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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Hong Kong Energy (Holdings) Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser(s) or the transferee(s) or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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HONG KONG ENERGY (HOLDINGS) LIMITED
香港新能源（控股）有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 987)

(website: www.hkenergy.com.hk)

VERY SUBSTANTIAL ACQUISITION
PURCHASE OF WIND POWER GENERATION EQUIPMENTS
FOR
THE WIND FARM PROJECT AT SIZIWANG QI REGION,
INNER MONGOLIA
AMENDMENTS TO ARTICLES OF ASSOCIATION
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING

FINANCIAL ADVISER



A letter from the board of directors of Hong Kong Energy (Holdings) Limited is set out on pages 3 to 10 of this circular.

A notice convening the extraordinary general meeting of Hong Kong Energy (Holdings) Limited to be held on 18 August 2008 at 11:00 a.m. at 9th Floor, Tower 1, South Seas Centre, 75 Mody Road, Tsimshatsui East, Kowloon, Hong Kong is set out at the end of this circular.

If you are not able to attend such meeting, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than forty-eight (48) hours before the time appointed for the holding of such meeting or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the meeting or any adjourned meeting should you so desire.

11 July 2008

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DEFINITIONS

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

“acting in concert”	the meaning ascribed to it under the Takeovers Code
“Articles”	the Articles of Association of the Company
“associate(s)”	the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	Hong Kong Energy (Holdings) Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange
“connected person(s)”	the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened to consider and, if thought fit, approve the Purchase
“Group”	the Company and its subsidiaries
“HKC”	HKC (Holdings) Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the main board of the Stock Exchange and the controlling shareholder of the Company
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Latest Practicable Date”	8 July 2008, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China
“Project”	the 49.5MW wind farm project at Siziwang Qi, Wulanchabu City, Inner Mongolia Autonomous Region, the PRC

DEFINITIONS

“Purchase”	the purchase, and proposed purchase, of various wind power generation equipments as contemplated under the Project
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Turbine Tower Agreement”	the agreement dated 4 June 2008 entered into between 港能新能源四子王旗風能有限公司 (HKE New Energy Si Zi Wang Qi Wind Power Company Limited*), which is a wholly-owned subsidiary of the Company, and 中國北車集團濟南機車車輛廠 (CNR Jinan Locomotive & Rolling Stock Plant*) in respect of the purchase of 33 sets of turbine tower
“Wind Turbine Agreement”	the agreement dated 4 June 2008 entered into between 港能新能源四子王旗風能有限公司 (HKE New Energy Si Zi Wang Qi Wind Power Company Limited*), which is a wholly-owned subsidiary of the Company, and 華銳風電科技有限公司 (Sinovel Windtec Co., Ltd.*) in respect of the purchase of 33 sets of wind turbine
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

In this circular, amounts quoted in RMB have been converted into HK\$ at the rate of RMB1.00 to HK\$1.1242. Such exchange rate has been used, where applicable, for purposes of illustration only and does not constitute a representation that any amounts were or may have been exchanged at this or any other rates or at all.

* For identification purpose only

LETTER FROM THE BOARD



香港新能源

HONG KONG ENERGY (HOLDINGS) LIMITED
香港新能源（控股）有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 987)

(website: www.hkenergy.com.hk)

Executive Directors:

Mr. Oei Kang, Eric
Mr. Chen Libo
Mr. Tsang Sai Chung, Kirk
Mr. Chan Kwok Fong, Joseph

Non-executive Director:

Mr. Liu Zhixin

Independent non-executive Directors:

Mr. Zhang Songyi
Mr. Tang Siu Kui, Ernest
Mr. Yu Hon To, David

Registered office:

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

*Principal place of business
in Hong Kong:*

9th Floor
Tower 1
South Seas Centre
75 Mody Road
Tsimshatsui East
Kowloon
Hong Kong

11 July 2008

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION
PURCHASE OF WIND POWER GENERATION EQUIPMENTS
FOR
THE WIND FARM PROJECT AT SIZIWANG QI REGION,
INNER MONGOLIA
AMENDMENTS TO ARTICLES OF ASSOCIATION
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING

BACKGROUND INFORMATION

On 21 April 2008, the Board announced, among others, that an indirect wholly-owned subsidiary of the Company, namely, 港能新能源四子王旗風能有限公司 (HKE New Energy Si Zi Wang Qi Wind Power Company Limited*), had applied to the Development and Reform Commission of Siziwang Qi for the Project. The planned total investment and registered capital of the Project are approximately RMB480.5 million (about HK\$540.2 million) and RMB163.4 million (about HK\$183.0 million) respectively.

LETTER FROM THE BOARD

On 6 June 2008, the Board further announced that the approval regarding the Project had been obtained from the Development and Reform Commission of Siziwang Qi and the relevant wind farm under the Project will have thirty-three (33) 1,500-kilowatt wind turbines with an aggregate generating capacity of approximately 49.5 megawatts. For the purpose of constructing the wind farm, the Group had entered into two contracts on 4 June 2008 for the purchase of 33 sets of wind turbine and turbine tower with an aggregate value of approximately RMB349.8 million (about HK\$393.2 million). In addition, the Board expects that the Group will enter into further contracts for acquisition of other wind power generation equipments for the Project.

Further, the Board will also like to take this opportunity to seek the approval of the Shareholders at the EGM to amend the Articles.

The purpose of this circular is to provide you with further information on, among others, the Purchase, the amendments to the Articles and the notice of the EGM which will be convened for the purpose of considering and, if thought fit, approving the Purchase and the amendments to the Articles.

THE WIND TURBINE AGREEMENT AND THE TURBINE TOWER AGREEMENT

1. Purchase of Wind Turbine

Date of agreement	:	4 June 2008
Counterparty	:	華銳風電科技有限公司 (Sinovel Windtec Co., Ltd.*)
Principal business	:	Development, design and sale of wind power generation equipments
Equipment purchased	:	33 sets of wind turbine
Contract sum	:	RMB286,784,000 (of which RMB283,531,337 is attributable to the wind turbine and RMB3,252,663 is attributable to installation and other after-sales services, such as trial running and on-site training)
Payment schedule	:	<ul style="list-style-type: none">- 10% of the contract sum shall be paid within 15 days after signing of the agreement and receipt of the invoice and a bank guarantee from the supplier;- 20% of the contract sum shall be paid within 30 days after the major components of the wind turbine have been delivered to the factory and receipt of the invoice from the supplier (which is expected to be issued on or around 28 February 2009);

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- 30% of the contract sum shall be paid within 10 business days after completion of production and acceptance of the first 11 sets of wind turbine and receipt of the invoice from the supplier (which is expected to be issued on or around 31 March 2009);
- 10% of the contract sum shall be paid within 7 days after delivery of the first 11 sets of wind turbine (which is expected to be on or around 31 May 2009);
- 10% of the contract sum shall be paid within 7 days after delivery of the second 11 sets of wind turbine (which is expected to be on or around 30 June 2009);
- 10% of the contract sum shall be paid within 7 days after delivery of the third 11 sets of wind turbine (which is expected to be on or around 30 July 2009); and
- 10% of the contract sum shall be paid within 30 days after completion of all trial running and receipt of a bank guarantee from the supplier.

2. Purchase of Turbine Tower

Date of agreement	:	4 June 2008
Counterparty	:	中國北車集團濟南機車車輛廠 (CNR Jinan Locomotive & Rolling Stock Plant*)
Principal business	:	Manufacture of turbine towers and railway freight wagons
Equipment purchased	:	33 sets of turbine tower
Contract sum	:	RMB63,000,000
Payment schedule	:	<ul style="list-style-type: none">- 5% of the contract sum shall be paid within 15 days after the agreement comes into force;- 30% of the contract sum shall be paid within 30 days after the major sections of the turbine tower have been delivered to the wind farm and receipt of a bank guarantee from the supplier;

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LETTER FROM THE BOARD

- 20% of the contract sum shall be paid within 30 days after completion of installation of the first 11 sets of turbine tower;
- 20% of the contract sum shall be paid within 30 days after completion of installation of the second 11 sets of turbine tower;
- 20% of the contract sum shall be paid within 30 days after completion of installation of the third 11 sets of turbine tower; and
- 5% of the contract sum shall be paid within 30 days after 12 months of delivery of the third 11 sets of turbine tower and receipt of a guarantee from the supplier's parent company.

To the best of the knowledge, information and belief of the Directors, after having made all reasonable enquiries, the above counterparties and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons.

The above counterparties were selected through a tender process with the participation of at least three tenderers for each contract. The tender was open for approximately one month and a selection committee, comprising seven members from the senior management of the Group, was formed to consider the tenders submitted. In general, reference would have had to the price, quality, delivery schedule, track record and reputation of the suppliers when making the decision. The price submitted by the above counterparties is the lowest among all other tenderers.

Taking into account the above factors and the fact that the contract sum reflects the market rates of such machinery and equipments, the Directors consider the terms of the above purchase contracts to be fair and reasonable and in the interest of the Company and its shareholders as a whole.

TOTAL INVESTMENT OF THE PROJECT

The Board expects that further contracts will be entered into by the Group for acquisition of other wind power generation equipments for the Project including, but not limited to, turbine transformers, main transformers, magnetic control reactive power compensators, isolators, lightning arresters, etc. The total investment for the Project is estimated to be approximately RMB480.5 million (about HK\$540.2 million) which is intended to be funded by the Group's internal resources and/or bank borrowings.

The Board also expects that all suppliers of such equipments will be selected through tender process and in accordance with the tender procedures laid down by the Group. The selection committee, as set forth above, will continue to review the tenders submitted by such suppliers having regard to, among other things, the price, quality, delivery

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schedule, track record and reputation of such suppliers. The Group will then enter into negotiations with the short-listed suppliers to ensure that the final contract price would be comparable to the market rates for similar machinery and equipments. It is not expected that any supplier will be a connected person of the Company as no connected person of the Company is, to the best of the knowledge, information and belief of the Directors, engaged in the business of supplying wind power generation equipments. In the event that any supplier turns out to be a connected person of the Company, the Company will comply with the relevant reporting, announcement and shareholders' approval requirements of the Listing Rules.

REASONS FOR AND BENEFITS OF THE PURCHASE

Renewable energy sector investment is currently actively advocated by the PRC Government and the Renewal Energy Law of the PRC requires the state-owned power grid to give priority and pay premium rates for power generated by privately-owned companies using "clean" generating methods. The Inner Mongolia Autonomous Region is one of the regions in the PRC with the richest wind energy resources, and wind energy resources are most abundant in Siziwang Qi region. According to certain wind resources survey report, grade I rated wind energy is found in Siziwang Qi, meaning its average annual wind speed reaches over 8.0m/second at a height of 60–70 metres and its average annual full-loaded equivalent operation hours exceed 2,500.

The Company is an investment holding company and its subsidiaries are principally engaged in alternative energy business and software development business. The Board believes that the successful implementation of the Project can further strengthen the Group's alternative energy sector investment and contribute to the future revenue and income growth of the Group. As the Purchase is necessary for the implementation of the Project and suppliers of the major wind power generation equipments have been, and will continue to be, selected through tender process and in accordance with the tender procedures laid down by the Group including the review on the price quotation, quality, delivery schedule, track record and reputation of the suppliers, the Board is of the view that the Purchase is in the interests of the Company and the Shareholders as a whole.

POSSIBLE FINANCIAL EFFECTS OF THE PURCHASE

Given that the Project is still under development and the Purchase is intended to be funded by the Group's internal resources and/or bank borrowings, the Directors do not expect that the Purchase will have any material financial effect on the earnings or overall net asset position of the Group as any decrease in assets (i.e. cash) or increase in liabilities resulting from the financing will be offset by the increase in assets (i.e. additions of the wind power generation equipments) in the Group's balance sheet.

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IMPLICATIONS OF THE LISTING RULES

Pursuant to Rule 14.22 of the Listing Rules, further purchases of equipments for the Project in addition to the aforesaid purchase of 33 sets of wind turbine and turbine tower may be aggregated and treated as if they were one transaction if they are all completed within a 12 month period and the Company must comply with the requirements for the relevant classification of the transaction when aggregated. This would mean that the Company would have to issue an announcement and convene an extraordinary general meeting each time a new contract is entered into and the Directors believe that this would not be in the interest of the Company and its shareholders.

Accordingly, the Directors propose to seek a general authority from the Shareholders to enter into contracts for the Purchase up to a maximum amount of RMB500 million (about HK\$562.1 million) (with a reasonable buffer of approximately 4% over the estimated total investment to cover any increase in cost as a result of inflation) during a period of 12 months from the date of such Shareholders' approval. In this connection, the Purchase constitutes a very substantial acquisition for the Company under Rule 14.06 of the Listing Rules and will be subject to the Shareholders' approval at the EGM.

PROPOSED AMENDMENTS TO THE ARTICLES

A special resolution will be proposed at the EGM to amend the Articles to bring them in line with the corporate governance requirements of the Listing Rules and to make some housekeeping improvements. The proposed amendments to the Articles are summarised below:

- | | |
|--------------------|---|
| Article 3(4) | To clarify that the Directors have the power to use any funds permitted by the laws of the Cayman Islands, including share capital, for the repurchase. |
| Articles 66 and 68 | To reflect the requirements under the Listing Rules for votes at general meetings of the Company to be decided by poll. |
| Article 86(3) | To provide that any Director so appointed by the Board to fill a casual vacancy shall hold office until the next following general meeting, instead of the next following annual general meeting as provided in the existing Article. |
| Article 86(5) | To reflect the requirement of the Listing Rules to have an ordinary resolution instead of a special resolution to remove a Director. |
| Article 87(1) | To provide that all Directors will be subject to retirement by rotation at least once every three years. |

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- | | |
|-------------|--|
| Article 122 | To provide that a written resolution of the Board can be signed by a majority of the Directors or a majority of alternate Directors, such that the Board can make decision more efficiently in cases where physical meetings are not feasible. |
| Article 152 | To reflect the requirement of the Listing Rules that the audited accounts of the Company shall be sent to the Shareholders at the same time as the notice of the annual general meeting. |

The full text of the proposed amendments to the Articles is set out as a special resolution in the notice of the EGM at the end of this circular.

RECOMMENDATION

The Directors believe that the Purchase and the amendments to the Articles are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolutions in respect of the Purchase and the amendments to the Articles which are set out in the notice of the EGM.

EGM

The notice of the EGM convened for the purpose of considering and, if thought fit, passing the resolutions in respect of the Purchase and the amendments to the Articles is set out on pages 73 to 75 of this circular. A form of proxy for use by the Shareholders at the EGM is enclosed. Whether or not you are able to attend the meeting, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the principal place of business of the Company in Hong Kong at 9th Floor, Tower 1, South Seas Centre, 75 Mody Road, Tsimshatsui East, Kowloon, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the meeting. Completion and return of the form of proxy will not preclude you from attending and voting at the meeting if you so wish.

PROCEDURE BY WHICH A POLL MAY BE DEMANDED

Under the articles of association of the Company, at the EGM, a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

- (i) by the chairman of the meeting; or
- (ii) by at least three Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or

LETTER FROM THE BOARD

- (iii) by a Shareholder or Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or
- (iv) by a Shareholder or Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorised representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

In addition, under the Listing Rules, if the chairman of the meeting and/or the Directors individually or collectively hold(s) proxies in respect of Shares holding 5% or more of the total voting rights of the Company at the EGM, and if the votes cast at the EGM on a show of hands are in the opposite manner to that instructed in those proxies, then the chairman shall demand a poll. However, if it is apparent from the total proxies held that a vote taken on a poll will not reverse the vote taken on a show of hands, then the chairman shall not be required to demand a poll.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in Appendices I and II to this circular.

Yours faithfully,
For and on behalf of the Board
Hong Kong Energy (Holdings) Limited
Tsang Sai Chung, Kirk
Company Secretary

1. FINANCIAL STATEMENTS OF THE GROUP

- (a) Set out below is the summary of the audited consolidated income statements and audited consolidated balance sheets of the Group for each of the three years ended 31 December 2007.

Consolidated income statement

	For the year ended 31 December		
	2007	2006	2005
	HK\$'000	HK\$'000	HK\$'000
Revenue	654,010	504,297	458,498
Cost of sales	<u>(581,641)</u>	<u>(419,620)</u>	<u>(365,725)</u>
Gross profit	72,369	84,677	92,773
Bank interest income	228	648	368
Other income	–	–	1,106
Selling and distribution costs	(13,149)	(10,252)	(8,750)
Administrative expenses	(33,969)	(29,790)	(35,041)
Research and development expenditure	(13,316)	(11,758)	(9,074)
Share of loss of an associate	(909)	(58)	–
Interest on bank borrowings	<u>(3,512)</u>	<u>(4,673)</u>	<u>(3,418)</u>
Profit before tax	7,742	28,794	37,964
Income tax credit (expense)	<u>10,903</u>	<u>(601)</u>	<u>(583)</u>
Profit after tax	18,645	28,193	37,381
Gain on disposal of subsidiaries	<u>209,817</u>	<u>–</u>	<u>–</u>
Profit for the year	<u><u>228,462</u></u>	<u><u>28,193</u></u>	<u><u>37,381</u></u>
Earnings per share			
–Basic (HK cents)	<u><u>29.92</u></u>	<u><u>3.69</u></u>	<u><u>4.90</u></u>

Consolidated balance sheet

	As at 31 December		
	2007 HK\$'000	2006 HK\$'000	2005 HK\$'000
Non-current assets			
Property, plant and equipment	1,785	125,831	141,548
Investment in an associate	–	–	–
Machinery under installation	–	3,722	7,911
Other intangible assets	30,849	381	381
Goodwill	42,044	–	–
	<u>74,678</u>	<u>129,934</u>	<u>149,840</u>
Current assets			
Inventories	–	54,577	47,170
Trade and other receivables	2,431	100,185	83,000
Amount due from a fellow subsidiary	–	539	1,149
Tax recoverable	345	5,620	4,683
Bank balances and cash	344,558	26,530	40,565
	<u>347,334</u>	<u>187,451</u>	<u>176,567</u>
Current liabilities			
Trade and other payables	7,362	90,075	73,203
Amount due to an associate	–	58	–
Tax payable	1,210	1,200	2,200
Bank borrowings			
– due within one year	8,580	48,543	72,854
	<u>17,152</u>	<u>139,876</u>	<u>148,257</u>
Net current assets	<u>330,182</u>	<u>47,575</u>	<u>28,310</u>
Total assets less current liabilities	<u>404,860</u>	<u>177,509</u>	<u>178,150</u>
Non-current liabilities			
Bank borrowings			
– due after one year	–	8,525	22,088
Deferred tax liabilities	7,414	–	–
	<u>7,414</u>	<u>8,525</u>	<u>22,088</u>
Net assets	<u>397,446</u>	<u>168,984</u>	<u>156,062</u>
Capital and reserves			
Share capital	7,635	7,635	7,635
Reserves	389,811	161,349	148,427
Total capital and reserves	<u>397,446</u>	<u>168,984</u>	<u>156,062</u>

- (b) Set out below is the audited consolidated financial statements of the Group as contained in the annual report of the Company for the year ended 31 December 2007, together with the accompanying notes. The audited financial statements of the Group for the year ended 31 December 2007 did not carry any qualification.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

	NOTES	Continuing operations		Discontinued operations		Total	
		2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Revenue	7	-	-	654,010	504,297	654,010	504,297
Cost of sales		-	-	(581,641)	(419,620)	(581,641)	(419,620)
Gross profit		-	-	72,369	84,677	72,369	84,677
Bank interest income		21	455	207	193	228	648
Selling and distribution costs		(1,161)	(3,814)	(11,988)	(6,438)	(13,149)	(10,252)
Administrative expenses		(12,752)	(10,621)	(21,217)	(19,169)	(33,969)	(29,790)
Research and development expenditure		-	-	(13,316)	(11,758)	(13,316)	(11,758)
Share of loss of an associate	15	(909)	(58)	-	-	(909)	(58)
Interest on bank borrowings		(1,007)	(1,817)	(2,505)	(2,856)	(3,512)	(4,673)
(Loss) profit before tax		(15,808)	(15,855)	23,550	44,649	7,742	28,794
Income tax credit (expense)	8	-	-	10,903	(601)	10,903	(601)
(Loss) profit after tax	10	(15,808)	(15,855)	34,453	44,048	18,645	28,193
Gain on disposal of subsidiaries	27	-	-	209,817	-	209,817	-
(Loss) profit for the year		<u>(15,808)</u>	<u>(15,855)</u>	<u>244,270</u>	<u>44,048</u>	<u>228,462</u>	<u>28,193</u>
(Loss) earnings per share							
- Basic (HK cents)	13	<u>(2.07)</u>	<u>(2.08)</u>	<u>31.99</u>	<u>5.77</u>	<u>29.92</u>	<u>3.69</u>

CONSOLIDATED BALANCE SHEET

At 31 December 2007

	NOTES	2007 HK\$'000	2006 HK\$'000
Non-current assets			
Property, plant and equipment	14	1,785	125,831
Investment in an associate	15	–	–
Machinery under installation		–	3,722
Other intangible assets	16	30,849	381
Goodwill	17	42,044	–
		<u>74,678</u>	<u>129,934</u>
Current assets			
Inventories	18	–	54,577
Trade and other receivables	19	2,431	100,185
Amount due from a fellow subsidiary	20	–	539
Tax recoverable		345	5,620
Bank balances and cash	21	344,558	26,530
		<u>347,334</u>	<u>187,451</u>
Current liabilities			
Trade and other payables	22	7,362	90,075
Amount due to an associate	20	–	58
Tax payable		1,210	1,200
Bank borrowings – due within one year	23	8,580	48,543
		<u>17,152</u>	<u>139,876</u>
Net current assets		<u>330,182</u>	<u>47,575</u>
Total assets less current liabilities		<u>404,860</u>	<u>177,509</u>
Non-current liabilities			
Bank borrowings – due after one year	23	–	8,525
Deferred tax liabilities		7,414	–
		<u>7,414</u>	<u>8,525</u>
Net assets		<u><u>397,446</u></u>	<u><u>168,984</u></u>
Capital and reserves			
Share capital	24	7,635	7,635
Reserves		389,811	161,349
Total capital and reserves		<u><u>397,446</u></u>	<u><u>168,984</u></u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

	Share capital HK\$'000	Share premium HK\$'000	Goodwill reserve HK\$'000	Special reserve HK\$'000 (note)	Retained profits HK\$'000	Total HK\$'000
At 31 December 2005 and at 1 January 2006	7,635	175	(8,351)	(6,774)	163,377	156,062
Profit for the year and total recognised income	-	-	-	-	28,193	28,193
Dividends paid (note 12)	-	-	-	-	(15,271)	(15,271)
	<u>7,635</u>	<u>175</u>	<u>(8,351)</u>	<u>(6,774)</u>	<u>176,299</u>	<u>168,984</u>
At 31 December 2006 and at 1 January 2007	7,635	175	(8,351)	(6,774)	176,299	168,984
Profit for the year and total recognised income	-	-	-	-	228,462	228,462
Released upon disposal of subsidiaries	-	-	8,351	-	(8,351)	-
	<u>7,635</u>	<u>175</u>	<u>-</u>	<u>(6,774)</u>	<u>396,410</u>	<u>397,446</u>

Note: The special reserve of the Group represents the difference between the nominal value of shares of subsidiaries acquired and the nominal value of the shares issued by the Company.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

	NOTES	2007 HK\$'000	2006 HK\$'000
OPERATING ACTIVITIES			
Profit before tax		7,742	28,794
Adjustments for:			
Interest on bank borrowings		3,512	4,673
Bank interest income		(228)	(648)
Share of loss of an associate		909	58
Depreciation of property, plant and equipment		32,642	30,713
Reversal of impairment losses in respect of trade receivables		(424)	(2,806)
Loss on disposal of property, plant and equipment		348	19
Allowance (reversal of allowance) for inventories		475	(522)
		<hr/>	<hr/>
Operating cash flows before movements in working capital		44,976	60,281
Decrease (increase) in inventories		2,954	(6,885)
Increase in trade and other receivables		(38,989)	(14,379)
Decrease in amount due from a fellow subsidiary		223	610
Increase in trade and other payables		35,252	16,872
Increase in amounts due to fellow subsidiaries		24,107	–
		<hr/>	<hr/>
Cash generated from operations		68,523	56,499
People's Republic of China (other than Hong Kong and Macao, the "PRC")			
– Enterprise Income Tax paid		–	(4,176)
– Enterprise Income Tax refunded		3,530	1,638
		<hr/>	<hr/>
NET CASH FROM OPERATING ACTIVITIES		72,053	53,961
		<hr/>	<hr/>

	NOTES	2007 HK\$'000	2006 HK\$'000
INVESTING ACTIVITIES			
Disposal of subsidiaries	27	346,922	–
Interest received		228	648
Acquisition of subsidiaries	26	(67,224)	–
Purchase of property, plant and equipment		(31,908)	(7,104)
Purchase of machinery under installation		(3,893)	(3,722)
		<u> </u>	<u> </u>
NET CASH FROM (USED IN) INVESTING ACTIVITIES		<u>244,125</u>	<u>(10,178)</u>
FINANCING ACTIVITIES			
New bank loan raised		19,094	26,910
Increase (decrease) in trust receipt loans		743	(2,323)
Repayment of bank loans		(13,508)	(62,461)
Interest paid		(3,512)	(4,673)
Repayment to an associate		(967)	–
Dividends paid		–	(15,271)
		<u> </u>	<u> </u>
NET CASH FROM (USED IN) FINANCING ACTIVITIES		<u>1,850</u>	<u>(57,818)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		318,028	(14,035)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		<u>26,530</u>	<u>40,565</u>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, representing bank balances and cash		<u><u>344,558</u></u>	<u><u>26,530</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

1. GENERAL

The Company is an exempted company incorporated in the Cayman Islands with limited liability. Its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is Nam Tai Electronics, Inc. ("NTEI"), a company incorporated in the British Virgin Islands with its shares listed on the New York Stock Exchange. The address of the registered office and principal place of business of the Company are disclosed in the introduction to the annual report.

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

The principal activities of the Company and its subsidiaries ("the Group") are the provision of software development services. The Group also engaged in the manufacturing and distribution of liquid crystal display ("LCD") products until the disposal on 31 December 2007 of Jetup Electronic (Shenzhen) Co., Ltd. ("Jetup") (see Note 9).

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

In the current year, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1 January 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment

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

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

HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing Costs ¹
HKFRS 8	Operating Segments ¹
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions ²
HK(IFRIC) – Int 12	Service Concession Arrangements ³
HK(IFRIC) – Int 13	Customer Loyalty Programmes ⁴
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction ³

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 March 2007

³ Effective for annual periods beginning on or after 1 January 2008

⁴ Effective for annual periods beginning on or after 1 July 2008

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value, and in accordance with the accounting policies set out below, which conform with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

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

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

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

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

Business combinations

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

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

Goodwill

Goodwill arising on acquisitions prior to 1 January 2005

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

Goodwill arising on acquisitions prior to 1 January 2001 continues to be held in reserves, and will be transferred to the retained profits at the time when the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

Goodwill arising on acquisitions on or after 1 January 2005

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

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

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

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

Investment in an associate

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

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

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

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

Revenue recognition

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

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

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

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment, over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Machinery under installation are carried at cost, less any identified impairment losses. Depreciation of these assets commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

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

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Development expenditure is charged to profit or loss in the period in which it is incurred, unless it meets the recognition criteria of an intangible asset in which case it is capitalised.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Taxation

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

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on the tax rates that have been enacted or substantially enacted by the balance sheet date. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currencies

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

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

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

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

Operating leases

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

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

Retirement benefit costs

Payments to state-managed retirement benefit schemes (“State Scheme”), the retirement benefit scheme in Macao (“Macao Scheme”) and the Mandatory Provident Fund Scheme (“MPF Scheme”) are charged as an expense when employees have rendered service entitling them to the contributions.

Financial instruments

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

Financial assets

The Group’s financial assets comprise loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables and amount due from a fellow subsidiary and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Effective interest method

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

Income is recognised on an effective interest basis for debt instruments.

Impairment of financial assets

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

For certain categories of financial asset, such as trade receivables that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 to 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

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

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

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

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

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Financial liabilities including trade and other payables, amount due to an associate and bank borrowings are subsequently measured at amortised cost, using the effective interest method. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Derecognition

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

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

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. In addition intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

4. KEY SOURCES OF ESTIMATION

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

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

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

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2007, the carrying amount of goodwill is HK\$42 million. Details of the recoverable amount calculation are disclosed in Note 25.

5. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 23, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained profits.

The directors of the Company review the capital structure on an annual basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through new share issues as well as raising of new borrowings and repayment of existing borrowings.

6. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2007 HK\$'000	2006 HK\$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	<u>346,079</u>	<u>124,526</u>
Financial liabilities		
Amortised cost	<u>15,942</u>	<u>147,201</u>

b. Financial risk management objectives and policies

The Group's major financial instruments include bank balances and cash, trade receivables, amount due from a fellow subsidiary, amount due to an associate and trade and other payables and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Currency risk

Certain bank balances, other payables and bank borrowings of the Group are denominated in United States Dollars ("USD"), Renminbi ("RMB") and Japanese Yen ("JPY"). The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Foreign currency sensitivity

At the balance sheet date, if exchange rates of Hong Kong dollar against RMB had appreciated/depreciated by 5% and all other variables were held constant, the Group's profit before tax would increase/decrease by approximately HK\$532,000 and HK\$905,000 for years ended 31 December 2007 and 2006, respectively.

At the balance sheet date, if exchange rates of Hong Kong dollar against JPY had appreciated/depreciated by 5% and all other variables were held constant, the Group's profit before tax would increase/decrease by approximately HK\$25,000 and HK\$895,000 for years ended 31 December 2007 and 2006, respectively.

The directors of the Group are of the opinion that the Group's sensitivity to the change in USD is low.

The Group's sensitivity to foreign currency has decreased mainly due to the disposal of certain subsidiaries to a fellow subsidiary at 31 December 2007 (Note 9).

Interest rate risk

The Group is exposed to cash flow interest rate risk in relation primarily to variable-rate bank borrowings (see Note 23 for details of these borrowings). The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to interest rates for bank borrowings at the balance sheet date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period in case of instruments that have floating rates.

If interest rates had been 150 basis points higher/lower and all other variables were held constant, the Group's profit for the year would decrease/increase by approximately HK\$129,000 (2006: HK\$856,000). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

The Group's sensitivity to interest rates has decreased at year end mainly due to the elimination of variable rate debt instruments upon disposal of related subsidiary as at 31 December 2007 (Note 27).

Credit risk

As at 31 December 2007, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge obligations by the counterparties or debtors is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

In order to minimise the credit risk, management of the Group has delegated a team recognised for determination of credit limits, credit approvals and other monitoring procedures to ensure that the follow-up action is taken to recover overdue debts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Liquidity risk

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Management monitors the utilisation of bank borrowings.

Liquidity and interest risk tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities as at 31 December 2007 and 2006. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest dates on which the Group can be required to pay. The tables include both interest and principal cash flows.

At 31 December 2007

	Weighted average effective interest rate %	Less than			Over		Total undiscounted cash flow HK\$'000	Total HK\$'000
		30 days HK\$'000	31 – 60 days HK\$'000	61 – 90 days HK\$'000	90 days HK\$'000	90 days HK\$'000		
Other payables	-	7,362	-	-	-	-	7,362	7,362
Bank borrowings	6	784	-	2,672	5,271	-	8,727	8,580
		<u>8,146</u>	<u>-</u>	<u>2,672</u>	<u>5,271</u>	<u>-</u>	<u>16,089</u>	<u>15,942</u>

At 31 December 2006

	Weighted average effective interest rate %	Less than			Over		Total undiscounted cash flow HK\$'000	Total HK\$'000
		30 days HK\$'000	31 – 60 days HK\$'000	61 – 90 days HK\$'000	90 days HK\$'000	90 days HK\$'000		
Trade and other payables	-	72,596	10,581	6,894	4	-	90,075	90,075
Amount due to an associate	-	58	-	-	-	-	58	58
Bank borrowings	6	9,747	13,573	15,393	18,867	-	57,580	57,068
		<u>82,401</u>	<u>24,154</u>	<u>22,287</u>	<u>18,871</u>	<u>-</u>	<u>147,713</u>	<u>147,201</u>

c. Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

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

7. SEGMENTS

As the Group was entirely engaged in the manufacturing and distribution of LCD products before this operation was being disposed of (see Note 27) and the acquisition of (see Note 26) the software development services business on 31 December 2007, and accordingly, the Group has only one business segment and the Group's primary reporting segment is geographical segment.

Geographical segments

During the year ended 31 December 2007, the Group's production facilities were predominately located in the People's Republic of China ("PRC"). Revenue of the Group represents the amounts received and receivable for goods sold, net of returns and services rendered by the Group to outside customers. The Group reports its primary segment information based on the initial destination of shipment of its products, principally Hong Kong, the PRC, Europe and Japan. Revenues from sales to other locations, that do not meet the criteria as a separate reportable segment, have been combined and reported as "Others". Segment information about these geographical markets is presented as follows:

INCOME STATEMENT

Year ended 31 December 2007

	Hong Kong HK\$'000	The PRC HK\$'000	Discontinued operations			Total HK\$'000	Continuing operations	
			Europe HK\$'000	Japan HK\$'000	Others HK\$'000		Total HK\$'000	Consolidated HK\$'000
External revenue	<u>429,641</u>	<u>197,200</u>	<u>17,888</u>	<u>3,380</u>	<u>5,901</u>	<u>654,010</u>	-	<u>654,010</u>
Segment results	<u>12,654</u>	<u>29,235</u>	<u>792</u>	<u>745</u>	<u>927</u>	44,353	-	44,353
Unallocated expenses						(18,505)	(13,913)	(32,418)
Bank interest income						207	21	228
Interest on bank borrowings						(2,505)	(1,007)	(3,512)
Share of loss of an associate						-	(909)	(909)
Profit (loss) before tax						23,550	(15,808)	7,742
Income tax credit						<u>10,903</u>	-	<u>10,903</u>
Profit (loss) after tax						34,453	(15,808)	18,645
Gain on disposal of subsidiaries						<u>209,817</u>	-	<u>209,817</u>
Profit (loss) for the year						<u>244,270</u>	<u>(15,808)</u>	<u>228,462</u>

APPENDIX I
FINANCIAL INFORMATION OF THE GROUP
BALANCE SHEET
At 31 December 2007

	Hong Kong HK\$'000	The PRC HK\$'000	Europe HK\$'000	Japan HK\$'000	Others HK\$'000	Consolidated HK\$'000
ASSETS						
Segment assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,521</u>	<u>-</u>	1,521
Unallocated assets						<u>420,491</u>
Consolidated total assets						<u>422,012</u>
LIABILITIES						
Segment liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	-
Unallocated liabilities						<u>24,566</u>
Consolidated total liabilities						<u>24,566</u>

OTHER INFORMATION
Year ended 31 December 2007

	Hong Kong HK\$'000	The PRC HK\$'000	Discontinued operations			Unallocated HK\$'000	Total HK\$'000	Continuing operations	Consolidated HK\$'000
			Europe HK\$'000	Japan HK\$'000	Others HK\$'000			Total HK\$'000	
Capital additions	8,020	14,055	-	-	-	13,555	35,630	-	35,630
Depreciation of property, plant and equipment	667	1,170	-	-	-	30,747	32,584	58	32,642
Loss on disposal of property, plant and equipment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>348</u>	<u>348</u>	<u>-</u>	<u>348</u>

APPENDIX I
FINANCIAL INFORMATION OF THE GROUP
INCOME STATEMENT
Year ended 31 December 2006

	Hong Kong HK\$'000	The PRC HK\$'000	Discontinued operations			Total HK\$'000	Continuing operations	
			Europe HK\$'000	Japan HK\$'000	Others HK\$'000		Total HK\$'000	Consolidated HK\$'000
External revenue	<u>284,582</u>	<u>177,881</u>	<u>33,788</u>	<u>4,466</u>	<u>3,580</u>	<u>504,297</u>	-	<u>504,297</u>
Segment results	<u>26,409</u>	<u>30,939</u>	<u>4,003</u>	<u>1,785</u>	<u>473</u>	63,609	-	63,609
Unallocated expenses						(16,297)	(14,435)	(30,732)
Bank interest income						193	455	648
Share of loss of an associate						-	(58)	(58)
Interest on bank borrowings						<u>(2,856)</u>	<u>(1,817)</u>	<u>(4,673)</u>
Profit (loss) before tax						44,649	(15,855)	28,794
Income tax expense						<u>(601)</u>	-	<u>(601)</u>
Profit (loss) for the year						<u>44,048</u>	<u>(15,855)</u>	<u>28,193</u>

BALANCE SHEET
At 31 December 2006

	Hong Kong HK\$'000	The PRC HK\$'000	Europe HK\$'000	Japan HK\$'000	Others HK\$'000	Consolidated HK\$'000
ASSETS						
Segment assets	<u>52,947</u>	<u>36,822</u>	<u>17,575</u>	<u>508</u>	<u>923</u>	108,775
Unallocated assets						208,610
Consolidated total assets						<u>317,385</u>
LIABILITIES						
Segment liabilities	<u>4,470</u>	-	-	-	-	4,470
Unallocated liabilities						143,931
Consolidated total liabilities						<u>148,401</u>

OTHER INFORMATION

Year ended 31 December 2006

	Hong Kong HK\$'000	The PRC HK\$'000	Discontinued operations				Continuing operations		Consolidated HK\$'000
			Europe HK\$'000	Japan HK\$'000	Others HK\$'000	Unallocated HK\$'000	Total HK\$'000	Total HK\$'000	
Capital additions	503	985	-	-	-	13,527	15,015	-	15,015
Depreciation of property, plant and equipment	377	739	-	-	-	29,469	30,585	128	30,713
Loss on disposal of property, plant and equipment	-	-	-	-	-	19	19	-	19
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19</u>	<u>19</u>	<u>-</u>	<u>19</u>

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

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Hong Kong	508	348	-	-
The PRC	3,334	284,861	35,630	15,015
Macao	156	26	-	-
Japan	218	-	-	-
	<u>4,216</u>	<u>285,235</u>	<u>35,630</u>	<u>15,015</u>

8. INCOME TAX (CREDIT) EXPENSE

	Continuing operations		Discontinued operations		Consolidated	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
PRC Enterprise Income Tax						
Current year	-	-	-	333	-	333
Underprovision in prior years	-	-	1,981	268	1,981	268
Deferred tax credit	-	-	(12,884)	-	(12,884)	-
	<u>-</u>	<u>-</u>	<u>(10,903)</u>	<u>601</u>	<u>(10,903)</u>	<u>601</u>

The PRC Enterprise Income Tax rate of 15% is used for the following reconciliation as the PRC is where the operation of the Group is substantially based.

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

	2007 HK\$'000	2006 HK\$'000
(Loss) profit before tax:		
Continuing operations	(15,808)	(15,855)
Discontinued operations	23,550	44,649
	<u>7,742</u>	<u>28,794</u>
Tax at PRC Enterprise Income Tax rate of 15%	1,161	4,319
Tax effect of expense not deductible for tax purposes	357	900
Tax effect of income not taxable for tax purposes	(362)	(1,300)
Tax effect of tax losses not recognised	1,734	796
Refund of PRC income tax	–	(1,638)
Underprovision in respect of prior years	1,981	268
Effect of different tax rates of the Company and its subsidiaries operating in other jurisdictions	(200)	78
Effect of change in PRC Tax Law	(11,890)	–
Effect of tax exemptions granted to Macao subsidiary	(3,684)	(2,822)
Tax (credit) charge for the year	<u>(10,903)</u>	<u>601</u>

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from Hong Kong.

At 31 December 2007, the Group had unused tax losses of approximately HK\$30,284,000 (2006: HK\$20,376,000) available to offset future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

In accordance with the applicable Enterprise Income Tax laws of the PRC and the relevant rules promulgated by the Shenzhen municipal government, Jetup is subject to a tax rate of 15% on the assessable profit for the year. In addition, if a foreign investment enterprise ("FIE") exports 70% or more of the production value of its products ("Export Enterprise"), it is able to enjoy a reduced tax rate of 10%. For the year ended 31 December 2006, Jetup exported more than 70% of the production value of their products and was qualified as an Export Enterprise and was subject to a reduced tax rate of 10%. For the year ended 31 December 2007, Jetup also exported more than 70% of the production value of their products and it had applied to the relevant authority to be recognised as an Export Enterprise. The directors expect that Jetup will also qualify for a reduced tax rate of 10% for the year ended 31 December 2007.

Furthermore, if a foreign investor directly reinvests by way of capital injection of its share of profits obtained from a FIE in establishing or expanding an export-oriented or technologically advanced enterprise in the PRC for a minimum period of five years, a refund of significant amount of the taxes already paid on those profits may be obtained by the foreign investor, i.e. the Group. As at 31 December 2006, income taxes recoverable under such arrangement were HK\$5,512,000, which were included in the consolidated balance sheet. Nil amount was noted as at 31 December 2007 due to the disposal of certain subsidiaries of the Group.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. Under the New Law which becomes effective from 1 January 2008, the tax refund under the capital reinvestment scheme as described above may be removed. Enterprise Income Tax has not been provided for the year ended 31 December 2007 as the Group did not have assessable profit in the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate from 15% to 25% on a progressive basis for certain subsidiaries from 1 January 2008. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

The deferred tax credit for the year ended 31 December 2007 mainly represent the recognition of deferred tax assets on accelerated depreciation of property, plant and equipment.

J.I.C. (Macao Commercial Offshore) Company Limited, a wholly owned subsidiary of the Company, is exempted from Macao Complementary Tax in accordance with the Macao Decree Law No. 58/99/M.

9. DISCONTINUED OPERATIONS

On 24 September 2007, the Group entered into a conditional sale and purchase agreement with NTEI, which was amended and supplemented by supplemental agreements on 5 October 2007 and 28 November 2007 to dispose of Jetup and its immediate and intermediate holding companies, that carried out all of the Group's LCD products manufacturing and distribution operations. The disposal was effected in order to eliminate the capital intensive manufacturing operations and generate cash flows for other investment opportunities. The disposal was completed on 31 December 2007, on which date control of Jetup passed to NTEI.

The results of the LCD products manufacturing and distribution operations for the period from 1 January 2007 to 31 December 2007 have been included in the consolidated income statement on page 23. No gain or loss arose on disposal of the operations.

During the year, Jetup contributed HK\$28 million (2006: HK\$39 million) to the Group's net operating cash flows, paid HK\$36 million (2006: HK\$11 million) in respect of investing activities and paid HK\$17 million (2006: HK\$26 million) in respect of financing activities.

The carrying amounts of the assets and liabilities of Jetup and its immediate and intermediate holding companies at the date of disposal are disclosed in note 27.

10. (LOSS) PROFIT FOR THE YEAR

	Continuing operations		Discontinued operations		Consolidated	
	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Loss) profit for the year has been arrived at after charging (crediting):						
Allowance (reversal of allowance) for inventories, net (<i>note</i>)	-	-	475	(522)	475	(522)
Auditor's remuneration	789	686	236	196	1,025	882
Cost of inventories recognised as an expense	-	-	581,166	420,142	581,166	420,142
Depreciation of property, plant and equipment	58	128	32,584	30,585	32,642	30,713
Foreign exchange (gain) losses, net	(192)	-	1,259	206	1,067	206
Impairment loss (reversed) recognised in respect of trade receivables, net	-	(3,571)	(424)	765	(424)	(2,806)
Loss on disposal/write off of property, plant and equipment	-	-	348	19	348	19
Staff costs, including directors' remunerations	4,594	6,111	84,247	60,687	88,841	66,798
Retirement benefit scheme contributions, including directors' remunerations	54	65	6,261	4,328	6,315	4,393
Total staff costs	4,648	6,176	90,508	65,015	95,156	71,191
Less: Staff costs included in research and development expenditure	-	-	(6,308)	(6,131)	(6,308)	(6,131)
	<u>4,648</u>	<u>6,176</u>	<u>84,200</u>	<u>58,884</u>	<u>88,848</u>	<u>65,060</u>

Note: Previous write-downs have been reversed as a result of increase in sales prices.

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Particulars of the emoluments of directors and the five highest paid employees are as follows:

(a) Directors' emoluments

The emoluments paid or payable to each of the nine (2006: eight) directors were as follows:

Year ended 31 December 2007

	Seitaro Furukawa*	Koo Ming Kown	Chui Kam Wai	Yeoh Teck Hooi	Cham Yau Nam	Leung Wai Hung	Cheng Chi Heng*	Choi Man Chau	Lee Wa Lun Warren*	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fee	70	-	-	540	120	120	43	77	-	970
Other emoluments										
Salaries and other benefits	148	-	1,580	1,199	-	-	-	-	-	2,927
Performance related incentive bonus (note)	-	-	-	-	-	-	-	-	-	-
Retirement benefit scheme contributions	-	-	12	12	-	-	-	-	-	24
Total emoluments	218	-	1,592	1,751	120	120	43	77	-	3,921

* Resigned during the year ended 31 December 2007.

Year ended 31 December 2006

	Seitaro Furukawa	Koo Ming Kown	Li Shi Yuen, Joseph*	Chui Kam Wai	Yeoh Teck Hooi	Cham Yau Nam	Leung Wai Hung	Cheng Chi Heng	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fee	270	-	-	-	540	120	120	-	1,050
Other emoluments									
Salaries and other benefits	1,284	-	-	1,534	1,132	-	-	-	3,950
Performance related incentive bonus (note)	153	-	-	309	203	-	-	-	665
Retirement benefit scheme contributions	-	-	-	12	12	-	-	-	24
Total emoluments	1,707	-	-	1,855	1,887	120	120	-	5,689

* Resigned during the year ended 31 December 2006.

Note: The performance related incentive bonus is determined based on the performance of the Group.

In the year ended 31 December 2007, one of the independent non-executive directors, Mr. Cheng Chi Heng waived emoluments of HK\$43,000 (2006: HK\$120,000).

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

(b) Employees' emoluments

Of the five individuals with the five highest emoluments in the Group, two were directors of the Company (2006: three directors), whose emoluments are included in the disclosures in note 11(a) above. The emoluments of the remaining three (2006: two) highest paid individuals were as follows:

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Salaries and other benefits	2,549	1,474
Retirement benefits scheme contributions	—	—
	<u>2,549</u>	<u>1,474</u>

Each of their emoluments were below HK\$1,000,000.

12. DIVIDENDS

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Final, paid for 2005 – HK\$0.020 per ordinary share	<u>—</u>	<u>15,271</u>

No dividend was proposed during 2007, nor has any dividend been proposed since the balance sheet date (2006: Nil).

13. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	2007 HK\$'000	2006 HK\$'000
Profit for the year attributable to equity holders of the Company for the purposes of basic earnings per share	<u>228,462</u>	<u>28,193</u>
Number of shares		
Number of ordinary shares for the purposes of basic earnings per share	<u>763,534,755</u>	<u>763,534,755</u>

Diluted earnings per share has not been disclosed as there were no dilutive potential shares in issue in both years.

From continuing operations

The calculation of the basic and diluted loss per share from continuing operations attributable to the ordinary equity holders of the Company is based on the following data:

Earnings figures are calculated as follows:

	2007 HK\$'000	2006 HK\$'000
Profit for the year attributable to equity holders of the Company	228,462	28,193
Less: Profit for the year from discontinued operations	<u>(244,270)</u>	<u>(44,048)</u>
Loss for the purposes of basic loss per share from continuing operations	<u>(15,808)</u>	<u>(15,855)</u>

The denominators used are the same as those detailed above for both basic and diluted loss per share.

From discontinued operations

Basic earnings per share for the discontinued operation is 31.99 cents per share (2006: 5.77 cents per share) for the year from the discontinued operations of HK\$244.2 million (2006: HK\$44.0 million) and the denominators detailed above for basic earnings per share.

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improve- ments HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
COST					
At 1 January 2006	66,733	161,094	7,771	1,866	237,464
Additions	3,148	10,994	470	403	15,015
Disposals/written off	-	(142)	(11)	-	(153)
At 31 December 2006 and 1 January 2007	69,881	171,946	8,230	2,269	252,326
Additions	2,018	31,106	2,506	-	35,630
Disposals/written off	(492)	(146)	(217)	(155)	(1,010)
Disposal of subsidiaries	(71,407)	(202,745)	(10,240)	(2,022)	(286,414)
Acquired on acquisition of subsidiaries	1,050	-	446	201	1,697
At 31 December 2007	1,050	161	725	293	2,229
DEPRECIATION					
At 1 January 2006	15,730	75,414	3,744	1,028	95,916
Provided for the year	9,319	19,976	1,156	262	30,713
Eliminated on disposals	-	(126)	(8)	-	(134)
At 31 December 2006 and 1 January 2007	25,049	95,264	4,892	1,290	126,495
Provided for the year	9,602	21,491	1,260	289	32,642
Eliminated on disposals	(178)	(136)	(193)	(155)	(662)
Disposal of subsidiaries	(34,473)	(116,458)	(5,766)	(1,334)	(158,031)
At 31 December 2007	-	161	193	90	444
CARRYING VALUES					
At 31 December 2007	1,050	-	532	203	1,785
At 31 December 2006	44,832	76,682	3,338	979	125,831

Depreciation is provided to write off the cost of items of property, plant and equipment, over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method, at the following rates per annum:

Leasehold improvements	Over the shorter of term of lease or 15%.
Plant and machinery	10% – 20%
Furniture, fixtures and equipment	15%
Motor vehicles	20%

15. INVESTMENT IN AN ASSOCIATE

	2007 HK\$'000	2006 HK\$'000
Cost of investment in an associate	–	58
Share of post-acquisition losses	–	(58)
	<u>–</u>	<u>–</u>

As at 31 December 2006, the Group had interests in the following associate:

Name of entity	Form of business structure	Country of incorporation	Principal place of operation	Class of share held	Proportion of nominal value of issued capital held by the Group %	Proportion of voting power held %	Principal activity
Nam Tai Solartech, Inc. ("Solartech")	Incorporated	Cayman Islands	the PRC	Ordinary	25	25	Investment holding

Solartech was deregistered on 31 December 2007.

As at 31 December 2006, the summarised financial information in respect of the Solartech is set out below:

	2006 HK\$'000
Total assets	227
Total liabilities	<u>(333)</u>
Net liabilities	<u>(106)</u>
Group's share of net assets of an associate	<u>–</u>
Revenue	<u>–</u>
Loss for the year	<u>(338)</u>
Group's share of result of an associate for the year	<u>(58)</u>

For the year ended 31 December 2006, the Group has discontinued recognition of its share of loss of this associate. During 2007, the shareholders of Solartech have agreed to start sharing its loss from the year ended 31 December 2007 onwards. The loss of Solartech before its deregistration for the year ended 31 December 2007 was approximately HK\$3,636,000. Share of this loss by the Group for the year ended 31 December 2007 was

approximately HK\$909,000. The amount of unrecognised share of this associate, extracted from the relevant audited accounts of the associate, both for the year and cumulatively, are as follows:

	2007 HK\$'000	2006 HK\$'000
Unrecognised share of losses of an associate for the year	<u>–</u>	<u>(27)</u>
Accumulated unrecognised share of losses of an associate	<u>–</u>	<u>(27)</u>

16. OTHER INTANGIBLE ASSETS

	Club membership HK\$'000	Developed technology HK\$'000	Customer relationship HK\$'000	Total HK\$'000
COST				
At 1 January 2006, 31 December 2006 and 1 January 2007	381	–	–	381
Acquired on acquisition of subsidiaries	–	12,739	18,110	30,849
Disposal of subsidiaries	<u>(381)</u>	<u>–</u>	<u>–</u>	<u>(381)</u>
At 31 December 2007	<u>–</u>	<u>12,739</u>	<u>18,110</u>	<u>30,849</u>

As at 31 December 2006, the club membership had a second hand market and had no foreseeable limit to its useful life. The directors of the Company were of the opinion that the Group would continue to hold the club membership and had the ability to do so. The club membership had been tested for impairment in the prior year by reference to its second hand market value and no impairment loss was charged for the prior year. The club membership had been disposed of upon the disposal of Jetup.

Developed technology represents technical knowhow on data compression mainly in dictionary application and map data processing.

Developed technology and customer relationship were acquired with the acquisition of subsidiaries, which have definite useful lives. Such intangible assets are amortised on a straight-line basis over the following periods.

Developed technology	15 years
Customer relationship	10 years

17. GOODWILL

	2007 HK\$'000
COST	
At 1 January	–
Arising on acquisition of subsidiaries	<u>42,044</u>
At 31 December	<u>42,044</u>

Particulars regarding impairment testing on goodwill are disclosed in Note 25.

18. INVENTORIES

	2007 HK\$'000	2006 HK\$'000
Raw materials	–	48,225
Work in progress	–	4,632
Finished goods	–	1,720
	<u>–</u>	<u>54,577</u>

19. TRADE AND OTHER RECEIVABLES

	2007 HK\$'000	2006 HK\$'000
Trade receivables	1,521	98,222
Less: allowance for doubtful debts	–	(765)
	<u>1,521</u>	<u>97,457</u>
Other receivables	910	2,728
Total trade and other receivables	<u>2,431</u>	<u>100,185</u>

The Group allows an average credit periods ranging from 30 days to 90 days to its trade customers. The following is an aged analysis of trade receivables, net of impairment losses, at the balance sheet dates, prepared on the basis of sales invoice date:

	2007 HK\$'000	2006 HK\$'000
Within 30 days	1,365	42,569
More than 30 days and within 60 days	156	28,929
More than 60 days and within 90 days	–	17,548
More than 90 days	–	8,411
	<u>1,521</u>	<u>97,457</u>

Movement in the allowance for doubtful debts:

	2007 HK\$'000	2006 HK\$'000
Balance at beginning of the year	765	3,748
Amounts written off during the year	–	(177)
Amounts recovered during the year	(424)	(2,806)
Disposal of a subsidiary	(341)	–
Balance at end of the year	<u>–</u>	<u>765</u>

Before accepting any new customer, the Group has assessed the credit quality of each potential customer and defined credit rating and limit for each customer. In addition, the Group has reviewed the repayment history of receivables by each customer with reference to the payment terms stated in contracts to determine the recoverability of a trade receivable.

The Group reviews all receivables overdue more than 30 days for impairment loss because historical experience is such that receivables that are past due beyond 30 days are generally not recoverable. Trade receivables are provided for based on estimated irrecoverable amounts of discounted cash flow from the sales of goods, determined by reference to past default experience.

In order to minimise the credit risk, management continuously monitor the level of exposure to ensure that follow-up action and/or corrective actions are taken promptly to lower the risk exposure or to recover overdue balances. Accordingly, the directors believe that adequate credit provision has been made during the year.

Included in the Group's trade receivables are debtors with a carrying amount of HK\$16,945,000 at 31 December 2006 which are past due at the balance sheet date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these receivables are 88 days at 31 December 2006.

Ageing of trade receivables which are past due but not impaired:

	2007 HK\$'000	2006 HK\$'000
More than 30 days and within 60 days	–	1,569
More than 60 days and within 90 days	–	6,965
Over 90 days	–	8,411
	<u>–</u>	<u>16,945</u>

At the balance sheet date, the trade and other receivable that are denominated in currencies other than the functional currencies of respective group entities are set out below:

	USD	RMB	JPY
As at 31 December 2007	195,000	–	–
As at 31 December 2006	<u>6,741,000</u>	<u>784,000</u>	<u>180,000</u>

20. AMOUNT DUE FROM/TO A FELLOW SUBSIDIARY/AN ASSOCIATE

The balances were unsecured, non-interest bearing and repayable on demand, except for the balance with a fellow subsidiary which had a credit period of 60 days.

21. BANK BALANCES

Bank balances and cash of the Group comprise cash and short-term bank deposits with an original maturity of three months or less. The bank balances carry fixed interest rates ranging from 1% to 3.6% per annum (2006: 1% to 3.6% per annum). At the balance sheet date, the bank balances and cash that are denominated in currencies other than the functional currencies of respective group entities are set out below:

	USD	RMB	JPY
As at 31 December 2007	216,000	11,388,000	15,231,000
As at 31 December 2006	<u>1,511,000</u>	<u>446,000</u>	<u>244,000</u>

22. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at the balance sheet dates, prepared on the basis of supplier invoice date:

	2007 HK\$'000	2006 HK\$'000
Within 30 days	–	58,676
More than 30 days and within 60 days	–	10,581
More than 60 days and within 90 days	–	6,894
More than 90 days	–	4
	<u>–</u>	<u>76,155</u>
Other payables	7,362	13,920
	<u>7,362</u>	<u>90,075</u>

For the year ended 31 December 2006, the average credit period on purchase of goods was 30 days. The Group had financial risk management policies in place to ensure that all payables within the credit time frame.

At the balance sheet date, other payables denominated in currencies other than functional currencies of respective group entities are set out below:

	USD	RMB	JPY
As at 31 December 2007	–	1,419,000	7,997,000
As at 31 December 2006	<u>7,960,000</u>	<u>19,458,000</u>	<u>275,229,000</u>

23. BANK BORROWINGS

	2007 HK\$'000	2006 HK\$'000
Bank borrowings are unsecured and comprise the following:		
Bank loans	8,580	22,088
Trust receipt loans	–	34,980
	<u>8,580</u>	<u>57,068</u>
Carrying amount repayable:		
Within one year	8,580	48,543
More than one year, but not exceeding two years	–	8,525
	8,580	57,068
Less: Amounts due within one year (shown under current liabilities)	<u>(8,580)</u>	<u>(48,543)</u>
Amounts due after one year	<u>–</u>	<u>8,525</u>

The above borrowings are at annual interest rates ranging from 0.55% to 0.75% over Hong Kong Interbank Offered Rate (2006: 0.55% to 0.75% over Hong Kong/London/Singapore Interbank Offered Rate) per annum.

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2007	2006
Effective interest rate	<u>5.60% to 5.77%</u>	<u>4.5% to 6.1%</u>

The Group's borrowings that are denominated in currencies other than the functional currency of the respective group entities are set out below:

	USD
As at 31 December 2007	1,100,000
As at 31 December 2006	<u>2,850,000</u>

During the year, the Group obtained new loans in the amount of HK\$19,094,000 (2006: HK\$26,910,000). The loans bear interest at market rates. The proceeds were used to finance the acquisition of plant and equipment.

24. SHARE CAPITAL OF THE COMPANY

	Ordinary shares of HK\$0.01 each		Non-redeemable convertible preference shares of HK\$0.01 each (note)		Total HK\$'000
	Number of shares	HK\$'000	Number of shares	HK\$'000	
Authorised:					
At 1 January 2006,					
31 December 2006					
and 31 December 2007	<u>2,000,000,000</u>	<u>20,000</u>	<u>600,000,000</u>	<u>6,000</u>	<u>26,000</u>
Issued and fully paid:					
At 1 January 2006,					
31 December 2006					
and 31 December 2007	<u>763,534,755</u>	<u>7,635</u>	<u>-</u>	<u>-</u>	<u>7,635</u>

Note: The preference shares were not redeemable and the holders of which should not be entitled to vote. At any time after allotment, each holder of the preference shares should be entitled to convert all or a portion of his/her preference shares into fully paid ordinary shares at the initial conversion rate of 1 ordinary share for every 1.03 preference shares, provided that for the purposes of ensuring the continued listing of the Company's ordinary shares on the Stock Exchange after the conversion of the preference shares, no holder of preference shares should be entitled to exercise the conversion rights if, the Company's ordinary shares issued upon conversion together with any ordinary shares of the Company then in issue would result in the minimum prescribed percentage of the Company's ordinary shares in public hands (as defined in the Rules Governing the Listing of Securities on the Stock Exchange from time to time) not being satisfied. On any payment of dividend or distributions (other than a distribution on winding up), the preference shares should rank pari passu with the ordinary shares.

25. IMPAIRMENT TESTING ON GOODWILL

As explained in Note 7, the Group uses geographical segment as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill with indefinite useful lives have been allocated to a cash generating unit (“CGU”) which is Namtek’s operation.

During the year ended 31 December 2007, management of the Group determines that there are no impairments of the CGU containing goodwill or intangible assets with indefinite useful lives.

The basis of the recoverable amounts of the above CGU and its major underlying assumptions are summarised below:

Namtek Operation

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and discount rate of 12%. CGU’s cash flows beyond the five-year period are extrapolated taking into account of a growth rate of 3%. This growth rate is based on the relevant industry growth forecast and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the CGU’s past performance and management’s expectations for the market development.

26. ACQUISITION OF SUBSIDIARIES

On 31 December 2007, the Group acquired 100% of the issued share capital of Namtek Japan Company Limited and paid up capital of Shenzhen Namtek Company Limited and issued capital of its immediate and intermediate holding companies (herein after collectively referred to as “Namtek Group”) from its fellow subsidiary for a total cash consideration of HK\$80,500,000. Namtek Group is engaged in the software development services business. The acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was HK\$42,044,000.

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

	Acquiree's carrying amount before combination <i>HK\$'000</i>	Provisional fair value adjustments <i>HK\$'000</i>	Fair value <i>HK\$'000</i>
Net assets acquired:			
Property, plant and equipment	1,001	696	1,697
Trade and receivables	1,894	–	1,894
Tax recoverable	236	–	236
Bank balances and cash	14,802	–	14,802
Other intangible assets	–	30,849	30,849
Trade and other payable	(2,072)	–	(2,072)
Tax payable	(10)	–	(10)
Deferred tax liabilities	–	(7,414)	(7,414)
	<u>15,851</u>	<u>24,131</u>	39,982
Goodwill			42,044
Cash paid for direct expenses incurred in relation to the acquisition			<u>(1,526)</u>
Total consideration satisfied by:			
Cash			<u><u>80,500</u></u>
Net cash outflow arising on acquisition:			
Cash consideration paid (including direct expenses incurred in relation to the acquisition)			(82,026)
Bank balances and cash acquired			<u>14,802</u>
			<u><u>(67,224)</u></u>

If the acquisition had been completed on 1 January 2007, total group revenue for the period would have been HK\$674 million, and profit for the period would have been HK\$233 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2007, nor is it intended to be a projection of future results.

Goodwill arose in the business combination because the consideration paid effectively included amounts in relation to the benefit of future market development. These benefits are not recognised separately from goodwill as the future economic benefits arising from them cannot be reliably measured.

The Group is in the process of assessing the identifiable intangible assets acquired at date of acquisition; thus the allocation of the cost of the acquisition to the identifiable assets and liabilities and the initial measurement of goodwill set out above is preliminary and subject to revision once the Group completes the valuation exercise.

27. DISPOSAL OF SUBSIDIARIES

As referred to in note 9, on 31 December 2007, the Group discontinued its LCD products manufacturing and distribution operations at the time of disposal of its subsidiary, Jetup and its immediate and intermediate holding companies. The net assets of Jetup at the date of disposal were as follows:

	31 December
	2007
	<i>HK\$'000</i>
NET ASSETS DISPOSED OF	
Property, plant and equipment	128,383
Machinery under installation	3,893
Other intangible assets	381
Deferred tax asset	12,884
Inventories	51,148
Trade and other receivables	139,061
Amount due from a fellow subsidiary	316
Bank balances and cash	33,319
Trade and other payables	(120,037)
Amounts due to fellow subsidiaries	(24,107)
Bank borrowings	(54,817)
	<hr/>
	170,424
Gain on disposal	209,817
	<hr/>
Total consideration, satisfied by cash	<u>380,241</u>
Net cash inflow arising on disposal:	
Cash consideration, net of direct expenses incurred in relation to disposal	380,241
Bank balances and cash disposed of	(33,319)
	<hr/>
	<u>346,922</u>

The impact of Jetup on the Group's results and cash flows in the current and prior periods is disclosed in note 9.

28. CAPITAL COMMITMENTS

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital expenditure in respect of acquisition of property, plant and equipment:		
Contracted for but not provided in the financial statements	–	930
Authorised but not contracted for	–	2,439
	<hr/>	<hr/>
	<u>–</u>	<u>3,369</u>

29. OPERATING LEASE COMMITMENTS

	2007 HK\$'000	2006 HK\$'000
Minimum lease payments paid under operating leases during the year	<u>9,421</u>	<u>8,872</u>

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

	2007 HK\$'000	2006 HK\$'000
Within one year	831	9,415
In the second to fifth year inclusive	172	41,247
Over five years	–	4,564
	<u>1,003</u>	<u>55,226</u>

Leases are negotiated for terms ranging from one to two years. For the leases at 31 December 2006, monthly rent was renegotiated every three years with a maximum increase of 10% on prior year's monthly rent.

30. RETIREMENT BENEFIT SCHEMES

According to the relevant laws and regulations in the PRC, Jetup and Shenzhen Namtek Company Limited are required to contribute 8% to 11% and 1% to 2% of the stipulated salary set by the local government of Shenzhen, the PRC, to State Scheme to fund the retirement benefits and social benefits respectively of their employees. The principal obligation of the Group with respect to the State Scheme is to make the required contributions under the scheme. The total contributions incurred in this connection for the year were approximately HK\$6,261,000 (2006: HK\$4,328,000).

The Group operates the Macao Scheme for all qualifying employees in Macao and MPF Scheme for all qualifying employees in Hong Kong. The assets of the Macao Scheme and the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes at the lower of HK\$1,000 or 5% of the relevant payroll costs to the MPF Scheme and the Macao Scheme, which contribution is matched by employees. The total contributions incurred in this connection for the year were approximately HK\$54,000 (2006: HK\$65,000).

According to the relevant laws and regulation in Japan, Namtek Japan Company Limited is required to contribute approximately 7% of the relevant payroll costs to retirement benefit scheme in Japan.

31. SHARE-BASED PAYMENT TRANSACTIONS

Equity – settled share options scheme:

(a) Share option schemes adopted by NTEI

In May 2001, the board of directors of NTEI approved another stock option plan ("2001 Scheme") which would grant 15,000 options to each independent director of NTEI elected at each annual general meeting of shareholders, and might grant options to key employees, consultants or advisors of NTEI or any of its subsidiaries to subscribe for its shares in accordance with the terms of this stock option plan. The maximum number of shares to be issued pursuant to the exercise of options

granted was 3,300,000 shares. There is no maximum entitlement for each of the key employee under this stock option plan. The option price granted to directors shall be equal to 100% of the market value of the common shares of NTEI on the date of grant. The option price granted to other eligible participants other than directors shall not normally be less than market value of the common shares of NTEI on the date of grant. The options granted under this plan vest immediately and generally have a term of three years, subject to the discretion of the board of directors of NTEI to prescribe the time or times which the option may be exercised, but cannot exceed ten years. The options are granted to non-employee directors based on past performance and/or expected contributions to NTEI. No consideration is payable on the grant of an option.

In February 2006, the board of directors of NTEI approved another stock option plan with basically the same terms and conditions of the 2001 Scheme. The maximum number of shares to be issued pursuant to the exercise of options granted was 2,000,000 shares.

The following tables disclosed details of the share option granted to the directors of the Company for services provide to NTEI and movements in such holdings during the years:

Directors

Exercise price per share	US\$19.400	US\$20.840	US\$22.25	US\$12.13	US\$12.420
Number of options:					
Outstanding at 1 January 2006	30,000	50,000	-	-	-
Granted during the year	-	-	15,000	-	-
Resigned as director of the Company during the year (<i>note</i>)	(30,000)	(50,000)	-	-	-
Outstanding at 31 December 2006 and 1 January 2007	-	-	15,000	-	-
Granted during the year	-	-	-	-	15,000
Appointed as a director during the year	-	-	-	40,000	-
Outstanding at 31 December 2007	-	-	15,000	40,000	15,000

Note: The director concerned exercised the options subsequent to resignation.

Details of specific categories of options are as follows:

Date of grant	Exercisable period	Exercise price per share US\$
30 July 2004	30 July 2004 to 30 July 2006	19.400
2 February 2005	4 February 2005 to 4 February 2007	20.840
6 June 2005	6 June 2005 to 6 June 2008	21.620
9 June 2006	9 June 2006 to 8 June 2009	22.250
8 June 2007	8 June 2007 to 7 June 2008	12.420

The weighted average closing price of NTEI's shares on the dates in which the share options were exercised was approximately US\$21.68 for the year ended 31 December 2006. No share option is exercised during the year ended 31 December 2007.

(b) Share option scheme adopted by the Company

On 16 April 2002, a share option scheme (“the Scheme”) was approved by the board of directors and enables the Company to grant options to eligible participants for the purpose of providing incentives and rewards to those who contribute to the success of the Group’s operations. Eligible participants of the Scheme include any employee of the Group (including any director of the Company or any of its subsidiaries) and those companies in the equity share capital of which the Company, directly or indirectly, has a 20 percent or greater beneficial interest but excluding the Company’s subsidiaries. The Scheme became effective on 4 June 2002, the date on which the Company’s shares are listed on the Stock Exchange and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The exercise price of the share option is determinable by the board of directors, but shall not be less than the higher of: (i) the closing price of the Company’s shares as stated in the Stock Exchange’s daily quotations sheet on the date of grant of that option, which must be a business day; (ii) the average of the closing prices of the Company’s ordinary shares as stated in the Stock Exchange for the five trading days immediately preceding the date of grant of that option, and (iii) the nominal value of the Company shares.

The maximum number of shares which may be issued on exercise of all options granted under the Scheme (excluding, for this purpose, options which have lapsed in accordance with the terms of the Scheme and any other scheme) shall not exceed 10% of the ordinary share capital of the Company in issue from time to time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the maximum number of shares that may be issued pursuant to the Scheme. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting.

The offer of a grant of share options shall be deemed to have been accepted when the counterpart of the option agreement is duly signed by the grantee together with payment of a nominal consideration of the amount specified in the offer, as being the consideration for the grant of the option, is received by the Company at the place specified in the option agreement within 28 days from the date of the offer or such other period as the board of directors may specify in writing. An option may be exercised during the period specified in the terms of grant.

No options have been granted under the Scheme since its adoption.

32. RELATED PARTY TRANSACTIONS

Other than as disclosed in notes 9, 26 and 27, during the year, the Group entered into transactions with the then following fellow subsidiaries wholly owned by NTEI:

Name of related party	Nature of transactions	2007 HK\$'000	2006 HK\$'000
Namtai Electronic (Shenzhen) Co. Ltd.	Sales of finished goods by the Group	1,947	3,218
Zastron Precision-Tech Limited	Recharge of office expense	3,865	2,165
Namtek Japan Company Limited	Sales commission expense	18	20

During the year ended 31 December 2006, the Company and its fellow subsidiary, Nam Tai Electronic & Electrical Products Limited, jointly incorporated a company, Solartech, in which the Company has 25% shareholding. This investment has been accounted as an associate and it has been deregistered during the year.

Details of the balances with related parties at the balance sheet date are set out in the consolidated balance sheet and in note 20.

Compensation to key management personnel

The emoluments of directors which represent key management personnel of the Group during the year was as follows:

	2007 HK\$'000	2006 HK\$'000
Short-term benefits	3,897	5,665
Post-employment benefits	24	24
	<u>3,921</u>	<u>5,689</u>

The remuneration of directors is determined by the remuneration committee having regard to the performance of individuals and market trend.

33. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Details of the Company's subsidiaries at 31 December 2006 and 2007 are as follows:

Name of subsidiary	Place of incorporation/ registration and operations	Issued and paid up share capital/ registered capital	Proportion of issued capital/ registered capital held directly by the Company %	Principal activities
J.I.C. Enterprises (Hong Kong) Limited	Hong Kong	HK\$500,000	100	Inactive
J.I.C. (Macao Commercial Offshore) Company Limited	Macao	HK\$97,500	100	Data management, research and development, and technical analysis
Namtek Japan Company Limited (<i>note 1</i>)	Japan	JPY10,000	100	Provision of sales co-ordination and marketing services to fellow subsidiaries
Shenzhen Namtek Company Limited (<i>notes 1 and 2</i>)	PRC	US\$800,000	100	Solution provider for digital dictionary software development
Best Whole Holdings Limited	Hong Kong	HK\$1	100	Investment holding
Joy Holdings Limited	British Virgin Islands/ Hong Kong	US\$1	100	Investment holding
Jetup Electronic (Shenzhen) Co., Ltd. (<i>notes 2 and 3</i>)	PRC	HK\$181,200,000	100	Manufacture and distribution of LCD products

Notes:

1. Acquired on 31 December 2007.
2. Registered as a wholly owned FIE.
3. Disposed on 31 December 2007.

None of the subsidiaries had issue any debt securities at end of the year.

2. MANAGEMENT DISCUSSIONS AND ANALYSIS AND OUTLOOK FOR EACH OF THE THREE YEARS ENDED 31 DECEMBER 2007

The Shareholders should note that the operating results of the Group during each of the three years ended 31 December 2005, 2006 and 2007 were mainly in respect of the LCD product business which had been the Group's discontinued business completely disposed of as of 31 December 2007. Accordingly, the financial and operational information presented below may not be relevant to the existing principal businesses of the Group which are software development business and alternative energy business.

For the year ended 31 December 2007

(i) *Financial results*

Net sales for the twelve months ended 31 December 2007 increased moderately by 29.7% to HK\$654.0 million as compared to the annual sales of 2006.

Gross profit margin dropped from 16.8% in year 2006 to 11.1% in year 2007. Selling, administrative expenses and R&D expenses recorded a respective rise of 28.3%, 14.0% and 13.3% respectively.

Net profit for the twelve months ended 31 December 2007 increased by 710.3% to HK\$228.5 million as compared to the same period in 2006 mainly because of the HK\$209.8 million gain on disposal of subsidiaries.

Cash generated from operations for the year was HK\$68.5 million (2006: HK\$56.5 million). The Company retired a loan of HK\$13.5 million during the year, bringing down the debt to equity ratio from 0.34 as at 2006 year end to 0.02 as at 2007 year end. As at 31 December 2007, the Company had HK\$344.6 million cash on hand and total banking facilities of HK\$8.6 million (2006: HK\$203.2 million), out of which only HK\$8.6 million (2006: HK\$57.1 million) was utilised. The Company believes that the strong cash from operations and available banking facilities shall be able to support the Company in its capital expenditure and future operations.

Basic and diluted earnings per Share for the year ended 31 December 2007 were 29.92 HK cents as compared to basic and diluted earnings per Share of 3.69 HK cents for the year ended 31 December 2006.

(ii) *Business review*

As part of the reorganisation of Nam Tai Electronics, Inc. ("NTEI", together with its subsidiaries, "NTEI Group") to centralise all the NTEI Group's manufacturing businesses in Nam Tai Electronic & Electrical Products Limited ("NTEEP") and non-manufacturing businesses in the Company, on 31 December 2007, the Company disposed of its entire interest in its wholly-owned principal subsidiary, Jetup

Electronic (Shenzhen) Co., Ltd., and its two intermediate holding companies, to NTEI at a cash consideration of approximately HK\$380,241,000. On the same date, the Company acquired Shenzhen Namtek Co., Ltd., a software solution provider, and its immediate and intermediate holding companies, and also Namtek Japan Company Limited, a sales support office, from NTEEP at a total cash consideration of HK\$80,500,000. The Company recorded a net gain amounting to approximately HK\$209,817,000 from the disposal of the subsidiaries. The completion of the reorganisation signified that the Company would discontinue its LCD product business and commence to engage in software development business.

As regards the Group's software development business which was the only principal business of the Group as of 31 December 2007, the major customers were companies in the Japanese electronics industry. The Group expected to have continuous business relationship with its existing customers. While the Group would constantly look for new markets or products, the Group had not identified any future plan for material investments or capital assets regarding its software development business as at 31 December 2007.

As at 31 December 2007, the number of employees of the Group was around 80. Most of the employees were employed in the PRC for the software development business and were covered under a local statutory retirement insurance policy operated by the local government.

Sales for the twelve months ended 31 December 2007 were approximately HK\$654,010,000, which was approximately 29.7% above the annual sales of 2006. The growth came mainly from the large volume lower margin LCD modules while the sales of higher margin LCD modules only increased marginally. Gross profit margin and operating income margin dropped from 16.8% and 6.5% in 2006 to 11.1% and 1.8% respectively in 2007. Although gross profit margin and operating income margin for 2007 were lower than those of 2006, the management of the Company was able to improve gross profit margin and operating income margin from 10.4% and 1.0% in the first half of 2007 to 11.6% and 2.6% respectively in the second half of 2007. The improvement was attributable to the success of various cost control measures adopted by the management and the increasing production efficiency over the period under review.

(iii) Liquidity, financial resources and financial ratios

The proceeds of the sale of the interest in Jetup Electronic (Shenzhen) Co., Ltd. significantly strengthened the Company's balance sheet. As at 31 December 2007, total cash was HK\$344.6 million (2006: HK\$26.5 million) and total bank borrowings were HK\$8.6 million (2006: HK\$57.1 million).

During the financial year ended 31 December 2007, cash per Share was 45.1 HK cents (2006: 3.5 HK cents) and net asset per Share was 52.0 HK cents (2006: 22.1 HK cents), based on 763,534,755 (2006: 763,534,755) Shares in issue.

As at 31 December 2007, the Company had, a cash to current liabilities ratio of 20.09 (2006: 0.19), a current ratio of 20.25 (2006: 1.34) and a total assets to total liabilities ratio of 17.18 (2006: 2.14), and approximately HK\$344.6 million (2006: HK\$26.5 million) of bank balances and cash.

As at 31 December 2007, the Company issued no corporate guarantee (2006: HK\$138.8 million) to banks in respect of banking facilities granted to its subsidiaries. Total banking facilities available for the Company was HK\$8.6 million as at 31 December 2007 (2006: HK\$203.2 million), out of which HK\$8.6 million (2006: HK\$57.1 million) had been utilised. The gearing ratio (total bank borrowings/total shareholders' equity) was 0.02 (2006: 0.34). The fall in bank borrowings was attributable to retirement of loans previously raised for trade finance and factory expansion. The Company's borrowings are arranged at certain fixed rates over the usual inter-bank money market offer rates which are floating for periods ranging from one month to six months; at prevailing market rate/fixed interest rates, and they are denominated in Hong Kong Dollar, United States Dollar and RMB. The average interest rate paid during the year was 6.1% (2006: 5.2%).

As at 31 December 2007, there were no charges on the Group's assets.

The Company recorded no debtor's turnover days for the 12 months ended 31 December 2007 (2006: 71 days) based on the amount of trade debtors as at the relevant period end divided by sales of the same period and multiplied by 365 days (2006: 365 days) and the number of months in that period over 12.

The Company recorded no creditor's turnover days for the 12 months ended 31 December 2007 (2006: 66 days) based on the amount of trade creditors as at the relevant period end divided by cost of sales of the same period and multiplied by 365 days (2006: 365 days) and the number of months in that period over 12.

The Company recorded no inventory turnover days for the 12 months ended 31 December 2007 (2006: 47 days) based on the amount of inventories as at the relevant period end divided by cost of sales of the same period and multiplied by 365 days (2006: 365 days) and the number of months in that period over 12.

(iv) Foreign exchange exposure

As the Company usually conducts its business transactions in Hong Kong Dollar and United States Dollar, and about 96.2% of the Company's cash as at 31 December 2007 (2006: 98.1%) is in either Hong Kong Dollar or United States Dollar, the management of the Company assessed the exposure to exchange rate fluctuation not significant and evaluated that a commercial hedging exercise was not necessary at this stage. Nevertheless, the Company has been managing its foreign exchange risk through natural hedges when different assets and liabilities are denominated in similar foreign currencies. Meanwhile, the management of the Company has recognized the impact of the appreciation of RMB, though not significant, on the Company's operating costs in the PRC during the year 2007, and further considered any possible depreciation of United States Dollar against RMB in the future.

For the year ended 31 December 2006*(i) Financial results*

Net sales for the twelve months ended 31 December 2006 increased moderately by 10.0% to HK\$504.3 million as compared to the annual sales of 2005.

Gross profit margin dropped from 20.2% in year 2005 to 16.8% in year 2006. Selling and research and development expenses recorded a respective rise of 17.2% and 29.6% year on year.

Profit for the twelve months ended 31 December 2006 decreased by 24.6% as compared to the same period in 2005.

Cash generated from operations for the year was HK\$56.5 million (2005: HK\$56.40 million). The Company retired a loan of HK\$62.5 million during the year, bringing down the debt to equity ratio from 0.61 as at 2005 year end to 0.34 as at 2006 year end. As at 31 December 2006, the Company had HK\$26.5 million cash on hand and total banking facilities of HK\$203.2 million (2005: HK\$229.9 million), out of which only HK\$57.1 million (2005: HK\$94.9 million) was utilised. The Company believes that the strong cash from operations and available banking facilities shall be able to support the Company in its capital expenditure and future operations.

Basic and diluted earnings per Share for the year ended 31 December 2006 were 3.7 HK cents as compared to basic and diluted earnings per Share of 4.9 HK cents for the year ended 31 December 2005.

(ii) Business review

The Company recorded fourth quarter sales of HK\$128.2 million, an increase of 16.6% when compared with the same period in 2005. Gross profit and net profit for the fourth quarter, however, fell 23.0% and 95.4% respectively when compared with the same period in 2005. Fourth quarter gross profit margin dropped from 18.7% for year 2005 to 12.3% for year 2006 due to lower production yield (arising from production of new products), lower sales mix of high margin LCD modules and competitive pricing pressure. Selling, administrative and research and development expenses as a whole increased very marginally over the same quarter in 2005.

Net sales for the twelve months ended 31 December 2006 were HK\$504.3 million, which was approximately 10.0% above the annual sales of 2005. The growth came mainly from lower margin LCD panels while the sales of higher margin LCD modules increased only marginally. A major customer of the Company had reduced LCD module orders significantly during 2006 as a result of its own setback in the consumer market. The Company had solicited LCD module sales from new customers during the year to compensate for this loss satisfactorily. However, production of

new products would entail lower production yield initially. In 2006, manufacturing costs increased especially the rise in overheads such as labour costs, which coupled with competitive pricing pressure were mainly responsible for the drop in gross profit margin and net profit margin from 20.2% and 8.2% in year 2005 to 16.8% and 5.6% respectively in year 2006.

(iii) Liquidity, financial resources and financial ratios

During the financial year ended 31 December 2006, cash per Share was 3.5 HK cents (December 2005: 5.3 HK cents) and net asset per Share was 22.1 HK cents (December 2005: 20.4 HK cents), based on 763,534,755 (December 2005: 763,534,755) Shares in issue.

As at 31 December 2006, the Group had, a cash to current liabilities ratio of 0.19 (December 2005: 0.27), a current ratio of 1.34 (December 2005: 1.19) and a total assets to total liabilities ratio of 2.14 (December 2005: 1.92), and approximately HK\$26.5 million (December 2005: HK\$40.6 million) of bank balances and cash. As at 31 December 2006, the Company issued corporate guarantees amounting to approximately HK\$138.8 million (December 2005: HK\$146.0 million) to certain banks in respect of banking facilities granted to its subsidiaries. Total banking facilities available for the Group was HK\$203.2 million as at 31 December 2006 (2005: HK\$229.9 million), out of which HK\$57.1 million (2005: HK\$94.9 million) had been utilised. The gearing ratio (total bank borrowings/total shareholders' equity) was 0.34 (December 2005: 0.61). The fall in bank borrowings was attributable to retirement of loans previously raised for trade finance and factory expansion because the Company was able to gradually generate cash from its operation. The Group's borrowings are arranged at certain fixed rates over the usual inter-bank money market offer rates which were floating for periods ranging from one month to six months and they are denominated in Hong Kong Dollar, United States Dollar and RMB. The average interest rate paid during the year was 5.2% (2005: 4.1%).

The Group recorded a debtor's turnover days of approximately 71 days for the 12 months ended 31 December 2006 (December 2005: 65 days) based on the amount of trade debtors as at the relevant period end divided by sales of the same period and multiplied by 365 days (December 2005: 365 days) and the number of months in that period over 12.

The Group recorded a creditor's turnover days of approximately 66 days for the 12 months ended 31 December 2006 (December 2005: 60 days) based on the amount of trade creditors as at the relevant period end divided by cost of sales of the same period and multiplied by 365 days (December 2005: 365 days) and the number of months in that period over 12.

The Group recorded an inventory turnover days of approximately 47 days for the 12 months ended 31 December 2006 (December 2005: 47 days) based on the amount of inventories as at the relevant period end divided by cost of sales of the same period and multiplied by 365 days (December 2005: 365 days) and the number of months in that period over 12.

(iv) *Foreign exchange exposure*

As the Company usually conducted its business transactions in Hong Kong Dollar and United States Dollar, and about 98.1% of the Company's cash as at 31 December 2006 (December 2005: 73.2%) is in either Hong Kong Dollar or United States Dollar, the management of the Company assessed that the exposure to exchange rate fluctuation not significant and evaluated that a commercial hedging exercise was not necessary at this stage. Nevertheless, the Company has been managing its foreign exchange risk through natural hedges when different assets and liabilities are denominated in similar foreign currencies. Meanwhile, the management of the Company has recognized the impact of the appreciation of RMB, though not significant, on the Company's operating costs in the PRC during the year 2006, and further considered any possible impact of depreciation of United States Dollar against RMB in the future.

(v) *Non-availability of certain information*

The Company's annual report for the relevant financial year has not disclosed information regarding (a) the state of the Group's order book and prospects for its new business; (b) details of the number and remuneration of the Group's employees, remuneration policies, bonus and share option schemes and training schemes; (c) details of charges on the Group's assets; and (d) details of the Group's future plans for material investments or capital assets and their expected sources of funding in the coming year. As all the existing Directors have been newly appointed after the change of the controlling shareholder of the Company in March 2008, they are unaware of and therefore unable to provide those information which should have been disclosed in the annual report of the Company for the relevant financial year.

For the year ended 31 December 2005

(i) *Financial results*

Net sales for the twelve months ended 31 December 2005 increased significantly by 19.3% to HK\$458.50 million as compared to the annual sales of 2004. The rise was mainly driven by the increased sales of LCD module products which increased by 70.2% as compared to that of the year 2004, representing 39.2% of the total sales in 2005.

Without barring the one-off charges due to plant relocation during the fourth quarter of 2004, the Company was able to increase gross profit by 27.3% as compared to that of 2004. Gross profit margin was maintained at 20.2% despite the increased overheads in the new and larger manufacturing plant, not to mention the impact of an appreciation of RMB during the year. Profit from operations and net profit for the twelve months ended 31 December 2005 also increased by 63.8% and 59.5% respectively as compared to those of the same period in 2004.

Cash generated from operations for the year was HK\$56.40 million (2004: HK\$35.40 million). As at 31 December 2005, the Company had HK\$40.57 million cash on hand and total banking facilities of HK\$229.93 million, out of which HK\$94.94 million had been utilized. The Company believes that the strong cash from operations, cash on hand and available banking facilities shall be able to support the Company for its capital expenditure and future operations.

Basic and diluted earnings per Share for the year ended 31 December 2005 were 4.9 HK cents as compared to basic and diluted earnings per Share of 2.2 HK cents for the year ended 31 December 2004.

(ii) *Business review*

The year 2005 was another good year for the Company, marking the second consecutive year of double digit growth in the LCD business.

The relocation to the new manufacturing site completed on schedule in January 2005. This site was set up to provide the Company with upgraded machinery and expanded capacities in both LCD panel and module manufacturing, in response to growing demands from customers. This has proven to be successful in winning several new businesses and customers that have already made some good contribution to the performance of the Company.

The global business environment for LCD industry in 2005 remained strong but was very competitive. It has been the strategy of the Company to develop business of value added LCD products to secure higher sales and higher margins. The Company has made remarkable progress in providing customers a one-stop service of custom designed high performance LCD modules which made up a major part of the contribution to the growth in 2005.

The Company in 2005 has also shown respectable improvement in operations. Although it was expected that the new manufacturing site would incur higher operation expenditure, the Company managed to improve manufacturing yield and work efficiency which provided a great leverage in maintaining respectable operation margins. Such continuous improvements shall continue to provide a sharper competitive edge.

(iii) *Liquidity, financial resources and financial ratios*

During the financial year ended 31 December 2005, cash per Share was 5.3 HK cents (December 2004: 2.9 HK cents) and net asset per Share was 20.4 HK cents (December 2004: 17.5 HK cents), based on 763,534,755 (December 2004: 763,534,755) Shares in issue.

The Group had, as at 31 December 2005, a cash to current liabilities ratio of 0.27 (2004: 0.22), a current ratio of 1.19 (December 2004: 1.39) and a total assets to total liabilities ratio of 1.92 (December 2004: 1.95), and approximately HK\$40.57 million (December 2004: HK\$22.18 million) of bank balances and cash.

As at 31st December 2005, the Company issued corporate guarantees amounting to approximately HK\$146.00 million (2004: HK\$144.60 million) to certain banks in respect of banking facilities granted to its subsidiaries. Total banking facilities available for the Group was HK\$229.93 million as at 31 December 2005 (2004: HK\$144.60 million), out of which HK\$94.94 million (2004: HK\$78.91 million) had been utilised. The gearing ratio (total bank borrowings/total shareholders' equity) was 61% (December 2004: 54%). The rise in bank borrowings was attributable to increased trade finance for growing sales as well as funds required for factory expansion. The Group's borrowings are arranged at certain fixed interest rates over the usual interbank money market offer rates which are floating for periods ranging from one month to six months and are denominated in Hong Kong Dollar, United States Dollar and RMB. The average interest rate paid during the year was 4.1% (2004: 2.6%).

The Group recorded a debtor's turnover days of approximately 65 days for the 12 months ended 31 December 2005 (December 2004: 67 days) based on the amount of trade debtors as at the relevant period end divided by sales of the same period and multiplied by 365 days (December 2004: 366 days) and the number of months in that period over 12.

The Group recorded a creditor's turnover days of approximately 60 days for the 12 months ended 31 December 2005 (December 2004: 61 days) based on the amount of trade creditors as at the relevant period end divided by cost of sales of the same period and multiplied by 365 days (December 2004: 366 days) and the number of months in that period over 12.

The Group recorded an inventory turnover days of approximately 47 days for the 12 months ended 31 December 2005 (December 2004: 42 days) based on the amount of inventories as at the relevant period end divided by cost of sales of the same period and multiplied by 365 days (December 2004: 366 days) and the number of months in that period over 12. The rise was attributable to the Company's diversification into Chip-On-Glass products which required certain materials of longer lead time.

(iv) Foreign exchange exposure

Since the Company usually conducts its business transactions in Hong Kong Dollar and United States Dollar, and approximately 73.2% of the Company's cash as at 31 December 2005 is in either Hong Kong Dollar or United States Dollar, the management of the Company assessed that the exposure to exchange rate fluctuation was not significant and evaluated that a commercial hedging exercise was not necessary at this stage. Nevertheless, the Company has been managing its foreign exchange risk through natural hedges in that different assets and liabilities are denominated in similar foreign currencies. Meanwhile, the management of the Company has recognised the impact of the appreciation of RMB, though not significant, on the Company's operating costs in the PRC during the year 2005, and further considered any possible depreciation of United States Dollar against RMB in the future.

(v) *Non-availability of certain information*

The Company's annual report for the relevant financial year has not disclosed information regarding (a) the state of the Group's order book and prospects for its new business; (b) details of the number and remuneration of the Group's employees, remuneration policies, bonus and share option schemes and training schemes; (c) details of charges on the Group's assets; and (d) details of the Group's future plans for material investments or capital assets and their expected sources of funding in the coming year. As all the existing Directors have been newly appointed after the change of the controlling shareholder of the Company in March 2008, they are unaware of and therefore unable to provide those information which should have been disclosed in the annual report of the Company for the relevant financial year.

3. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2007, being the date to which the latest published audited financial statement of the Group were made up.

4. WORKING CAPITAL

The Directors are of the opinion that, after taking into account (i) the existing cash and bank balances of the Group; (ii) the bank financing arrangements under discussion with the Group which have yet to be finalised; and (iii) the standby credit facility from the Company's holding company (which will lapse upon the formal execution of the aforesaid bank financing arrangements) to cover the Group's funding requirements, the Group will have sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this circular.

5. STATEMENT OF INDEBTEDNESS

At the close of business on 31 May 2008, being the latest practicable date for the purpose of ascertaining certain information relating to this indebtedness statement prior to the printing of this circular, the Group had bank borrowings of term loans of US\$562,500 (equivalent to approximately HK\$4,387,500). All the bank borrowings would be due within one year.

Save as aforesaid and apart from intra-group liabilities, the Group did not have outstanding, at close of business on 31 May 2008, any debt securities (whether outstanding, and authorised or otherwise created but unissued), term loans (whether guaranteed, unguaranteed, secured or unsecured), any other borrowings or indebtedness in the nature of borrowings such as overdrafts, liabilities under acceptances or acceptance credits, hire purchase commitments (whether guaranteed, unguaranteed, secured or unsecured), mortgages, charges, guarantees or other contingent liabilities.

The Directors are not aware of any material adverse change in the Group's indebtedness and contingent liabilities since the close of business on 31 May 2008.

6. FINANCIAL AND TRADING PROSPECTS

The Company is an investment holding company. The Group is principally engaged in the alternative energy business and continues to participate in the software development business that the Group has been carrying on prior to HKC's take-over of the Group in March 2008.

Having evaluated and closely monitored the recent energy demand in the PRC and the PRC Government's policies on alternative energy, the Board expects that the Project will strengthen the Group's alternative energy sector investment and contribute to the future revenue and income growth of the Group once the construction of the wind farm is completed and fully operational.

On the software development side, the Group continues to be a solution provider for digital dictionary software development in the Japanese electronics industry. A software development facility is maintained in Shekou, Shenzhen of the PRC while sales of software products are made through the sales office in Tokyo of Japan. Since the financial year ended 31 December 2007, operating profits of the Group with respect to the software development business has decreased mildly due to depreciation in U.S. dollars (which sales is denominated in) and operating costs increment under general inflation.

With a fully-developed dictionary software development market in Japan, the Group is constantly looking for opportunities in developing new market and researching on new products in global positioning and navigation map engine.

1. RESPONSIBILITY STATEMENTS

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

2. DISCLOSURE OF INTERESTS

(a) Directors and chief executive

As at the Latest Practicable Date, the interests of the Directors and chief executive of the Company in the shares and underlying shares of the Company and its associated corporation (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

(i) Long positions in the shares of the Company

Name	Nature of interest	Number of Shares	Approximate percentage of the Company's issued share capital
Oei Kang, Eric (Mr. Oei)	Corporate (<i>note 1</i>)	572,598,298	74.99%

(ii) Long positions in the shares and underlying shares of associated corporation of the Company

Name of associated corporation	Name	Nature of interest	Number of Shares	Approximate percentage of the issued share capital of the associated corporation
HKC	Mr. Oei	Personal (note 2)	192,940,410	2.380%
		Corporate (note 3)	3,273,607,001	40.381%
		Joint (note 4)	10,268,735	0.127%
		Family (note 5)	3,000,000	0.037%
	Chen Libo (Mr. Chen)	Personal (note 6)	102,064,394	1.259%
	Tsang Sai Chung, Kirk (Mr. Tsang)	Personal (note 7)	17,583,749	0.217%
	Chan Kwok Fong, Joseph (Mr. Chan)	Personal (note 8)	13,000,000	0.160%

(iii) Interest in share options of associated corporation of the Company

Share options granted under the share option scheme of HKC adopted on 16 June 2006:

Name of Director	Nature of interest	Number of options outstanding as at the Latest Practicable Date	Date of grant	Exercise period	Exercise price per share (HK\$)
Mr. Oei	Personal	562,500	15 December 2006	15 December 2007 to 14 December 2016	1.420
		937,500	15 December 2006	15 December 2008 to 14 December 2016	1.420
		300,000	1 February 2008	1 February 2009 to 31 January 2018	1.656
		450,000	1 February 2008	1 February 2010 to 31 January 2018	1.656
		750,000	1 February 2008	1 February 2011 to 31 January 2018	1.656

Name of Director	Nature of interest	Number of options outstanding as at the Latest Practicable Date	Date of grant	Exercise period	Exercise price per share (HK\$)
Mr. Oei	Family (<i>note 5</i>)	562,500	15 December 2006	15 December 2007 to 14 December 2016	1.420
		937,500	15 December 2006	15 December 2008 to 14 December 2016	1.420
		300,000	1 February 2008	1 February 2009 to 31 January 2018	1.656
		450,000	1 February 2008	1 February 2010 to 31 January 2018	1.656
		750,000	1 February 2008	1 February 2011 to 31 January 2018	1.656
Mr. Chen	Personal	4,000,000	15 December 2006	15 December 2007 to 14 December 2016	1.420
		6,500,000	15 December 2006	15 December 2008 to 14 December 2016	1.420
		2,500,000	15 December 2006	15 December 2009 to 14 December 2016	1.420
		2,400,000	1 February 2008	1 February 2009 to 31 January 2018	1.656
		3,600,000	1 February 2008	1 February 2010 to 31 January 2018	1.656
		6,000,000	1 February 2008	1 February 2011 to 31 January 2018	1.656
Mr. Tsang	Personal	2,000,000	15 December 2006	15 December 2007 to 14 December 2016	1.420
		5,000,000	15 December 2006	15 December 2008 to 14 December 2016	1.420
		1,600,000	1 February 2008	1 February 2009 to 31 January 2018	1.656
		2,400,000	1 February 2008	1 February 2010 to 31 January 2018	1.656
		4,000,000	1 February 2008	1 February 2011 to 31 January 2018	1.656

Name of Director	Nature of interest	Number of options outstanding as at the Latest Practicable Date	Date of grant	Exercise period	Exercise price per share (HK\$)
Mr. Chan	Personal	1,000,000	15 December 2006	15 December 2007 to 14 December 2016	1.420
		1,500,000	15 December 2006	15 December 2008 to 14 December 2016	1.420
		2,500,000	15 December 2006	15 December 2009 to 14 December 2016	1.420
		1,600,000	1 February 2008	1 February 2009 to 31 January 2018	1.656
		2,400,000	1 February 2008	1 February 2010 to 31 January 2018	1.656
		4,000,000	1 February 2008	1 February 2011 to 31 January 2018	1.656

Notes:

1. Creator Holdings Limited (Creator), a company beneficially and wholly owned by Mr. Oei, is beneficially interested in 37.78% of the issued share capital of HKC and thus, Mr. Oei is deemed to be interested in 572,598,298 Shares in which HKC is interested.
2. The personal interest of Mr. Oei represents an interest in 172,673,100 shares of HKC, an interest in 17,267,310 underlying shares in respect of warrants issued by HKC and an interest in 3,000,000 underlying shares in respect of options granted by HKC as stated above.
3. The corporate interest of Mr. Oei represents an interest in 2,784,432,448 shares of HKC and an interest in 278,443,244 underlying shares in respect of warrants issued by HKC held by Creator, and an interest in 191,573,918 shares of HKC and an interest in 19,157,391 underlying shares in respect of warrants issued by HKC held by Genesis Capital Group Limited, a company owned as to 50% by Mr. Oei and as to the remaining 50% by his wife, Mrs. Oie Valonia Lau (Mrs. Oei).
4. The joint interest of Mr. Oei represents an interest in 5,454,305 shares of HKC and an interest in 4,814,430 underlying shares in respect of warrants issued by HKC jointly held with his wife, Mrs. Oei.
5. The family interest of Mr. Oei represents an interest in 3,000,000 underlying shares in respect of options granted by HKC to Mrs. Oei.
6. The personal interest of Mr. Chen represents an interest in 70,513,086 shares of HKC, an interest in 6,551,308 underlying shares in respect of warrants issued by HKC and an interest in 25,000,000 underlying shares in respect of options granted by HKC as stated above.
7. The personal interest of Mr. Tsang represents an interest in 2,403,409 shares of HKC, an interest in 180,340 underlying shares in respect of warrants issued by HKC and an interest in 15,000,000 underlying shares in respect of options granted by HKC as stated above.

8. The personal interest of Mr. Chan represents an interest in 13,000,000 underlying shares in respect of options granted by HKC as stated above.

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

(b) Substantial shareholders

As at the Latest Practicable Date, according to the register of interests kept by the Company under section 336 of the SFO and so far as was known to the Directors and chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had an interest in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or in any option in respect of such capital:

(i) Long positions in the shares of the Company

Name	Nature of interest	Number of Shares	Approximate percentage of the Company's issued share capital
HKC	Beneficial owner	572,598,298	74.99%
Creator <i>(note 1)</i>	Corporate	572,598,298	74.99%
Mrs. Oei <i>(note 2)</i>	Family	572,598,298	74.99%

Notes:

1. Creator is beneficially interested in 37.78% of the issued share capital of HKC and thus, is deemed to be interested in the same parcel of Shares in which HKC is interested.
2. Mrs. Oei is deemed to be interested in the same parcel of Shares in which Mr. Oei is taken to be interested.

(ii) *Interests in other members of the Group*

Name of subsidiary	Approximate percentage of interests held		Name of the other shareholder
	The Group	The other shareholder	
Hong Kong Biomass Energy (BVI) Co., Limited	55%	45%	GeneHarbor (Hong Kong) Technologies Limited

According to the register of interests kept by the Company under section 336 of the SFO and so far as was known to the Directors and chief executive of the Company, save as disclosed above, there were no other persons (other than the Directors or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or in any option in respect of such capital.

(c) **Other**

Save as disclosed below, as at the Latest Practicable Date, none of Directors was a director or employee of a company which had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of the Director	Name of company which had such discloseable interest or short position	Position within such company
Mr. Oei	HKC, Creator	Director
Mr. Chen	HKC	Director
Mr. Tsang	HKC	Director
Mr. Chan	HKC	Director

3. INTERESTS OF THE DIRECTORS

(a) Competing interests

Mr. Oei, Mr. Chen, Mr. Tsang and Mr. Chan are executive directors of HKC. One of the business activities of HKC is alternative energy business in the PRC.

Save as disclosed above, none of the Directors or their respective associate(s) was interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

(b) Other interests

As at the Latest Practicable Date,

- (i) none of the Directors had any direct or indirect interest in any assets which have, since 31 December 2007, being the date of the latest published audited financial statements of the Group, been acquired or disposed of by, or leased to, or are proposed to be acquired or disposed of by, or leased to, any member of the Group; and
- (ii) none of the Directors was materially interested in any contract or arrangement entered into with any member of the Group which contract or arrangement is subsisting as at the date of this circular and which is significant in relation to the business of the Group taken as a whole.

4. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration proceedings of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Group.

5. MATERIAL CONTRACTS

Save as disclosed below, there are no contracts (not being contracts entered into in the ordinary course of business of the Group), which have been entered into by any member of the Group within the two years immediately preceding the date of this circular and are, or may be material:

- (a) a conditional sale and purchase agreement entered into between the Company as vendor and NTEI as purchaser on 24 September 2007 as amended and supplemented by supplemental agreements entered into between the same parties on 5 October 2007 and 28 November 2007 for the sale and purchase of 100% of 捷騰電子(深圳)有限公司 (Jetup Electronic (Shenzhen) Co., Ltd.) at a consideration of HK\$381,767,378. Further details of the transaction were set out in the circular of the Company dated 5 December 2007;

- (b) a conditional sale and purchase agreement entered into between the Company as purchaser and NTEEP as vendor on 5 October 2007 as amended and supplemented by supplemental agreement entered into between the same parties on 28 November 2007 for the sale and purchase of 100% of the issued share capital of Namtek Japan Company Limited and 100% of the registered capital of 深圳南迪電子技術有限公司 (Shenzhen Namtek Co., Ltd.) at an aggregate consideration of HK\$80,500,000. Further details of the transaction were set out in the circular of the Company dated 5 December 2007;
- (c) an equity transfer agreement entered into between the Company as vendor and Top Eastern Investment Limited as purchaser on 30 November 2007 for the sale and purchase of 100% of 捷騰電子(深圳)有限公司 (Jetup Electronic (Shenzhen) Co., Ltd.) at a consideration of HK\$181,200,000;
- (d) an equity transfer agreement entered into between NTEEP as vendor and Best Whole Holdings Limited (a wholly-owned subsidiary of the Company) as purchaser on 30 November 2007 for the sale and purchase of 100% of the issued share capital of Namtek Japan Company Limited and 100% of the registered capital of 深圳南迪電子技術有限公司 (Shenzhen Namtek Co., Ltd.) at an aggregate consideration of US\$800,000;
- (e) a technology transfer and co-operation agreement entered into between HKE (Biomass) Holdings Limited (香港新能源(生物質)控股有限公司), which is a wholly-owned subsidiary of the Company, and GeneHarbor (Hong Kong) Technologies Limited (基因港(香港)科技有限公司) (“GeneHarbor”) on 17 April 2008 in respect of investment in the pilot cellulosic ethanol project using the cellulosic ethanol technology developed by GeneHarbor. Further details of the transaction were set out in the announcement of the Company dated 21 April 2008; and
- (f) a framework agreement entered into between HKE (Da He) Holdings Limited (香港新能源(大河)控股有限公司), which is a wholly-owned subsidiary of the Company, and a wholly-owned subsidiary of 中國節能投資公司 (China Energy Conservation Investment Corporation) on 18 April 2008 in respect of the investment and development of a 100MW wind power project at Lunaobao, Zhangbei County, Hebei Province, the PRC (中國河北省張北縣綠腦包). Further details of the transaction were set out in the announcement of the Company dated 21 April 2008.

6. SERVICE CONTRACTS

None of the Directors had entered into or proposes to enter into any service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

7. GENERAL

- (a) The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.
- (b) The principal place of business of the Company in Hong Kong is at 9th Floor, Tower 1, South Seas Centre, 75 Mody Road, Tsimshatsui East, Kowloon, Hong Kong.
- (c) The secretary of the Company is Mr. Tsang Sai Chung, Kirk.
- (d) The qualified accountant of the Company is Mr. Leung Wing Sum, Samuel.
- (e) The English language text of this circular shall prevail over the Chinese language text.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company in Hong Kong at 9th Floor, Tower 1, South Seas Centre, 75 Mody Road, Tsimshatsui East, Kowloon, Hong Kong during normal business hours from the date of this circular up to and including 18 August 2008:

- (a) the memorandum and articles of association of the Company;
- (b) the annual reports of the Company for each of the two years ended 31 December 2007; and
- (c) the material contracts referred to in the section headed "Material contracts" in this Appendix.

NOTICE OF EXTRAORDINARY GENERAL MEETING



香港新能源

HONG KONG ENERGY (HOLDINGS) LIMITED 香港新能源（控股）有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 987)

(website: www.hkenergy.com.hk)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Hong Kong Energy (Holdings) Limited (the “Company”) will be held on 18 August 2008 (Monday) at 11:00 a.m. at 9th Floor, Tower 1, South Seas Centre, 75 Mody Road, Tsimshatsui East, Kowloon, Hong Kong for the purpose of considering and, if thought fit, passing the following resolutions of the Company:

ORDINARY RESOLUTION

1. **“THAT** all purchases of wind power generation equipments by the Company and/or its subsidiaries for the purpose of implementing the 49.5MW wind farm project at Siziwang Qi, Wulanchabu City, Inner Mongolia Autonomous Region, the People’s Republic of China as further described in the “Letter from the Board” set out in the circular of the Company dated 11 July 2008, a copy of which has been produced to the meeting marked “A” and signed by the chairman of the meeting for the purpose of identification (the “Circular”), subject to the cap as prescribed under the paragraph headed “Implications of the Listing Rules” in the Circular be and are hereby approved and the execution of the Wind Turbine Agreement and Turbine Tower Agreement (both as defined in the Circular) be and are hereby approved, ratified and confirmed and the directors of the Company be and are hereby authorised to do all acts and things and execute all documents which in their opinion may be necessary, desirable or expedient to carry out or give effect to the transactions contemplated hereunder.”

SPECIAL RESOLUTION

2. **“THAT** the Articles of Association of the Company be amended as follows:
 - (i) by inserting the following new sentence at the end of Article 3(4):

“The Company is hereby authorised to make payments in respect of a purchase of its shares out of capital or out of any other account or fund which can be authorised for this purpose in accordance with the Law.”

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- (ii) with respect to Article 66,
 - (a) by inserting the words “voting by way of a poll is required by the Listing Rules or” after the words “a show of hands unless” in the third sentence; and
 - (b) by deleting the full-stop at the end of sub-paragraph (d), replacing therewith a semicolon and the word “or” and inserting the following new sub-paragraph (e):
 - “(e) if required by the Listing Rules, by any Director or Directors who, individually or collectively, hold(s) proxies in respect of shares representing five per cent. (5%) or more of the total voting rights at such meeting.”
- (iii) by deleting the second sentence in Article 68 in its entirety and substituting therefor the following:
 - “The Company shall only be required to disclose the voting figures on a poll if such disclosure is required by the Listing Rules.”
- (iv) by deleting the second sentence in Article 86(3) and substituting therefor the following:
 - “Any Director so appointed by the Board shall hold office only until the next following general meeting of the Company (in the case of filling a casual vacancy) or until the next following annual general meeting of the Company (in the case of an addition to the Board), and shall then be eligible for re-election at that meeting.”
- (v) by deleting the words “special resolution” in Article 86(5) and substituting therefor the words “ordinary resolution”
- (vi) by deleting the existing Article 87(1) in its entirety and substituting therefor the following new Article 87(1):
 - “87.(1) Notwithstanding any other provisions in the Articles, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at least once every three years.”

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- (vii) by replacing the words “all the Directors” and “all the alternate Directors” with the words “a majority of the Directors” and “a majority of the alternate Directors” appearing in the first and second lines of Article 122 respectively.

- (viii) by inserting the words “and at the same time as the notice of annual general meeting” after the words “before the date of the general meeting” in Article 152.”

By order of the Board
TSANG Sai Chung, Kirk
Company Secretary

Hong Kong, 11 July 2008

Notes:

1. A member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company. A proxy need not be a member of the Company. In addition, a proxy or proxies representing either a member who is an individual or a member which is a corporation shall be entitled to exercise the same powers on behalf of the member which he or they represent as such member could exercise.

2. To be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority, shall be delivered to the principal place of business of the Company in Hong Kong at 9th Floor, Tower 1, South Seas Centre, 75 Mody Road, Tsimshatsui East, Kowloon, Hong Kong as soon as possible, and in any event, not less than forty-eight (48) hours before the time appointed for the holding of the meeting or any adjournment thereof.