SUNLINK INTERNATIONAL HOLDINGS LIMITED

科浪國際控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 2336)

** For identification purpose only*

CONTENTS

ABBREVIATIONS

In this annual report, the following abbreviations have the following meanings unless otherwise specified:

"Board"	the Board of Directors of the Company
"Company"	Sunlink International Holdings Limited
"Directors"	the directors of the Company from time to time
"Foshan Lianchuang Hualian"	佛山聯創華聯電子有限公司 (literally translated as Foshan Lianchuang Hualian Electronics Company Limited)
"Global Winner"	Global Winner Enterprises Limited
"Group"	the Company and its subsidiaries
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"PRC"	the People's Republic of China
"Provisional Liquidators"	Messrs. Stephen Liu Yiu Keung and David Yen Ching Wai, the joint and several provisional liquidators of the Company, both of Ernst & Young Transactions Limited acting without personal liability (already discharged)
"Restructuring Agreement"	A formal restructuring agreement dated 30 September 2011 entered into between Brilliant Capital International Limited, Mr. Suen Cho Hung, Paul (now a Non-executive Director of the Company), the Company and the Provisional Liquidators to implement the proposed restructuring of the Company which included, inter alia, (i) capital restructuring; (ii) open offer; (iii) subscription of new shares; (iv) issue of shares to creditors; (v) issue of creditors convertible bonds; (vi) implementation of the Scheme of Arrangement; and (vii) group reorganisation, details of the restructuring agreement are set out in the circular of the Company dated 23 December 2011
"Scheme of Arrangement"	the scheme of arrangement with the Company's creditors which became effective on 23 February 2012, details of the scheme of arrangement are set out in the circular of the Company dated 23 December 2011
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"HK$" and "cents"	Hong Kong dollars and cents
"%"	per cent.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Sue Ka Lok *(Chairman)*
Mr. Lai Ming Wai *(Chief Executive Officer)*

Non-executive Director

Mr. Suen Cho Hung, Paul

Independent Non-executive Directors

Mr. Sun Ka Ziang, Henry
Mr. Chiang Bun
Ms. Wong Wai Yin, Viola

AUDIT COMMITTEE

Mr. Sun Ka Ziang, Henry *(Chairman)*
Mr. Chiang Bun
Ms. Wong Wai Yin, Viola

REMUNERATION COMMITTEE

Mr. Chiang Bun *(Chairman)*
Mr. Sun Ka Ziang, Henry
Ms. Wong Wai Yin, Viola

NOMINATION COMMITTEE

Ms. Wong Wai Yin, Viola *(Chairman)*
Mr. Sun Ka Ziang, Henry
Mr. Chiang Bun
Mr. Sue Ka Lok

COMPANY SECRETARY

Ms. Chan Yuk Yee

TRADING OF SHARES

The Stock Exchange of Hong Kong Limited
(Stock Code: 2336)

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suite 1502, 15th Floor
Great Eagle Centre
23 Harbour Road
Wanchai, Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
Bank of China (Hong Kong) Limited
Industrial and Commercial Bank of China Limited
Bank of Communications Co., Ltd., Hong Kong Branch

AUDITOR

ANDA CPA Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

WEBSITE

http://www.sunlinkgroup.com.hk
http://www.tricor.com.hk/webservice/02336

CHAIRMAN'S STATEMENT

GROUP RESTRUCTURING

I am pleased to report to shareholders that, after years of prolonged suspension, the trading of the Company's shares on the Stock Exchange has successfully resumed since 28 February 2012. In February 2012, the Company completed a series of corporate restructuring exercises comprising capital restructuring, subscription of new shares, open offer of new shares and group reorganisation. On 23 February 2012, the Scheme of Arrangement between the Company and its creditors came into effect and on 24 February 2012, the winding-up petition against the Company was dismissed and the Provisional Liquidators of the Company were discharged by the High Court of Hong Kong.

GROUP'S RESULTS

For the year ended 31 December 2012, the Group reported a turnover of HK$334,135,000, representing a rise of 10% from HK$304,689,000 in last year, and a gross profit of HK$24,250,000, showing a decrease of 9% from HK$26,706,000 in the previous year. The increase in the Group's turnover was primarily attributed to the increase in sales of semiconductors and related products that outweighed the effect of the drop in sales of electronic turnkey device solution products. Nevertheless, as the sales of the Group's electronic turnkey device solution products carried a higher profit margin, the decline in sales of these products mainly caused the decline in gross profit of the Group for the year. The Group's overall results attributable to owners of the Company turned around from loss of HK$15,993,000 in last year to profit of HK$263,149,000 in the current year; whereas basic earnings per share was HK28.29 cents, compared to the basic loss per share of HK14.97 cents (restated) in the prior year. The significant profit earned by the Group was mainly attributed to the gains on debts discharged under the Scheme of Arrangement and on group reorganisation amounting to HK$227,219,000 and HK$30,589,000 respectively.

PROSPECTS

Upon the completion of the corporate and debt restructuring exercises of the Company in February 2012, the Group's financial position has been significantly improved by turning from net liabilities to net assets amounting to HK$168,560,000 as at 31 December 2012. In addition, with the successful completion of the share subscription by an investor (now the controlling shareholder of the Company) and the open offer of new shares in February 2012, the Group has raised new working capital of approximately HK$93 million to facilitate the continuation as well as future expansion of its businesses.

Nevertheless, the Group has been managing its businesses prudently since the second quarter of 2012 mainly to weather the negative impact brought by the overall slowdown of economic growth in the PRC. Looking forward, the Group will continue to manage its businesses in a prudent manner in the financial year ahead to ensure a stable prospect for shareholders of the Company.

CHAIRMAN'S STATEMENT

APPRECIATION

I would like to take this opportunity to express my sincere gratitude to all shareholders, bankers, business associates, suppliers and customers for their continuing support to the Group. Further, I would like to give my special thanks to my colleagues and all staff members for their hard work and contributions during the past year.

Sue Ka Lok
Chairman

Hong Kong, 26 March 2013

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATIONS REVIEW

For the year ended 31 December 2012, the Group continued to engage in the sale of semiconductors and related products as well as the development and provision of electronic turnkey device solution products.

The revenue and segment profit of the semiconductors and related products operation increased by 33% and 81% to HK$263,661,000 (2011: HK$197,944,000) and HK$12,746,000 (2011: HK$7,045,000) respectively in the current year. The increases in revenue and segment profit of the operation were mainly due to the increase in sales of used semiconductor products in the current year which carried a higher profit margin than standardised semiconductors products. The Group principally performs a supply and procurement function of semiconductors and related products for its customers mainly for applications in computer, consumer electronic and telecommunication products. In addition, the Group also sells used transmission equipment containing recyclable semiconductor components.

Comparing with the previous year, the revenue and segment profit of the development and provision of electronic turnkey device solutions operation decreased by 34% and 78% to HK$70,474,000 (2011: HK$106,745,000) and HK$2,827,000 (2011: HK$12,579,000) respectively. The decrease in the operation's revenue was primarily attributed to the drop in sales of the operations' netbook and notebook computer motherboard products which was an indirect result of the increased popularity of tablet computers. Such drop in sales also offset the full-year revenue contributed by Foshan Lianchuang Hualian, which has become a subsidiary of the Group since June 2011 and is an one-stop services provider of microcontrollers for home electrical appliances. The decrease in segment profit was the combined effects of the drop in sales of the operation's computer motherboard products and the worsened operating performance of Foshan Lianchuang Hualian that mainly resulted from the China-Japan Diaoyu Islands Dispute happened in August 2012, which caused the demand for Japanese brand name home electrical appliances in the PRC and hence sales of Foshan Lianchuang Hualian dropped considerably since September 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's results attributable to owners of the Company turned around from loss of HK$15,993,000 in last year to profit of HK$263,149,000 in current year; whereas basic earnings per share was HK28.29 cents, compared to the basic loss per share of HK14.97 cents (restated) in the prior year. The significant profit earned by the Group was mainly attributed to the gain on debts discharged under the Scheme of Arrangement of HK$227,219,000 (2011: nil) and the gain on group reorganisation of HK$30,589,000 (2011: nil). In addition, the Group also earned interest income of HK$966,000 (2011: nil) from short-term loans made to third parties. Nevertheless, the profit attributable to owners of the Company was partly offset by the loss on financial guarantee liabilities of HK$3,766,000 (2011: HK$24,697,000) and restructuring costs of approximately HK$5,283,000 (2011: HK$6,572,000) incurred by the Company during the current year. The Group's finance costs for the current year included interests on creditors convertible bonds of HK$578,000, yet part of that amount of approximately HK$510,000 required no cash payout but only represented an imputed interest calculated in accordance with the Group's accounting policy on financial instruments. If the effect of the gain on debts discharged under the Scheme of Arrangement, gain on group reorganisation, loss on financial guarantee liabilities, restructuring costs and imputed interests on creditors convertible bonds were excluded from the Group's results, the Group would have reported a profit attributable to owners of the Company of approximately HK$14,900,000 for the current year.

FINANCIAL REVIEW

Liquidity, Financial Resources and Capital Structure

Upon the completion of a series of corporate and debt restructuring exercises of the Company in February 2012, the Group's liquidity and gearing position have been substantially improved. As at 31 December 2012, the Group had current assets of HK$192,273,000 (2011: HK$117,617,000) comprising bank and cash balances of HK$81,918,000 (2011: HK$10,365,000) and net current assets of HK$170,324,000 (2011: net current liabilities of HK$291,334,000). The Group's current ratio, calculated based on current assets over current liabilities of HK$21,949,000 (2011: HK$408,951,000), had been improved to a very healthy level of 8.76 times (2011: 0.29) at the year end.

In February 2012, the Company issued 750,000,000, 186,478,000 and 40,000,000 new shares all at HK$0.2 per share pursuant to the subscription by an investor (now the controlling shareholder of the Company), the open offer and the Scheme of Arrangement. The Group's gearing ratio represented its total borrowings over the sum of equity attributable to the owners of the Company and total borrowings of the Group. At the year end, the Group's borrowings comprised carrying value of creditors convertible bonds of HK$7,246,000 (2011: nil) whereas the Group's equity attributable to owners of the Company was HK$154,937,000 (2011: deficiency of HK$303,295,000). Accordingly, the Group's gearing ratio was at a low level of about 4% at the year end (2011: could not be determined).

MANAGEMENT DISCUSSION AND ANALYSIS

Group Reorganisation

Upon completion of the Restructuring Agreement, certain subsidiaries and associate were transferred out of the Group on 23 February 2012 pursuant to a group reorganisation and a gain of HK$30,589,000 (2011: nil) on such reorganisation was recorded during the year.

Scheme of Arrangement

As at 23 February 2012, the Company's financial guarantee liabilities and certain other payables totalling approximately HK$286,219,000 were discharged under the Scheme of Arrangement with the Company's creditors by way of a combination of cash settlement of HK$43,000,000, issuance of 40,000,000 Company's shares at the issue price of HK$0.2 per share, and issuance of creditors convertible bonds in aggregate principal amount of HK$8,000,000 (convertible into 40,000,000 Company's shares at the initial conversion price of HK$0.2 per share). The Scheme of Arrangement became effective on 23 February 2012 and resulted in a gain on debts discharged under the Scheme of Arrangement of HK$227,219,000 (2011: nil), no further financial guarantee liabilities was incurred by the Company after that date.

Foreign Currency Management

The monetary assets and liabilities and business transactions of the Group are mainly carried and conducted in Hong Kong dollars, Renminbi and US dollars. The Group maintains a prudent strategy in its foreign currency risk management, to a large extent, foreign exchange risks are minimised via balancing the foreign currency monetary assets versus the corresponding currency liabilities, and foreign currency revenues versus the corresponding currency expenditures. In light of the above, it is considered that the Group's exposure to foreign exchange risks is not significant and no hedging measure has been undertaken by the Group.

Contingent Liabilities

The Group had no significant contingent liabilities as at 31 December 2012 (2011: nil).

Pledge of Assets

As at 31 December 2011, all the assets of the Company's subsidiary, Global Winner were pledged to an investor (now the controlling shareholder of the Company) by way of floating charge to secure the working capital facilities granted to Global Winner. The floating charge was released on 23 February 2012. As at 31 December 2012, the Group had no significant assets under pledge.

Lease Commitments

As at 31 December 2012, the Group had operating lease commitments in respects of rentals for its offices and factory premises of HK$6,628,000 (2011: HK$8,111,000).

Capital Commitments

As at 31 December 2012, the Group had no material capital commitments (2011: HK$465,000 for acquisition of machineries and equipment).

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2012, the Group had approximately 120 employees including directors (2011: approximately 170). Total staff costs for the year, including directors' remuneration, was HK$9,226,000 (2011: HK$6,559,000). The increase in staff costs was primarily due to the incorporation of full year results of Foshan Lianchuang Hualian and the appointment of new management team including executive directors of the Company in February 2012. The reduction in headcount was mainly attributed to the streamlining of Foshan Lianchuang Hualian's operation during the year. The Group remunerated its employees based on their performance, experience and prevailing market rate.

The Group made contributions to the Mandatory Provident Fund Scheme for its staff in Hong Kong. The employees of the Company's subsidiaries established in the PRC are members of central pension schemes operated by the local municipal governments.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Sue Ka Lok, *Chairman of the Board and member of the Nomination Committee*

Mr. Sue, aged 47, joined the Company as an Executive Director in February 2012. He was appointed the Chief Executive Officer in March 2012 until his re-designation as the Chairman of the Board on 11 September 2012. Mr. Sue is also a director of several subsidiaries of the Group. He holds a Bachelor of Economics degree from the University of Sydney in Australia and a Master of Science in Finance degree from the City University of Hong Kong. Mr. Sue is a fellow member of the Hong Kong Institute of Certified Public Accountants, a certified practising accountant of CPA Australia, a fellow member of both the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators and a member of the Hong Kong Securities Institute. He has extensive experience in corporate management, finance, accounting and company secretarial practice. Mr. Sue is an executive director and the chief executive officer of both Poly Capital Holdings Limited (formerly known as Beijing Yu Sheng Tang Pharmaceutical Group Limited (stock code: 1141)) ("Poly Capital") and BEP International Holdings Limited (stock code: 2326) ("BEP International"). Mr. Sue is also a non-executive director and the chairman of China Tycoon Beverage Holdings Limited (stock code: 209) ("China Tycoon"). All of the above companies are listed in Hong Kong.

Mr. Lai Ming Wai, *Chief Executive Officer*

Mr. Lai, aged 53, joined the Group in June 2009 responsible for managing the daily operations of the Group's businesses. Mr. Lai was appointed an Executive Director on 1 March 2012 and assumed the additional role as Chief Executive Officer on 11 September 2012. Mr. Lai is also a director of several subsidiaries of the Group. He holds a Bachelor degree in Social Sciences from the University of Hong Kong. Mr. Lai was a senior executive of Bank of America and was primarily responsible for developing and managing the bank's business in southern region of the PRC. Mr. Lai has extensive experience in the banking and finance industry and has strong business network in the consumer electronics appliances sector.

NON-EXECUTIVE DIRECTOR

Mr. Suen Cho Hung, Paul

Mr. Suen, aged 52, joined the Company as an Executive Director in February 2012. He was appointed the Chairman of the Board in March 2012 until his re-designation as a Non-executive Director on 11 September 2012. Mr. Suen is also a director of several subsidiaries of the Group. He holds a Master of Business Administration degree from the University of South Australia. Mr. Suen has extensive experience in managing metal, mineral and raw materials, electrical and electronic consumer products, energy and property business ventures as well as in strategic planning and corporate management of business enterprises in Hong Kong and the PRC. Mr. Suen is a controlling shareholder of the Company as disclosed in the section headed "Interests and Short Positions of Shareholders Discloseable Under the SFO" in the Report of the Directors. Mr. Suen is also an executive director and the chairman of both Poly Capital and BEP International, and has been appointed an executive director and the chairman of New Island Printing Holdings Limited (stock code: 377) ("New Island Printing") since 12 September 2012. All of the above companies are listed in Hong Kong.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Sun Ka Ziang, Henry, *Chairman of the Audit Committee and member of the Remuneration Committee and the Nomination Committee*

Mr. Sun, aged 55, joined the Company as an Independent Non-executive Director in February 2012. Mr. Sun holds a Bachelor degree in Economics from Monash University in Australia. He is a member of CPA Australia and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Sun possesses over 20 years of experience in international finance, corporate finance, corporate planning, financial management and accounting and held executive positions at several international banks, accounting firm, the Hong Kong Airport Authority and an information technology company. Mr. Sun is an independent non-executive director of Zhongda International Holdings Limited (stock code: 909) and was an independent non-executive director of China Yunnan Tin Minerals Group Company Limited (stock code: 263) until 1 March 2012. Both of the above companies are listed in Hong Kong.

Mr. Chiang Bun, *Chairman of the Remuneration Committee and member of the Audit Committee and the Nomination Committee*

Mr. Chiang, aged 43, joined the Company as an Independent Non-executive Director in February 2012. Mr. Chiang holds a Bachelor degree in Social Sciences from the University of Hong Kong and a LL.B. from Peking University. Mr. Chiang is also a Chartered Financial Analyst charter holder. Mr. Chiang has held senior roles in various international banks and financial institutions, primarily responsible for structured debt and/or equity financing. Mr. Chiang has extensive experience in the banking and finance industry. Mr. Chiang has been appointed an independent non-executive director of Burwill Holdings Limited (stock code: 24), a listed company in Hong Kong, since 21 December 2012.

Ms. Wong Wai Yin, Viola, *Chairman of the Nomination Committee and member of the Audit Committee and the Remuneration Committee*

Ms. Wong, aged 31, joined the Company as an Independent Non-executive Director in February 2012. Ms. Wong holds a Bachelor degree in Information Technology from York University in Canada. Ms. Wong is currently a project analyst and has working experience in organisational change management and project management.

SENIOR MANAGEMENT

Ms. Chan Yuk Yee, *Company Secretary*

Ms. Chan, aged 45, joined the Company as Company Secretary in February 2012. She holds a Master of Business Law degree from Monash University in Australia and is an associate member of both the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators. Ms. Chan has over 10 years of experience in company secretarial practice. Ms. Chan is also the company secretary of Poly Capital, an executive director and the company secretary of China Tycoon and an executive director of New Island Printing. All of the above companies are listed in Hong Kong.

REPORT OF THE DIRECTORS

The Directors are pleased to present their report and the audited consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in the sale of semiconductors and related products business; and development and provision of electronic turnkey device solutions business. Details of the principal activities of its principal subsidiaries are set out in note 40 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2012 are set out in the consolidated statement of comprehensive income on page 30.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2012 (2011: nil).

FIVE-YEAR FINANCIAL SUMMARY

A summary of the published results, assets and liabilities of the Group for the last five financial years, as extracted from the audited consolidated financial statements of the Company, is set out on page 84. This summary does not form part of the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 19 to the consolidated financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year are set out in note 30 and note 32 to the consolidated financial statements respectively.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands, which would oblige the Company to offer new shares on pro-rata basis to existing shareholders.

REPORT OF THE DIRECTORS

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

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

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 31 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, sales to the Group's five largest customers accounted for approximately 64% of the total sales for the year and sales to the largest customer accounted for approximately 19%. Purchases from the Group's five largest suppliers accounted for approximately 53% of the total purchases for the year and purchases from the largest supplier accounted for approximately 24%.

None of the Directors or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers during the year.

DIRECTORS

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

Executive Directors:

Mr. Sue Ka Lok	(appointed on 23 February 2012)
Mr. Lai Ming Wai	(appointed on 1 March 2012)

Non-executive Director:

Mr. Suen Cho Hung, Paul	(appointed as an Executive Director on 23 February 2012 and re-designated as a Non-executive Director on 11 September 2012)

Independent Non-executive Directors:

Mr. Sun Ka Ziang, Henry	(appointed on 23 February 2012)
Mr. Chiang Bun	(appointed on 23 February 2012)
Ms. Wong Wai Yin, Viola	(appointed on 23 February 2012)
Mr. Tso Shiu Kei, Vincent	(resigned on 23 February 2012)
Mr. Young Meng Cheung, Andrew	(resigned on 23 February 2012)
Mr. Poon Ka Lee, Barry	(resigned on 23 February 2012)

REPORT OF THE DIRECTORS

DIRECTORS (continued)

In accordance with Article 87 of the Company's Articles of Association, Mr. Sue Ka Lok and Mr. Sun Ka Ziang, Henry will retire by rotation at the forthcoming annual general meeting (the "AGM") and, being eligible, offer themselves for re-election at the forthcoming AGM.

DIRECTORS' SERVICE CONTRACTS

None of the directors being proposed for re-election at the forthcoming AGM has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

Details of the directors' remuneration are set out in note 14 to the consolidated financial statements.

UPDATES ON DIRECTORS' INFORMATION

The following is updated information of Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules:

1. Mr. Suen Cho Hung, Paul has been appointed an executive director and the chairman of New Island Printing Holdings Limited (stock code: 377), a listed company in Hong Kong, since 12 September 2012.

2. Mr. Chiang Bun has been appointed an independent non-executive director of Burwill Holdings Limited (stock code: 24), a listed company in Hong Kong, since 21 December 2012.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

To the best knowledge of the Directors, none of the Directors had a material interest, either directly or indirectly, in any contract of significance to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2012, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Listing Rules, were as follows:

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)

Long positions in shares of the Company:

Name of director	Capacity and nature of interest	Number of shares held	Approximate percentage of the Company's issued share capital
Mr. Suen Cho Hung, Paul ("Mr. Suen")	Interest held by controlled corporation	750,000,000 *(Note)*	70.11%

Note: These shares were held by Brilliant Capital International Limited ("Brilliant Capital"), which was a wholly owned subsidiary of Grace Able Limited ("Grace Able") which in turn was wholly owned by Mr. Suen. Mr. Suen was a director of Brilliant Capital and the sole director of Grace Able. Accordingly, Mr. Suen was deemed to be interested in 750,000,000 shares under the SFO.

Save as disclosed above, as at 31 December 2012, none of the Directors or chief executive of the Company had registered an interest or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the sections headed "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures" above and in the "Equity-settled share option scheme" disclosure in note 32 to the consolidated financial statements, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or their spouse or minor children had any rights to subscribe for the securities of the Company, or had exercised any such rights during the year.

SHARE OPTION SCHEME

Details of the share option scheme are set out in note 32 to the consolidated financial statements.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 31 December 2012, the following interests of more than 5% of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO:

REPORT OF THE DIRECTORS

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO (continued)

Long positions in shares and underlying shares of the Company:

Name of shareholder	Capacity and nature of interest	Number of shares held	Number of underlying shares	Total interests	Approximate percentage of the Company's issued share capital
Mr. Suen	Interest held by controlled corporation	750,000,000 *(Note 1)*	–	750,000,000	70.11%
Grace Able	Interest held by controlled corporation	750,000,000 *(Note 1)*	–	750,000,000	70.11%
Brilliant Capital	Directly beneficially owned	750,000,000 *(Note 1)*	–	750,000,000	70.11%
Mr. Liu Yiu Keung, Stephen	Interest held by controlled corporation	40,000,000 *(Notes 2 & 3)*	40,000,000 *(Notes 2 & 4)*	80,000,000	7.48%
Mr. Yen Ching Wai, David	Interest held by controlled corporation	40,000,000 *(Notes 2 & 3)*	40,000,000 *(Notes 2 & 4)*	80,000,000	7.48%
Eternal Pacific Limited ("Eternal Pacific")	Nominee of scheme administrators	40,000,000 *(Notes 2 & 3)*	40,000,000 *(Notes 2 & 4)*	80,000,000	7.48%

Notes:

1. These shares were held by Brilliant Capital, which was a wholly owned subsidiary of Grace Able which in turn was wholly owned by Mr. Suen. Mr. Suen was a director of Brilliant Capital and the sole director of Grace Able. Accordingly, Mr. Suen and Grace Able were deemed to be interested in 750,000,000 shares under the SFO.

2. These interests were held by Eternal Pacific, the nominee of the scheme administrators of the Scheme of Arrangement. Eternal Pacific was directly owned as to 50% by Mr. Liu Yiu Keung, Stephen and Mr. Yen Ching Wai, David respectively, being the scheme administrators of the Scheme of Arrangement and were holding the Company's shares for the benefit of the creditors with admitted claims under the Scheme of Arrangement. Accordingly, each of Mr. Liu Yiu Keung, Stephen and Mr. Yen Ching Wai, David was deemed to be interested in 40,000,000 shares and 40,000,000 underlying shares under the SFO.

3. These represented 40,000,000 shares issued by the Company to Eternal Pacific at the issue price of HK$0.20 per share pursuant to the Scheme of Arrangement.

4. These represented the interest of Eternal Pacific in 40,000,000 underlying shares issuable under the creditors convertible bonds (the "Creditors Convertible Bonds") in the principal amount of HK$8,000,000, convertible into 40,000,000 shares of the Company at the initial conversion price of HK$0.20 per share (subject to adjustments) during the period from 23 February 2012 to 23 February 2014 (both days inclusive), subject to the terms and conditions of the Creditors Convertible Bonds, which were issued by the Company pursuant to the Scheme of Arrangement.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO (continued)

The interests of Mr. Suen, Grace Able and Brilliant Capital in 750,000,000 shares referred in note 1 above related to the same parcel of shares.

The interests of Eternal Pacific, Mr. Liu Yiu Keung, Stephen and Mr. Yen Ching Wai, David in 40,000,000 shares and 40,000,000 underlying shares referred in note 2 above related to the same parcel of shares and underlying shares.

Save as disclosed above, the Company had not been notified of other relevant interests or short positions in the shares and underlying shares of the Company as at 31 December 2012 as required pursuant to section 336 of the SFO.

CONTINUING CONNECTED TRANSACTIONS

During the year, the Group entered into the following continuing connected transactions and the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules:

As disclosed in the announcement of the Company dated 30 June 2011, Foshan Lianchuang Hualian, an indirect 52.38% owned subsidiary of the Company, entered into a supply contract with 廈門華聯電子有限公司 (literally translated as Xiamen Hualian Electronics Company Limited) ("Xiamen Hualian"), which owned 47.62% equity interest in Foshan Lianchuang Hualian, pursuant to which Foshan Lianchuang Hualian agreed to purchase and Xiamen Hualian agreed to supply raw materials for production of microcontrollers for a term commencing from 24 June 2011 up to 31 December 2013 with an annual cap of RMB5,000,000 (approximately HK$6,000,000) for each of the three financial years ending 31 December 2013.

As Xiamen Hualian was a substantial shareholder of Foshan Lianchuang Hualian, Xiamen Hualian was a connected person of the Company according to the Listing Rules. Total purchases of raw materials from Xiamen Hualian for the year ended 31 December 2012 amounted to RMB691,000 (approximately HK$850,000).

These transactions have been reviewed by the Independent Non-executive Directors of the Company, who are satisfied that the above transactions were entered into:

(i) in the ordinary and usual course of business;

(ii) on normal commercial terms or, if there were not sufficient comparable transactions to judge whether they were on normal commercial terms, on terms no less favourable to the Group than terms available to independent third parties; and

(iii) in accordance with the relevant agreements governing them on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole.

CONTINUING CONNECTED TRANSACTIONS (continued)

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagement 3000 "Assurance Engagement Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants and reported their conclusions to the Board that:

(i) nothing has come to auditor's attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Company's Board of Directors;

(ii) nothing has come to auditor's attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

(iii) nothing has come to auditor's attention that causes them to believe that the transactions have exceeded the maximum aggregate annual value as disclosed in the Company's announcement dated 30 June 2011.

The related party transactions are set out in note 38 to the consolidated financial statements. Apart from the continuing connected transactions disclosed above, all the other related party transactions did not fall under the scope of "Connected Transactions" or "Continuing Connected Transactions" under Chapter 14A of the Listing Rules which are required to comply with any of the reporting, announcement or independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

EMOLUMENT POLICY

The Group remunerates its employees based on their performance, experience and prevailing market rate. Other employee benefits included provident fund scheme, medical insurance, subsidised training programme, share option scheme as well as discretionary bonuses.

The determination of emoluments of the Directors had taken into consideration of their respective responsibilities and contribution to the Company and with reference to market conditions.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital is held by the public as at the date of this report.

REPORT OF THE DIRECTORS

AUDIT COMMITTEE

The audited consolidated financial statements of the Company for the year ended 31 December 2012 have been reviewed by the Audit Committee of the Company before they are duly approved by the Board under the recommendation of the Audit Committee.

AUDITOR

The consolidated financial statements for the year ended 31 December 2012 have been audited by ANDA CPA Limited.

A resolution will be proposed at the forthcoming AGM to re-appoint ANDA CPA Limited as auditor of the Company.

On behalf of the Board

Sue Ka Lok
Chairman

Hong Kong, 26 March 2013

CORPORATE GOVERNANCE REPORT

The Board is committed to maintaining high standards of corporate governance practices at all times. The Board believes that good corporate governance helps the Company to safeguard the interests of its shareholders and to enhance the performance of the Group.

CORPORATE GOVERNANCE

As the Company had been under the control of the Provisional Liquidators, the Board is unable to comment as to whether the Company had complied with the Code on Corporate Governance Practices (effective until 31 March 2012) (the "Former CG Code") contained in Appendix 14 to the Listing Rules for the period from 1 January 2012 up to the discharge of the Provisional Liquidators on 24 February 2012.

Subsequent to the appointment of the new directors on 23 February 2012 and the discharge of the Provisional Liquidators, the Company has adopted the principles and complied with all the applicable provisions of the Former CG Code and the Corporate Governance Code (effective from 1 April 2012) (the "New CG Code") contained in Appendix 14 to the Listing Rules, except for the following deviations with reasons as explained:

Code Provision E.1.2

Code provision E.1.2 of the New CG Code stipulates that the chairman of the board should attend the annual general meeting.

Deviation

The former Chairman of the Board, Mr. Suen Cho Hung, Paul, was unable to attend the annual general meeting of the Company held on 28 June 2012 (the "2012 AGM") as he had other important business engagement. However, Mr. Sue Ka Lok, an Executive Director and the former Chief Executive Officer of the Company (now the Chairman of the Board), had chaired the meeting in accordance with Article 63 of the Company's Articles of Association.

Code Provision A.6.7

Code provision A.6.7 of the New CG Code stipulates that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders.

Deviation

Ms. Wong Wai Yin, Viola, an Independent Non-executive Director of the Company was unable to attend the 2012 AGM as she had other important business engagement.

CORPORATE GOVERNANCE REPORT

DIRECTORS' SECURITIES TRANSACTIONS

Subsequent to the appointment of the new directors on 23 February 2012 and the discharge of the Provisional Liquidators, the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by directors of the Company. Having made specific enquiry with the Directors, all of them confirmed that they had complied with the required standards set out in the Model Code since their respective appointment dates and up to 31 December 2012.

BOARD OF DIRECTORS

The Board is responsible for the leadership and control of the Company. The Board reviews and approves the objectives, strategies, direction and policies of the Group, the annual budget, annual and interim results, the management structure of the Company as well as other significant policy and financial matters. The Board has delegated the responsibility of day-to-day operations of the Group to the management of the Company.

As at the date of this annual report, the Board comprises six directors, two of which are Executive Directors, namely Mr. Sue Ka Lok ("Mr. Sue") (Chairman) and Mr. Lai Ming Wai (Chief Executive Officer), one is Non-executive Director, namely Mr. Suen Cho Hung, Paul ("Mr. Suen") and three are Independent Non-executive Directors, namely Mr. Sun Ka Ziang, Henry, Mr. Chiang Bun and Ms. Wong Wai Yin, Viola. The Company has received from each of the Independent Non-executive Directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the Independent Non-executive Directors are independent in accordance with the independence guidelines set out in the Listing Rules. Biographical details of the Directors are set out under the section headed "Biographical Details of Directors and Senior Management" on pages 10 to 11 of this annual report. As disclosed in that section, both Mr. Sue and Mr. Suen are executive directors of Poly Capital Holdings Limited of which Mr. Suen is the chairman and a substantial shareholder. Both Mr. Sue and Mr. Suen are also executive directors of BEP International Holdings Limited of which Mr. Suen is the chairman and the controlling shareholder. Mr. Sue is a non-executive director and the chairman of China Tycoon Beverage Holdings Limited, of which Mr. Suen is the controlling shareholder.

The Company will provide a comprehensive, formal and tailored induction to each newly appointed Director on his/her first appointment in order to enable him/her to have appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (continued)

All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. Directors are continually updated on developments in the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities. The Company has provided timely technical updates, including the briefing on the amendments on the Listing Rules and the news release published by the Stock Exchange to the Directors. Continuing briefing and professional development for Directors are arranged where necessary.

During the year ended 31 December 2012, four regular Board meetings, the 2012 AGM and one extraordinary general meeting ("EGM") were held and the attendance of each director is set out as follows:

	Number of attendance		
	Board meetings	**2012 AGM**	**EGM**
Executive Directors			
Mr. Sue Ka Lok (appointed on 23 February 2012)	4/4	1/1	0/1
Mr. Lai Ming Wai (appointed on 1 March 2012)	4/4	1/1	0/1
Non-executive Director			
Mr. Suen Cho Hung, Paul (appointed as an Executive Director on 23 February 2012 and re-designated as a Non-executive Director on 11 September 2012)	4/4	0/1	0/1
Independent Non-executive Directors			
Mr. Sun Ka Ziang, Henry (appointed on 23 February 2012)	4/4	1/1	0/1
Mr. Chiang Bun (appointed on 23 February 2012)	4/4	1/1	0/1
Ms. Wong Wai Yin, Viola (appointed on 23 February 2012)	4/4	0/1	0/1
Mr. Tso Shiu Kei, Vincent (resigned on 23 February 2012)	0/4	0/1	1/1
Mr. Young Meng Cheung, Andrew (resigned on 23 February 2012)	0/4	0/1	0/1
Mr. Poon Ka Lee, Barry (resigned on 23 February 2012)	0/4	0/1	0/1

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE

As the Company was under the control of the Provisional Liquidators until 24 February 2012, the Company did not have any officer with title of Chairman and Chief Executive during the period from 1 January 2012 up to the discharge of the Provisional Liquidators on 24 February 2012. However, subsequent to the appointment of new directors and the discharge of the Provisional Liquidators, the Group has adopted a dual leadership structure in which the role of the Chairman is separated from that of the Chief Executive Officer ("CEO"). The Chairman is responsible for overseeing all Board functions, while the executive directors and senior management are under the leadership of the CEO to oversee the day-to-day operations of the Group and implementing the strategies and policies approved by the Board.

The position of the Chairman of the Board is currently held by Mr. Sue Ka Lok and the position of CEO is currently held by Mr. Lai Ming Wai.

NON-EXECUTIVE DIRECTORS

The Non-executive Director and each of the Independent Non-executive Directors of the Company is appointed for a term of twelve-month period which automatically renews for successive twelve-month periods unless terminated by either party in writing prior to the expiry of the term.

REMUNERATION COMMITTEE

The Remuneration Committee has specific written terms of reference as set out in the New CG Code. Following the resignation of Mr. Tso Shiu Kei, Vincent, Mr. Young Meng Cheung, Andrew and Mr. Poon Ka Lee, Barry on 23 February 2012, as at the date of this annual report, the Remuneration Committee comprises three Independent Non-executive Directors, namely Mr. Sun Ka Ziang, Henry, Mr. Chiang Bun and Ms. Wong Wai Yin, Viola. Mr. Chiang Bun is the chairman of the Remuneration Committee.

The Remuneration Committee is mainly responsible for making recommendations to the Board on the Company's policy and structure for all directors and senior management remuneration; determining the remuneration packages of individual executive directors and senior management and making recommendations to the Board on the remuneration of non-executive directors. The full terms of reference are available on the Company's website and the Stock Exchange's website.

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE (continued)

The Remuneration Committee met two times during the year ended 31 December 2012 to review the remuneration packages of the Executive Directors; and review the director's fee of the Non-executive Director and the Independent Non-executive Directors with recommendations to the Board for approval. The attendance of each member is set out as follows:

Members	Number of attendance
Mr. Chiang Bun (appointed on 23 February 2012)	2/2
Mr. Sun Ka Ziang, Henry (appointed on 23 February 2012)	2/2
Ms. Wong Wai Yin, Viola (appointed on 23 February 2012)	2/2
Mr. Tso Shiu Kei, Vincent (resigned on 23 February 2012)	0/2
Mr. Young Meng Cheung, Andrew (resigned on 23 February 2012)	0/2
Mr. Poon Ka Lee, Barry (resigned on 23 February 2012)	0/2

NOMINATION COMMITTEE

The Nomination Committee has specific written terms of reference as set out in the New CG Code. Following the resignation of Mr. Tso Shiu Kei, Vincent, Mr. Young Meng Cheung, Andrew and Mr. Poon Ka Lee, Barry on 23 February 2012, as at the date of this annual report, the Nomination Committee comprises four members, including three Independent Non-executive Directors, namely Mr. Sun Ka Ziang, Henry, Mr. Chiang Bun and Ms. Wong Wai Yin, Viola, and one Executive Director, namely Mr. Sue Ka Lok. Ms. Wong Wai Yin, Viola is the chairman of the Nomination Committee.

The Nomination Committee is mainly responsible for making recommendations to the Board on the appointment of directors, evaluation of board composition, assessment of the independence of independent non-executive directors and the management of board succession. The full terms of reference are available on the Company's website and the Stock Exchange's website.

The Nomination Committee met once during the year ended 31 December 2012 to review the structure, size and composition of the Board. The attendance of each member is set out as follows:

Members	Number of attendance
Ms. Wong Wai Yin, Viola (appointed on 23 February 2012)	1/1
Mr. Sun Ka Ziang, Henry (appointed on 23 February 2012)	1/1
Mr. Chiang Bun (appointed on 23 February 2012)	1/1
Mr. Sue Ka Lok (appointed on 23 February 2012)	1/1
Mr. Tso Shiu Kei, Vincent (resigned on 23 February 2012)	0/1
Mr. Young Meng Cheung, Andrew (resigned on 23 February 2012)	0/1
Mr. Poon Ka Lee, Barry (resigned on 23 February 2012)	0/1

AUDITOR AND AUDITOR'S REMUNERATION

The statement of the external auditor of the Company about their responsibilities on the consolidated financial statements is set out in the "Independent Auditor's Report" on pages 28 to 29 of this annual report.

For the year ended 31 December 2012, remuneration payable to the Company's auditor, ANDA CPA Limited, for the provision of audit services was HK$480,000. During the year, HK$108,000 was paid as remuneration to ANDA CPA Limited for the provision of non-audit related services to the Group.

AUDIT COMMITTEE

The Audit Committee has specific written terms of reference as set out in the New CG Code. Following the resignation of Mr. Tso Shiu Kei, Vincent, Mr. Young Meng Cheung, Andrew and Mr. Poon Ka Lee, Barry on 23 February 2012, as at the date of this report, the Audit Committee comprises three Independent Non-executive Directors, namely Mr. Sun Ka Ziang, Henry, Mr. Chiang Bun and Ms. Wong Wai Yin, Viola. Mr. Sun Ka Ziang, Henry is the chairman of the Audit Committee.

The Audit Committee is mainly responsible for assisting the Board in applying financial reporting and internal control principles and in maintaining an appropriate relationship with the Company's auditor. The Audit Committee is also delegated the corporate governance function of the Board to monitor, procure and manage corporate governance compliance within the Group. The full terms of reference are available on the Company's website and the Stock Exchange's website.

The Audit Committee met two times during the year ended 31 December 2012 and the attendance of each member is set out as follows:

Members	**Number of attendance**
Mr. Sun Ka Ziang, Henry (appointed on 23 February 2012)	2/2
Mr. Chiang Bun (appointed on 23 February 2012)	2/2
Ms. Wong Wai Yin, Viola (appointed on 23 February 2012)	2/2
Mr. Tso Shiu Kei, Vincent (resigned on 23 February 2012)	0/2
Mr. Young Meng Cheung, Andrew (resigned on 23 February 2012)	0/2
Mr. Poon Ka Lee, Barry (resigned on 23 February 2012)	0/2

The following is a summary of work performed by the Audit Committee during the year:

1. reviewed and discussed the audited financial statements of the Group for the year ended 31 December 2011 with recommendations to the Board for approval;

2. reviewed and considered the terms of the continuing connected transactions;

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE (continued)

3. reviewed and discussed the unaudited financial statements of the Group for the six months ended 30 June 2012 with recommendations to the Board for approval;

4. reviewed and discussed with the management and auditor of the Company the accounting policies and practices which may affect the Group and the scope of the audit;

5. reviewed the effectiveness of the internal control system of the Group; and

6. reviewed and made recommendations to the Board on the re-appointment of the Company's auditor.

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other financial disclosures required under the Listing Rules and other regulatory requirements.

The Directors acknowledge their responsibilities for preparing the consolidated financial statements of the Company for the year ended 31 December 2012.

CORPORATE GOVERNANCE FUNCTIONS

In light of the amendments of the Listing Rules which became effective on 1 April 2012 and in order to establish the duties and responsibilities of the Board in performing its corporate governance functions, the Board has delegated certain corporate governance functions to the Audit Committee, which include (i) developing and reviewing policies and practices on corporate governance; (ii) reviewing and monitoring the training and continuous professional development of the Directors and senior management; (iii) reviewing and monitoring policies and practices on compliance with legal and regulatory requirements; (iv) developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and the Directors; and (v) reviewing the Company's compliance with the New CG Code and disclosure in the corporate governance report.

INTERNAL CONTROL

The Board recognises its responsibilities for maintaining an adequate system of internal control to safeguard the Group's assets and shareholders' interests. An internal control system, including a defined management structure with limits of authority, is designed to help achieving business objectives, safeguarding assets against unauthorised use, and maintaining proper accounting records for the provision of reliable financial information for internal use and for publication. The internal control system is set up to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure in operational systems and achievement of the Group's objectives.

INTERNAL CONTROL (continued)

For the year ended 31 December 2012, the Board conducted a review of the effectiveness of the internal control system of the Group.

COMPANY SECRETARY

Ms. Chan Yuk Yee ("Ms. Chan") was appointed the Company Secretary of the Company on 23 February 2012. The biographical details of Ms. Chan are set out under the section headed "Biographical Details of Directors and Senior Management" on pages 10 to 11 of this annual report. Ms. Chan has taken no less than 15 hours of the relevant professional training during the financial year ended 31 December 2012.

SHAREHOLDERS' RIGHTS

Procedures for shareholders to convene an extraordinary general meeting and putting forward proposals at shareholders' meetings

According to Article 58 of the Company's Articles of Association, any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for shareholders to propose a person for election as a director of the Company

If a shareholder wishes to propose a person other than a retiring director for election as a director of the Company at a general meeting, the shareholder (other than the person to be proposed) duly qualified to attend and vote at the general meeting shall send a written notice, duly signed by the shareholder, of his/her intention to propose such person for election and also a notice signed by the person to be proposed of his/her willingness to be elected. These notices should be lodged at the Company's head office in Hong Kong or the Company's branch share registrar in Hong Kong, Tricor Standard Limited, during a period commencing no earlier than the day after the despatch of the notice of the general meeting appointed for such election and ending no later than seven days prior to the date of such general meeting provided that such period shall be at least seven days.

Procedures for directing shareholders' enquiries to the Board

Shareholders may at any time send their enquiries and concerns in writing to the Company Secretary of the Company at the Company's head office at Suite 1502, 15th Floor, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong.

INVESTOR RELATIONS

The Company has established a range of communication channels between itself and its shareholders, investors and other stakeholders. These include the annual general meeting, the annual and interim reports, notices, announcements and circulars and the Company's website at www.sunlinkgroup.com.hk / www.tricor.com.hk/webservice/02336.

INDEPENDENT AUDITOR'S REPORT

ANDA
CPA Limited
安達會計師事務所有限公司

TO THE SHAREHOLDERS OF
SUNLINK INTERNATIONAL HOLDINGS LIMITED
科浪國際控股有限公司
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Sunlink International Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 30 to 83, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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

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

INDEPENDENT AUDITOR'S REPORT

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

BASIS FOR QUALIFIED OPINION

1. Opening balances and corresponding figures

   Our audit opinion on the consolidated financial statements of the Group for the year ended 31 December 2011 (the "2011 Financial Statements"), which forms the basis for the corresponding figures presented in the current year's consolidated financial statements, was modified because of the significance of the possible effect of the limitations on the scope of our audit, details of which are set out in our audit report dated 28 March 2012. Accordingly, our audit opinion on the current year's consolidated financial statements is also modified because of the possible effect of this matter on the opening balances and corresponding figures.

2. Gain on group reorganisation

   As explained in note 10 to the consolidated financial statements, upon completion of the restructuring agreement on 23 February 2012, the Company recognised a gain on group reorganisation of approximately HK$30,589,000 for the year ended 31 December 2012.

   No sufficient evidence has been provided to satisfy ourselves as to the net liabilities amount of the subsidiaries and associate transferred out of the Group due to the group reorganisation. As a result, we are unable to satisfy ourselves as to the gain on group reorganisation of approximately HK$30,589,000 included in the consolidated statement of comprehensive income.

QUALIFIED OPINION

In our opinion, except for the possible effects of the matters as described in the basis for qualified opinion paragraphs, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the results and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

ANDA CPA Limited
Certified Public Accountants
Sze Lin Tang
Practising Certificate Number P03614

Hong Kong, 26 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Turnover	7 & 11	**334,135**	304,689
Cost of sales		**(309,885)**	(277,983)
Gross profit		**24,250**	26,706
Other income	8	**2,283**	1,478
Selling and distribution expenses		**(2,621)**	(2,619)
Administrative expenses		**(13,627)**	(12,184)
Profit from operations		**10,285**	13,381
Finance costs	9	**(619)**	(236)
Gain on debts discharged under the Scheme of Arrangement	10	**227,219**	–
Gain on group reorganisation	10	**30,589**	–
Loss on financial guarantee liabilities	27	**(3,766)**	(24,697)
Profit/(loss) before tax		**263,708**	(11,552)
Income tax expense	12	**(908)**	(2,733)
Profit/(loss) for the year	13	**262,800**	(14,285)
Other comprehensive (expenses)/income for the year, net of tax:			
Exchange differences on translating foreign operations		**(76)**	541
Total comprehensive income/(expenses) for the year		**262,724**	(13,744)
Profit/(loss) for the year attributable to:			
Owners of the Company		**263,149**	(15,993)
Non-controlling interests		**(349)**	1,708
		262,800	(14,285)
Total comprehensive income/(expenses) for the year attributable to:			
Owners of the Company		**263,106**	(15,693)
Non-controlling interests		**(382)**	1,949
		262,724	(13,744)
Earnings/(loss) per share	18		(Restated)
Basic (HK cents per share)		**28.29**	(14.97)
Diluted (HK cents per share)		**27.34**	(14.97)

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	**2012** **HK$'000**	2011 HK$'000
Non-current assets			
Property, plant and equipment	19	**5,606**	4,060
Investment in an associate	20	**–**	–
		5,606	4,060
Current assets			
Inventories	21	**26,855**	23,797
Trade and bill receivables	22	**68,975**	79,995
Prepayments, deposits and other receivables		**1,883**	3,460
Short-term loans receivable	23	**12,250**	–
Current tax assets		**392**	–
Bank and cash balances		**81,918**	10,365
		192,273	117,617
Current liabilities			
Trade payables	24	**14,682**	41,488
Accruals, other payables and deposits received		**3,560**	52,111
Due to deconsolidated subsidiaries	25	**–**	27,410
Due to a non-controlling shareholder of a subsidiary	26	**2,694**	2,388
Current tax liabilities		**1,013**	4,313
Financial guarantee liabilities	27	**–**	281,241
		21,949	408,951
Net current assets/(liabilities)		**170,324**	(291,334)
Total assets less current liabilities		**175,930**	(287,274)
Non-current liabilities			
Creditors convertible bonds	28	**7,246**	–
Deferred tax liabilities	29	**124**	–
		7,370	–
NET ASSETS/(LIABILITIES)		**168,560**	(287,274)
Capital and reserves			
Share capital	30	**10,697**	186,478
Reserves	31	**144,240**	(489,773)
Equity/(deficiency of equity) attributable to owners of the Company		**154,937**	(303,295)
Non-controlling interests		**13,623**	16,021
TOTAL EQUITY/(DEFICIENCY OF TOTAL EQUITY)		**168,560**	(287,274)

The consolidated financial statements on pages 30 to 83 are approved and authorised for issue by the Board of Directors on 26 March 2013 and are signed on its behalf by:

Sue Ka Lok
Director

Lai Ming Wai
Director

The accompanying notes form an integral part of these consolidated financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	**2012** **HK$'000**	2011 HK$'000
Non-current assets			
Investments in subsidiaries	*40*	**–**	–
Current assets			
Due from subsidiaries	*41*	**141,668**	11,088
Prepayments, deposits and other receivables		**219**	–
Bank and cash balances		**9**	303
		141,896	11,391
Current liabilities			
Accruals and other payables		**235**	18,102
Due to subsidiaries		**–**	8
Due to a deconsolidated subsidiary		**–**	671
Current tax liabilities		**–**	60
Financial guarantee liabilities	*27*	**–**	281,241
		235	300,082
Net current assets/(liabilities)		**141,661**	(288,691)
Total assets less current liabilities		**141,661**	(288,691)
Non-current liabilities			
Creditors convertible bonds	*28*	**7,246**	–
Deferred tax liabilities	*29*	**124**	–
		7,370	–
NET ASSETS/(LIABILITIES)		**134,291**	(288,691)
Capital and reserves			
Share capital	*30*	**10,697**	186,478
Reserves	*31*	**123,594**	(475,169)
TOTAL EQUITY/(DEFICIENCY OF EQUITY)		**134,291**	(288,691)

Sue Ka Lok
Director

Lai Ming Wai
Director

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

		Attributable to owners of the Company									
	Notes	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000	Creditors convertible bonds reserve HK$'000	Statutory reserve HK$'000	Foreign currency translation reserve HK$'000	Accumulated losses HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	(Deficiency of total equity)/ total equity HK$'000
At 1 January 2011		186,478	15,409	(64,907)	–	–	21	(424,603)	(287,602)	455	(287,147)
Total comprehensive income/(expenses) for the year		–	–	–	–	–	300	(15,993)	(15,693)	1,949	(13,744)
Transfer to statutory reserve		–	–	–	–	89	–	(89)	–	–	–
Non-controlling interests in a subsidiary arose through capital injection in a subsidiary	33	–	–	–	–	–	–	–	–	13,617	13,617
At 31 December 2011		186,478	15,409	(64,907)	–	89	321	(440,685)	(303,295)	16,021	(287,274)
At 1 January 2012		186,478	15,409	(64,907)	–	89	321	(440,685)	(303,295)	16,021	(287,274)
Total comprehensive (expenses)/income for the year		–	–	–	–	–	(43)	263,149	263,106	(382)	262,724
Capital restructuring	*30 (i)*	(185,546)	(15,409)	–	–	–	–	200,955	–	–	–
Share subscription	*30 (ii)*	7,500	142,500	–	–	–	–	–	150,000	–	150,000
Transaction costs related to the share subscription	*30 (ii)*	–	(75)	–	–	–	–	–	(75)	–	(75)
Open offer	*30 (iii)*	1,865	35,431	–	–	–	–	–	37,296	–	37,296
Transaction costs related to the open offer	*30 (iii)*	–	(1,150)	–	–	–	–	–	(1,150)	–	(1,150)
Issue of shares to creditors	*30 (iv)*	400	7,600	–	–	–	–	–	8,000	–	8,000
Issue of creditors convertible bonds	*28*	–	–	–	1,264	–	–	–	1,264	–	1,264
Deferred tax arising from issue of creditors convertible bonds	*29*	–	–	–	(209)	–	–	–	(209)	–	(209)
Group reorganisation	*10*	–	–	64,907	–	–	–	(64,907)	–	–	–
Dividend paid to non-controlling interests by a subsidiary		–	–	–	–	–	–	–	–	(2,016)	(2,016)
At 31 December 2012		**10,697**	**184,306**	**-**	**1,055**	**89**	**278**	**(41,488)**	**154,937**	**13,623**	**168,560**

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Cash flows from operating activities			
Profit/(loss) before tax		**263,708**	(11,552)
Adjustments for:			
Depreciation	13	**677**	296
Loss on financial guarantee liabilities	27	**3,766**	24,697
Loss on disposal of property, plant and equipment	13	**–**	15
Gain on bargain purchase	33	**–**	(508)
Gain on debts discharged under the Scheme of Arrangement	10	**(227,219)**	–
Gain on group reorganisation	10	**(30,589)**	–
Bank interest income	8	**(757)**	(71)
Interest income from short-term loans receivable	8	**(966)**	–
Finance costs	9	**619**	236
Operating cash flows before working capital changes		**9,239**	13,113
Change in inventories		**(3,058)**	631
Change in trade and bill receivables		**11,020**	(30,891)
Change in prepayments, deposits and other receivables		**1,577**	1,204
Change in trade payables		**(26,806)**	14,073
Change in accruals, other payables and deposits received		**(17,857)**	4,416
Change in amount due to a non-controlling shareholder of a subsidiary		**306**	(2,113)
Cash (used in)/generated from operations		**(25,579)**	433
Income taxes paid		**(3,097)**	(1,220)
Net cash used in operating activities		**(28,676)**	(787)
Cash flows from investing activities			
Bank interest received		**757**	71
Interest received from short-term loans receivable		**966**	–
Net cash outflow on investment in short-term loans receivable		**(12,250)**	–
Net cash inflow arising on capital injection into a subsidiary	33	**–**	401
Proceeds from disposal of property, plant and equipment		**–**	6
Purchase of property, plant and equipment	19	**(2,235)**	(797)
Net cash used in investing activities		**(12,762)**	(319)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	Notes	**2012** **HK$'000**	2011 HK$'000
Cash flows from financing activities			
Net proceeds from the share subscription	*30 (ii)*	**149,925**	–
Net proceeds from the open offer	*30 (iii)*	**36,146**	
(Repayment of)/proceeds from loans from the Investor *(Note 1)*		**(28,000)**	13,000
Cash outflow for discharging debts under the Scheme of Arrangement	*10*	**(43,000)**	–
Dividend paid to non-controlling interests by a subsidiary		**(2,016)**	–
Repayment of a bank loan		**–**	(3,610)
Net cash generated from financing activities		**113,055**	9,390
Net increase in cash and cash equivalents		**71,617**	8,284
Effect of change in foreign exchange rate		**(64)**	450
Cash and cash equivalents at beginning of year		**10,365**	1,631
Cash and cash equivalents at end of year		**81,918**	10,365
Analysis of cash and cash equivalents			
Bank and cash balances		**81,918**	10,365

The accompanying notes form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

1. GENERAL INFORMATION

Sunlink International Holdings Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands, British West Indies. The Company's principal office is at Suite 1502, 15th Floor, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. Its subsidiaries (together with the Company, the "Group") are principally engaged in the (i) sale of semiconductors and related products business; and (ii) development and provision of electronic turnkey device solutions business. The principal activities of its principal subsidiaries are set out in note 40 to the consolidated financial statements.

In the opinion of the directors (the "Director(s)") of the Company, as at the date of issue of these consolidated financial statements, Grace Able Limited ("Grace Able"), which wholly owns Brilliant Capital International Limited (the "Investor" and now the "Controlling Shareholder"), which is a company incorporated in the British Virgin Islands, is the ultimate holding company. Both Grace Able and the Controlling Shareholder do not produce financial statements available for public use.

2. BASIS OF PREPARATION

Completion of the restructuring of the Group and resumption of trading in the shares of the Company

Trading in the shares of the Company was suspended on the Main Board of the Stock Exchange at the request of the Company on 2 December 2008 after the winding up petition against the Company was presented to the High Court of Hong Kong Special Administrative Region (the "High Court") on 1 December 2008. On 24 December 2008, the High Court appointed Mr. Stephen Liu Yiu Keung and Mr. David Yen Ching Wai, both of Ernst & Young Transactions Limited as the joint and several provisional liquidators (the "Provisional Liquidators") of the Company to take control and possession of the assets of the Company.

Since then, the Provisional Liquidators had commenced the implementation of the proposed restructuring of the Company. On 11 May 2009, an exclusivity agreement was entered into amongst the Investor, Mr. Suen Cho Hung, Paul (now a Non-executive Director of the Company), the Company and the Provisional Liquidators (the "Parties") to grant to the Investor an exclusivity to prepare and submit a resumption proposal to the Stock Exchange with the view to resume trading of the Company's shares.

2. BASIS OF PREPARATION (continued)

Completion of the restructuring of the Group and resumption of trading in the shares of the Company (continued)

After entering into the exclusivity agreement, with the assistance of the Investor, the Group had established certain special purpose vehicles to re-activate the sale of semiconductors and related products business and development and provision of electronic turnkey device solutions business. In addition, in June 2011, the Group completed a capital injection agreement pursuant to which Global Winner Enterprises Limited ("Global Winner"), a subsidiary of the Company, became interested in 52.38% of the registered capital of 佛山聯創華聯電子有限公司 (literally translated as Foshan Lianchuang Hualian Electronics Company Limited) ("Foshan Lianchuang Hualian"). Through this capital injection, the Group further expanded its development and provision of electronic turnkey device solutions business.

On 30 September 2011, a formal restructuring agreement (the "Restructuring Agreement", details of the Restructuring Agreement are set out in the circular of the Company dated 23 December 2011) was entered into amongst the Parties to implement the proposed restructuring of the Company which included, inter alia, (i) capital restructuring; (ii) open offer; (iii) subscription of new shares; (iv) issue of shares to creditors; (v) issue of creditors convertible bonds; (vi) implementation of the scheme of arrangement with creditors of the Company (the "Scheme of Arrangement", details of the Scheme of Arrangement are set out in the circular of the Company dated 23 December 2011); and (vii) group reorganisation. On 23 February 2012, the proposed restructuring was completed. On 24 February 2012, the Provisional Liquidators were discharged and the petition for winding up of the Company was dismissed by the High Court. Upon the grant from the Stock Exchange, trading in the shares of the Company was resumed on 28 February 2012.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for its accounting year beginning on 1 January 2012. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards ("HKAS") and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies and amounts reported for the current year and prior years.

The Group has not applied the new and revised HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a material impact on its results of operations and financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared under the historical cost convention.

The preparation of the consolidated financial statements in conformity with HKFRSs requires the use of key assumptions and estimates. It also requires the Directors to exercise their judgements in the process of applying the accounting policies. The areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 5 to the consolidated financial statements.

The significant accounting policies applied in the preparation of the consolidated financial statements are set out below.

Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has control.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated foreign currency translation reserve.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Consolidation (continued)

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of comprehensive income as an allocation of profit or loss and total comprehensive income or expenses for the year between the non-controlling shareholders and owners of the Company.

Profit or loss and each component of other comprehensive income or expenses are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

In the Company's statement of financial position the investments in subsidiaries are stated at cost less allowance for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Business combination and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The cost of acquisition is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the cost of acquisition over the Company's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Company.

In a business combination achieved in stages, the previously held equity interest in the subsidiary is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in consolidated profit or loss. The fair value is added to the cost of acquisition to calculate the goodwill.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combination and goodwill (continued)

If the changes in the value of the previously held equity interest in the subsidiary were recognised in other comprehensive income (for example, available-for-sale investment), the amount that was recognised in other comprehensive income is recognised on the same basis as would be required if the previously held equity interest were disposed of.

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is measured at cost less accumulated impairment losses. The method of measuring impairment losses of goodwill is the same as that of other assets as stated in the accounting policy of impairment of assets below. Impairment losses of goodwill are recognised in consolidated profit or loss and are not subsequently reversed. Goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the acquisition for the purpose of impairment testing.

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policies of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has significant influence.

Investment in an associate is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Associates (continued)

The Group's share of an associate's post-acquisition profits or losses is recognised in consolidated profit or loss, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of an associate that results in a loss of significant influence represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that associate and (ii) the Group's share of the net assets of that associate plus any remaining goodwill relating to that associate and any related accumulated foreign currency translation reserve.

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

Foreign currency translation

a) Functional and presentation currency

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

b) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation (continued)

c) *Translation on consolidation*

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

– Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

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

– All resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in consolidated profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Property, plant and equipment

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their costs less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Machinery	9.6%
Computer & office equipment	9.6% – 20%
Motor vehicles	9.6%
Leasehold improvement	20% or over the unexpired terms of the lease, if less than 5 years

The residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at the end of each reporting period.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset and is recognised in consolidated profit or loss.

Operating leases

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditures, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Recognition and derecognition of financial instruments (continued)

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that has been recognised in other comprehensive income is recognised in consolidated profit or loss.

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

Trade and other receivables

Trade and other receivables (including short-term loans receivable) are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in consolidated profit or loss.

Impairment losses are reversed in subsequent periods and recognised in consolidated profit or loss when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Borrowing

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

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

Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

– the amount of the obligations under the contracts, as determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and

– the amount initially recognised less cumulative amortisation recognised in the profit or loss on a straight-line basis over the terms of the guarantee contracts.

Creditors convertible bonds

Creditors convertible bonds which entitle the holder to convert the bonds into a fixed number of equity instruments at a fixed conversion price are regarded as compound instruments consist of a liability and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the creditors convertible bonds and the fair value assigned to the liability component, representing the embedded option for the holder to convert the bonds into equity of the Group, is included in equity, net of income tax effects as reserve. The liability component is carried as a liability at amortised cost using the effective interest method until extinguished on conversion or redemption.

Transaction costs are apportioned between the liability and equity components of the creditors convertible bonds based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly to equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Equity instruments

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Revenues from the sales of goods are recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

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

Share-based payments

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Employee benefits

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to consolidated profit or loss represents contributions payable by the Group to the funds.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditures on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs (continued)

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in consolidated profit or loss in the period in which they are incurred.

Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax recognised in consolidated profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in consolidated profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Related parties

A related party is a person or entity that is related to the Group.

(A) A person or a close member of that person's family is related to the Group if that person:

  (i) has control or joint control over the Group;

  (ii) has significant influence over the Group; or

  (iii) is a member of the key management personnel of the Company or of a parent of the Company.

(B) An entity is related to the Group (reporting entity) if any of the following conditions applies:

  (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

  (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

  (iii) Both entities are joint ventures of the same third party;

  (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;

  (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group;

  (vi) The entity is controlled or jointly controlled by a person identified in (A); or

  (vii) A person identified in (A)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets other than inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in consolidated profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in consolidated profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions and contingent liabilities

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

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

Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

5. KEY ESTIMATES

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

a) Property, plant and equipment and depreciation

The Group determines the estimated useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

5. KEY ESTIMATES (continued)

Key sources of estimation uncertainty (continued)

b) Impairment loss for bad and doubtful debts

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of trade and other receivables and doubtful debt expenses in the period in which such estimate has been changed.

c) Allowance for slow-moving inventories

Allowance for slow-moving inventories is made based on the aging and estimated net realisable value of inventories. The assessment of the allowance amount involves judgement and estimates. Where the actual outcome in future is different from the original estimate, such difference will impact the carrying value of inventories and allowance charge/write-back in the period in which such estimate has been changed.

6. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

a) Foreign currency risk

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in the functional currencies of the group entities or United States dollars for Hong Kong dollars functional currency group entities. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

6. FINANCIAL RISK MANAGEMENT (continued)

b) Credit risk

The Group's maximum exposure to credit risk in the event that counterparties fail to perform their obligations at 31 December 2012 in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the consolidated statement of financial position. The Group's credit risk is primarily attributable to its trade and bill receivables, other receivables, short-term loans receivable and bank and cash balances. In order to minimise credit risk, the Directors have delegated a team to be responsible for the determination of credit limits, credit approvals and other monitoring procedures. In addition, the Directors review the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. The credit risk on bank and cash balances is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

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

c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term. All financial liabilities of the Group are matured within two years.

The maturity analysis of the Group's financial liabilities is as follows:

	Weighted average interest rate %	Less than 1 year *HK$'000*	Between 1 and 2 years *HK$'000*	Total undiscounted cash flows *HK$'000*	Total carrying amount *HK$'000*
At 31 December 2012					
Trade payables	**–**	**14,682**	**–**	**14,682**	**14,682**
Other payables	**–**	**295**	**–**	**295**	**295**
Due to a non-controlling shareholder of a subsidiary	**–**	**2,694**	**–**	**2,694**	**2,694**
Creditors convertible bonds	**1%**	**80**	**8,012**	**8,092**	**7,246**
		17,751	**8,012**	**25,763**	**24,917**
At 31 December 2011					
Trade payables	–	41,488	–	41,488	41,488
Other payables	1%	29,662	–	29,662	29,621
Due to deconsolidated subsidiaries	–	27,410	–	27,410	27,410
Due to a non-controlling shareholder of a subsidiary	–	2,388	–	2,388	2,388
Financial guarantee liabilities	9%	285,007	–	285,007	281,241
		385,955	–	385,955	382,148

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

6. FINANCIAL RISK MANAGEMENT (continued)

d) Interest rate risk

At 31 December 2012, the Group did not have significant interest rate risk. The Group's creditors convertible bonds bear interests at a fixed interest rate and therefore are subject to fair value interest rate risks.

e) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate to their respective fair values.

7. TURNOVER

The Group's turnover is as follows:

	2012 ***HK$'000***	2011 *HK$'000*
Sale of semiconductors and related products	**263,661**	197,944
Development and provision of electronic turnkey device solution products	**70,474**	106,745
	334,135	304,689

8. OTHER INCOME

	2012 ***HK$'000***	2011 *HK$'000*
Bank interest income	**757**	71
Interest income from short-term loans receivable	**966**	–
Gain on bargain purchase *(Note 33)*	**–**	508
Sundry income	**560**	899
	2,283	1,478

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

9. FINANCE COSTS

	2012	2011
	HK$'000	*HK$'000*
Interest expenses on:		
Loans from the Investor under the working capital facility and the additional working capital facility	**41**	236
Creditors convertible bonds *(Note 28)*	**578**	–
	619	236

The interest expense of approximately HK$41,000 (2011: approximately HK$236,000) for the year ended 31 December 2012 was incurred for the loans from the Investor (fully settled upon completion of the Restructuring Agreement during the year ended 31 December 2012) which were previously included in the accruals, other payables and deposits received (2011: HK$28,000,000) and carrying an annual interest rate of 1%.

10. GAIN ON DEBTS DISCHARGED UNDER THE SCHEME OF ARRANGEMENT/GROUP REORGANISATION

Gain on debts discharged under the Scheme of Arrangement

On 23 February 2012, the majority of the scheme creditors approved the Scheme of Arrangement under which all indebtedness owed by the Company to the scheme creditors on the date for determination of entitlement of the scheme creditors were released, discharged and fully settled.

The Scheme of Arrangement was sanctioned by the Grand Court of the Cayman Islands (the "Grand Court") and High Court on 19 January 2012 and 2 February 2012, respectively. The total indebtedness admitted by the scheme administrators under the Scheme of Arrangement was discharged and settled in full by way of a combination of cash payment of HK$43,000,000, issuance of 40,000,000 Company's shares at the issue price of HK$0.20 per share with par value of HK$0.01 each, and the issuance of creditors convertible bonds in the aggregate principal amount of HK$8,000,000. As a result, a gain on debts discharged under the Scheme of Arrangement of approximately HK$227,219,000 (2011: nil) was recognised during the year ended 31 December 2012, being calculated as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

10. GAIN ON DEBTS DISCHARGED UNDER THE SCHEME OF ARRANGEMENT/GROUP REORGANISATION (continued)

Gain on debts discharged under the Scheme of Arrangement (continued)

	2012 HK$'000
Debts discharged:	
Financial guarantee liabilities	285,007
Current tax liabilities	60
Due to deconsolidated subsidiaries	679
Accruals, other payables and deposits received	473
	286,219
Satisfied by:	
Cash consideration	(43,000)
Issue of shares to creditors	(8,000)
Issue of creditors convertible bonds	(8,000)
	(59,000)
Gain on debts discharged under the Scheme of Arrangement	227,219

Gain on group reorganisation

On 23 February 2012, the Group completed the Restructuring Agreement pursuant to which Sunlink Technologies Holdings Limited (the former immediate subsidiary of the Company) together with its subsidiaries and associate were transferred out of the Group to the nominee of the administrators of the Scheme of Arrangement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

10. GAIN ON DEBTS DISCHARGED UNDER THE SCHEME OF ARRANGEMENT/GROUP REORGANISATION (continued)

Gain on group reorganisation (continued)

	2012 *HK$'000*
Net liabilities at the date of deconsolidation were as follows:	
Accruals, other payables and deposits received	(2,330)
Current tax liabilities	(1,528)
Due to deconsolidated subsidiaries	(26,731)
	(30,589)
Gain on group reorganisation	30,589
Total consideration satisfied by cash	–
Net cash effect arising on group reorganisation	–

As a result of the group reorganisation, the special reserve included in the consolidated statement of changes in equity of approximately HK$64,907,000 was transferred to the accumulated losses of the Company.

11. SEGMENT INFORMATION

The Group has two reportable segments as follows:

– Sale of semiconductors and related products business

– Development and provision of electronic turnkey device solutions business

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately for the purpose of resources allocation and performance assessment.

The accounting policies of the operating segments are the same as those described in note 4 to the consolidated financial statements. Segment profits or losses do not include intercompanies income and expenses, unallocated corporate other income, unallocated corporate expenses, gain on debts discharged under the Scheme of Arrangement/group reorganisation, loss on financial guarantee liabilities, gain on bargain purchase, finance costs and income tax expense. Segment assets do not include intercompanies assets and unallocated corporate assets. Segment liabilities do not include intercompanies liabilities and unallocated corporate liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

11. SEGMENT INFORMATION (continued)

Information about reportable segment profits or losses, assets and liabilities:

	Sale of semiconductors and related products business		Development and provision of electronic turnkey device solutions business		Total	
	2012	2011	**2012**	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Years ended 31 December						
Revenue from external customers	**263,661**	197,944	**70,474**	106,745	**334,135**	304,689
Segment profit before finance costs and income tax expense	**12,746**	7,045	**2,827**	12,579	**15,573**	19,624
Bank interest income	**678**	–	**79**	71	**757**	71
Interest expense	**(41)**	(236)	**–**	–	**(41)**	(236)
Depreciation	**(24)**	(4)	**(653)**	(292)	**(677)**	(296)
Income tax expense	**(737)**	(1,200)	**(256)**	(1,533)	**(993)**	(2,733)
Capital expenditure	**126**	4	**2,109**	793	**2,235**	797
As at 31 December						
Segment assets	**128,026**	21,516	**57,291**	99,858	**185,317**	121,374
Segment liabilities	**6,778**	30,635	**14,925**	47,646	**21,703**	78,281

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

11. SEGMENT INFORMATION (continued)

Reconciliations of reportable segment profits or losses, assets and liabilities are as follows:

	2012	2011
	HK$'000	*HK$'000*
Profit or loss		
Total profit or loss of reportable segments	**15,573**	19,624
Unallocated amounts:		
Unallocated corporate other income	**1,266**	–
Unallocated corporate expenses	**(6,554)**	(6,751)
Gain on bargain purchase	**–**	508
Profit from operations	**10,285**	13,381
Finance costs	**(619)**	(236)
Gain on debts discharged under the Scheme of Arrangement	**227,219**	–
Gain on group reorganisation	**30,589**	–
Loss on financial guarantee liabilities	**(3,766)**	(24,697)
Profit/(loss) before tax	**263,708**	(11,552)

	2012	2011
	HK$'000	*HK$'000*
Assets		
Total assets of reportable segments	**185,317**	121,374
Unallocated corporate assets	**12,562**	303
Total assets	**197,879**	121,677

	2012	2011
	HK$'000	*HK$'000*
Liabilities		
Total liabilities of reportable segments	**21,703**	78,281
Unallocated corporate liabilities	**7,616**	330,670
Total liabilities	**29,319**	408,951

11. SEGMENT INFORMATION (continued)

Geographical information:

	Turnover		Non-current assets	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**291,715**	284,847	**118**	16
The People's Republic of China (the "PRC") except Hong Kong	**42,420**	19,842	**5,488**	4,044
Total	**334,135**	304,689	**5,606**	4,060

In presenting the geographical information, turnover is based on the locations where the sales are taken place.

Revenue from major customers contributing over 10% of the total turnover of the Group are as follows:

	2012	2011
	HK$'000	*HK$'000*
Sale of semiconductors and related products business		
Customer A	**49,576**	68,974
Customer B	**–**	40,004
Customer C	**64,195**	36,134
Customer E	**62,340**	–
Development and provision of electronic turnkey device solutions business		
Customer D	**–**	44,745

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

12. INCOME TAX EXPENSE

	2012	2011
	HK$'000	*HK$'000*
Current tax – Hong Kong Profits Tax		
Provision for the year	**891**	2,600
Over-provision in prior year	**(169)**	–
	722	2,600
Current tax – Corporate Income Tax of the PRC		
Provision for the year	**–**	133
Under-provision in prior year	**271**	–
	271	133
Deferred tax *(Note 29)*	**(85)**	–
	908	2,733

Hong Kong Profits Tax has been provided at a rate of 16.5% (2011: 16.5%) on the estimated assessable profit for the year ended 31 December 2012.

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

12. INCOME TAX EXPENSE (continued)

The reconciliation between the income tax expense and the profit/(loss) before tax is as follows:

	2012	2011
	HK$'000	*HK$'000*
Profit/(loss) before tax	**263,708**	(11,552)
Tax at the domestic income tax rate of 16.5% (2011: 16.5%)	**43,512**	(1,906)
Tax effect of expenses that are not deductible	**629**	4,277
Tax effect of income that is not taxable	**(42,661)**	(84)
Under-provision in prior year	**102**	–
Tax effect of tax loss not recognised	**126**	401
Effect of utilisation of tax loss previously not recognised	**(797)**	–
Effect of different tax rates of subsidiaries	**9**	45
Others	**(12)**	–
	908	2,733

13. PROFIT/(LOSS) FOR THE YEAR

The Group's profit/(loss) for the year is stated after charging the following:

	2012	2011
	HK$'000	*HK$'000*
Auditor's remuneration		
Current year	**488**	460
Staff costs including directors' remuneration		
Salaries, bonus and allowances	**8,761**	6,270
Retirement benefits scheme contributions	**465**	289
	9,226	6,559
Acquisition-related costs (included in administrative expenses)	**–**	382
Cost of inventories sold	**307,924**	272,482
Depreciation	**677**	296
Loss on disposal of property, plant and equipment	**–**	15
Operating lease charges on land and buildings	**2,346**	962

Cost of inventories sold included staff costs, depreciation and operating lease charges totalling approximately HK$6,118,000 (2011: HK$3,685,000) which are included in the amounts disclosed separately above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

14. DIRECTORS AND SENIOR MANAGEMENT'S REMUNERATION AND THE FIVE HIGHEST PAID INDIVIDUALS

The remunerations of each director are as follows:

	Fees	Salaries and allowances	Discretionary bonus	Share-based payments	Retirement benefit scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Name of directors						
Sue Ka Lok	**–**	**463**	**–**	**–**	**21**	**484**
Lai Ming Wai	**–**	**299**	**–**	**–**	**15**	**314**
Suen Cho Hung, Paul	**29**	**63**	**–**	**–**	**3**	**95**
Sun Ka Ziang, Henry	**60**	**–**	**–**	**–**	**–**	**60**
Chiang Bun	**60**	**–**	**–**	**–**	**–**	**60**
Wong Wai Yin, Viola	**60**	**–**	**–**	**–**	**–**	**60**
Tso Shiu Kei, Vincent	**9**	**–**	**–**	**–**	**–**	**9**
Young Meng Cheung, Andrew	**9**	**–**	**–**	**–**	**–**	**9**
Poon Ka Lee, Barry	**9**	**–**	**–**	**–**	**–**	**9**
Total for 2012	**236**	**825**	**–**	**–**	**39**	**1,100**

	Fees	Salaries and allowances	Discretionary bonus	Share-based payments	Retirement benefit scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Name of directors						
Tso Shiu Kei, Vincent	60	–	–	–	–	60
Young Meng Cheung, Andrew	60	–	–	–	–	60
Poon Ka Lee, Barry	60	–	–	–	–	60
Total for 2011	180	–	–	–	–	180

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

14. DIRECTORS AND SENIOR MANAGEMENT'S REMUNERATION AND THE FIVE HIGHEST PAID INDIVIDUALS (continued)

The five highest paid individuals in the Group during the year included 2 (2011: nil) directors whose remunerations are reflected in the analysis presented above. The remunerations of the remaining 3 (2011: 5) individuals are set out below:

	2012	2011
	HK$'000	*HK$'000*
Basic salaries and allowances	**718**	1,477
Retirement benefit scheme contributions	**35**	38
	753	1,515

The remunerations fell within the following band:

	2012 Number of individuals	2011 Number of individuals
Nil – HK$1,000,000	**3**	5

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

For the year ended 31 December 2012, the remuneration of senior management (as disclosed in the section headed "Biographical Details of Directors and Senior Management") is disclosed by band as follows:

	2012 Number of individual	2011 Number of individual
Nil – HK$1,000,000	**1**	1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

15. RETIREMENT BENEFIT SCHEMES

The Group operates a mandatory provident fund scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for all qualifying employees in Hong Kong. The Group's contributions to the MPF Scheme are calculated at 5% of the salaries and wages and vest fully with employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries established in the PRC are members of a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentage of the employees' basic salaries and wages to the central pension scheme to fund the retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of these subsidiaries. The only obligation of these subsidiaries with respect to the central pension scheme are to meet the required contributions under the scheme.

16. PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY

The profit for the year attributable to owners of the Company included a profit of approximately HK$227,856,000 (2011: loss of HK$27,124,000) which has been dealt with in the financial statements of the Company.

17. DIVIDENDS

The Board does not recommend the payment of a final dividend for the year ended 31 December 2012 (2011: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

18. EARNINGS/(LOSS) PER SHARE

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

	2012	2011
	HK$'000	*HK$'000*
Earnings/(loss)		
Earnings/(loss) for the purpose of calculating basic earnings/(loss) per share	**263,149**	(15,993)
Finance costs saving on conversion of creditors convertible bonds outstanding	**578**	–
Deferred tax relating to creditors convertible bonds	**(85)**	–
Earnings/(loss) for the purpose of calculating diluted earnings/(loss) per share	**263,642**	(15,993)

	2012	2011
	'000	*'000*
		(Restated)
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings/(loss) per share	**930,287**	106,862
Effect of dilutive potential ordinary shares arising from creditors convertible bonds outstanding	**34,098**	–
Weighted average number of ordinary shares for the purpose of calculating diluted earnings/(loss) per share	**964,385**	106,862

The weighted average number of ordinary shares for the years ended 31 December 2012 and 2011 for the purpose of calculating the basic earnings/(loss) per share has been adjusted and restated respectively resulting from the share consolidation and open offer of the Company (Note 30 (i) and 30(iii) respectively) during the current year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

19. PROPERTY, PLANT AND EQUIPMENT

	The Group				
	Machinery HK$'000	Computer & office equipment HK$'000	Motor vehicles HK$'000	Leasehold improvement HK$'000	Total HK$'000
Cost					
At 1 January 2011	–	95	–	–	95
Additions	95	58	532	112	797
Disposals	–	–	(30)	–	(30)
Acquired through capital injection into a subsidiary *(Note 33)*	2,593	276	223	309	3,401
Exchange differences	60	11	18	10	99
At 31 December 2011 and 1 January 2012	2,748	440	743	431	4,362
Additions	2,062	173	–	–	2,235
Exchange differences	(10)	(1)	(2)	(1)	(14)
At 31 December 2012	**4,800**	**612**	**741**	**430**	**6,583**
Accumulated depreciation					
At 1 January 2011	–	7	–	–	7
Charge for the year	178	32	17	69	296
Disposals	–	–	(9)	–	(9)
Exchange differences	5	1	–	2	8
At 31 December 2011 and 1 January 2012	183	40	8	71	302
Charge for the year	425	58	48	146	677
Exchange differences	(1)	–	–	(1)	(2)
At 31 December 2012	**607**	**98**	**56**	**216**	**977**
Carrying amount					
At 31 December 2012	**4,193**	**514**	**685**	**214**	**5,606**
At 31 December 2011	2,565	400	735	360	4,060

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

20. INVESTMENT IN AN ASSOCIATE

	The Group	
	2012	2011
	HK$'000	*HK$'000*
Share of net assets	**–**	–

As of 23 February 2012, upon completion of the Restructuring Agreement, Sunlink Technologies Holdings Limited had been transferred out of the Group. Accordingly, Spaceinet Sunlink Limited, its indirect associate, had also been transferred out of the Group since then.

Details of the Group' associate which was held indirectly by the Company as at 31 December 2011 were as follows:

Name	Place of incorporation and operation	Issued and paid up capital	Percentage of ownership interest/ voting power/profit sharing	Principal activities
Spaceinet Sunlink Limited	Hong Kong	10,000 ordinary shares of HK$1 each	45%	Trading of electronic parts and provision of technology solutions

21. INVENTORIES

	The Group	
	2012	2011
	HK$'000	*HK$'000*
Raw materials	**6,124**	8,439
Work in progress	**1,901**	2,153
Finished goods	**18,830**	13,205
	26,855	23,797

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

22. TRADE AND BILL RECEIVABLES

The Group's trading terms with customers are mainly on credit. The credit terms generally range from 15 to 120 days. Each customer has a maximum credit limit. For new customers, payment in advance is normally required. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

The aging analysis of trade and bill receivables, based on the invoice date, and net of allowance, is as follows:

	The Group	
	2012	2011
	HK$'000	*HK$'000*
30 days or less	**33,010**	23,203
31 days to 60 days	**10,662**	11,924
61 days to 90 days	**6,392**	7,696
91 days to 120 days	**1,598**	8,376
Over 120 days	**17,313**	28,796
	68,975	79,995

The balance of trade and bill receivables included an amount of approximately HK$873,000 (2011: HK$1,861,000) in relation to bill receivables as at 31 December 2012.

As at 31 December 2012, trade and bill receivables of approximately HK$17,313,000 (2011: HK$28,796,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The aging analysis of these trade receivables is as follows:

	The Group	
	2012	2011
	HK$'000	*HK$'000*
Over 120 days	**17,313**	28,796

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

22. TRADE AND BILL RECEIVABLES (continued)

The carrying amounts of the Group's trade and bill receivables are denominated in the following currency:

	The Group	
	2012	2011
	HK$'000	*HK$'000*
US dollars	**52,088**	61,356
Renminbi	**16,887**	18,639
	68,975	79,995

23. SHORT-TERM LOANS RECEIVABLE

	The Group	
	2012	2011
	HK$'000	*HK$'000*
Loans receivable	**12,250**	–

The range of effective interest rates (which are equal to contractual interest rates) on the Group's loans receivable is 12% to 36% (2011: nil) per annum.

The loans receivable, which are recoverable within one year, are neither past due nor impaired.

24. TRADE PAYABLES

The aging analysis of trade payables, based on the date of receipt of goods, is as follows:

	The Group	
	2012	2011
	HK$'000	*HK$'000*
30 days or less	**9,675**	10,918
31 days to 60 days	**2,372**	7,029
61 days to 90 days	**916**	3,522
91 days to 120 days	**557**	4,509
Over 120 days	**1,162**	15,510
	14,682	41,488

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

24. TRADE PAYABLES (continued)

The carrying amounts of the Group's trade payables are denominated in the following currency:

	The Group	
	2012	2011
	HK$'000	*HK$'000*
US dollars	**4,571**	32,720
Renminbi	**10,111**	8,768
	14,682	41,488

25. DUE TO DECONSOLIDATED SUBSIDIARIES – THE GROUP

The amounts due to deconsolidated subsidiaries were unsecured, non-interest bearing and had no fixed terms of repayment. These liabilities had been discharged upon coming into effect of the Scheme of Arrangement of the Company and the completion of the group reorganisation on 23 February 2012.

26. DUE TO A NON-CONTROLLING SHAREHOLDER OF A SUBSIDIARY – THE GROUP

The amount due to a non-controlling shareholder of a subsidiary is arising from the purchase of materials from the non-controlling shareholder of a subsidiary. It is unsecured, non-interest bearing and has no fixed terms of repayment.

27. FINANCIAL GUARANTEE LIABILITIES – THE GROUP AND THE COMPANY

The Company provided corporate guarantees for all the bank loans and certain payables maintained by its former subsidiaries which were deconsolidated from the consolidated financial statements of the Group since 1 July 2008, details of the deconsolidation were disclosed in notes 2 and 10 to the consolidated financial statements of the Company for the year ended 31 December 2008. During the year ended 31 December 2012, loss on these financial guarantee liabilities of approximately HK$3,766,000 (2011: approximately HK$24,697,000) was charged to the consolidated statement of comprehensive income. The Company was liable to financial guarantee liabilities of approximately HK$285,007,000 immediately before completion of the Scheme of Arrangement (2011: approximately HK$281,241,000). These liabilities of the Company had been discharged under the Scheme of Arrangement of the Company which became effective on 23 February 2012.

28. CREDITORS CONVERTIBLE BONDS

Upon the coming into effect of the Scheme of Arrangement on 23 February 2012, the creditors convertible bonds in the aggregate principal amount of HK$8,000,000, convertible into 40,000,000 ordinary shares of the Company at the initial conversion price of HK$0.20 per share, were issued by the Company to the nominee of the scheme administrators of the Scheme of Arrangement. The creditors convertible bonds will mature on 23 February 2014 and are interest bearing at 1% per annum.

The effective interest rate used to estimate the liability component of the creditors convertible bonds is 10.12% per annum.

No creditors convertible bonds were converted into ordinary shares during the year ended 31 December 2012.

The nominal value of creditors convertible bonds issued have been split between the liability component and equity component, as follows:

	The Group and the Company 2012 *HK$'000*
Nominal value of creditors convertible bonds issued	**8,000**
Equity component	**(1,264)**
Liability component at the date of issue	**6,736**
Interest charged calculated at an effective interest rate of 10.12% per annum *(Note 9)*	**578**
Interest payable	**(68)**
Liability component at 31 December 2012	**7,246**

The carrying amount of the creditors convertible bonds approximate to their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

29. DEFERRED TAX LIABILITIES

The following is the major deferred tax liability recognised by the Group and the Company and its movement during the year:

	The Group and the Company Creditors convertible bonds
	HK$'000
At 1 January 2012	–
Issue of creditors convertible bonds	209
Credited to the consolidated statement of comprehensive income *(Note 12)*	(85)
At 31 December 2012	**124**

30. SHARE CAPITAL

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to shareholders through the optimisation of debt and equity balance.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the payment of dividends, issue new shares, buy back shares, raise new debts, redeem existing debts or sell assets to reduce debts.

	The Company	
	2012	2011
	HK$'000	*HK$'000*
Authorised:		
10,000,000,000 ordinary shares of HK$0.01 each (2011: 3,000,000,000 ordinary shares of HK$0.10 each) *(Note (i))*	**100,000**	300,000
Issued and fully paid:		
1,069,717,000 ordinary shares of HK$0.01 each (2011: 1,864,780,000 ordinary shares of HK$0.10 each)	**10,697**	186,478

30. SHARE CAPITAL (continued)

Movement of the number of shares issued and the share capital during the current year is as follows:

	The Company	
	Number of shares issued ***'000***	**Share capital** ***HK$'000***
At 1 January 2011, 31 December 2011 and 1 January 2012	1,864,780	186,478
Capital restructuring *(Note (i))*	(1,771,541)	(185,546)
	93,239	932
Share subscription *(Note (ii))*	750,000	7,500
Open offer *(Note (iii))*	186,478	1,865
Issue of shares to creditors *(Note (iv))*	40,000	400
At 31 December 2012	**1,069,717**	**10,697**

Notes:

(i) The capital restructuring of the Company took place on 20 January 2012 which comprised the following:

Capital reduction

The capital reduction involved a reduction of the par value of each share from HK$0.10 each to HK$0.0005 each which gave rise to a credit of approximately HK$185,546,000 on the basis of 1,864,780,000 shares in issue. Such credit was permitted by the Companies Law of the Cayman Islands to set off part of the accumulated losses of the Company.

Capital cancellation

Immediately following the capital reduction, the remaining authorised but unissued share capital of the Company of 1,135,220,000 unissued shares of par value of HK$0.10 each amounting to an aggregate of HK$113,522,000 was cancelled in its entirety resulting in the authorised and issued share capital of the Company being reduced to HK$932,390, divided into 1,864,780,000 shares of par value of HK$0.0005 each.

Share consolidation

The share consolidation was implemented to consolidate every 20 issued shares of par value of HK$0.0005 each into one share of par value of HK$0.01 each. As a result, 1,864,780,000 issued shares of the Company were consolidated into 93,239,000 shares of HK$0.01 each.

Share premium cancellation

The entire amount of approximately HK$15,409,000 standing to the credit of the share premium account of the Company as at 31 December 2011 was cancelled and applied to set off part of the accumulated losses of the Company as at 31 December 2011 permitted by the Companies Law of the Cayman Islands.

Increase in authorised share capital

The authorised share capital of the Company was increased from HK$932,390 to HK$100,000,000 by the creation of 9,906,761,000 new shares of HK$0.01 each.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

30. SHARE CAPITAL (continued)

Notes: (continued)

(ii) Share subscription

Completion of the share subscription took place on 23 February 2012 pursuant to which 750,000,000 subscription shares were issued to the Investor (now the controlling shareholder of the Company) at the subscription price of HK$0.20 per subscription share with par value of HK$0.01 each. Accordingly, the Company's issued share capital was increased by HK$7,500,000 and its share premium account was increased by HK$142,500,000. The transaction costs related to the share subscription was approximately HK$75,000.

(iii) Open offer

Completion of the open offer took place on 23 February 2012 pursuant to which 186,478,000 offer shares were issued under the open offer on the basis of two offer shares for every one share held by the qualifying shareholders after completion of the capital restructuring at the subscription price of HK$0.20 per offer share with par value of HK$0.01 each. Accordingly, the Company's issued share capital was increased by approximately HK$1,865,000 and its share premium account was increased by approximately HK$35,431,000. The transaction costs related to the open offer was approximately HK$1,150,000.

(iv) Issue of shares to creditors

The Scheme of Arrangement with the Company's creditors became effective on 23 February 2012 upon the sanction by the Grand Court and the High Court held on 19 January 2012 and 2 February 2012 respectively, pursuant to which 40,000,000 Company's shares were issued to the nominee of the scheme administrators of the Scheme of Arrangement at the issue price of HK$0.20 per share with par value of HK$0.01 each. Accordingly, the Company's share capital was increased by HK$400,000 and its share premium account was increased by HK$7,600,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

31. RESERVES

a) The Group

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

b) The Company

	Notes	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000	Creditors convertible bonds reserve HK$'000	Accumulated losses HK$'000	(Deficiency of total equity)/ total equity HK$'000
At 1 January 2011		186,478	15,409	(64,907)	–	(398,547)	(261,567)
Total comprehensive expenses for the year		–	–	–	–	(27,124)	(27,124)
At 31 December 2011		186,478	15,409	(64,907)	–	(425,671)	(288,691)
At 1 January 2012		186,478	15,409	(64,907)	–	(425,671)	(288,691)
Total comprehensive income for the year		–	–	–	–	227,856	227,856
Capital restructuring	*30 (i)*	(185,546)	(15,409)	–	–	200,955	–
Share subscription	*30 (ii)*	7,500	142,500	–	–	–	150,000
Transaction costs related to the share subscription	*30 (ii)*	–	(75)	–	–	–	(75)
Open offer	*30 (iii)*	1,865	35,431	–	–	–	37,296
Transaction costs related to the open offer	*30 (iii)*	–	(1,150)	–	–	–	(1,150)
Issue of shares to creditors	*30 (iv)*	400	7,600	–	–	–	8,000
Issue of creditors convertible bonds	*28*	–	–	–	1,264	–	1,264
Deferred tax arising from issue of creditors convertible bonds	*29*	–	–	–	(209)	–	(209)
Group reorganisation	*10*	–	–	64,907	–	(64,907)	–
At 31 December 2012		**10,697**	**184,306**	**-**	**1,055**	**(61,767)**	**134,291**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

31. RESERVES (continued)

c) Nature and purpose of reserves of the Group

(i) Share premium

Under the Companies Law of the Cayman Islands, subject to the Company's Memorandum and Articles of Association, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) Special reserve

Special reserve represents the difference between the paid up capital and share premium of the then holding companies of the subsidiaries acquired as a result of the group reorganisation which was completed on 20 December 2002 and the costs of investments in subsidiaries of the Company. Upon completion of the Restructuring Agreement on 23 February 2012, the whole amount of the special reserve of approximately HK$64,907,000 was transferred to accumulated losses of the Company.

(iii) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 4 to the consolidated financial statements.

(iv) Creditors convertible bonds reserve

This reserve represents the value of the unexercised equity component of creditors convertible bonds issued by the Company net of related deferred tax and direct issue costs, where applicable.

(v) Statutory reserve

The statutory reserve, which is non-distributable, is appropriated from the profit after taxation of the Group's PRC subsidiaries under the applicable laws and regulations in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

32. SHARE-BASED PAYMENTS

Equity-settled share option scheme

The existing share option scheme of the Company (the "Scheme") was adopted by the Company at the annual general meeting of the Company held on 28 June 2012 and the previous share option scheme of the Company adopted on 12 February 2003 was terminated on the same date. Unless otherwise cancelled or amended, the Scheme shall be valid and effective for a period of ten (10) years commencing on the date of adoption. The purpose of the Scheme is to enable the Group to attract, retain and motivate talented participants to strive for future development and expansion of the Group. The Scheme shall provide incentive to encourage participants to perform their best in achieving the goals of the Group and allow the participants to enjoy the results of the Company attained through their efforts and contributions. Eligible participants of the Scheme include any individual being an employee, officer, agent, consultant or representatives of any member of the Group (including any executive or non-executive director of any member of the Group) who, as the Board may determine in its absolute discretion, has made valuable contribution to the business of the Group based on his/her performance and/or years of service, or is regarded to be a valuable human resource of the Group based on his/her working experience, knowledge in the industry and other relevant factors. The offer of a grant of share options may be accepted within (thirty) 30 days from the date of grant. The amount payable by each grantee of options to the Company on acceptance of the offer for the grant of options is HK$1.00.

The subscription price for the shares on the exercise of options under the Scheme shall be a price determined by the Board and notified to the relevant participant at the time of grant of the options (subject to any adjustments made pursuant to the Scheme and the relevant provisions of the Listing Rules) is made to (subject to acceptance by) the participant and shall be at least the highest of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date on which the option is granted, which date must be a business day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five (5) business days immediately preceding the date on which the option is granted; and (iii) the nominal value of the share. The exercise period of the share options granted is determinable by the directors but in any event, not longer than ten (10) years from the date of grant.

The total number of shares issued and to be issued upon exercise of the options granted to each participant, together with all options granted and to be granted to him/her under any other share option scheme(s) of the Company within the 12-month period immediately preceding the proposed date of grant (including exercised, cancelled and outstanding options) shall not exceed 1% of the total number of the shares in issue as at the proposed date of grant. Any further grant of options to a participant in excess of the 1% limit shall be subject to the shareholders' approval of the Company with such participant and his/her associates abstaining from voting.

32. SHARE-BASED PAYMENTS (continued)

Equity-settled share option scheme (continued)

The limit on the total number of the 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(s) of the Company (excluding lapsed and cancelled options) must not exceed 30% of the total number of the shares in issue from time to time. In addition, the total number of the shares which may be issued upon exercise of all options to be granted under the Scheme, together with all options to be granted under any other share option scheme(s) of the Company (excluding lapsed options), must not represent more than 10% of the total number of the shares in issue as at the date of approval of the Scheme (the "Scheme Mandate Limit") or as at the date of approval of the refreshed Scheme Mandate Limit as the case may be.

No options were granted or exercised during the years ended 31 December 2012 and 2011 and no share options were outstanding as at 31 December 2012 and 2011.

33. CAPITAL INJECTION INTO A SUBSIDIARY

On 26 March 2010, Global Winner, 廈門華聯電子有限公司 (literally translated as Xiamen Hualian Electronics Company Limited) ("Xiamen Hualian") and Foshan Lianchuang Hualian entered into a capital increase agreement (which included the supplemental capital increase agreement and second supplemental capital increase agreement executed on 15 June 2010 and 10 September 2010 respectively, collectively as the "Capital Increase Agreement") whereby, Global Winner had conditionally agreed to subscribe for an additional registered capital of RMB11,000,000 in Foshan Lianchuang Hualian for a cash consideration of RMB12,000,000. The Capital Increase Agreement was subsequently completed on 24 June 2011 (the "Completion Date") and since then, Foshan Lianchuang Hualian has become a sino-foreign joint venture enterprise which is owned as to approximately 52.38% by Global Winner.

The following summarises the major classes of consideration transferred, fair value of identifiable assets acquired and liabilities assumed of Foshan Lianchuang Hualian at the Completion Date in relation to the capital injection:

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For the year ended 31 December 2012

33. CAPITAL INJECTION INTO A SUBSIDIARY (continued)

Identifiable assets acquired and liabilities assumed:

	Fair value *HK$'000*
Property, plant and equipment	3,401
Inventories	16,978
Trade and bill receivables	23,611
Prepayments, deposits and other receivables	1,630
Bank and cash balances	14,871
Trade payables	(18,908)
Accruals, other payables and deposits received	(4,655)
Bank loan	(3,610)
Due to a non-controlling shareholder of a subsidiary	(4,501)
Current tax liabilities	(222)
Net assets	28,595
Gain on bargain purchase	(508)
Non-controlling interests	(13,617)
Total consideration satisfied by cash	14,470
Net cash inflow arising on capital injection into a subsidiary:	
Cash consideration paid	(14,470)
Bank and cash balances acquired	14,871
	401

For the year ended 31 December 2011, the Group recognised a gain on bargain purchase of approximately HK$508,000 in the business combination. The gain was included in other income. The gain on bargain purchase was arising from the excess of share of the fair values of identifiable assets acquired and liabilities assumed over the consideration paid for the equity interest.

Foshan Lianchuang Hualian contributed approximately HK$19,842,000 and approximately HK$295,000 to the Group's turnover and profit for the year ended 31 December 2011 respectively for the period between the Completion Date of the capital injection and the end of the reporting period in 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

33. CAPITAL INJECTION INTO A SUBSIDIARY (continued)

If the capital injection had been completed on 1 January 2011, the Group's turnover for the year ended 31 December 2011 would have been approximately HK$333,827,000, and loss for the year ended 31 December 2011 would have been approximately HK$13,702,000. The proforma information is for illustrative purposes only and is not necessarily an indication of the turnover and results of operations of the Group that actually would have been achieved had the capital injection been completed on 1 January 2011, nor is intended to be a projection of future results.

34. CONTINGENT LIABILITIES

As at 31 December 2012, the Group did not have any significant contingent liabilities (2011: nil).

35. PLEDGE OF ASSETS

As at 31 December 2012, the Group did not have any pledge of assets. As at 31 December 2011, all the assets of Global Winner were pledged to the Investor by way of a floating charge to secure the working capital facility and the additional working capital facility granted by the Investor to Global Winner. The floating charge was released on 23 February 2012.

36. LEASE COMMITMENTS

As lessee

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases and are payable as follows:

	The Group	
	2012	2011
	HK$'000	*HK$'000*
Within one year	**1,255**	1,299
In the second to fifth years inclusive	**4,697**	5,025
Over five years	**676**	1,787
	6,628	8,111

Operating lease payments represent rentals payable by the Group for its offices and factory premises. Leases are negotiated for terms from six months to ten years and rentals are fixed over the lease terms and do not include contingent rentals.

37. CAPITAL COMMITMENT

The Group's capital commitments at the end of the reporting period are as follows:

	The Group	
	2012	2011
	HK$'000	*HK$'000*
Property, plant and equipment		
Contracted but not provided for	**–**	465

38. RELATED PARTY TRANSACTIONS

The related party transactions of the Group during the year are as follows:

	The Group	
	2012	2011
	HK$'000	*HK$'000*
Compensation of key management personnel		
Short-term benefits	**1,061**	180
Post-employment benefits	**39**	–
	1,100	180
Operating lease charges on land and building to a related company in which two Directors of the Company have significant influence	**650**	–

During the year ended 31 December 2012, the Group purchased raw materials from a non-controlling shareholder of a subsidiary totalling approximately HK$850,000 (2011: approximately HK$699,000) which are considered as continuing connected transactions (the "CCT") under the Listing Rules. An independent report on the CCT issued by the Company's auditor is disclosed in the Report of the Directors.

39. EVENTS AFTER THE REPORTING PERIOD

There is no significant event happened after the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

40. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES OF THE COMPANY

	2012 *HK$'000*	2011 *HK$'000*
Unlisted shares, at cost	–	–
Less: Provision for impairment	–	–
	–	–

Particulars of the Company's principal subsidiaries as at 31 December 2012 are as follows:

Name	Place of incorporation/ registration	Issued and paid-up capital	Percentage of ownership interest/ voting power/ profit sharing Direct	Indirect	Principal activities
Smart Victory Development Limited	British Virgin Islands	1 ordinary share of US$1 each	100%	–	Investment holding
Global Winner	Hong Kong	1 ordinary share of HK$1 each	–	100%	Sale of semiconductors and related products
Onetech Technology Company Limited	Hong Kong	100 ordinary share of HK$1 each	–	76%	Development and provision of electronic turnkey device solutions products
勝沃數碼電子(深圳)有限公司	The PRC	Paid-up capital of HK$3,000,000	–	76%	Development and provision of electronic turnkey device solutions products
Foshan Lianchuang Hualian	The PRC	Paid-up capital of RMB21,000,000	–	52.38%	Development and provision of electronic turnkey device solutions products

Foshan Lianchuang Hualian is an enterprise established in the PRC on 18 May 2007 for a period of 24 years. This company is jointly owned by Global Winner and Xiamen Hualian as to 52.38% and 47.62% respectively.

勝沃數碼電子(深圳)有限公司 is a wholly foreign-owned enterprise established in the PRC on 24 June 2010 for a period of 20 years.

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41. DUE FROM SUBSIDIARIES

The amounts due from subsidiaries are unsecured and have no fixed term of repayment. Included in the amounts due from subsidiaries of approximately HK$141,544,000 (2011: nil) bear interest at an effective interest rate of prime rate plus 1% per annum and remaining balances are non-interest bearing.

42. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements are approved and authorised for issue by the Board of Directors on 26 March 2013.

FIVE YEAR FINANCIAL SUMMARY

	For the year ended 31 December				
	2008	2009	2010	2011	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
RESULTS					
Turnover	857,810	33,080	178,481	304,689	**334,135**
(Loss)/profit for the year	(534,851)	(33,275)	(19,680)	(14,285)	**262,800**
(Loss)/profit attributable to:					
Owners of the Company	(534,898)	(33,275)	(20,128)	(15,993)	**263,149**
Non-controlling interests	47	–	448	1,708	**(349)**
	(534,851)	(33,275)	(19,680)	(14,285)	**262,800**

	As at 31 December				
	2008	2009	2010	2011	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
ASSETS AND LIABILITIES					
Total assets	724	12,853	37,696	121,677	**197,879**
Total liabilities	(234,782)	(280,186)	(324,843)	(408,951)	**(29,319)**
	(234,058)	(267,333)	(287,147)	(287,274)	**168,560**
(Deficiency of equity)/equity attributable to owners of the Company	(234,058)	(267,333)	(287,602)	(303,295)	**154,937**
Non-controlling interests	–	–	455	16,021	**13,623**
	(234,058)	(267,333)	(287,147)	(287,274)	**168,560**