st March, 2006 are as follows:

	Date of grant	Exercisable period	Exercise price per share HK\$	Outstanding at 1st April, 2005	Granted during the year	Exercised during the year	Cancelled during the year	Outstanding at 31st March, 2006	Price of company's shares		
									At date of grant HK\$	Immediate before exercise date HK\$	At date of exercise date HK\$
<b>Directors</b>											
Chan Chung Yee, Hubert	17.6.2005	17.12.2005 – 16.6.2007	0.284	-	4,300,000	-	-	4,300,000	0.280	-	-
Chan Chung Yin, Roy	17.6.2005	17.12.2005 – 16.6.2007	0.284	-	2,000,000	-	-	2,000,000	0.280	-	-
Chan Man Min	17.6.2005	17.12.2005 – 16.6.2007	0.284	-	1,000,000	-	-	1,000,000	0.280	-	-
Chan Ming Him, Denny	17.6.2005	17.12.2005 – 16.6.2007	0.284	-	1,000,000	-	-	1,000,000	0.280	-	-
Tsui Hon Wing	17.6.2005	17.12.2005 – 16.6.2007	0.284	-	1,000,000	-	-	1,000,000	0.280	-	-
Wu Kwok Lam	17.6.2005	17.12.2005 – 16.6.2007	0.284	-	1,000,000	-	-	1,000,000	0.280	-	-
Yeh Yui Fong	17.6.2005	17.12.2005 – 16.6.2007	0.284	-	1,000,000	-	-	1,000,000	0.280	-	-
				-	11,300,000	-	-	11,300,000			
<b>Employees</b>											
	4.5.2004	4.11.2004 – 3.5.2006	0.196	2,564,000	-	-	-	2,564,000	0.200	-	-
	4.5.2004	4.11.2004 – 3.5.2006	0.196	484,000	-	(484,000)	-	-	0.200	0.320	0.320
	4.5.2004	4.11.2004 – 3.5.2006	0.196	324,000	-	(324,000)	-	-	0.200	0.310	0.320
	4.5.2004	4.11.2004 – 3.5.2006	0.196	352,000	-	(352,000)	-	-	0.200	0.300	0.310
	4.5.2004	4.11.2004 – 3.5.2006	0.196	112,000	-	(112,000)	-	-	0.200	0.270	0.270
	4.5.2004	4.11.2004 – 3.5.2006	0.196	24,000	-	(24,000)	-	-	0.200	0.270	0.270
	17.6.2005	17.12.2005 – 16.6.2007	0.284	-	11,100,000	-	(2,100,000)	9,000,000	0.280	-	-
				3,860,000	11,100,000	(1,296,000)	(2,100,000)	11,564,000			
				<u>3,860,000</u>	<u>22,400,000</u>	<u>(1,296,000)</u>	<u>(2,100,000)</u>	<u>22,864,000</u>			

## 37. RESERVES

**The group**

The amounts of the group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 26.

**The company**

	Share premium <i>HK\$'000</i>	Special reserve <i>HK\$'000</i>	Share option reserve <i>HK\$'000</i>	Investment revaluation reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st April, 2005	31,339	163,453	–	35	10,340	205,167
Equity-settled share – based transactions	–	–	1,047	–	–	1,047
Change in fair values of available-for-sale financial assets	–	–	–	(19)	–	(19)
Exercise of share options	241	–	–	–	–	241
Net profit for the year	–	–	–	–	18,847	18,847
Dividend paid	–	–	–	–	(23,098)	(23,098)
	<u>31,580</u>	<u>163,453</u>	<u>1,047</u>	<u>16</u>	<u>6,089</u>	<u>202,185</u>
At 31st March, 2006	31,580	163,453	1,047	16	6,089	202,185
Transfer upon cancellation of share option	–	–	(108)	–	108	–
Release to retained profits upon disposal of available- for-sale financial assets	–	–	–	(16)	–	(16)
Net profit for the year	–	–	–	–	3,374	3,374
Dividend paid	–	–	–	–	(4,621)	(4,621)
	<u>31,580</u>	<u>163,453</u>	<u>939</u>	<u>–</u>	<u>4,950</u>	<u>200,922</u>
At 31st March, 2007	31,580	163,453	939	–	4,950	200,922

The special reserve of the company represents the difference between the aggregate net assets of the subsidiaries acquired pursuant to the Group Reorganisation over the nominal value of the company's shares issued for the acquisition prior to the listing of the company's shares in 2001.

The company's reserves available for distribution represent the share premium, special reserve, share option reserve and retained profits. Under the Companies Laws of the Cayman Islands, the share premium of the company is available for paying distributions or dividends to shareholders subject to the provisions of memorandum and articles of association and provided that immediately following the distribution or dividend the company is able to pay its debt as they fall due in the ordinary course of business. The company's reserves available for distributions to shareholders as at 31st March, 2007 amounted to HK\$200,922,000 (2006: HK\$202,169,000)

## 38. OPERATING LEASE ARRANGEMENTS

## a) The group as lessee:

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

	The group	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	2,542	2,828
In the second to fifth years, inclusive	315	2,530
	2,857	5,358
	2,857	5,358

Operating lease payments represent rentals payable by the group for its office premises and shops. Leases are negotiated for terms ranging from two to three years (2006: one to five years). In addition to the minimum rental payments disclosed above, the group has commitments to pay additional rent of a proportion of turnover for certain leased shops if the turnover generated from these leased shops exceeds the predetermined levels. Contingent rentals are not included in the above commitments as it is not possible to estimate the amounts which may be payable.

## b) The group as lessor:

At the balance sheet date, the group had contracted with tenants for the following minimum lease receivable under non-cancellable operating leases in respect of rented premises which fall due as follows:

	The group	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	819	211
In the second to fifth years, inclusive	504	–
	1,323	211
	1,323	211

The properties held have committed tenants in terms of two years (2006: three years).

## c) The company had no operating lease commitment as at 31st March, 2007 and 2006.

## 39. NOTE TO CONSOLIDATED CASH FLOW STATEMENT

Acquisition of a subsidiary:

	The group	
	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Net assets acquired:		
Property, plant and equipment	–	116
Inventories	–	1,320
Debtors, deposits and prepayments	–	381
Bank balances and cash	–	455
Creditors and accrued charges	–	(373)
	<u>–</u>	<u>1,899</u>
Goodwill on acquisition	–	3,601
	<u>–</u>	<u>5,500</u>
Satisfied by:		
Cash consideration	–	5,500
	<u>–</u>	<u>5,500</u>
Analysis of net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:		
Cash consideration	–	(5,500)
Bank balances and cash acquired	–	455
	<u>–</u>	<u>(5,045)</u>

## 40. CONTINGENT LIABILITIES

	The group		The company	
	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Guarantees for general banking facilities granted to subsidiaries	<u>–</u>	<u>–</u>	<u>49,000</u>	<u>74,000</u>

The company has not recognised any deferred income in respect of guarantee as its fair value cannot be reliably measured and its transaction price was HK\$ nil (2006: HK\$ nil).

## 41. PLEDGE OF ASSETS

As at 31st March, 2007, the group's general banking facilities were secured by (1) first legal charge on certain leasehold land and buildings and investment properties with aggregate net book value of HK\$75,930,000 (2006: HK\$76,760,000), (2) bank deposit of HK\$7,798,000 (2006: HK\$7,798,000) and (3) available-for-sale financial assets of HK\$12,976,000 (2006: HK\$3,417,000).

## 42. SUBSEQUENT EVENTS

Subsequent to the balance sheet date, a subsidiary had completed the disposal of one of its investment properties with a carrying value of HK\$66,773,000 to an independent third party at a cash consideration of HK\$68,500,000. Profit arising from this disposal is estimated to be HK\$1,400,000.

## 43. RELATED PARTY TRANSACTIONS

- a) During the year, the group had the following transactions, which were conducted in the ordinary course of the group's business, with its related companies:

<b>Name of related company</b>	<i>Notes</i>	<b>Nature of transactions</b>	<b>2007</b> <i>HK\$'000</i>	<b>2006</b> <i>HK\$'000</i>
HKC Intown Limited	(i)	Internet access fee paid	152	169
Hong Kong Communications Computer Company Limited	(i)	Computer software maintenance fee and purchase of computer hardware	–	246
	(ii)	Rental income	–	304
BIA Technology Limited	(i)	Purchase of goods from	–	724
	(ii)	Rental income	–	46
			–	46

Mr. Chan Chung Yin, Roy, director of the company, has beneficial interest in all the above-named companies.

Messrs. Chan Chung Yee, Hubert and Chan Man Min, directors of the company, have beneficial interests in Hong Kong Communications Computer Company Limited and BIA Technology Limited.

Messrs. Tsui Hon Wing and Yeh Yui Fong, directors of the company, have beneficial interests in BIA Technology Limited.

In view of the 45% interest of Mr. Chan Chung Yin, Roy, a director of the company, in HKC Intown Limited, HKC Intown Limited is a connected person (as defined in the Listing Rules) of the company. The transactions entered into with HKC Intown Limited constitute a continuing connected transaction under Chapter 14A of the Listing Rules. As the aggregate amounts involved during the year in respect of this transaction fell below the de-minimis threshold of Chapter 14A of the Listing Rules, this transaction is not subject to reporting, disclosure and independent shareholders' approval requirements of Chapter 14A of the Listing Rules.

*Notes:*

- (i) These transactions were based on cost plus a percentage of profit mark-up.
- (ii) Rental income was charged based on the area used, which management considered to be an appropriate basis of allocation.

## b) Key management personnel compensation

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

	<b>2007</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
– Salaries and other short-term employee benefits	7,885	8,264
– Post-employment benefits	151	150
– Share-based payment	–	711
	<u>8,036</u>	<u>9,125</u>

- (c) Details of the balances with related companies are set out in note 27 to the financial statements.

**44. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified and restated to conform with current year's presentation.

**45. SUBSIDIARIES**

Particulars of the subsidiaries at 31st March, 2007 are as follows:

Name	Place of incorporation/ registration	Principal place of operation	Issued and fully paid share capital/ registered capital	Percentage of effective interest attributable to the group	Principal activities
HKC Group Limited	British Virgin Islands	Hong Kong	Ordinary shares US\$100,000	100%	Investment holding
HKC Properties Limited	British Virgin Islands	Hong Kong	Ordinary shares US\$30	100%	Investment holding
Superior Charm Limited	British Virgin Islands	Hong Kong	Ordinary shares US\$1,200	100%	Investment holding
Hong Kong Communications Equipment Company Limited	Hong Kong	Hong Kong	Ordinary shares HK\$10,560	100%	Sales and distribution of mobile phones and business solutions

**APPENDIX I**
**FINANCIAL INFORMATION OF THE GROUP**

Name	Place of incorporation/ registration	Principal place of operation	Issued and fully paid share capital/ registered capital	Percentage of effective interest attributable to the group	Principal activities
Circle Mobile Communications Limited	Hong Kong	Hong Kong	Ordinary shares HK\$1,000,000	100%	Sales of mobile phones and other electronic products
Generalvestor (H.K.) Limited	Hong Kong	Hong Kong	Ordinary shares HK\$10,000,000	100%	Property investment
HKC Technology Limited	Hong Kong	Hong Kong	Ordinary shares HK\$6,000,100	100%	Sales and distribution of telecommunication products
HKC International (Thailand) Co. Ltd.	Thailand	Thailand	Preference shares THB9,999,990 Ordinary shares THB10,000,010	100%	Sales and distribution of business solutions
Singapore Communications Equipment Co. Pte Ltd.	The Republic of Singapore	Singapore	Ordinary shares S\$160,000	100%	Sales and distribution of business solutions
HKC Technology (USA) Inc.	United States of America	United States of America	Ordinary shares US\$15,000	100%	Sales and distribution of telecommunication products
HKC International (M) Sdn Bhd	Malaysia	Malaysia	Ordinary shares RM250,000	100%	Sales and distribution of mobile phones and its related accessories
Circle Mobile Communications (M) Sdn Bhd	Malaysia	Malaysia	Ordinary shares RM500,000	100%	Sales of mobile phones and other electronic products
上海希華通訊科技有限公司 (note 1) HKC Technology (Shanghai) Co. Ltd.	PRC	PRC	Registered capital US\$550,000	100%	Sales and distribution of business solutions
亞衛通智能系統(上海)有限公司 (note 2) (ASCT Technology Co. Ltd.)	PRC	PRC	Registered capital US\$610,000	80%	Development and sales of telecommunication system and other high-tech products



Name	Place of incorporation/ registration	Principal place of operation	Issued and fully paid share capital/ registered capital	Percentage of effective interest attributable to the group	Principal activities
HKC Mobile Technology Limited	Hong Kong	Hong Kong	Ordinary shares HK\$20,000,000	100%	Sales and distribution of mobile phones
Global Export (Macao Commercial Offshore) Ltd.	Macau	Macau	Contributed capital MOP 100,000	100%	Dormant
HKC Comunicacoes Equipamento (Macau) Companhia Limitada	Macau	Macau	Contributed capital MOP 100,000	100%	Sales and distribution of business solutions

The company directly holds the interest in HKC Group Limited. All other interests shown above are indirectly held by the company.

None of the subsidiaries had any debt securities subsisting at 31st March, 2007 and 2006 or at any time during the year.

*Note 1:* The subsidiary is a wholly foreign owned enterprise.

*Note 2:* The subsidiary is a sino-foreign owned enterprise.

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## APPENDIX II FINANCIAL INFORMATION OF THE WAVEX GROUP

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*The following is the text of a report, prepared for the purpose of inclusion in this circular, received from the independent reporting accountants, Li, Tang, Chen & Co. A copy of the following accountants' report is available for inspection at the place and during the time as specified in the paragraph headed "Documents available for inspection" in appendix IV to this circular.*

14th November 2007

The Board of Directors,  
**HKC International Holdings Limited**

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") relating to Wavex Technologies Pte. Limited (the "Wavex Technologies") and its subsidiary (collectively referred to as the "Wavex Technologies Group") and Wavex Innovations Pte. Limited (the "Wavex Innovations") for the relevant periods as set out below for inclusion in the circular issued by HKC International Holdings Limited (the "HKC"), a company incorporated in the Cayman Islands with its shares being listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), dated 14th November 2007 in connection with the proposed acquisition of Wavex Technologies Group and Wavex Innovations.

The relevant periods for Wavex Technologies Group and Wavex Innovations are as follows:

### **The Relevant Periods**

Wavex Technologies Group	Years ended 31st December, 2004, 2005 and 2006 and the six months ended 30th June, 2007
Wavex Innovations	Period from 22nd November, 2004 (date of incorporation) to 30th September, 2005 and year ended 30th September, 2006 and the nine months ended 30th June, 2007

Wavex Technologies and Wavex Innovations were incorporated in Singapore on 23rd January, 2001 and 22nd November, 2004 respectively.

The statutory financial statements of Wavex Technologies Group for each of the three years ended 31st December, 2004, 2005 and 2006 and the management accounts of the six months ended 30th June, 2007; and the statutory financial statements of Wavex Innovations for the period from 22nd November, 2004 (date of incorporation) to 30th September, 2005 and the year ended 30th September, 2006 and the management accounts of the nine months ended 30th June, 2007 (collectively refer to as the "Underlying Financial Statements") were prepared in accordance with Singapore Financial Reporting Standards.

The Underlying Financial Statements in respect of financial years ended 31st December, 2004, 2005 and 2006 for Wavex Technologies and financial period ended 30th September, 2005 and financial year ended 30th September, 2006 for Wavex Innovations were audited by certified public accountants, Wee Pang Eng & Co., registered in Singapore.

The Financial Information of Wavex Technologies Group and Wavex Innovations for the Relevant Periods set out in this report has been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) based on the Underlying Financial Statements, after making such adjustments as we considered appropriate.

The Underlying Financial Statements are the responsibility of the directors of Wavex Technologies Group and Wavex Innovations who approved their issue. The directors of HKC are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

We have performed independent audit procedures on the management accounts of Wavex Technologies Group for the six months ended 30th June, 2007 and Wavex Innovations for the nine months ended 30th June, 2007 in accordance with the Hong Kong Standards on Auditing issued by the HKICPA. We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the management accounts of Wavex Technologies Group for the six months ended 30th June, 2007 and Wavex Innovations for the nine months ended 30th June, 2007 are free from material misstatement.

We have examined the Underlying Financial Statements. Our examination was made in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” as recommended by the HKICPA.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of Wavex Technologies Group as at 31st December, 2004, 2005 and 2006 and 30th June, 2007 and of Wavex Innovations as at 30th September, 2005 and 2006 and 30th June, 2007 and of the consolidated results and cash flows of Wavex Technologies Group and of the results and cash flows of Wavex Innovations for the Relevant Periods.

The comparative consolidated income statement of Wavex Technologies Group for the six months ended and the comparative income statement of Wavex Innovations for the nine months both ended 30th June, 2006 together with the notes thereon have been extracted from Wavex Technologies Group’s and Wavex Innovations’ unaudited financial statements for the same periods (the “30th June, 2006 Financial Information”) respectively which was prepared by the directors of HKC solely for the purpose of this report. We have reviewed the 30th June, 2006 Financial Information in accordance with the Statement of Auditing Standards 700 “Engagements to review interim financial reports” issued by the HKICPA. Our review consisted principally of making enquiries of group management and applying analytical procedures to the 30th June, 2006 Financial Information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the 30th June, 2006 Financial Information. On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the 30th June, 2006 Financial Information.

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**APPENDIX II FINANCIAL INFORMATION OF THE WAVEX GROUP**

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**A. FINANCIAL INFORMATION**

**I. FINANCIAL INFORMATION OF WAVEX TECHNOLOGIES GROUP**

**CONSOLIDATED INCOME STATEMENTS**

		Year ended 31st December,			Six months ended 30th June,	
		2004	2005	2006	2006	2007
	Note	HK\$	HK\$	HK\$	HK\$	HK\$
					(unaudited)	
<b>TURNOVER</b>	6	2,162,664	14,656,921	18,446,922	13,190,328	6,416,890
Cost of sales		<u>(1,325,792)</u>	<u>(8,235,316)</u>	<u>(12,196,974)</u>	<u>(8,552,497)</u>	<u>(1,473,204)</u>
<b>GROSS PROFIT</b>		836,872	6,421,605	6,249,948	4,637,831	4,943,686
Other income and gains	7	-	-	4,536	-	813,119
Selling and distribution expenses		<u>(133,980)</u>	<u>(1,069,587)</u>	<u>(671,645)</u>	<u>(330,170)</u>	<u>(299,513)</u>
Administrative and other operating expenses		<u>(705,414)</u>	<u>(3,210,624)</u>	<u>(4,314,199)</u>	<u>(1,935,572)</u>	<u>(2,577,149)</u>
<b>(LOSS)/PROFIT BEFORE TAXATION</b>	8	(2,522)	2,141,394	1,268,640	2,372,089	2,880,143
<b>TAX EXPENSES</b>	11	<u>-</u>	<u>(360,872)</u>	<u>(196,795)</u>	<u>(420,000)</u>	<u>(368,826)</u>
<b>PROFIT/(LOSS) FOR THE YEAR/PERIOD</b>		<u>(2,522)</u>	<u>1,780,522</u>	<u>1,071,845</u>	<u>1,952,089</u>	<u>2,511,317</u>
<b>Attributable to:</b>						
Equity holders of the Company		<u>(2,522)</u>	<u>1,780,522</u>	<u>1,071,845</u>	<u>1,952,089</u>	<u>2,496,716</u>
Minority Interests		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,601</u>
		<u>(2,522)</u>	<u>1,780,522</u>	<u>1,071,845</u>	<u>1,952,089</u>	<u>2,511,317</u>

## CONSOLIDATED BALANCE SHEETS

	Note	As at 31st December,			As at
		2004	2005	2006	30th June,
		HK\$	HK\$	HK\$	2007
					HK\$
<b>NON-CURRENT ASSETS</b>					
Plant and equipment	13	144,386	246,120	524,933	708,743
<b>CURRENT ASSETS</b>					
Inventories	15	–	813,105	641,102	486,488
Debtors, deposits and prepayments	16	1,523,468	6,048,681	3,224,853	1,339,537
Amount due from Wavex Innovations	20	–	–	–	161,280
Contract work-in-progress	17	–	299,362	107,144	–
Pledged time deposits	18	–	–	1,014,000	1,024,000
Cash and bank balances		298,761	3,873,919	3,868,121	4,285,854
		<u>1,822,229</u>	<u>11,035,067</u>	<u>8,855,220</u>	<u>7,297,159</u>
<b>CURRENT LIABILITIES</b>					
Creditors and accrued charges	19	842,147	7,412,263	4,214,788	864,199
Amount due to Wavex Innovations	20	237,500	845,332	988,558	8,078
Amount due to minority shareholder		–	–	–	45,248
Tax payable		–	315,685	108,706	412,413
		<u>1,079,647</u>	<u>8,573,280</u>	<u>5,312,052</u>	<u>1,329,938</u>
<b>NET CURRENT ASSETS</b>		<u>742,582</u>	<u>2,461,787</u>	<u>3,543,168</u>	<u>5,967,221</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>886,968</u>	<u>2,707,907</u>	<u>4,068,101</u>	<u>6,675,964</u>
<b>NON-CURRENT LIABILITIES</b>					
Deferred tax liabilities	21	–	45,957	81,186	81,987
		<u>886,968</u>	<u>2,661,950</u>	<u>3,986,915</u>	<u>6,593,977</u>
<b>CAPITAL AND RESERVES</b>					
Share capital	22	900,000	900,000	900,000	900,000
Reserves	23	(13,032)	1,761,950	3,086,915	5,634,148
Equity attributable to equity holders of the company		<u>886,968</u>	<u>2,661,950</u>	<u>3,986,915</u>	<u>6,534,148</u>
Minority interests		–	–	–	59,829
Total equity		<u>886,968</u>	<u>2,661,950</u>	<u>3,986,915</u>	<u>6,593,977</u>

## BALANCE SHEETS

		As at 31st December,			As at
		2004	2005	2006	30th June,
	Note	HK\$	HK\$	HK\$	2007
					HK\$
<b>NON-CURRENT ASSETS</b>					
Plant and equipment	13	144,386	246,120	524,933	676,818
Interest in a subsidiary	14	–	–	–	67,738
		<u>144,386</u>	<u>246,120</u>	<u>524,933</u>	<u>744,556</u>
<b>CURRENT ASSETS</b>					
Inventories	15	–	813,105	641,102	471,209
Debtors, deposits and prepayments	16	1,523,468	6,048,681	3,224,853	1,043,952
Amount due from Wavex Innovations	20	–	–	–	313,441
Contract work-in-progress	17	–	299,362	107,144	–
Pledged time deposit	18	–	–	1,014,000	1,024,000
Cash and bank balances		298,761	3,873,919	3,868,121	4,216,172
		<u>1,822,229</u>	<u>11,035,067</u>	<u>8,855,220</u>	<u>7,068,774</u>
<b>CURRENT LIABILITIES</b>					
Creditors and accrued charges	19	842,147	7,412,263	4,214,788	810,139
Amount due to Wavex Innovations	20	237,500	845,332	988,558	8,078
Tax payable		–	315,685	108,706	399,587
		<u>1,079,647</u>	<u>8,573,280</u>	<u>5,312,052</u>	<u>1,217,804</u>
<b>NET CURRENT ASSETS</b>		<u>742,582</u>	<u>2,461,787</u>	<u>3,543,168</u>	<u>5,850,970</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>886,968</u>	<u>2,707,907</u>	<u>4,068,101</u>	<u>6,595,526</u>
<b>NON-CURRENT LIABILITIES</b>					
Deferred tax liabilities	21	–	45,957	81,186	81,987
		<u>886,968</u>	<u>2,661,950</u>	<u>3,986,915</u>	<u>6,513,539</u>
<b>CAPITAL AND RESERVES</b>					
Share capital	22	900,000	900,000	900,000	900,000
Reserves	23	(13,032)	1,761,950	3,086,915	5,613,539
Total equity		<u>886,968</u>	<u>2,661,950</u>	<u>3,986,915</u>	<u>6,513,539</u>

## CONSOLIDATED CASH FLOW STATEMENTS

	Year ended 31st December,			Six months ended
	2004	2005	2006	30th June, 2007
	HK\$	HK\$	HK\$	HK\$
<b>OPERATING ACTIVITIES</b>				
(Loss)/profit before taxation	(2,523)	2,141,393	1,268,640	2,880,143
Adjustment for:				
Depreciation	49,637	78,572	112,046	130,540
Loss on disposal of plant and equipment	–	24,168	12,755	–
Interest income	–	–	(4,536)	–
Operating cash flows before movements in working capital	47,114	2,244,133	1,388,905	3,010,683
(Increase)/decrease in inventories	–	(813,105)	236,014	154,614
(Increase)/decrease in debtors, deposits and prepayments	(1,232,962)	(4,541,248)	2,286,002	1,885,316
(Increase)/decrease in contract work-in-progress	–	(299,362)	215,784	107,144
Increase/(decrease) in creditors and accrued charges	987,069	7,189,313	(3,704,314)	(3,350,589)
Increase/(decrease) in amount due to Wavex Innovations	–	–	–	(1,141,760)
Increase/(decrease) in amount due to minority shareholders	–	–	–	45,248
Exchange adjustment	(20,447)	7,936	(264,156)	(112,609)
Net cash (used in)/from operations	(219,226)	3,787,667	158,235	598,047
Interest received	–	–	4,536	–
Tax paid	–	–	(389,195)	(65,119)
<b>NET CASH (USED IN)/FROM OPERATING ACTIVITIES</b>	<b>(219,226)</b>	<b>3,787,667</b>	<b>(226,424)</b>	<b>532,928</b>
<b>INVESTING ACTIVITIES</b>				
Purchase of plant and equipment	(78,366)	(208,939)	(389,310)	(308,601)
Proceeds from disposal of plant and equipment	–	2,720	–	–
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(78,366)</b>	<b>(206,219)</b>	<b>(389,310)</b>	<b>(308,601)</b>
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(297,592)</b>	<b>3,581,448</b>	<b>(615,734)</b>	<b>224,327</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR/PERIOD</b>	<b>574,579</b>	<b>295,616</b>	<b>4,178,887</b>	<b>3,868,121</b>
Effect of foreign exchange rates changes	21,774	(3,145)	304,968	193,406
<b>CASH AND CASH EQUIVALENTS AT THE END OF YEAR/PERIOD</b>	<b>298,761</b>	<b>3,873,919</b>	<b>3,868,121</b>	<b>4,285,854</b>

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital HK\$	Translation reserve HK\$	Retained profits HK\$	Minority interests HK\$	Total HK\$
As 1st January, 2004	900,000	14,000	(58,149)	–	855,851
Arising on translation of functional currency of Wavex Technologies Group to presentation currency	–	33,639	–	–	33,639
Net loss for the year	–	–	(2,522)	–	(2,522)
At 31st December, 2004	900,000	47,639	(60,671)	–	886,968
Arising on translation of functional currency of Wavex Technologies Group to presentation currency	–	(5,540)	–	–	(5,540)
Net profit for the year	–	–	1,780,522	–	1,780,522
At 31st December, 2005	900,000	42,099	1,719,851	–	2,661,950
Arising on translation of functional currency of Wavex Technologies Group to presentation currency	–	253,120	–	–	253,120
Net profit for the year	–	–	1,071,845	–	1,071,845
At 31st December, 2006	900,000	295,219	2,791,696	–	3,986,915
Arising on translation of functional currency of Wavex Technologies Group to presentation currency	–	50,517	–	–	50,517
Net profit for the period	–	–	2,496,716	–	2,496,716
Minority interests	–	–	–	59,829	59,829
At 30th June, 2007	<u>900,000</u>	<u>345,736</u>	<u>5,288,412</u>	<u>59,829</u>	<u>6,593,977</u>



## NOTES ON THE FINANCIAL STATEMENTS

### 1. GENERAL

Wavex Technologies is a private limited company domiciled and incorporated in Singapore with its registered office at Block 73 Ayer Rajah Crescent, #06-11 Ayer Rajah Industrial Estate, Singapore.

The principal activities of the company are those relating to distribution, implementation, development and creation of software for various computer applications. The principal activities of the subsidiary is set out on note 14 to the financial statements.

The functional currency of Wavex Technologies is Singapore dollars. The Financial Information is presented in Hong Kong dollars, which is the presentation currency of HKC International Holdings Limited.

### 2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRS”)

The HKICPA has issued a number of new or revised Hong Kong Accounting Standards (“HKASs”), Hong Kong Financial Reporting Standards (“HKFRSs”), amendments and Interpretations (“INTs”) (hereinafter collectively referred to as “new HKFRSs”) which are effective for Wavex Technologies Group’s financial year beginning on 1st January, 2007. For the purposes of preparing and presenting the Financial Information of the relevant Periods, Wavex Technologies Group has consistently adopted all these new HKFRSs over the Relevant Periods.

At the date of this report, HKICPA issued the following new and revised standards and interpretations that have been issued but are not yet effective. However, Wavex Technologies Group has not early applied these new and revised standards and interpretations. The management anticipates that the application of these new and revised standards and interpretations will have no material impact on the results and financial position of Wavex Technologies Group.

HKAS 23 (Revised)	Borrowing costs <sup>1</sup>
HKFRS 8	Operating segments <sup>1</sup>
HK(IFRIC) – INT 11	HKFRS 2 – Group and treasury share transactions <sup>2</sup>
HK(IFRIC) – INT 12	Service concession arrangements <sup>3</sup>

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

<sup>2</sup> Effective for annual periods beginning on or after 1st March, 2007.

<sup>3</sup> Effective for annual periods beginning on or after 1st January, 2008.

### 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared under the historical cost basis and in accordance with the following accounting policies which conforms with HKFRSs issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

#### a) Subsidiaries:

A subsidiary is a company whose financial and operating policies the company controls, directly or indirectly, so as to obtain benefits from its activities.

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

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

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the company, whether directly or indirectly through subsidiary, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the company. Minority interests in the results of the group are presented on the face of the consolidated income statements as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the company.

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

In the Wavex Technologies' balance sheet, investment in subsidiary is stated at cost less any impairment losses. The results of subsidiary are accounted for by the company on the basis of dividends declared or approved during the financial year/period.

**b) Property, plant and equipment:**

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, the expenditure is capitalized as an additional cost of that assets.

Depreciation on property, plant and equipment is calculated on the straight-line basis to allocate cost to their residual value over their estimated useful lives as follows:

Furniture and fixtures	20% p.a.
Office equipment	20% p.a.
Leasehold improvement	20% p.a.
Computer equipment	20% – 33 <sup>1</sup> / <sub>3</sub> %

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

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

**c) Impairment:**

*i) Impairment of receivables*

Current and non-current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

- For current receivables that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial assets and the estimated future cash flows, discounted at the current market rate of return for a similar financial assets where the effect of discounting is material. Impairment losses for current receivables are reversed if in a subsequent period the amount of the impairment loss decreases.
- For financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets).

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

*ii) Impairment of other assets*

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

- Property, plant and equipment; and
- Other tangible assets.

If any such indication exists, the asset's recoverable amount is estimated.

- Calculation of recoverable amount

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

- Recognition of impairment losses

An impairment loss is recognised in the income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount.

- Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment loss is credited to the income statement in the year in which the reversal is recognised.

**d) Loans and receivables:**

Loans and receivables are carried at amortised cost using the effective interest method less any impairment losses for bad and doubtful debts except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less any impairment losses.

**e) Cash and cash equivalents:**

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of Wavex Technologies Group's cash management.

**f) Payables:**

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

**g) Contract work:**

Contract work-in-progress is stated at the lower of cost plus attributable profit and net realizable value. Costs comprise direct labour, material costs and relevant overheads.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred where it is probable those costs will be recoverable. Contract costs are recognized when incurred. When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognized by using the stage of completion method. The stage of completion is measured by reference to the contract costs incurred to date to the estimated total costs for the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

Costs incurred in the year in connection with future activity on a contract are excluded from costs incurred to date when determining the stage of completion of a contract. Such costs are shown as construction contract work-in-progress. The aggregate of the costs incurred and the profit/loss recognized on each contract is compared against the progress billings up to the year-end. Where costs incurred and recognized profits (less recognized losses) exceed progress billings, the balance is shown as due from customers on construction contracts under trade receivables. Where progress billings exceed costs incurred plus recognized profits (less recognized losses), the balance is shown as due to customers on construction contracts under trade payables.

**h) Inventories:**

Inventories are stated at the lower of cost, on the first-in, first-out basis, and net realisable value. Costs comprise direct materials and the related purchase costs. Net realisable value is based on estimated selling prices less all costs to be incurred to completion and disposal.

**i) Revenue recognition:**

Revenue from development and implementation of software contract work is recognized using the percentage of completion method. The percentage of completion is determined by the level of contract work done as a proportion of the estimated total contract costs to completion. Provision for losses is made in full as soon as they are foreseeable.

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

**j) Income tax expense:**

Income tax for the financial year comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

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

Deferred tax is recognized, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is not recognized for the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax losses can be utilized. Deferred tax assets are reviewed at each balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

**k) Foreign currency:**

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the Financial Information, the assets and liabilities of Wavex Technologies Group which are stated in functional currency of the respective group entity other than Hong Kong dollars are translated into the presentation currency of Wavex Technologies Group (i.e. Hong Kong dollars) at the rates of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in the profit or loss in the period in which the foreign operation is disposed of.

**l) Employee benefits:**

The Wavex Technologies Group joins defined contribution retirement benefits schemes in Singapore for those employees who are eligible and have elected to participate in the schemes. Contributions are made based on a percentage of the participating employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the schemes. The assets of the schemes are held separately from those of the Wavex Technologies Group in independently administered fund.

**m) Related parties:**

For the purposes of these financial statements, parties are considered to be related to the Wavex Technologies Group if the group has the ability, directly or indirectly, to control the parties or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the group and the parties are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the group where those parties are individuals, and post-employment benefit plans which are for the benefits of employees of Wavex Technologies group or of any entity that is a related party of Wavex Technologies group.

**4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

Exposure to the credit, liquidity, interest rate, foreign currency and price risks arises in the normal course of Wavex Technologies Group's business. These risks are limited by the group's financial management policies and practices described below.

**a) Credit risk**

The Wavex Technologies Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at the balance sheet date in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the balance sheet. In order to minimize the credit risk, the group has been monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regards, the directors consider that the group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings.

**b) Liquidity risk**

Wavex Technologies Group's policy is to regularly monitor current and expected liquidity level to ensure that it maintains sufficient reserves of cash and bank balances for its daily operation and investment purposes.

**c) Currency risk**

Wavex Technologies Group has minimal currency exposure as majority of the group's transactions were denominated in the functional currency of the relevant group entities. The management conducted review of exposure and requirements of various currencies, and will consider hedging significant foreign currency exposures should the need arises.

**d) Interest rate risk**

Wavex Technologies Group's exposure to interest rate risk is minimal as it does not have external interest bearing borrowing.

**5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

In the process of applying the Wavex Technologies Group's accounting policies which are described in note 3, management has made the following estimates that have significant effect on the amounts recognised in the financial statements. The key assumptions concerning the future, and other key sources of estimation and judgements at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

**Useful lives of property, plant and equipment**

Wavex Technologies Group's management determines the estimate useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previous estimation, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

**Allowances for inventories**

The management of Wavex Technologies Group makes allowance for obsolete and slow-moving inventories that are identified as no longer salable. The management estimates the net realisable value of its inventories based primarily on the latest invoice prices and current market conditions. The group carries out review of inventories on a product-by-product basis at each balance sheet date and make allowance for obsolete and slow-moving items.

**Provision for impairment of debtors**

The policy for impairment of debtors of Wavex Technologies Group is based on the evaluation of collectibility and aging analysis of debtors and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these debtors including the current creditworthiness and the past collection history of each customer, if the financial conditions of customers of the group were to deteriorate, resulting in an impairment of their ability to make payments, additional provision may be required.

**6. TURNOVER/SEGMENT INFORMATION**

Turnover represents sales of goods and services and revenue from development and implementation of software.

The result, assets and liabilities of Wavex Technologies Group was mainly related to distribution, implementation, development and creation of software for various computer applications and the segment assets are mainly located in Singapore.

## 7. OTHER INCOME AND GAINS

## Wavex Technologies Group

	Years ended 31st December,			Six months ended 30th June,	
	2004 HK\$	2005 HK\$	2006 HK\$	2006 HK\$ (unaudited)	2007 HK\$
Interest income	-	-	4,536	-	-
Management fee from Wavex Innovations	-	-	-	-	765,000
Other income	-	-	-	-	48,119
	<u>-</u>	<u>-</u>	<u>4,536</u>	<u>-</u>	<u>813,119</u>

## 8. (LOSS)/PROFIT BEFORE TAXATION

## Wavex Technologies Group

	Years ended 31st December,			Six months ended 30th June,	
	2004 HK\$	2005 HK\$	2006 HK\$	2006 HK\$ (unaudited)	2007 HK\$
Auditors' remuneration	6,930	14,070	21,938	11,161	11,883
Operating lease rental in respect of rented premises	60,540	12,804	-	-	74,233
Depreciation	49,637	78,572	112,046	47,709	130,545
Employee benefits					
– Wages, salaries, allowances and benefits in kind	630,177	3,927,715	3,472,230	2,220,183	1,745,211
– Retirement benefit scheme contribution	11,975	131,376	352,660	121,977	161,058
Total staff cost	642,152	4,059,091	3,824,890	2,342,160	1,906,269
Loss on disposal of property, plant and equipment	-	24,168	12,755	-	-

## 9. DIRECTORS' REMUNERATION

## Wavex Technologies Group

	Years ended 31st December,														
	2004					2005					2006				
	Salaries, allowances and Fees		Retirement benefits scheme contribu- tions		Total remunera- tion	Salaries, allowances and Fees		Retirement benefits scheme contribu- tions		Total remunera- tion	Salaries, allowances and Fees		Retirement benefits scheme contribu- tions		Total remunera- tion
	benefits	bonus	bonus	bonus		benefits	bonus	bonus	bonus		benefits	bonus	bonus	bonus	
HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	
Marvin Koh Sze Yon	135,828	-	-	-	135,828	1,021,603	-	-	-	1,021,603	-	345,064	74,907	43,941	463,912
Nick Lee Sheng Weng	147,840	-	-	-	147,840	918,548	-	-	-	918,548	-	359,554	74,907	43,941	478,402
Leslie Chong Ser Ann	135,828	-	-	-	135,828	807,185	-	-	-	807,185	-	359,554	74,907	43,941	478,402
	<u>419,496</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>419,496</u>	<u>2,747,336</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,747,336</u>	<u>-</u>	<u>1,064,172</u>	<u>224,721</u>	<u>131,823</u>	<u>1,420,716</u>

	Six months ended 30th June,											
	2006 (unaudited)					2007						
	Salaries, allowances and benefits		Discretionary bonus	Retirement benefits scheme contributions		Total remuneration	Salaries, allowances and benefits		Discretionary bonus	Retirement benefits scheme contributions		Total remuneration
	Fees	benefits		contributions	remuneration		Fees	benefits		contributions	remuneration	
HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$		
Wavex Technologies Group:												
Marvin Koh Sze Yon	-	163,174	-	16,813	179,987	-	163,379	-	17,901	181,480		
Nick Lee Sheng Weng	-	176,751	-	16,813	193,564	-	188,190	-	17,901	206,091		
Leslie Chong Ser Ann	-	176,751	-	16,813	193,564	-	188,190	-	17,901	206,091		
	-	516,676	-	50,439	567,115	-	539,959	-	53,703	593,662		

#### 10. EMPLOYEES' EMOLUMENTS

The five highest paid individuals of the group include three directors, details of whose emoluments included in the amounts disclosed in note 9 above. The emoluments of the remaining highest paid employees, other than directors of the company, are as follows:

	Years ended 31st December,			Six months ended 30th June,	
	2004 HK\$	2005 HK\$	2006 HK\$	2006 HK\$	2007 HK\$
Salaries and allowances	124,430	381,503	555,613	226,040	256,008
Retirement benefit schemes contribution	7,004	51,211	106,190	25,435	29,325
	131,434	432,714	661,803	251,475	285,333

	Years ended 31st December,			Six months ended 30th June,	
	2004	2005	2006	2006	2007
Number of employees					
				(unaudited)	

Their emoluments were within the following:

Nil to HK\$1,000,000	2	2	2	2	2
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## 11. TAX EXPENSES

**Wavex Technologies Group**

Singapore income tax has been provided at the rate of 18%; (2004-2006: 20%) on the estimated assessable profits arising in Singapore during the year.

	Years ended 31st December,			Six months ended 30th June,	
	2004 HK\$	2005 HK\$	2006 HK\$	2006 HK\$	2007 HK\$
				(unaudited)	
Current – Singapore					
Charge for the year	–	315,013	166,418	420,000	–
Deferred tax	–	45,859	30,377	–	368,826
	<u>–</u>	<u>360,872</u>	<u>196,795</u>	<u>420,000</u>	<u>368,826</u>
Tax expense for the year	<u>–</u>	<u>360,872</u>	<u>196,795</u>	<u>420,000</u>	<u>368,826</u>

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

	Years ended 31st December,			Six months ended 30th June,	
	2004 HK\$	2005 HK\$	2006 HK\$	2006 HK\$	2007 HK\$
				(unaudited)	
(Loss)/profit for the year/period	<u>(2,522)</u>	<u>2,141,394</u>	<u>1,268,640</u>	<u>2,372,089</u>	<u>2,880,143</u>
Tax at Singapore Income tax rate of (2007: 18%; 2004-2006: 20%)	(504)	428,277	253,729	474,416	509,796
Tax at Malaysia Income tax rate of 26%	–	–	–	–	12,826
Tax effect of income not taxable	–	(64,108)	(62,790)	(61,734)	(139,995)
Tax effect of expenses that are not deductible in determining taxable income	1,160	33	5,856	–	–
Others	<u>(656)</u>	<u>(3,330)</u>	<u>–</u>	<u>7,318</u>	<u>(13,801)</u>
Tax expenses for the year/period	<u>–</u>	<u>360,872</u>	<u>196,795</u>	<u>420,000</u>	<u>368,826</u>

## 12. EARNING/(LOSS) PER SHARE

**Wavex Technologies Group**

Earning/(loss) per share is not presented as the directors of Wavex Technologies Group do not consider such information to be meaningful in the context of the Financial Information.

## 13. PROPERTY, PLANT AND EQUIPMENT

## Wavex Technologies Group

	Office equipment, furniture and fixtures <i>HK\$</i>	Software, computer and device <i>HK\$</i>	Total <i>HK\$</i>
Net book value at 1st January, 2004 ( <i>note i</i> )	41,866	70,753	112,619
Currency realignment	1,122	4,061	5,183
Additions	–	76,221	76,221
Depreciation	(18,720)	(30,917)	(49,637)
Net book value at 31st December, 2004	<u>24,268</u>	<u>120,118</u>	<u>144,386</u>
At 31st December, 2004			
Cost	96,226	204,155	300,381
Accumulated depreciation	(71,958)	(84,037)	(155,995)
Net book value	<u>24,268</u>	<u>120,118</u>	<u>144,386</u>
Net book value at 1st January, 2005	24,268	120,118	144,386
Currency realignment	(258)	(1,042)	(1,300)
Additions	24,440	184,054	208,494
Disposals	(16,157)	(10,731)	(26,888)
Depreciation	(9,371)	(69,201)	(78,572)
Net book value at 31st December, 2005	<u>22,922</u>	<u>223,198</u>	<u>246,120</u>
At 31st December, 2005			
Cost	38,122	289,520	327,642
Accumulated depreciation	(15,200)	(66,322)	(81,522)
Net book value	<u>22,922</u>	<u>223,198</u>	<u>246,120</u>
Net book value at 1st January, 2006	22,922	223,198	246,120
Currency realignment	7,135	22,373	29,508
Additions	139,451	234,655	374,106
Disposals	–	(12,755)	(12,755)
Depreciation	(8,282)	(103,764)	(112,046)
Net book value at 31st December, 2006	<u>161,226</u>	<u>363,707</u>	<u>524,933</u>
At 31st December, 2006			
Cost	185,227	541,091	726,318
Accumulated depreciation	(24,001)	(177,384)	(201,385)
Net book value	<u>161,226</u>	<u>363,707</u>	<u>524,933</u>

	<b>Office equipment, furniture and fixtures HK\$</b>	<b>Software, computer and device HK\$</b>	<b>Total HK\$</b>
Net book value at 1st January, 2007	161,226	363,707	524,933
Currency realignment	1,660	4,089	5,749
Additions	66,958	241,643	308,601
Depreciation	(22,411)	(108,129)	(130,540)
	<u>207,433</u>	<u>501,310</u>	<u>708,743</u>
Net book value at 30th June, 2007			
Net book value at 30th June, 2007			
Cost	254,153	788,998	1,043,151
Accumulated depreciation	(46,720)	(287,688)	(334,408)
	<u>207,433</u>	<u>501,310</u>	<u>708,743</u>

i) The analysis of net book value as at 1st January, 2004 as follows:

	<b>Office equipment, furniture and fixtures HK\$</b>	<b>Software, computer and device HK\$</b>	<b>Total HK\$</b>
Net book value at 1st January, 2004			
Cost	92,579	121,023	213,602
Accumulated depreciation	(50,713)	(50,270)	(100,983)
	<u>41,866</u>	<u>70,753</u>	<u>112,619</u>

ii) The total cost of plant and equipment disposed of or written off during the year/period ended as follows:

	<b>At 31st December,</b>		<b>At 30th June,</b>	
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Cost of plant and equipment disposed of or written off	–	178,136	15,785	–
	<u>–</u>	<u>178,136</u>	<u>15,785</u>	<u>–</u>

## Wavex Technologies

	Office equipment, furniture and fixtures <i>HK\$</i>	Software, computer and device <i>HK\$</i>	Total <i>HK\$</i>
Net book value at 1st January, 2004 ( <i>note i</i> )	41,866	70,753	112,619
Currency realignment	1,122	4,061	5,183
Additions	–	76,221	76,221
Depreciation	(18,720)	(30,917)	(49,637)
	<u>24,268</u>	<u>120,118</u>	<u>144,386</u>
Net book value at 31st December, 2004	<u>24,268</u>	<u>120,118</u>	<u>144,386</u>
At 31st December, 2004			
Cost	96,226	204,155	300,381
Accumulated depreciation	(71,958)	(84,037)	(155,995)
	<u>24,268</u>	<u>120,118</u>	<u>144,386</u>
Net book value	<u>24,268</u>	<u>120,118</u>	<u>144,386</u>
Net book value at 1st January, 2005	24,268	120,118	144,386
Currency realignment	(258)	(1,042)	(1,300)
Additions	24,440	184,054	208,494
Disposals	(16,157)	(10,731)	(26,888)
Depreciation	(9,371)	(69,201)	(78,572)
	<u>22,922</u>	<u>223,198</u>	<u>246,120</u>
Net book value at 31st December, 2005	<u>22,922</u>	<u>223,198</u>	<u>246,120</u>
At 31st December, 2005			
Cost	38,122	289,520	327,642
Accumulated depreciation	(15,200)	(66,322)	(81,522)
	<u>22,922</u>	<u>223,198</u>	<u>246,120</u>
Net book value	<u>22,922</u>	<u>223,198</u>	<u>246,120</u>
Net book value at 1st January, 2006	22,922	223,198	246,120
Currency realignment	7,135	22,373	29,508
Additions	139,451	234,655	374,106
Disposals	–	(12,755)	(12,755)
Depreciation	(8,282)	(103,764)	(112,046)
	<u>161,226</u>	<u>363,707</u>	<u>524,933</u>
Net book value at 31st December, 2006	<u>161,226</u>	<u>363,707</u>	<u>524,933</u>
At 31st December, 2006			
Cost	185,227	541,091	726,318
Accumulated depreciation	(24,001)	(177,384)	(201,385)
	<u>161,226</u>	<u>363,707</u>	<u>524,933</u>
Net book value	<u>161,226</u>	<u>363,707</u>	<u>524,933</u>

	<b>Office equipment, furniture and fixtures</b> <i>HK\$</i>	<b>Software, computer and device</b> <i>HK\$</i>	<b>Total</b> <i>HK\$</i>
Net book value at 1st January, 2007	161,226	363,707	524,933
Currency realignment	1,660	4,089	5,749
Additions	37,332	235,442	272,774
Depreciation	(19,375)	(107,263)	(126,638)
Net book value at 30th June, 2007	<u>180,843</u>	<u>495,975</u>	<u>676,818</u>
Net book value at 30th June, 2007			
Cost	224,527	782,797	1,007,324
Accumulated depreciation	(43,684)	(286,822)	(330,506)
Net book value	<u>180,843</u>	<u>495,975</u>	<u>676,818</u>

i) The analysis of net book value as at 1st January, 2004 as follows:

	<b>Office equipment, furniture and fixtures</b> <i>HK\$</i>	<b>Software, computer and device</b> <i>HK\$</i>	<b>Total</b> <i>HK\$</i>
Net book value at 1st January, 2004			
Cost	92,579	121,023	213,602
Accumulated depreciation	(50,713)	(50,270)	(100,983)
Net book value	<u>41,866</u>	<u>70,753</u>	<u>112,619</u>

ii) The total cost of plant and equipment disposed of or written off during the year/period ended as follows:

	<b>At 31st December,</b>		<b>At 30th June,</b>	
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Cost of plant and equipment disposed of or written off	–	178,136	15,785	–

#### 14. INTEREST IN A SUBSIDIARY

##### Wavex Technologies

	<b>Year ended 31st December,</b>			<b>Six months ended</b>
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>30th June, 2007</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Unlisted shares, at cost	–	–	–	<u>67,738</u>

Particulars of the subsidiary at 30th June, 2007 are as follows:

Name	Place of incorporation/ registration	Principal place of operating	Issued and fully paid share capital/ registered capital	Percentage of effective interest attributable to the group	Principal activities
WaveTech Sdn Bhd	Malaysia	Malaysia	MYR50,000/ MYR100,000	60%	Providing services in Radio Frequency Identification Technology

**15. INVENTORIES**

**Wavex Technologies Group**

	At 31st December,		At 30th June,	
	2004 HK\$	2005 HK\$	2006 HK\$	2007 HK\$
Electronic products and accessories	–	813,105	641,102	486,488

The inventories are stated at cost.

The cost of inventories recognised in the consolidated income statement during the Relevant Periods is as follows:

	Years ended 31st December,			Six months ended 30th June,	
	2004 HK\$	2005 HK\$	2006 HK\$	2006 HK\$	2007 HK\$
Cost of inventories	1,026,777	5,696,533	7,155,556	5,775,989 (unaudited)	999,972

**Wavex Technologies**

	At 31st December,		At 30th June,	
	2004 HK\$	2005 HK\$	2006 HK\$	2007 HK\$
Electronic products and accessories	–	813,105	641,102	471,209

The cost of inventories recognised in the company income statement during the Relevant Periods is as follows:

	Years ended 31st December,			Six months ended 30th June,	
	2004 HK\$	2005 HK\$	2006 HK\$	2006 HK\$	2007 HK\$
Cost of inventories	1,026,777	5,696,533	7,155,556	5,775,989 (unaudited)	937,701

## APPENDIX II FINANCIAL INFORMATION OF THE WAVEX GROUP

### 16. DEBTORS, DEPOSITS AND PREPAYMENT

#### Wavex Technologies Group

	At 31st December,		At 30th June,	
	2004 HK\$	2005 HK\$	2006 HK\$	2007 HK\$
Trade receivables	853,955	5,657,923	2,231,239	1,160,919
Contract work-in-progress	375,084	–	108,280	–
Other receivable, deposit and prepayment	294,429	390,758	885,334	178,618
	<u>1,523,468</u>	<u>6,048,681</u>	<u>3,224,853</u>	<u>1,339,537</u>

The Wavex Technologies Group has a policy of allowing average credit period ranging from seven days to one month to its customers. In addition, for certain customers with long-established relationship and have good credit worthiness, a long credit period may be granted.

An aging analysis of the Wavex Technologies Group's trade debtors at the respective balance sheet date is as follows:

	At 31st December,		At 30th June,	
	2004 HK\$	2005 HK\$	2006 HK\$	2007 HK\$
0-30 days	813,192	4,931,212	1,648,666	956,309
31-60 days	4,750	167,088	173,228	–
61-90 days	7,666	512,803	–	–
Over 90 days	28,347	46,820	409,345	204,610
	<u>853,955</u>	<u>5,657,923</u>	<u>2,231,239</u>	<u>1,160,919</u>

#### Wavex Technologies

	At 31st December,		At 30th June,	
	2004 HK\$	2005 HK\$	2006 HK\$	2007 HK\$
Trade receivables	853,955	5,657,923	2,231,239	874,821
Contract work-in-progress	375,084	–	108,280	–
Other receivable, deposit and prepayment	294,429	390,758	885,334	169,131
	<u>1,523,468</u>	<u>6,048,681</u>	<u>3,224,853</u>	<u>1,043,952</u>

Wavex Technologies has a policy of allowing average credit period ranging from seven days to one month to its customers. In addition, for certain customers with long-established relationship and have good credit worthiness, a long credit period may be granted.

## APPENDIX II FINANCIAL INFORMATION OF THE WAVEX GROUP

An aging analysis of the Wavex Technologies's trade debtors at the respective balance sheet date is as follows:

	At 31st December,			At 30th June,
	2004 HK\$	2005 HK\$	2006 HK\$	2007 HK\$
0-30 days	813,192	4,931,212	1,648,666	670,211
31-60 days	4,750	167,088	173,228	-
61-90 days	7,666	512,803	-	-
Over 90 days	28,347	46,820	409,345	204,610
	<u>853,955</u>	<u>5,657,923</u>	<u>2,231,239</u>	<u>874,821</u>

### 17. CONTRACT WORK-IN-PROGRESS

#### Wavex Technologies Group and Wavex Technologies

	At 31st December,			At 30th June,
	2004 HK\$	2005 HK\$	2006 HK\$	2007 HK\$
Balance at beginning of year	-	-	299,362	107,144
Exchange alignment	-	-	15,139	-
Contract costs recognised during the year	-	299,362	102,960	(107,144)
Contract cost utilised during the year	-	-	(310,317)	-
Balance at end of year	<u>-</u>	<u>299,362</u>	<u>107,144</u>	<u>-</u>
Aggregated cost incurred	524,870	-	940,769	-
Add: Attributable profits	261,944	-	118,466	-
	786,814	-	1,059,235	-
Less: Progress billings	(840,209)	(1,424,203)	(1,271,328)	-
	<u>(53,395)</u>	<u>(1,424,203)</u>	<u>(212,093)</u>	<u>-</u>
Due from customers on contract work-in-progress (note 16)	375,084	-	108,280	-
Due to customers on contract work-in-progress (note 19)	(428,479)	(1,424,203)	(320,373)	-
	<u>(53,395)</u>	<u>(1,424,203)</u>	<u>(212,093)</u>	<u>-</u>

### 18. PLEDGED BANK DEPOSITS

#### Wavex Technologies Group and Wavex Technologies

The bank deposit is pledged to bank to secure the general banking facilities granted. No banking facilities have been utilized at the respective balance sheet dates.

The pledged bank deposit earns interest at 1.7% per annum.



## APPENDIX II FINANCIAL INFORMATION OF THE WAVEX GROUP

### 19. CREDITORS AND ACCRUED CHARGES

#### Wavex Technologies Group and Wavex Technologies

	At 31st December,		At 30th June,	
	2004 HK\$	2005 HK\$	2006 HK\$	2007 HK\$
Trade payables	308,479	3,478,724	1,589,663	327,919
Contract work-in-progress	428,479	1,424,203	320,373	–
Other payables, deposit and accrued charges	105,189	2,509,336	2,304,752	536,280
	<u>842,147</u>	<u>7,412,263</u>	<u>4,214,788</u>	<u>864,199</u>

An aging analysis of the Wavex Technologies Group's trade payables at the respective balance sheet date is as follows:

	At 31st December,		At 30th June,	
	2004 HK\$	2005 HK\$	2006 HK\$	2007 HK\$
0-30 days	170,391	2,689,906	1,172,937	228,283
31-60 days	30,396	450,722	97,022	96,928
61-90 days	–	318,258	33,625	1,096
Over 90 days	107,692	19,838	286,079	1,612
	<u>308,479</u>	<u>3,478,724</u>	<u>1,589,663</u>	<u>327,919</u>

#### Wavex Technologies

	At 31st December,		At 30th June,	
	2004 HK\$	2005 HK\$	2006 HK\$	2007 HK\$
Trade payables	308,479	3,478,724	1,589,663	324,265
Contract work-in-progress	428,479	1,424,203	320,373	–
Other payables, deposit and accrued charges	105,189	2,509,336	2,304,752	485,874
	<u>842,147</u>	<u>7,412,263</u>	<u>4,214,788</u>	<u>810,139</u>

An aging analysis of the Wavex Technologies's trade payables at the respective balance sheet date is as follows:

	At 31st December,		At 30th June,	
	2004 HK\$	2005 HK\$	2006 HK\$	2007 HK\$
0-30 days	170,391	2,689,906	1,172,937	228,283
31-60 days	30,396	450,722	97,022	96,928
61-90 days	–	318,258	33,625	1,096
Over 90 days	107,692	19,838	286,079	1,612
	<u>308,479</u>	<u>3,478,724</u>	<u>1,589,663</u>	<u>327,919</u>

**20. AMOUNT DUE FROM/TO WAVEX INNOVATIONS****Wavex Technologies Group and Wavex Technologies**

It represents trade and non-trade advances from Wavex Innovations Pte. Limited. The balances are unsecured, interest-free and have no fixed terms of repayment.

**21. DEFERRED TAX LIABILITIES****Wavex Technologies Group and Wavex Technologies**

The following is the major deferred tax liabilities recognised and movements therein during respective financial years and period:

	<b>Accelerated tax depreciation HK\$</b>
At 1st January, 2004 and 1st January, 2005	–
Current realignment	98
Charge to income statement	45,859
	<hr/>
At 31st December, 2005 and 1st January, 2006	45,957
Current realignment	4,852
Charge to income statement	30,377
	<hr/>
At 31st December, 2006 and 1st January, 2007	81,186
Current realignment	801
Charge to income statement	–
	<hr/>
At 30th June, 2007	<u>81,987</u>

No deferred tax liabilities have been provided for the six-months ended 30th June, 2007 as all temporary difference is immaterial.

**22. SHARE CAPITAL****Wavex Technologies Group and Wavex Technologies**

	<b>2004</b>	<b>At 31st December, 2005</b>	<b>2006</b>	<b>At 30th June, 2007</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Issued and fully paid:				
200,000 ordinary shares of S\$1 each	900,000	900,000	900,000	900,000
	<hr/>	<hr/>	<hr/>	<hr/>

For the years ended 31st December, 2005 and 2004, the company had 200,000 authorised ordinary shares of S\$1.00 each. On the date of commencement of the Singapore Companies (Amendment) Act 2005 on 30th January, 2006:

- a) The concept of authorized share capital is abolished; and
- b) Shares of the company have no par value.

## 23. RESERVES

**Wavex Technologies group**

The amounts of Wavex Technologies group's reserves and the movements therein for the current period and prior years are presented in the consolidated statement of changes in equity on page 86.

**Wavex Technologies**

The amounts of the Wavex Technologies' reserve and the movements therein for the current and prior years are as follows:

	<b>Share capital</b> <i>HK\$</i>	<b>Translation reserve</b> <i>HK\$</i>	<b>Retained profits</b> <i>HK\$</i>	<b>Total</b> <i>HK\$</i>
As 1st January, 2004	900,000	14,000	(58,149)	855,851
Arising on translation of functional currency of Wavex Technologies to presentation currency	–	33,639	–	33,639
Net loss for the year	–	–	(2,522)	(2,522)
At 31st December, 2004	900,000	47,639	(60,671)	886,968
Arising on translation of functional currency of Wavex Technologies to presentation currency	–	(5,540)	–	(5,540)
Net profit for the year	–	–	1,780,522	1,780,522
At 31st December, 2005	900,000	42,099	1,719,851	2,661,950
Arising on translation of functional currency of Wavex Technologies to presentation currency	–	253,120	–	253,120
Net profit for the year	–	–	1,071,845	1,071,845
At 31st December, 2006	900,000	295,219	2,791,696	3,986,915
Arising on translation of functional currency of Wavex Technologies to presentation currency	–	50,415	–	50,415
Net profit for the year	–	–	2,476,209	2,476,209
At 30th June, 2007	<u>900,000</u>	<u>345,634</u>	<u>5,267,905</u>	<u>6,513,539</u>

## APPENDIX II FINANCIAL INFORMATION OF THE WAVEX GROUP

### 24 OPERATING LEASE ARRANGEMENTS

#### Wavex Technologies Group

At the balance sheet date, Wavex Technologies Group had outstanding commitments for future minimum lease payments under non-callable operating lease in respect of rented premises which fall due at follows:

	At 31st December,		At 30th June,	
	2004 <i>HK\$</i>	2005 <i>HK\$</i>	2006 <i>HK\$</i>	2007 <i>HK\$</i>
Within one year	–	–	–	136,854
In the second to fifth years, inclusive	–	–	–	188,750
	<u>–</u>	<u>–</u>	<u>–</u>	<u>325,604</u>

#### Wavex Technologies

At the balance sheet date, Wavex Technologies had outstanding commitments for future minimum lease payments under non-callable operating lease in respect of rented premises which fall due at follows:

	At 31st December,		At 30th June,	
	2004 <i>HK\$</i>	2005 <i>HK\$</i>	2006 <i>HK\$</i>	2007 <i>HK\$</i>
Within one year	–	–	–	125,384
In the second to fifth years, inclusive	–	–	–	188,750
	<u>–</u>	<u>–</u>	<u>–</u>	<u>314,134</u>

### 25. RELATED PARTY TRANSACTIONS

#### Wavex Technologies Group

a) During the year/period, Wavex Technologies Group had the following material related transactions:

	Years ended 31st December,			Six months ended 30th June,	
	2004 <i>HK\$</i>	2005 <i>HK\$</i>	2006 <i>HK\$</i>	2006 <i>HK\$</i>	2007 <i>HK\$</i>
				(unaudited)	
Sales of goods to Wavex Innovations	–	–	34,345	33,767	–
Management receivable from Wavex Innovations	–	–	–	–	765,000
Purchase/sub-contract costs payable to Wavex Innovations	–	1,077,293	3,243,437	415,052	267,228
Services fee payable to Wavex Innovations	231,000	–	–	–	–
	<u>231,000</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

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**APPENDIX II FINANCIAL INFORMATION OF THE WAVEX GROUP**

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b) The remuneration of Wavex Technologies Group's key management personnel during the year/period was as follows:

	Years ended 31st December,			Six months ended 30th June,	
	2004 HK\$	2005 HK\$	2006 HK\$	2006 HK\$ (unaudited)	2007 HK\$
Salaries and other short-term employee benefits	419,496	2,747,336	1,288,893	516,676	539,959
Post-employment benefits	—	—	131,823	50,439	53,703
	<u>419,496</u>	<u>2,747,336</u>	<u>1,420,716</u>	<u>567,115</u>	<u>593,662</u>

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**APPENDIX II FINANCIAL INFORMATION OF THE WAVEX GROUP**

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**II. FINANCIAL INFORMATION OF WAVEX INNOVATIONS**

**INCOME STATEMENTS**

		22nd November, 2004 (date of incorporation) to 30th September, 2005 <i>HK\$</i>	Year ended 30th September, 2006 <i>HK\$</i>	Nine months ended 30th June, 2006 <i>HK\$</i> (unaudited)	2007 <i>HK\$</i>
	<i>Note</i>				
<b>TURNOVER</b>	6	515,900	3,898,623	3,035,661	522,028
<b>COST OF SALES</b>		—	(308,310)	(75,138)	(130,917)
<b>GROSS PROFIT</b>		515,900	3,590,313	2,960,523	391,111
<b>ADMINISTRATIVE AND OTHER OPERATING EXPENSES</b>		(133,346)	(396,177)	(240,190)	(1,609,321)
<b>PROFIT/(LOSS) BEFORE TAXATION</b>	7	382,554	3,194,136	2,720,333	(1,218,210)
<b>TAX (EXPENSES)/CREDIT</b>	10	(4,817)	(447,298)	(331,000)	215,220
<b>PROFIT/(LOSS) FOR THE YEAR/PERIOD</b>		<u>377,737</u>	<u>2,746,838</u>	<u>2,389,333</u>	<u>(1,002,990)</u>
<b>DIVIDEND</b>					
Interim dividend	12	<u>—</u>	<u>—</u>	<u>—</u>	<u>510,000</u>

**APPENDIX II FINANCIAL INFORMATION OF THE WAVEX GROUP**

**BALANCE SHEETS**

		<b>At 30th September,</b>		<b>At 30th June,</b>
		<b>2005</b>	<b>2006</b>	<b>2007</b>
	<i>Note</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment	13	146,523	500,678	450,790
Deferred tax assets	18	–	–	184,218
		<u>146,523</u>	<u>500,678</u>	<u>635,008</u>
<b>CURRENT ASSETS</b>				
Inventories	14	–	54,680	154,906
Debtors, deposits and prepayments	15	14,622	32,057	20,495
Amount due from Wavex Technologies	16	124,310	2,501,400	–
Cash and bank balances		353,708	1,004,681	1,857,469
		<u>492,640</u>	<u>3,592,818</u>	<u>2,032,870</u>
<b>CURRENT LIABILITIES</b>				
Creditors and accrued charges	17	20,793	162,499	65,978
Amount due to Wavex Technologies	16	–	–	151,517
Tax payable		–	439,148	414,287
		<u>20,793</u>	<u>601,647</u>	<u>631,782</u>
<b>NET CURRENT ASSETS</b>		<u>471,847</u>	<u>2,991,171</u>	<u>1,401,088</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>618,370</u>	<u>3,491,849</u>	<u>2,036,096</u>
<b>NON-CURRENT LIABILITY</b>				
Deferred tax liabilities	18	4,827	31,535	–
		<u>613,543</u>	<u>3,460,314</u>	<u>2,036,096</u>
<b>CAPITAL AND RESERVES</b>				
Share capital	19	235,000	235,000	235,000
Reserves		378,543	3,225,314	1,801,096
<b>Total equity</b>		<u>613,543</u>	<u>3,460,314</u>	<u>2,036,096</u>

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**APPENDIX II FINANCIAL INFORMATION OF THE WAVEX GROUP**


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**STATEMENTS OF CHANGES IN EQUITY**

	<b>Share capital</b> <i>HK\$</i>	<b>Translation reserve</b> <i>HK\$</i>	<b>Retained profit</b> <i>HK\$</i>	<b>Total</b> <i>HK\$</i>
Issuance of shares on date of incorporation, 22nd November, 2004	235,000	–	–	235,000
Arising on translation of functional currency of Wavex Innovations to presentation currency	–	806	–	806
Net profit for the period	–	–	377,737	377,737
At 30th September, 2005	235,000	806	377,737	613,543
Arising on translation of functional currency of Wavex Innovations to presentation currency	–	99,933	–	99,933
Net profit for the year	–	–	2,746,838	2,746,838
At 30th September, 2006	235,000	100,739	3,124,575	3,460,314
Arising on translation of functional currency of Wavex Innovations to presentation currency	–	88,772	–	88,772
Net loss for the period	–	–	(1,002,990)	(1,002,990)
Dividend paid	–	–	(510,000)	(510,000)
At 30th June, 2007	<u>235,000</u>	<u>189,511</u>	<u>1,611,585</u>	<u>2,036,096</u>



## CASH FLOW STATEMENTS

	22nd November, 2004 (date of incorporation) to 30th September, 2005 HK\$	Year ended 30th September, 2006 HK\$	Nine months ended 30th June, 2007 HK\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit/(loss) before taxation	382,554	3,194,136	(1,218,210)
Adjustment for:			
Depreciation	20,730	80,364	98,833
Operating cash flows before movements in working capital	403,284	3,274,500	(1,119,377)
Increase in inventories	–	(54,680)	(100,226)
(Increase)/decrease in debtors, deposits and prepayments	(138,932)	98,357	11,562
(Increase)/decrease in amount due from a related company	–	(2,615,439)	2,501,400
Increase/(decrease) in creditors and accrued charges	20,793	264,263	(96,521)
Increase in amount due to a related company	–	–	151,517
Exchange adjustment	860	65,731	73,608
<b>Net cash generated from operations</b>	286,005	1,032,732	1,421,963
Singapore income tax paid	–	–	(24,861)
<b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b>	286,005	1,032,732	1,397,102
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of plant and equipment	(167,297)	(409,604)	(44,222)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	(167,297)	(409,604)	(44,222)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of shares	235,000	–	–
Dividend paid	–	–	(510,000)
<b>NET CASH (USED IN)/FROM FINANCING ACTIVITIES</b>	235,000	–	(510,000)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	353,708	623,128	842,880
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR/PERIOD</b>	–	353,708	1,004,681
Effect of foreign exchange rates changes	–	27,845	9,908
<b>CASH AND CASH EQUIVALENTS AT THE END OF YEAR/PERIOD</b>	353,708	1,004,681	1,857,469

## NOTES ON THE FINANCIAL STATEMENTS

### 1. GENERAL

Wavex Innovations Pte Limited (“Wavex Innovations”) is a private limited company domiciled and incorporated in Singapore with its registered office at Block 73 Ayer Rajah Crescent #06-11, Ayer Rajah Industrial Estate, Singapore.

The principal activities of the company are to distribute, implement, consult, research and develop of devices and accessories, especially in radio frequency identification (RFID) technology.

The functional currency of Wavex Innovations is Singapore dollars. The Financial Information is presented in Hong Kong dollars, which is the presentation currency of HKC International Holdings Limited.

### 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The HKICPA has issued a number of new or revised Hong Kong Accounting Standards (“HKASs”), Hong Kong Financial Reporting Standards (“HKFRSs”), Amendments and Interpretations (“INTs”) (hereinafter collectively referred to as “new HKFRSs”) which are effective for Wavex Innovations’s financial year beginning on 1st January, 2007. For the purpose of preparing and presenting Financial Information of the Relevant Periods, Wavex Innovations has consistently adopted all these new HKFRSs over the Relevant Periods.

At the date of this report, HKICPA issued the following new and revised standards and interpretations that have been issued but are not yet effective. However, Wavex Innovations has not early applied these new and revised standards and interpretations. The management anticipates that the application of these new and revised standards and interpretations will have no material impact on the results and financial position of Wavex Innovations.

HKAS 23 (Revised)	Borrowing costs <sup>1</sup>
HKFRS 8	Operating segments <sup>1</sup>
HK(IFRIC) – INT 11	HKFRS 2 – Group and treasury share transactions <sup>2</sup>
HK(IFRIC) – INT 12	Service concession arrangements <sup>3</sup>

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

<sup>2</sup> Effective for annual periods beginning on or after 1st March, 2007.

<sup>3</sup> Effective for annual periods beginning on or after 1st January, 2008.

### 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared under the historical cost basis and in accordance with the following accounting policies which conforms with HKFRSs issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

#### a) Property, plant and equipment:

Property, plant and equipment, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, the expenditure is capitalised as an additional cost of that asset.

Depreciation on property, plant and equipment is calculated on the straight-line basis to allocate cost to their residual value over their estimated useful lives as follows:

Office equipment, furniture and fixtures	20% p.a.
Software, computer and device	33 <sup>1</sup> / <sub>3</sub> % p.a.

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

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

**b) Impairment:**

*i) Impairment of receivables*

Current and non-current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

- For current receivables that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial assets and the estimated future cash flows, discounted at the current market rate of return for a similar financial assets where the effect of discounting is material. Impairment losses for current receivables are reversed if in a subsequent period the amount of the impairment loss decreases.
- For financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets).

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

*ii) Impairment of other assets*

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

- Property, plant and equipment; and
- Other tangible assets.

If any such indication exists, the asset's recoverable amount is estimated.

- Calculation of recoverable amount

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

- Recognition of impairment losses

An impairment loss is recognised in the income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount.

- Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment loss is credited to the income statement in the year in which the reversal is recognised.

**c) Loans and receivables:**

Loans and receivables are carried at amortised cost using the effective interest method less any impairment losses for bad and doubtful debts except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses.

**d) Cash and cash equivalents:**

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Wavex Innovations' cash management.

**e) Payables:**

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

**f) Inventories:**

Inventories are stated at the lower of cost, on the first-in, first-out basis, and net realisable value. Costs comprise direct materials and the related purchase costs. Net realisable value is based on estimated selling prices less all costs to be incurred to completion and disposal.

**g) Revenue recognition:**

Revenue from development and implementation of software contract work is recognised using the percentage of completion method. The percentage of completion is determined by the level of contract work done as a proportion of the estimated total contract costs to completion. Provision for losses is made in full as soon as they are foreseeable.

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

**h) Income tax expense:**

Income tax for the financial year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is recognised, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is not recognised for the initial recognition of assets or liabilities that after neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax losses can be utilised. Deferred tax assets are reviewed at each balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

**i) Foreign currencies:**

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purpose of presenting the Financial Information, the assets and liabilities of Wavex Innovations which are stated in functional currency of the respective group entity other than Hong Kong dollars are translated into the presentation currency of Wavex Innovations (i.e. Hong Kong dollars) at the rates of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in the profit or loss in period in which the foreign operation is disposed of.

**j) Employee benefits:**

The Wavex Innovations joins defined contribution retirement benefits schemes in Singapore for those employees who are eligible and have elected to participate in the schemes. Contributions are made based on a percentage of the participating employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the schemes. The assets of the schemes are held separately from those of the Wavex Innovations in independently administered funds.

**k) Related parties:**

For the purposes of these financial statements, parties are considered to be related to Wavex Innovations has the ability, directly or indirectly, to control the parties or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the company and the parties are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Wavex Innovations where those parties are individuals, and post-employment benefit plans which are for the benefits of employees of the company or of any entity that is a related party of the Wavex Innovations.

**4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

Exposure to credit, liquidity, interest rate, foreign currency and price risks arises in the normal course of the Wavex Innovations' business. These risks are limited by the company's financial management policies and practices described below.

**a) Credit risk**

The Wavex Innovations' maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at the balance sheet date in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the balance sheet. In order to minimize the credit risk, the company has been monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the company reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regards, the directors consider that the company's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings.

**b) Liquidity risk**

Wavex Innovations' policy is to regularly monitor current and expected liquidity level to ensure that it maintains sufficient reserves of cash and bank balances for its daily operation and investment purposes.

**c) Currency risk**

Wavex Innovations has minimal currency exposure as majority of the company's transactions were denominated in the functional currency of the company. The management conducted review of exposure and requirements of various currencies, and will consider hedging significant foreign currency exposures should the need arises.

**d) Interest rate risk**

Wavex Innovations' exposure to interest rate risk is minimal as it does not have external interest bearing borrowing.

**5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

In the process of applying the Wavex Innovations' accounting policies which are described in note 3, management has made the following estimates that have significant effect on the amounts recognised in the financial statements. The key assumptions concerning the future, and other key sources of estimation and judgements at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

**Useful lives of property, plant and equipment**

Wavex Innovations' management determines the estimate useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previous estimation, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

**Allowances for inventories**

The management of Wavex Innovations makes allowances for obsolete and slow-moving inventories that are identified as no longer salable. The management estimates the net realizable value of its inventories based primarily on the latest invoice prices and current market conditions. The company carried out review of inventories on a product-by-product basis at each balance sheet date and makes allowance for obsolete and slow-moving items.

**Provision for impairment of debtors**

The policy for impairment of debtors of the Wavex Innovations is based on the evaluation of collectivity and aging analysis of debtors and on management's judgements. A considerable amount of judgement is required in assessing the ultimate realization of these debtors including the current creditworthiness and the past collection history of each customer, if the financial conditions of customers of the company were to deteriorate, resulting in an impairment of their ability to make payments, additional provision may be required.

## 6. TURNOVER

Turnover represents revenue from sales and research and development of RFID devices and accessories.

The result, assets and liabilities of Wavex Innovations was mainly related to distribution, implementation, consulting, research and development of devices and accessories especially in radio frequency identification (RFID) technologies and the segment assets are mainly located in Singapore.

## 7. PROFIT/(LOSS) BEFORE TAXATION

	22nd November, 2004 (date of incorporation) to 30th September, 2005 HK\$	Year ended 30th September, 2006 HK\$	Nine months ended 30th June, 2006 2007 HK\$ (unaudited)	
Auditors' remuneration	5,628	7,795	6,419	6,987
Operating lease rental in respect of rented premises	28,875	63,324	44,663	62,541
Depreciation	20,729	80,368	50,990	98,830
Employee benefits expenses				
– Salaries, allowances and benefit in kind	56,280	167,300	40,236	522,781
– Retirement benefit scheme contribution	–	10,348	5,231	64,219
Total staff cost	<u>56,280</u>	<u>177,648</u>	<u>45,467</u>	<u>587,000</u>

## 8. DIRECTORS' REMUNERATION

## The Wavex Innovations

	22nd November, 2004 (date of incorporation) to 30th September, 2005					Year ended 30th September, 2006					Nine months ended 30th June, 2006					2007				
	Salaries, allowances and Fees		Discre- tionary bonus		Retirement benefits scheme contribu- tion	Total remunera- tion	Salaries, allowances and Fees		Discre- tionary bonus		Retirement benefits scheme contribu- tion	Total remunera- tion	Salaries, allowances and Fees		Discre- tionary bonus		Retirement benefits scheme contribu- tion	Total remunera- tion		
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$		
Marvin Koh Sze Yon	18,760	-	-	-	18,760	29,232	-	-	-	29,232	21,555	-	-	-	21,555	-	-	-	-	
Nick Lee Seng Weng	18,760	-	-	-	18,760	29,232	-	-	-	29,232	21,555	-	-	-	21,555	-	-	-	-	
Leslie Chong Ser Ann	18,760	-	-	-	18,760	29,232	-	-	-	29,232	21,555	-	-	-	21,555	-	-	-	-	
	<u>56,280</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>56,280</u>	<u>87,696</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>87,696</u>	<u>64,665</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>64,665</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	

## 9. EMPLOYEES' EMOLUMENTS

## Wavex Innovations Pte Limited

The five highest paid individuals of the company include three directors, details of whose emoluments included in the amounts disclosed in note 8 above. The emoluments of the remaining highest paid employees, other than directors of the company, are as follows:

	22nd November, 2004 (date of incorporation) to 30th September, 2005 HK\$	Year ended 30th September, 2006 HK\$	Nine months ended 30th June, 2006 HK\$ (unaudited)	2007 HK\$
Salaries and allowances	–	167,300	104,901	493,178
Retirement benefit schemes contribution	–	10,348	5,231	64,219
	<u>–</u>	<u>177,648</u>	<u>110,132</u>	<u>557,397</u>

Their emoluments were within the following

	22nd November, 2004 (date of incorporation) to 30th September, 2005	Year ended 30th September, 2006	Nine months ended 30th June, 2006 (unaudited)	2007
Nil to HK\$1,000,000	–	2	1	3

## 10. TAX (EXPENSES)/CREDIT

Singapore income tax has been provided at the rate of 18% (2005-2006: 20%) on the estimated assessable profits arising in Singapore during the year/period.

	22nd November, 2004 (date of incorporation) to 30th September, 2005 HK\$	Year ended 30th September, 2006 HK\$	Nine months ended 30th June, 2006 HK\$ (unaudited)	2007 HK\$
Current – Singapore Charge for the year	–	(421,998)	(331,000)	–
Deferred tax (note 18)	(4,817)	(25,300)	–	215,220
	<u>(4,817)</u>	<u>(447,298)</u>	<u>(331,000)</u>	<u>215,220</u>



The tax expense for the year can be reconciled to the profit before taxation per the income statement as follows:

	<b>22nd November, 2004 (date of incorporation) to 30th September, 2005 HK\$</b>	<b>Year ended 30th September, 2006 HK\$</b>	<b>Nine months ended 30th June, 2006 HK\$ (unaudited)</b>	<b>2007 HK\$</b>
Profit/(loss) for the year/period	<u>382,554</u>	<u>3,194,136</u>	<u>2,720,333</u>	<u>(1,218,210)</u>
Tax at Singapore income tax rate of 2007: 18%; 2005-2006: 20%	76,511	638,826	544,067	(219,280)
Tax effect of expenses that are not deductible in determining taxation income	3,560	–	–	–
Tax effect of non-taxable income	(75,254)	(194,880)	(191,600)	–
Others	<u>–</u>	<u>3,352</u>	<u>(21,467)</u>	<u>4,060</u>
	<u>4,817</u>	<u>447,298</u>	<u>331,000</u>	<u>(215,220)</u>

#### 11. EARNING PER SHARE

Earning per share is not presented as the directors of Wavex Innovations do not consider such information to be meaningful in the context of the Financial Information.

#### 12. DIVIDEND

	<b>Year ended 30th September, 2005 HK\$</b>	<b>2006 HK\$</b>	<b>Nine months ended 30th June, 2006 HK\$ (unaudited)</b>	<b>2007 HK\$</b>
Interim dividend declared and paid	<u>–</u>	<u>–</u>	<u>–</u>	<u>510,000</u>

## 13. PROPERTY, PLANT AND EQUIPMENT

	Office equipment, furniture and fixtures <i>HK\$</i>	Software, computer and device <i>HK\$</i>	Total <i>HK\$</i>
Additions	167,297	–	167,297
Depreciation	(20,774)	–	(20,774)
Net book value at 30th September, 2005	<u>146,523</u>	<u>–</u>	<u>146,523</u>
At 30th September, 2005			
Cost	167,297	–	167,297
Accumulated depreciation	(20,774)	–	(20,774)
Net book value	<u>146,523</u>	<u>–</u>	<u>146,523</u>
Net book value at 1st October, 2005	146,523	–	146,523
Currency realignment	23,786	1,128	24,914
Additions	381,059	28,545	409,604
Depreciation	(79,574)	(789)	(80,363)
Net book value at 30th September, 2006	<u>471,794</u>	<u>28,884</u>	<u>500,678</u>
At 30th September, 2006			
Cost	577,012	29,705	606,717
Accumulated depreciation	(105,218)	(821)	(106,039)
Net book value	<u>471,794</u>	<u>28,884</u>	<u>500,678</u>
Net book value at 1st October, 2006	471,794	28,884	500,678
Currency realignment	4,394	329	4,723
Additions	22,904	21,318	44,222
Depreciation	(88,893)	(9,940)	(98,833)
Net book value at 30th June, 2007	<u>410,199</u>	<u>40,591</u>	<u>450,790</u>
At 30th June, 2007			
Cost	605,696	51,399	657,095
Accumulated depreciation	(195,497)	(10,808)	(206,305)
Net book value	<u>410,199</u>	<u>40,591</u>	<u>450,790</u>

## APPENDIX II FINANCIAL INFORMATION OF THE WAVEX GROUP

### 14. INVENTORIES

	<b>At 30th September,</b>	<b>At 30th June,</b>
	<b>2005</b>	<b>2007</b>
	<i>HK\$</i>	<i>HK\$</i>
Electronic products and accessories	–	154,906
	<u>–</u>	<u>154,906</u>

The inventories are stated at cost.

The cost of inventories recognised in the income statement during the Relevant Periods are as follows:

	<b>22nd November,</b>	<b>Year ended</b>	<b>Nine months</b>
	<b>2004 (date of</b>	<b>30th September,</b>	<b>ended</b>
	<b>incorporation) to</b>	<b>30th September,</b>	<b>ended</b>
	<b>30th September,</b>	<b>2006</b>	<b>30th September,</b>
	<b>2005</b>	<b>2007</b>	<b>2007</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Cost of inventories	–	308,310	130,687
	<u>–</u>	<u>308,310</u>	<u>130,687</u>

### 15. DEBTORS, DEPOSITS AND PREPAYMENTS

	<b>At 30th September,</b>	<b>At 30th June,</b>
	<b>2005</b>	<b>2007</b>
	<i>HK\$</i>	<i>HK\$</i>
Trade receivables	–	–
Other receivables, deposits and prepayments	14,622	20,495
	<u>14,622</u>	<u>20,495</u>
	<u>14,622</u>	<u>20,495</u>

The company has a policy of allowing average credit period ranging from seven days to one month to its customers. In addition, for certain customers with long-established relationship and have good credit worthiness, a long credit period may be granted.

An aging analysis of Wavex Innovations Pte Limited's trade debtors at the respective balance sheet date is as follows:

	<b>At 30th September,</b>	<b>At 30th June,</b>
	<b>2005</b>	<b>2007</b>
	<i>HK\$</i>	<i>HK\$</i>
0-30 days	–	–
31-60 days	–	–
61-90 days	–	–
Over 90 days	–	–
	<u>–</u>	<u>–</u>
	<u>–</u>	<u>–</u>

### 16. AMOUNT DUE FROM/(TO) WAVEX TECHNOLOGIES

It represents trade and non-trade advances from/(to) Wavex Technologies. The balances are unsecured, interest-free and have no fixed terms of repayment.

## APPENDIX II FINANCIAL INFORMATION OF THE WAVEX GROUP

### 17. CREDITORS AND ACCRUED CHARGES

#### The Wavex Innovations Pte Limited

	At 30th September,		At 30th June,
	2005 <i>HK\$</i>	2006 <i>HK\$</i>	2007 <i>HK\$</i>
Trade payables	13,743	962	25,507
Other payables and accrued charges	7,050	161,537	40,471
	<u>20,793</u>	<u>162,499</u>	<u>65,978</u>

An aging analysis of Wavex Innovations' trade payables at the respective balance sheet date is as follows:

	At 30th September,		At 30th June,
	2005 <i>HK\$</i>	2006 <i>HK\$</i>	2007 <i>HK\$</i>
0-30 days	13,743	962	25,500
31-60 days	-	-	7
	<u>13,743</u>	<u>962</u>	<u>25,507</u>

### 18. DEFERRED TAX LIABILITIES/(ASSETS)

The followings is major deferred tax liabilities/(assets) recognised and movements therein during the current and prior period/years:

	Accelerated tax depreciation <i>HK\$</i>	Tax loss <i>HK\$</i>	Total <i>HK\$</i>
At 22nd November, 2004 (date of incorporation)	-	-	-
Currency realignment	10	-	10
Charge to income statement	4,817	-	4,817
At 30th September, 2005 and 1st October, 2005	4,827	-	4,827
Currency realignment	1,408	-	1,408
Charge to income statement	25,300	-	25,300
At 30th September, 2006 and 1st October, 2006	31,535	-	31,535
Currency realignment	(533)	-	(533)
(Credit)/charge to income statement	29,122	(244,342)	(215,220)
At 30th June, 2007	<u>60,124</u>	<u>(244,342)</u>	<u>(184,218)</u>

## APPENDIX II FINANCIAL INFORMATION OF THE WAVEX GROUP

### 19. SHARE CAPITAL

	At 30th September,		At 30th June,
	2005	2006	2007
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Issued and fully paid: 50,000 shares of S\$1 each	235,000	235,000	235,000

For the year ended/period 30th September, 2006 and 2005, the company had 50,000 authorised ordinary shares of S\$1.00 each. On the date of commencement of the Singapore Companies (Amendment) Act 2005 on 30th January, 2006.

- a) The concept of authorized share capital is abolished; and  
b) Shares of the company have no par value.

### 20. OPERATING LEASE ARRANGEMENTS

	At 30th September,		At 30th June,	
	2005	2006	2006	2007
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Within one year	50,643	74,496	77,769	65,065
In the second to fifth years, inclusive	156,534	32,281	62,015	-
	<u>207,177</u>	<u>106,777</u>	<u>139,784</u>	<u>65,065</u>

### 21. RELATED PARTY TRANSACTIONS

- a) During the period/year, the company had the following material related transactions:

	22nd November, 2004 (date of incorporation) to 30th September, 2005	Year ended 30th September, 2006	Nine months ended 30th June, 2006 (unaudited)	
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Service fee income from Wavex Technologies	515,900	3,898,623	3,035,661	522,026
Labour cost payable to Wavex Technologies	-	201,106	-	765,000
Purchase of materials from Wavex Technologies	-	34,345	33,767	-

- b) The remuneration of the company's key management personnel during the period/year was as follows:

	<b>22nd November, 2004 (date of incorporation) to 30th September, 2005 HK\$</b>	<b>Year ended 30th September, 2006 HK\$</b>	<b>Nine months ended 30th June, 2006 HK\$ (unaudited)</b>	<b>2007 HK\$</b>
Salaries and other short-term employee benefits	56,280	87,696	64,665	–
Post-employment benefits	–	–	–	–
	<u>56,280</u>	<u>87,696</u>	<u>64,665</u>	<u>–</u>

Yours faithfully,

**Li, Tang, Chen & Co.**

*Certified Public Accountants (Practising)*

Hong Kong

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**APPENDIX III      UNAUDITED PRO FORMA FINANCIAL INFORMATION  
OF THE ENLARGED GROUP**

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**A.    INTRODUCTION OF THE UNAUDITED PRO FORMA STATEMENT OF ASSETS AND  
LIABILITIES**

The accompanying unaudited pro forma statement of assets and liabilities of the Group has been prepared giving effect to the acquisition of 70% interest in Wavex Technologies and Wavex Innovations (the “Acquisition”) on the Group.

The accompanying unaudited pro forma statement of assets and liabilities of the Enlarged Group which has been prepared by the directors in accordance with paragraph 29 of Chapter 4 of the Listing Rules is for the purpose of illustrating the effect of the Acquisition on the Group as if the Acquisition had taken place on 31st March, 2007.

The unaudited pro forma statement of assets and liabilities of the Enlarged Group is prepared based upon (i) the audited consolidated balance sheet of the Group at 31st March, 2007, which has been extracted from annual report of the Company for the year ended 31st March, 2007 as set out in appendix I to the Circular and; (ii) the consolidated balance sheet of Wavex Technologies Group at 30th June, 2007 and the balance sheet of Wavex Innovations at 30th June, 2007 as set out in Appendix II to the Circular, after making pro forma adjustments relating to the Acquisition that are (i) directly attributable to the transaction; and (ii) factually supportable as if the Acquisition has been completed on 31st March, 2007.

The unaudited pro forma statement of assets and liabilities of the Enlarged Group is prepared by the directors to provide information of the Group upon completion of the Acquisition. As it is prepared for illustration purpose only, it does not purport to give a true picture of the financial position of the Group following completion of the Acquisition.

**APPENDIX III      UNAUDITED PRO FORMA FINANCIAL INFORMATION  
OF THE ENLARGED GROUP**

**B.      UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP**

	A	B	C	D=A+B+C		
	The Group as at 31st March, 2007 HK\$'000	Wavex Technologies group as at 30th June, 2007 HK\$'000	Wavex Innovations as at 30th June, 2007 HK\$'000	Combined HK\$'000	Pro forma adjustments related to the acquisition HK\$'000	Pro forma of Enlarged Group after the acquisition HK\$'000
<b>NON-CURRENT ASSETS</b>						
Property, plant and equipment	10,921	709	451	12,081	–	12,081
Investment properties	15,485	–	–	15,485	–	15,485
Leasehold land	63,877	–	–	63,877	–	63,877
Goodwill	–	–	–	–	12,351	12,351
					<i>Note 2</i>	
Interest in associate	349	–	–	349	–	349
Available-for-sale financial assets	20,793	–	–	20,793	–	20,793
Financial assets at fair value through profit or loss	4,146	–	–	4,146	–	4,146
Long-term bank deposits	15,596	–	–	15,596	–	15,596
Deferred tax assets	36	–	184	220	–	220
	<u>131,203</u>	<u>709</u>	<u>635</u>	<u>132,547</u>	<u>12,351</u>	<u>144,898</u>
<b>CURRENT ASSETS</b>						
Inventories	54,850	486	155	55,491	–	55,491
Debtors, deposits and prepayments	58,100	1,340	20	59,460	–	59,460
Available-for-sale financial assets	9,101	–	–	9,101	–	9,101
Financial assets at fair value through profit and loss	4,551	–	–	4,551	–	4,551
Amounts due from related companies	1,516	161	–	1,677	(159)	1,518
					<i>Note 3</i>	
Tax recoverable	890	–	–	890	–	890
Pledged time deposit	–	1,024	–	1,024	–	1,024
Cash and bank balances	91,469	4,286	1,857	97,612	(12,985)	84,627
					<i>Note 1</i>	
	<u>220,477</u>	<u>7,297</u>	<u>2,032</u>	<u>229,806</u>	<u>(13,144)</u>	<u>216,662</u>
<b>CURRENT LIABILITIES</b>						
Creditors and accrued charges	49,233	910	66	50,209	–	50,209
Amount due to a related company	–	8	151	159	(159)	–
					<i>Note 3</i>	
Deposit received	6,850	–	–	6,850	–	6,850
Tax payable	68	412	414	894	–	894
Obligations under finance leases	31	–	–	31	–	31
Bank borrowings	2,430	–	–	2,430	–	2,430
	<u>58,612</u>	<u>1,330</u>	<u>631</u>	<u>60,573</u>	<u>(159)</u>	<u>60,414</u>
NET CURRENT ASSETS	<u>161,865</u>	<u>5,967</u>	<u>1,401</u>	<u>169,233</u>	<u>(12,985)</u>	<u>156,248</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>293,068</u>	<u>6,676</u>	<u>2,036</u>	<u>301,780</u>	<u>(634)</u>	<u>301,146</u>



**APPENDIX III      UNAUDITED PRO FORMA FINANCIAL INFORMATION  
OF THE ENLARGED GROUP**

	A	B	C	D=A+B+C		
	The Group as at 31st March, 2007 HK\$'000	Wavex Technologies group as at 30th June, 2007 HK\$'000	Wavex Innovations as at 30th June, 2007 HK\$'000	Combined HK\$'000	Pro forma adjustments related to the acquisition HK\$'000	Pro forma of Enlarged Group after the acquisition HK\$'000
<b>NON-CURRENT LIABILITIES</b>						
Obligations under finance leases	59	-	-	59	-	59
Bank borrowings	23,498	-	-	23,498	-	23,498
Deferred tax liabilities	363	82	-	445	-	445
	<u>23,920</u>	<u>82</u>	<u>-</u>	<u>24,002</u>	<u>-</u>	<u>24,002</u>
	<u>269,148</u>	<u>6,594</u>	<u>2,036</u>	<u>277,778</u>	<u>(634)</u>	<u>277,144</u>
<b>CAPITAL AND RESERVES</b>						
Share capital	4,621	900	235	5,756	(995)	4,761
					<i>Note 1</i>	
Reserves	264,527	5,634	1,801	271,962	(2,168)	269,794
					<i>Note 1</i>	
Equity attributable to equity holders of the company	269,148	6,534	2,036	277,718	(3,163)	274,555
Minority interests	-	60	-	60	2,529	2,589
					<i>Note 2</i>	
Total equity	<u>269,148</u>	<u>6,594</u>	<u>2,036</u>	<u>277,778</u>	<u>(634)</u>	<u>277,144</u>

*Note 1:* The adjustment represents the acquisition of 70% interest in Wavex Technologies Group and Wavex Innovations for an aggregate consideration of S\$3,500,000 (equivalent to HK\$18,392,500). The consideration is payable as to (i) S\$1,050,000 (equivalent to HK\$5,407,500) to allot and issue, credited as fully paid, the Consideration Shares at the Issue Price (at the agreed exchange rate of S\$1 to HK\$5.15) to the Vendors in accordance with the Vendors' Proportion upon Completion; (ii) S\$1,400,000 (equivalent to HK\$7,420,000) to be paid in cash or in immediately available funds (or in such other manner as may be acceptable to the Vendors) to the Vendors in accordance with the Vendors' proportion upon Completion; (iii) the remaining balance of S\$1,050,000 (equivalent to HK\$5,565,000) is to be paid in cash by the Purchaser to the Vendors in accordance with the Vendors' Proportion on the 45th calendar day after the last of the audited financial statements of the Wavex Group for the three successive years commencing from 1st October, 2007 are made available to the Purchaser (which is expected to be no earlier than 30th September, 2010).

*Note 2:* Goodwill of HK\$12,351,500 would arise from the acquisition, which is calculated as (i) fair value of the total consideration S\$3,500,000 (equivalent to HK\$18,392,500) less (ii) 70% of the total adjusted net assets of both Wavex Technologies Group and Wavex Innovations Pte Ltd. of HK\$6,041,000 on the assumption that the carrying value of the net assets of Wavex Technologies Group and Wavex Innovations Pte Ltd. as at 30th June, 2007 approximates its corresponding fair value.

Minority interests represented 30% interest in the net assets of the minority shareholder of both Wavex Technologies Group and Wavex Innovations Pte Ltd.

*Note 3:* Intra-group balance eliminated.

**C.      LETTER ON THE PRO FORMA FINANCIAL INFORMATION**

14th November, 2007

**TO THE DIRECTORS OF HKC INTERNATIONAL HOLDINGS LIMITED**

We report on the unaudited pro forma financial information of HKC International Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the proposed acquisition of 70% interest in Wavex Technologies and Wavex Innovations (the “Acquisition”) might have affected the financial information presented for inclusion in Section B of appendix III to the circular dated 14th November, 2007 (the “Circular”). The basis of preparation of the unaudited pro forma financial information is set out in Section A of appendix III to the Circular.

**Respective responsibilities of directors of the Company and reporting accountants**

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

**Basis of opinion**

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

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**APPENDIX III                      UNAUDITED PRO FORMA FINANCIAL INFORMATION  
OF THE ENLARGED GROUP**

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We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of the financial position of the Group as at 31st March, 2007 or any future date.

**Opinion**

In our opinion:

- a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;
- b) such basis is consistent with the accounting policies of the Group; and
- c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,

**Li, Tang, Chen & Co.**

*Certified Public Accountants (Practising)*

Hong Kong

## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

## 2. DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SECURITIES

As at the Latest Practicable Date, the interests and short positions of each Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provision of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein; or (c) were required, to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows.

Name of Director	The Company/ associated corporation	Capacity	Number and class of securities <i>(Note 1)</i>	Approximate percentage of interest
Chan Chung Yee, Hubert	The Company	Interest of controlled corporation	234,100,575 Shares (L) <i>(Note 2)</i>	49.17%
	The Company	Beneficial owner	8,600,000 Share (L) <i>(Note 3)</i>	1.81%
	Matrix World Group Limited	Beneficial owner	1 share of US\$1.00 each (L)	100%
Chan Chung Yin, Roy	The Company	Interest of controlled corporation	67,417,400 Shares (L) <i>(Note 4)</i>	14.16%
	The Company	Beneficial owner	1,000,000 Shares (L) <i>(Note 5)</i>	0.21%
	Star Global International Limited	Beneficial owner	1 share of US\$1.00 each (L)	100%

Name of Director	The Company/ associated corporation	Capacity	Number and class of securities <i>(Note 1)</i>	Approximate percentage of interest
Chan Man Min	The Company	Interest of controlled corporation	24,709,650 Shares (L) <i>(Note 6)</i>	5.19%
	The Company	Beneficial owner	1,000,000 Shares (L) <i>(Note 7)</i>	0.21%
Tsui Hon Wing	The Company	Beneficial owner	2,639,200 Shares (L) <i>(Note 8)</i>	0.55%
Chan Ming Him, Denny	The Company	Beneficial owner	1,000,000 Shares (L) <i>(Note 9)</i>	0.21%

*Notes:*

- (1) The letter "L" represents the Director's or chief executive's interests in the shares and underlying shares of the Company or its associated corporations.
- (2) Among these Shares, 8,484,848 Shares were held by Light Emotion Limited, a company wholly owned by Matrix World Group Limited and 225,615,727 Shares were held by Matrix World Group Limited, a company wholly owned by Mr. Chan Chung Yee, Hubert. By virtue of the provisions of Divisions 7 and 8 of Part XV of the SFO, Matrix World Group Limited is deemed to be interested in the Shares held by Light Emotion Limited and Mr. Chan Chung Yee, Hubert is deemed to be interested in the Shares in which Matrix World Group Limited is interested.
- (3) These Shares are registered in the name of Mr. Chan Chung Yee, Hubert.
- (4) These Shares were held by Star Global International Limited, a company wholly owned by Mr. Chan Chung Yin, Roy. By virtue of the provisions of Divisions 7 and 8 of Part XV of the SFO, Mr. Chan Chung Yin, Roy is deemed to be interested in the Shares held by Star Global International Limited.
- (5) These Shares are registered in the name of Mr. Chan Chung Yin, Roy.
- (6) These Shares were held by Ocean Hope Group Limited, a company wholly owned by Mr. Chan Man Min. By virtue of the provisions of Divisions 7 and 8 of Part XV of the SFO, Mr. Chan Man Min is deemed to be interested in the Shares held by Ocean Hope Group Limited.
- (7) These Shares are registered in the name of Mr. Chan Man Min.
- (8) These Shares are registered in the name of Mr. Tsui Hon Wing.
- (9) These Shares are registered in the name of Mr. Chan Ming Him, Denny.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interest and short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provision of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein; or (c) were required, to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

### 3. OTHER INTERESTS OF THE DIRECTORS

- (a) Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any assets which have been, since 31st March, 2007 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group or the Wavex Group or are proposed to be acquired or disposed of by or leased to any member of the Group or the Wavex Group; and
- (b) Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group or the Wavex Group subsisting at the date of this circular which was significant in relation to the business of the Group or the Wavex Group.

### 4. DISCLOSEABLE INTEREST UNDER DIVISION 2 AND 3 OF PART XV OF THE SFO AND SUBSTANTIAL SHAREHOLDERS

- (a) So far as is known to any Director or chief executive of the Company, as at the Latest Practicable Date, the following persons (other than a Director or chief executive of the Company) had an interest or a short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	Number of Shares (Note 1)	Capacity/ nature of interest	Approximate percentage of interest
Matrix World Group Limited	225,615,727 (L) (Note 2)	Beneficial owner	47.39%
	8,484,848 (L) (Note 2)	Interest of controlled corporation	1.78%
Star Global International Limited (Note 3)	67,417,400 (L)	Beneficial owner	14.16%
Ocean Hope Group Limited (Note 4)	24,709,650 (L)	Beneficial owner	5.19%
Chan Low Wai Han, Edwina (Note 5)	68,417,400 (L)	Interest of spouse	14.37%
Josephine Liu (Note 6)	242,700,575 (L)	Interest of spouse	50.98%

*Notes:*

1. The letter “L” represents the person’s interests in Shares.
  2. Among these Shares, 8,484,848 Shares were held by Light Emotion Limited, a company wholly owned by Matrix World Group Limited and 225,615,727 Shares were held by Matrix World Group Limited, a company wholly owned by Mr. Chan Chung Yee, Hubert. By virtue of the provisions of Divisions 7 and 8 of Part XV of the SFO, Matrix World Group Limited is deemed to be interested in the Shares held by Light Emotion Limited and Mr. Chan Chung Yee, Hubert is deemed to be interested in the Shares in which Matrix World Group Limited is interested. Mr. Chan Chung Yee, Hubert is a director of Light Emotion Limited and Matrix World Group Limited.
  3. Star Global International Limited is a company wholly owned by Mr. Chan Chung Yin, Roy. Mr. Chan Chung Yin, Roy is a director of Star Global International Limited.
  4. Ocean Hope Group Limited is a company wholly owned by Mr. Chan Man Min. Mr. Chan Man Min is a director of Ocean Hope Group Limited
  5. Mrs. Chan Low Wai Han, Edwina is wife of Mr. Chan Chung Yin, Roy. By virtue of the provisions of Divisions 2 and 3 of Part XV of the SFO, Mrs. Chan Low Wai Han, Edwina is deemed to be interested in all the Shares in which Mr. Chan Chung Yin, Roy is interested.
  6. Ms. Josephine Liu is the wife of Mr. Chan Chung Yee, Hubert. By virtue of the provisions of Divisions 2 and 3 of Part XV of the SFO, Ms. Josephine Liu is deemed to be interested in all the Shares in which Mr. Chan Chung Yee, Hubert is interested.
- (b) So far as is known to the Directors, the following entities are, directly or indirectly, interested in 10 per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the subsidiaries of the Company as at the Latest Practicable Date:

Name of subsidiary	Name of shareholder	Number of shares/ amount of registered capital interested	Approximate percentage of interest
亞衛通智能系統(上海) 有限公司 (ASCT Technology Co. Ltd.)	Hua Dong	Registered capital of US\$122,000	20%

- (c) Save as disclosed above, the Directors and chief executive of the Company are not aware of any other person who, as at the Latest Practicable Date, had an interest or a short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

## 5. DIRECTORS’ SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group which will not expire or is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

## 6. LITIGATION

As at the Latest Practicable Date, none of the members of the Group and the Wavex Group is engaged in any litigation or arbitration or claim of material importance and there is no litigation or arbitration or claim of material importance known to the Directors to be pending or threatened against any members of the Group.

## 7. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors or any of their respective associates was interested in any business, apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with that of the Group.

## 8. MATERIAL CONTRACTS

Save as disclosed below, no material contracts (not being contracts entered into in the ordinary course of business carried out by the Group) have been entered into by any member of the Group and the Wavex Group within the two years preceding the date of this circular:

- (a) the sole agency agreement entered into by Generalvestor (H.K.) Limited (“**Generalvestor**”), a company incorporated in Hong Kong and a wholly owned subsidiary of the Company, with Savills (Hong Kong) Limited on 17th August, 2006 for the appointment of Savills (Hong Kong) Limited as their sole agent for the disposal of the 11th Floor, AXA Centre, 151 Gloucester Road, Hong Kong by way of tender;
- (b) the provisional agreement for sale and purchase for the disposal of the 11th Floor, AXA Centre, 151 Gloucester Road, Hong Kong entered into between Generalvestor as vendor and an independent third party as purchaser on 19th January, 2007;
- (c) the formal agreement for sale and purchase for the disposal of the 11th Floor, AXA Centre, 151 Gloucester Road, Hong Kong entered into between Generalvestor as vendor and an independent third party as purchaser on 9th February, 2007; and
- (d) the shareholders’ agreement dated 11th June 2007 entered into between Wavex Technologies and Synergy Systems Sdn Bhd as shareholders in relation to the establishment, business and management of Wavetech Sdn Bhd (the 60% subsidiary of Wavex Technologies).
- (e) the Acquisition Agreement.

## 9. EXPERT AND CONSENT

- (a) The following is the qualification of the expert who has given its opinions and advices which are included in this circular:

<b>Name</b>	<b>Qualification</b>
Li, Tang, Chen & Co.	Certified Public accountants (Practising)



- (b) Li, Tang, Chen & Co. does not have any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (c) Li, Tang, Chen & Co. has given and has not withdrawn its written consent to the issue of this circular, with the inclusion of its letter and the references to its name in the form and context in which they are included.
- (d) Li, Tang, Chen & Co. does not have any direct or indirect interest in any assets which have been, since 31st March, 2007 (being the date to which the latest published audited financial statements of the Group were made up), acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group or the Wavex Group.

## **10. GENERAL**

- (a) The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O.Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business of the Company is located at 25th Floor, Oxford House, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong.
- (b) The secretary of the Company and qualified accountant of the Company is Mr Wu Kwok Lam, an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.
- (c) The Hong Kong branch share registrar and transfer office of the Company is Pilare Limited of 10th Floor, Sun Hung Kai Centre, 30 Harbour Road, Hong Kong.
- (d) This circular has been prepared in both English and Chinese. In the event of any discrepancy, the English text shall prevail over the Chinese text.

## **11. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company in Hong Kong at 25th Floor, Oxford House, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong up to and including 30th November, 2007:

- (a) the memorandum and articles of association of the Company;
- (b) the audited consolidated financial statements of the Group for the two years ended 31st March, 2007;
- (c) the accountants' reports of Wavex Innovations and Wavex Technologies Group prepared by Li, Tang, Chen & Co. as set out in Appendix II to this circular together with a statement of adjustments made by Li, Tang, Chen & Co. in arriving at the figures set out in their accountants' reports in Appendix II to this circular;

- (d) the letter from Li, Tang, Chen & Co. in respect of the pro forma financial information of the Enlarged Group, the text of which is set out in Appendix III to this circular;
- (e) copies of the material contracts referred to in the paragraph headed “Material contracts” in this Appendix;
- (f) the written consent of Li, Tang, Chen & Co. referred to in the paragraph headed “Expert and consent” in this Appendix; and
- (g) this circular.