Delta Networks, Inc.

達創科技股份有限公司 *

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 722

* For identification purpose only

ANNUAL REPORT **2008**

CONTENTS

DEFINITIONS

In this annual report, unless the context otherwise requires, the following terms shall have the meanings set out below.

"AGM"	the annual general meeting of the Company convened to be held on Friday, 24 April 2009
"Articles of Association" or "Articles"	the articles of association of our Company, adopted on 13 June 2007 and as amended from time to time
"associates"	has the meaning ascribed thereto under the Listing Rules
"Audit Committee"	the audit committee of the Board established by the Company
"Board of Directors" or "Board"	the board of directors of our Company
"Board Committee"	collectively are Audit Committee, Remuneration Committee, Nomination Committee and other committees of the Board established by the Company
"Business Day"	any day (other than Saturday and Sunday) in Hong Kong on which banks in Hong Kong are open generally for normal banking business
"Code on CG Practices" or "Code"	the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules
"Company" or "our Company" or "DNI"	Delta Networks, Inc., an exempted company incorporated in the Cayman Islands with limited liability on 25 November 2002
"Companies Law"	the Companies Law, Cap. 22 (Laws 3 of 1961, as consolidated and revised) of the Cayman Islands
"connected person"	has the meaning ascribed to it under the Listing Rules
"controlling shareholder"	has the meaning ascribed to it under the Listing Rules and, in the context of the Company, means DNHL and DEI
"DEI"	台達電子工業股份有限公司 (Delta Electronics, Inc.), a company incorporated in Taiwan whose shares are listed on the Taiwan Stock Exchange
"DEI Group"	DEI and its subsidiaries (other than the DNI Group)
"DEI Share Awards"	share awards given by DEI to our employees, details of which are set out in the section headed "Financial Information — Critical Accounting Policies — Share-based compensation expenses"of the Prospectus
"Director(s)"	the director(s) of our Company

"DNHL"	Delta Networks Holding Limited, a company incorporated in the Cayman Islands on 22 November 2002 and a wholly-owned subsidiary of DEI
"DNI Dongguan"	達創科技(東莞)有限公司 (Delta Networks (Dongguan) Ltd.), a company incorporated in the PRC on 21 October 1998 and a subsidiary of our Company
"DNI Labuan"	Delta Networks International Limited, a company incorporated in Labuan, Malaysia on 27 December 2004 and a subsidiary of DNI
"DNI Taiwan"	達創科技股份有限公司, a company incorporated in Taiwan on 3 November 1998 and a subsidiary of our Company
"Employee Incentive Scheme"	employee incentive scheme, the details of which are set out in the section headed "Statutory and General Information — Continuing Share-based Compensation Schemes — Employee Incentive Scheme" in Appendix VI to the Prospectus
"Employee Incentive Scheme Trustee"	HSBC International Trustee Limited, being the trustee currently appointed by us for holding all of the Shares in trust for satisfying grants of awards by the Company to eligible participants of the Employee Incentive Scheme
"Global Offering"	the global offering of initially 313,600,000 Shares, details of which are set out in the Prospectus
"Group", "our Group", "DNI Group", "we" or "us"	our Company and its subsidiaries, taken together
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Companies Ordinance"	the Companies Ordinance of Hong Kong (Chapter 32 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"IFRS"	International Financial Reporting Standards
"Listing"	the listing of the Shares on the Main Board of the Stock Exchange
"Listing Date"	6 July 2007, being the date on which dealings in the Shares first commence on the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
"Macau"	the Macau Special Administrative Region of the PRC
"Management Share Subscription Scheme" or "MSSS"	management share subscription scheme, the details of which are set out in the section headed "Statutory and General Information — Continuing Share-based Compensation Scheme with No Further Rewards — Management Share Subscription Scheme" in Appendix VI to the Prospectus

"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"Nomination Committee"	the nomination committee of the Board established by the Company
"NT$"	New Taiwan dollars, the lawful currency of Taiwan
"Prospectus"	the Prospectus of the Company dated 22 June 2007
"PRC" or "China" or "Mainland China"	the People's Republic of China and, except where the context requires and only for the purpose of this annual report, references in this annual report to the PRC or China do not include Taiwan, Hong Kong or Macau
"Reference Share Capital"	1,253,544,000 Shares, being the aggregate of (i) the total issued Share capital of the Company immediately after completion of the Global Offering and assuming the Shares to be issued to the Employee Incentive Scheme Trustee pursuant to the Employee Incentive Scheme have all been issued, and (ii) the total Shares granted and to be issued pursuant to the Management Share Subscription Scheme
"Remuneration Committee"	the remuneration committee of the Board established by the Company
"RMB" or "Renminbi"	Renminbi Yuan, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) issued by the Company, with a nominal value of US$0.05 each
"Share Option Scheme"	the share option scheme adopted by the Company pursuant to a resolution passed by its shareholders on 13 June 2007, a summary of the principal terms of which is set out in "Statutory and General Information — Continuing Share-based Compensation Schemes — Share Option Scheme" in Appendix VI to the Prospectus
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary" or "subsidiaries"	has the meaning ascribed to it in section 2 of the Hong Kong Companies Ordinance
"substantial shareholder"	a person who is entitled to exercise, or control the exercise of, 10% or more of the voting power at any of our general meetings
"Taiwan Stock Exchange"	the Taiwan Stock Exchange Corporation
"United States" or "U.S."	the United States of America, including the District of Columbia, its territories and possessions
"US$" or "U.S. dollars"	United States dollars, the lawful currency of the United States

The English language names of certain entities referred to in this annual report are provided for your convenience only. Some of these entities do not have registered English language names.

EXECUTIVE DIRECTORS

Mr. LIANG Ker Uon, Sam
(Chairman & Chief Executive Officer)
Mr. CHENG An, Victor

NON-EXECUTIVE DIRECTORS

Mr. CHENG Chung Hua, Bruce
Mr. HAI Ing-Jiunn, Yancey

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. ZUE Wai To, Victor
Mr. LIU Chung Laung
Mr. SHEN Bing

COMPANY SECRETARY

Ms. SOON Yuk Tai *ACS, ACIS*

QUALIFIED ACCOUNTANT

Mr. LEUNG Sai Cheong *CPA, FCCA*

AUDIT COMMITTEE

Mr. SHEN Bing *(Chairman)*
Mr. ZUE Wai To, Victor
Mr. LIU Chung Laung

REMUNERATION COMMITTEE

Mr. HAI Ing-Jiunn, Yancey *(Chairman)*
Mr. SHEN Bing
Mr. ZUE Wai To, Victor

NOMINATION COMMITTEE

Mr. HAI Ing-Jiunn, Yancey *(Chairman)*
Mr. LIU Chung Laung
Mr. ZUE Wai To, Victor

AUTHORISED REPRESENTATIVES

Ms. SOON Yuk Tai *ACS, ACIS*
Mr. CHENG An, Victor

COMPLIANCE ADVISER

Anglo Chinese Corporate Finance, Limited
40th Floor, Two Exchange Square
8 Connaught Place, Central
Hong Kong

LEGAL ADVISER AS TO HONG KONG LAW

Chiu & Partners
41st Floor
Jardine House
1 Connaught Place
Central
Hong Kong

INDEPENDENT AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor
Prince's Building
Central, Hong Kong

PRINCIPAL BANKERS

Deutsche Bank AG
Hong Kong Branch
51/F, Cheung Kong Center
2 Queen's Road Central
Hong Kong

Taipei Fubon Commercial Bank Co., Ltd.
6/F No.169
Section 4 Jen-Ai Road
Taipei 10686
Taiwan

CORPORATE INFORMATION

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
Grand Cayman KY1-1107
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

REGISTERED OFFICE

Offshore Incorporations (Cayman) Limited
Scotia Centre, 4th Floor
P.O. Box 2804
George Town, Grand Cayman KY1-1112
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN TAIWAN

186 Ruey Kuang Road
Neihu
Taipei 11491
Taiwan

PLACE OF BUSINESS IN HONG KONG

Level 28
Three Pacific Place
1 Queen's Road East
Hong Kong

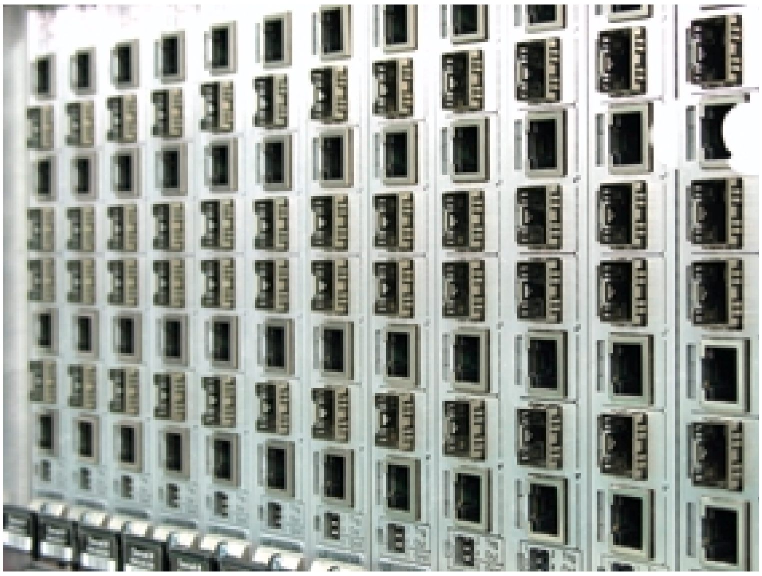
STOCK CODE

722

WEBSITE

http://www.dninetworks.com

BUSINESS OVERVIEW AND OUTLOOK



In 2008, the Group was confronted by a challenging business environment, triggered by the US sub-prime mortgage crisis which led to the meltdown of certain financial institutions and the decline of global economy. Adverse effect began to surface in the fourth quarter of 2008 as the demand for the Group's products decreased. At the same time, natural disasters such as the snowstorm in Mainland China caused labour shortage at the beginning of 2008, and the introduction of the new labour law in Mainland China led to an increase in labour cost. For the first time in five years, the Group recorded a slight decline in turnover, which serves as a note of caution to the Group to strengthen its efforts in overcoming adversities.

New applications and media in communications continue to come on to the market and end-users have a multitude of products and services at their disposal. Due to an increasing concern of consumers about cost, effectiveness and reliability, the consolidation of Ethernet-based technology has become a necessity in the delivery of new and affordable services. With Ethernet-based technology, we see more integrated devices, which will improve efficiency and reliability and reduce costs. We believe that with the ODM (Original Design Manufacturer) model, such enhancements will continue in the foreseeable future.

Recently, there has been a strong move towards the development of a new communication medium offered by the convergence of "Datacom" and "Telecom". Nowadays, either individual or corporation, could access to or provide services and products through centralization. This will totally change the way people communicate, work and play. This will also mean business opportunities for a new breed of service providers, and will totally revolutionize the way organizations collaborate and provide new products and services. At the same time, we expect to see upgrades of facilities or development of infrastructure for these new applications taking off. The current economic situation may slow down this trend; however with the expectation that government will provide economic stimulus, this trend should sustain.

We consider the future to be challenging. We are confident, however, that with our strong financial position, we will be able to weather this economic downturn and at the same time will prepare ourselves for the future boom. We will continue to increase the number of products offered and to expand our customer base. The future business potential will be in 10G (Gigabytes) Ethernet Switches, applications for Datacenter and Server ISP (Internet Service Provider).

Currently, we are engaged in 10G projects focus on Fiber Channel over Ethernet, Switch blade, TOR, and Fiber & Copper Storage Switch such as SCSI-Ethernet with a number of customers. With the increasing international attention to global warming, product design and substances used, DNI is fully committed to design and produce products that are eco-friendly. Our factories in Taiwan and Dongguan have all received ISO14001 environmental management system certificates, and we implement Green Ethernet Technology which complies with EEE standard on all products. In Broadband and Wireless segment, we will continue with cost-down design for WiFi 802.11n router and gateway. At the same time, we are working on new projects focusing on IP-Set-Top-Box video application, VDSL IAD, and VDSL switch with GPON uplink.

The Group will continue to look for strategic alliances to promote its business, engineering expertise and overall competency. With a strong cash position, the Group is well positioned to ride out this difficult time. With an unfavourable outlook in the economy, the networking ODMs that have cash flow problems may go under, which could provide opportunities for the Group to increase its market share and to gain new customers. We expect that as other ODMs come under the threat of the economic downturn, their willingness to negotiate in respect of mergers and acquisitions will be enhanced. We will continue to look for opportunities for strategic targets with suitable partners.

OPERATIONAL REVIEW

During the year ended 31 December 2008, the Group achieved consolidated revenue of US$409.6 million, representing a 2.2% decrease from the year ended 31 December 2007. This was the result of the slowdown in the global economy in the fourth quarter of 2008. The Group recorded steady growth in the Broadband & wireless products segment, with turnover improving by 59.1%. The LAN-Carrier and LAN-SOHO recorded turnover decline of 13.4% and 28.5%, respectively. The growth in shipment of Broadband & wireless products was resulted from new product replacement cycle. Besides, the change in product mix together with the increase in price of raw material and labour cost contributed to the decline in gross profit margin for 2008.

FINANCIAL REVIEW

Turnover

During the year ended 31 December 2008, the Group achieved a total turnover of US$409.6 million, a decrease of 2.2% as compared to that of last financial year. This was mainly attributable to the global economy slowdown which affected the demand for our products.

Margins and profitability

Gross profit for the year was US$59.4 million, a decrease of 18.3% as compared to US$72.7 million of 2007. The gross profit margin for the year ended 31 December 2008 was 14.5%, declined by 2.9% from 17.4% of the same period of 2007. This was the result of the change in product mix, and the increase in price of raw materials as well as labour cost. On 14 January 2009, one of the Group's customers filed for bankruptcy protection. Accordingly, the Company's management made impairment loss provision of US$2.7 million. The provision was charged to the consolidated income statement for the year ended 31 December 2008, and the impact on gross margin was -0.7%, which will be reverted once shipment resumes under new agreement reached with this customer. The operating expenses for the year ended 31 December 2008 was US$46.5 million, a decline of US$7.4 million from US$53.9 million of 2007. This was mainly due to the cost saving efforts of the Group. Earnings before interest and taxation (EBIT) for the year were US$20.2 million, a decrease of 26.6% as compared to that of last financial year. EBIT margin was 4.9%, a 1.7% decline from a year ago. Decline in EBIT and EBIT margin was mainly caused by change in product mix and increase in costs of raw material and labour, partially offset by the lower operating expenses. In respect of the aforesaid customer who filed for bankruptcy protection, the management of the Company made impairment loss provision in respect of trade receivables of US$1.8 million related to this customer. The provision was charged to the consolidated income statement for the year ended 31 December 2008, and this resulted in a negative impact of 0.4% to the EBIT margin.

Net profit for the year ended 31 December 2008 was US$24.6 million, a decline of US$6.8 million from the previous financial year. The net profit margin decreased from 7.5% in 2007 to 6% in 2008. This was mainly due to the increase in sales of broadband & wireless products with lower profit margin, as well as increase in costs of raw material and labour.

Profit attributable to equity holders of the Company for the year ended 31 December 2008 was US$24.6 million, a decrease of 21.6% from the year ended 31 December 2007.

Earnings per share

The basic earnings per Share for the year ended 31 December 2008 was US$0.0225, representing a decrease of 31.6% from 2007.

Capital expenditure

During the year of 2008, the Group incurred capital expenditure amounting to approximately US$7.6 million, which was incurred mainly for enhancement and upgrade of the production capacities in DNI Taiwan and DNI Dongguan plants, compared to US$9.5 million incurred in 2007.

Charges on assets

None of the assets of the Group were pledged as security for any banking facilities and borrowings as at 31 December 2008.

Contingent liabilities

The Group had no material contingent liabilities as at 31 December 2008.

Capital commitments

The Group had no material capital commitments as at 31 December 2008.

Working capital and financial resources

As at 31 December 2008, working capital of the Group, calculated by current assets minus current liabilities, was US$283,309,000 (2007: US$274,489,000).

Gearing and liquidity ratio

The gearing ratio of the Group was zero as at 31 December 2008 (2007: zero) as the Group had no borrowings.

Capital structure

As at 31 December 2008, total equity of the Group was US$297,188,000 (2007: US$286,874,000). Debt ratio, calculated by total liabilities divided by total assets, was 22.9% as at 31 December 2008 (2007: 28.9%).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2008, the Group had a total of 2,444 employees. Total staff costs incurred for the year ended 31 December 2008 amounted to approximately US$36.2 million (2007: US$48.6 million). We offer a comprehensive remuneration policy, which is reviewed by the management and the remuneration committee on a regular basis.

FINAL DIVIDEND

At a meeting held on 26 February 2009, the Board of Directors recommended a final dividend in respect of the year ended 31 December 2008 of 0.83 US cents per Share (2007: 1.03 US cents), totaling US$9,846,000 (2007: US$12,581,000). Subject to the approval of shareholders of the Company at the forthcoming AGM, this final dividend will be paid on or around 25 May 2009.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 21 April 2009 to Friday, 24 April 2009, both days inclusive, during which period no transfers of Shares will be registered. In order to be entitled to the payment of the aforementioned final dividend and eligible for attending and voting at the AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 20 April 2009.

CORPORATE GOVERNANCE

The Company has complied with the code provisions set out in the Code on CG Practices contained in Appendix 14 to the Listing Rules during the year ended 31 December 2008, except for code provision A.2.1 of the Code which states that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual, and the division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. Currently, Mr. LIANG Ker Uon, Sam, is both the chairman of the Board and the chief executive officer of the Company. He is responsible for ensuring that all Directors act in the interests of shareholders of the Company and he also contributes to the Board and the Group on all top-level and strategic decisions. The Board believes that this structure provides the Group with strong and consistent leadership and allows for more effective and efficient business planning and decisions as well as execution of long term business strategies. The Board is of the view that the Company has sufficient measures of internal control to maintain checks and balances on the functions of the chairman and chief executive officer. The Board has regularly reviewed and will continue in the future to review the effectiveness of this structure to ensure that the dual role of chairman and chief executive officer is appropriate in view of the Group's prevailing conditions. Details of the corporate governance practices of the Company are set out in the section "Corporate Governance Report" of this annual report.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct governing Directors' dealings in the Company's securities. The Company has made specific enquiry to all the Directors and all the Directors have confirmed that they have complied with the required standard set out in the Model Code during the year.

AUDIT COMMITTEE

Pursuant to the requirements of the Code on CG Practices and Rule 3.21 of the Listing Rules, the Company has established an Audit Committee comprising all three existing independent non-executive Directors, namely Mr. SHEN Bing (Chairman), Mr. ZUE Wai To, Victor and Mr. LIU Chung Laung. The Audit Committee has reviewed the consolidated financial statements of the Company for the year ended 31 December 2008.

INDEPENDENCE OF INFORMATION TECHNOLOGY SYSTEMS FROM DEI

Pursuant to the timetable of separation of the Company's information technology systems from DEI, the ultimate controlling shareholder of the Company, as set out on page 88 of the Prospectus, the Company completed the separation of client server on 31 December 2008.

However, in view of the current global economic crisis and the difficult operating environment, we are still evaluating all possible options which are more cost effective and practicable, with a view to migrating our information systems to a new one. We will continue to provide periodical updates to our shareholders, through our interim and final results announcements, regarding the progress of achieving full independence of our information technology systems from DEI.

DISCLOSURE OF INFORMATION ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This annual report of the Company containing information required by the Listing Rules is dispatched to shareholders of the Company and also made available on the websites of the Stock Exchange and the Company.

During the financial year ended 31 December 2008, the Group had the following continuing connected transactions with DEI Group. DEI is the ultimate controlling shareholder of the Company. DEI and the members of the DEI Group are therefore connected persons of the Company within the meaning of the Listing Rules.

1. Leases from DEI (Note 1);

2. Supporting services provided by, or procured through, DEI Group in Taiwan (Note 2);

3. Sales and marketing services, and repair and maintenance services provided by DEI Group in Japan (Note 3); and

4. Purchase of components from DEI Group (Note 4).

Notes:

1. This refers to the properties leased from DEI in Taiwan pursuant to the framework lease agreements dated 1 January 2007 in relation to the Taipei headquarters, Taoyuan plant facility and Taoyuan dormitory, for a term expiring on 31 December 2009. As we have been occupying the properties prior to the Lisitng, we do not consider it cost-effective to incur additional costs to move to other premises.

   The total consideration for the year ended 31 December 2008 was US$1,103,000 (payable monthly), of which US$632,000 was for the lease of the Taipei headquarters, US$408,000 was for the lease of the Taoyuan plant facility and US$63,000 was for the lease of Taoyuan dormitory.

2. This relates to the procurement and provision of services by DEI Group in Taiwan pursuant to a general services agreement dated 18 June 2007, for a term expiring on 31 December 2009. As our principal place of business in Taipei is located at the same building as the headquarters of DEI and our manufacturing facility in Taoyuan is located in the same industrial park where factories of DEI Group also carry out their production activities, the provision or procurement of provision of various services (like utilities, building security, mailing services, car park spaces etc.) by DEI Group is considered to be more cost-effective to out Group.

   The total consideration paid in respect of such services for the year ended 31 December 2008 was US$635,000.

3. This relates to the sales and marketing, repair and maintenance services provided by DEI Group in Japan pursuant to a framework supporting services agreement dated 18 June 2007, for a term expiring on 31 December 2009. At this stage, we have a relatively small number of customers in Japan, so it is not cost-efficient to establish a permanent place of business in Japan. The provision of the above-mentioned services by DEI Group gives flexibility of having access to local customer support services for our Japanese customers.

   The total consideration paid in respect of such services for the year ended 31 December 2008 was US$658,000.

4. This relates to the supply of products and components by DEI Group pursuant to a framework components purchase agreement dated 18 June 2007, for a term expiring on 31 December 2009. DEI Group is a global supplier of high quality components and finished products in electronic industries. The purchases of components from DEI Group is after taking into account a number of factors including quality, cost, delivery time and reliability. In addition, certain of our customers direct that certain components should be sourced from DEI Group.

   The total consideration paid by the Company to DEI Group for the year ended 31 December 2008 was US$30,532,000.

CONTINUING CONNECTED TRANSACTIONS

Certain related party transactions as disclosed in note 32 to the consolidated financial statements also constituted continuing connected transactions of the Group within the meaning of the Listing Rules. Details of the above-mentioned continuing connected transactions were also disclosed in the Prospectus.

In respect of the above continuing connected transactions, the Stock Exchange has granted a waiver to the Company from strict compliance with the announcement and/or independent shareholders' approval requirements.

The Board engaged the auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group for the year ended 31 December 2008 to assist the Directors in determining whether the transactions:

1. have received the approval from the Board;
2. were in accordance with the pricing policies of the Group where the transactions involve provision of goods and services by the Group;
3. have been entered into in accordance with the relevant agreements governing the transactions; and
4. have not exceeded the caps disclosed in the Prospectus or other relevant announcements.

The auditors have reported their findings on these procedures to the Board and provided a letter to the Board (with a copy to the Listing Division of the Stock Exchange) confirming that the transactions satisfied the above-mentioned points 1-4. The independent non-executive Directors have reviewed the above continuing connected transactions for the year ended 31 December 2008 and confirmed that the transactions have been entered into:

(1) in the ordinary and usual course of business of the Group;

(2) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and

(3) in accordance with the relevant agreements governing them on terms which are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

The Board of Directors and the management of the Company are committed to the maintenance of good corporate governance practices and procedures. The Company believes that good corporate governance provides a framework that is essential for effective management, a healthy corporate culture, successful business growth and enhancing shareholders' value. The corporate governance principles of the Company emphasize a quality Board, sound internal controls, and transparency and accountability to all shareholders. Except for code provision A.2.1 as mentioned below, the Company has applied the principles and complied with all code provisions and, where applicable, the recommended best practices of the Code on CG Practices throughout the year ended 31 December 2008.

Key corporate governance principles and corporate governance practices of the Company during the year under review are summarised below:

Code Ref.	Code Provisions	Compliance	Corporate Governance
A. DIRECTORS			
A.1 The Board			
Corporate Governance Principle *The Board should assume responsibility for leadership and control of the Company; and is collectively responsible for directing and supervising the Company's affairs.*			
A.1.1	Regular board meetings at least four times a year involving active participation, either in person or through other electronic means of communication, of majority of directors	√	• The Board has held meetings in March (twice) , May, August, October and November 2008 and will meet regularly in 2009. • Details of Directors' attendance records in 2008: **Members of the Board** — **Attendance** ***Executive Directors*** Mr. LIANG Ker Uon, Sam (Chairman & Chief Executive Officer) — 6/6 Mr. CHENG An, Victor — 6/6 ***Non-executive Directors*** Mr. CHENG Chung Hua, Bruce — 6/6 Mr. HAI Ing-Jiunn, Yancey — 6/6 ***Independent Non-executive Directors*** Mr. ZUE Wai To, Victor — 6/6 Mr. LIU Chung Laung — 6/6 Mr. SHEN Bing — 6/6 • The Directors can attend meetings in person, by phone or through other means of electronic communication in accordance with the Articles of Association.

Code Ref.	Code Provisions	Compliance	Corporate Governance
A.1.2	All directors are given an opportunity to include matters in the agenda for regular board meetings.	√	• All Directors have been consulted as to whether they want to include any matter in the agenda before the agenda for each regular Board meeting was issued.
A.1.3	— At least 14 days notice for all other board meetings. — Reasonable notice for other board meetings.	√ √	• Regular Board meetings of the year under review were scheduled towards the end of the preceding year to give all Directors adequate time to plan their schedules to attend. • At least 14 days formal notice was given before each regular meeting.
A.1.4	All directors should have access to the advice and services of the company secretary with a view to ensuring that board procedures, and all applicable rules and regulations, are followed.	√	• Directors had access to the Company Secretary and key officers of the Company who are responsible to the Board for ensuring that Board procedures were followed. • Memos were issued to Directors from time to time regarding updates on legal and regulatory changes and matters of relevance to Directors in the discharge of their duties.
A.1.5	— Minutes of board meetings and meetings of board committees should be kept by a duly appointed secretary of the meeting. — such minutes should be open for inspection at any reasonable time on reasonable notice by any director.	√ √	• The Company Secretary prepared written resolutions or minutes and kept records of matters discussed and decisions resolved at all meetings of the Board and Board Committees. • Board minutes/resolutions were sent to all Directors within a reasonable time (generally within 14 days) after each Board and Board Committee meeting. • Board minutes/resolutions were available for inspection by Directors/Board Committee members.

Code Ref.	Code Provisions	Compliance	Corporate Governance
A.1.6	— Minutes of board meetings and meetings of board committees should record in sufficient detail the matters considered by the board and decisions reached. — Draft and final versions of minutes for all directors to comment and to keep records within a reasonable time after the board meeting.	√ √	• Minutes recorded in sufficient detail the matters considered by the Board/Board Committee and decisions reached. • Directors were given an opportunity to comment on draft Board minutes. • Final versions of Board minutes were placed on record within a reasonable time after the Board meeting.
A.1.7	— A procedure agreed by the board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expense. — The board should resolve to provide separate independent professional advice to directors to assist the relevant director or directors to discharge his/their duties to the Company.	√ √	• Directors have been advised that the Company's retained lawyers and/or other legal or professional advisers can give independent professional advice at the expense of the Company should such advice be considered necessary by any Director.

Code Ref.	Code Provisions	Compliance	Corporate Governance
A.1.8	— If a substantial shareholder or a director has a conflict of interest in a matter to be considered by the board which the board has determined to be material, the matter should not be dealt with by way of circulation or by a committee but a board meeting should be held. — Independent non-executive directors who, and whose associates, have no material interest in the transaction should be present at such board meeting.	√ √	• Director must declare his interest in the matters to be passed under the resolution, if applicable. • If a substantial shareholder or a Director has a conflict of interest in a matter to be considered material by the Board, a full Board meeting would be held and the matter would be dealt with in such Board meeting, and, if appropriate, an independent Board committee, including the independent non-executive Directors and the executive directors will be set up to deal with the matter.

Code Ref.	Code Provisions	Compliance	Corporate Governance
A.2 Chairman and Chief Executive Officer ***Corporate Governance Principle*** *There should be a clear division of responsibilities of the management of the Board and the day-to-day management of the Company's business to ensure a balance of power and authority.*			
A.2.1	— Separate roles of chairman and chief executive officer not be performed by the same individual. — Division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.	X √	• According to the Articles of Association, the Chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practices and eusuring the effectiveness of the Board. On the other hand, the role of chief executive officer, according to Company's Compliance Manual, focuses on managing the Company and its subsidiaries, developing and implementing objectives, policies and strategies approved and delegated by the Board. Chief executive officer is in charge of the Group's day-to-day management and operations and is also responsible for developing strategic plans and formulating the organizational structure, control systems and internal procedures and processes for the Board's approval.

Code Ref.	Code Provisions	Compliance	Corporate Governance
A.2.1 (Continued)			• Mr. LIANG Ker Uon, Sam, is the Chairman of the Board and the chief executive officer of the Company. Accordingly, such dual role constitutes a deviation from code provision A.2.1 of the Code on CG Practices. However, the Board is of the view that the Company has sufficient internal control measures to maintain checks and balances on the functions of the Chairman and chief executive officer. Mr. LIANG Ker Uon, Sam, as both the chairman and chief executive officer of the Company, was responsible for ensuring that all Directors act in the interests of the shareholders of the Company. Besides, Mr. LIANG was also fully accountable to the shareholders of the Company and he contributed to the Board and the Group on all top-level and strategic decisions. This structure therefore did not impair balance of power and authority between the Board and the management of the Company.

Code Ref.	Code Provisions	Compliance	Corporate Governance
A.2.2	— The chairman should ensure that all directors are properly briefed on issues arising at board meetings.	√	• With the support of the executive Directors and the Company Secretary, the Chairman sought to ensure that all Directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information on a timely basis.
A.2.3	— The chairman should be responsible for ensuring that directors receive adequate information, which must be complete and reliable, in a timely manner.	√	• The Board papers including supporting analyses and related background information were normally sent to the Directors at least three days before Board meetings. • Communications between non-executive Directors (including independent non-executive Directors) on the one hand, and the senior management of the Company/the Company Secretary as co-ordinator for the other business units of the Group on the other hand, was a dynamic and interactive process to ensure that queries raised and clarification sought by the Directors were dealt with and further supporting information and/or documentation was provided where appropriate.

Code Ref.	Code Provisions	Compliance	Corporate Governance
A.3 Board composition ***Corporate Governance Principle*** *The board should have a balance of skills and experience appropriate for the requirements of the business of the Company and should include a balanced composition of executive and non-executive Directors so that independent judgment can effectively be exercised.*			
A.3.1	— The independent non-executive directors should be expressly identified as such in all corporate communications that disclose the names of directors of the company.	√	• The composition of the Board, by category and position of Directors including names of Chairman, executive Directors, non-executive Directors and independent non-executive Directors, was disclosed in all corporate communications. • The Board consisted of a total of seven Directors, comprising two executive Directors, two non-executive Directors and three independent non-executive Directors. More than one-third of the Board were independent non-executive Directors, of which one of them had appropriate professional qualifications, or accounting or related financial management expertise. • Details of the composition of the Board are set out on page 5. • The Directors' biographical information and the relationships among the Directors are set out on pages 50 to 52. • Review of the Board composition was made regularly to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company.

Code Ref.	Code Provisions	Compliance	Corporate Governance
A.4	**Appointments, re-election and removal** ***Corporate Governance Principle*** *There should be a formal, considered and transparent procedure for the appointment of new directors to the board and plans in place for orderly succession for appointments to the board. All directors should be subject to re-election at regular intervals. Reasons for any resignation or removal of any director must be disclosed.*		
A.4.1	Non-executive directors should be appointed for a specific term, subject to re-election.	√	• All Directors (including non-executive Directors) are subject to retirement by rotation once every three years and are subject to re-election in accordance with the Articles of Association and the Code on CG Practices.
A.4.2	— All directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. — Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.	√ √	• In accordance with the Articles of Association, newly appointed Directors are required to offer themselves for re-election at the first annual general meeting following their appointment. • The Board as a whole is responsible for the appointment of new Directors and Directors' nomination for re-election by Shareholders at the annual general meeting of the Company. Under the Articles of Association, the Board may from time to time appoint a Director either to fill a vacancy or as an addition to the Board. Any such new Director shall hold office until the next following annual general meeting of the Company and shall then be eligible for re-election at the same annual general meeting. • All Directors (including non-executive Directors) are subject to retirement by rotation once every three years and are subject to re-election in accordance with the Company's Articles of Association and the Code on CG Practices.

Code Ref.	Code Provisions	Compliance	Corporate Governance
A.4.2 (Continued)			• The structure, size and composition of the Board are reviewed from time to time to ensure the Board has a balanced composition of skills and experience appropriate for the requirements of the business of the Company. The independence of the Independent non-executive Directors is assessed according to the relevant rules and requirements under the Listing Rules. • Each of the independent non-executive Directors made an annual confirmation of independence pursuant to the requirements of the Listing Rules. The Company is of the view that all independent non-executive Directors meet the independence guidelines set out in the relevant requirements of the Listing Rules and are independent in accordance with the terms of the guidelines.

Code Ref.	Code Provisions	Compliance	Corporate Governance
A.4.5	Nomination Committee (Recommended Best Practices)	√	• The role and function of the Nomination Committee is to identify, screen and recommend to the Board appropriate candidates to serve as Directors, to oversee the process for evaluating the performance of the Board and to develop, recommend to the Board and monitor nomination guidelines for the Company. • The Nomination Committee consisted of three members, Mr. HAI Ing-Jiunn, Yancey (Chairman), Mr. ZUE Wai To, Victor and Mr. LIU Chung Laung (both are independent non-executive Directors). • The Nomination Committee performed the following duties: (a) to review the structure, size and composition (including skills, knowledge and experience) of the Board on a regular basis and to make recommendations to the Board regarding any proposed change; (b) to develop the criteria for identifying and assessing the qualifications of and evaluating candidates for directorship; (c) to identify individuals who are qualified/suitable to become a Board member and to select or make recommendations to the Board on the selection of individuals nominated for directorships; (d) to assess the independence of independent non-executive Directors to determine their eligibility;

Code Ref.	Code Provisions	Compliance	Corporate Governance
A.4.5 (Continued)			(e) to make recommendations to the Board on matters relating to the appointment or reappointment of Directors and succession planning for Directors, in particular, the chairman and the chief executive officer; and (f) to review and assess the adequacy of the corporate governance guidelines of the Company and to recommend any proposed changes to the Board for approval. • The Nomination Committee has held meeting during the year ended 31 December 2008. It shall meet at least once annually or more frequently if circumstances require and shall act by unanimous written consent. **Members of the Nomination Committee** — **Attendance** Mr. HAI Ing-Jiunn, Yancey (Chairman) — 1/1 Mr. LIU Chung Laung — 1/1 Mr. ZUE Wai To, Victor — 1/1 Note: The members of the Nomination Committee can attend meetings in person, by phone or through other means of electronic communication in accordance with the Company's Articles of Association.

Code Ref.	Code Provisions	Compliance	Corporate Governance
A.5 Responsibilities of directors			
Corporate Governance Principle			
Every director is required to keep abreast of his responsibilities as a director of the Company and of the conduct, business activities and development of the Company.			
A.5.1	— Each newly appointed director of the company should receive a comprehensive, formal and tailored induction on the first occasion of his appointment, and subsequently such briefing and professional development as is necessary. — To ensure that he has a proper understanding of the operations and business of the company and that he is fully aware of his responsibilities under statute and common law, the Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the company.	√ √	• A Compliance Manual had been made available to the newly appointed Directors to familiarize themselves with, amongst other things, the duties and responsibilities of directors of a listed company in Hong Kong. • An information pack compiled and reviewed by the Company's legal advisers setting out such duties and responsibilities as required under the Listing Rules, Companies Ordinance and other related ordinances and relevant regulatory requirements of Hong Kong had been provided to each newly appointed Director. Any revised materials relating to periodic updates on laws, rules and regulations concerning the duties and responsibilities of directors are given to each Director at the relevant times. • Memos were issued from time to time to the Directors regarding legal and regulatory changes and matters that are of relevance to the Directors in the discharge of their duties.

Code Ref.	Code Provisions	Compliance	Corporate Governance
A.5.2	The functions of non-executive directors should include but should not be limited to the following:	√	• The non-executive Directors exercised their independent judgment and advised on the future business direction and strategic plans of the Company.
	— independent judgment on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct at board meetings	√	• Non-executive Directors reviewed the financial information and operational performance of the Company on a regular basis. • Independent non-executive Directors were invited to serve on the Audit Committee, Nomination Committee and Remuneration Committees of the Company.
	— take the lead on potential conflicts of interests	√	
	— serve on the audit, remuneration, nomination and other governance committees, if invited	√	
	— scrutinise the company's performance in achieving agreed corporate goals and objectives, and monitoring the reporting of performance	√	

Code Ref.	Code Provisions	Compliance	Corporate Governance
A.5.3	Every director should ensure that he can give sufficient time and attention to the affairs of the company and should not accept the appointment if he cannot do so.	√	• There was satisfactory attendance at Board meetings during the year. Please refer to A.1.1 for details of attendance records. • Every executive Director had hands-on knowledge and expertise in the areas and operation for which he is responsible. Appropriate attention to the affairs of the Company is measured in terms of time as well as the quality of such attention and the ability of the Directors to contribute with reference to his/her necessary knowledge and expertise.
A.5.4	— Directors must comply with the Model Code. — Board should establish written guidelines on no less exacting terms than the Model Code for relevant employees.	√ √	• The Company has adopted the Model Code as its own code of conduct regarding Directors' securities transactions. • Confirmation has been sought from all Directors that they have complied with the required standards set out in the Model Code for the year ended 31 December 2008. • The Company has identified the relevant employees for the purpose of the Model Code and has informed such relevant employees the restrictions on dealings in the Company's securities subject to the Model Code. The Company has extended the list of "relevant employees" in 2008 to further enhance the quality of corporate governance, and an additional guideline for all the relevant employees has been issued on 21 February 2008 to remind these relevant employees again the importance of their continuous compliance obligation of the Model Code and the Compliance Manual.

Code Ref.	Code Provisions	Compliance	Corporate Governance
A.6	**Supply of and access to information**		
	Corporate Governance Principle		
	Directors should be provided in a timely manner with appropriate information in such form and of such quality as will enable them to make an informed decision and to discharge their duties and responsibilities as Directors of the Company.		
A.6.1	— Send agenda and full board papers to all directors at least 3 days before regular board or board committee meetings and, so far as practicable, before other board or board committee meetings.	√	• Agenda for regular Board/Board committee meetings and Board papers were circulated not less than three days before such meetings to enable the Directors to make informed decisions on matters to be raised thereat.
A.6.2	— Management has an obligation to supply the board and its committees with adequate information in a timely manner to enable it to make informed decisions. — The board and each director should have separate and independent access to the company's senior management for making further enquiries where necessary.	√ √	• The Company Secretary and the management of the Company attended the regular Board meetings, if necessary, to advise on corporate governance, statutory compliance, and accounting and financial matters. • Communications between Directors on the one hand, and the senior management of the Company/the Company Secretary, who acts as coordinator for the other business units of the Group on the other hand, is a dynamic and interactive process to ensure that queries raised and clarification sought by the Directors are dealt with and that further supporting information is provided if appropriate.

Code Ref.	Code Provisions	Compliance	Corporate Governance
A.6.3	— All directors are entitled to have access to board papers and related materials.	√	• Please see A.6.1 above.
	— Steps must be taken to respond as promptly and fully as possible to queries raised by directors.	√	• Please see A.6.2 above.
B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT			
B.1 The level and make-up of remuneration and disclosure			
Corporate Governance Principle			
There should be a formal and transparent procedure for setting policy on executive Directors' remuneration and for fixing the remuneration packages for all Directors.			
B.1.1	Establish a remuneration committee with specific written terms of reference dealing clearly with its authority and duties. Majority of its members should be independent non-executive directors.	√	• In accordance with the Code on CG Practices, the Company has set up the Remuneration Committee with a majority of the members being independent non-executive Directors. • The Company established its Remuneration Committee on 13 June 2007. • The existing Remuneration Committee comprises the non-executive Director, Mr. HAI Ing-Jiunn, Yancey (Chairman), and two independent non-executive Directors, namely, Mr. ZUE Wai To, Victor, and Mr. SHEN Bing. Mr. HAI was elected as the Chairman of the Remuneration Committee in place of Mr. LIANG Ker Uon, Sam on 31 December 2008 and he had chaired the meeting held on 31 December 2008. • Meetings of the Remuneration Committee were held on 6 March 2008 and 31 December 2008. Details of the attendance records of the members of the

Code Ref.	Code Provisions	Compliance	Corporate Governance
B.1.1 (Continued)			Remuneration Committee are as follows: **Members of the Remuneration Committee** — **Attendance** Mr. LIANG Ker Uon, Sam — 1/1 Mr. HAI Ing-Jiunn, Yancey (Chairman) — 1/1 Mr. SHEN Bing — 2/2 Mr. ZUE Wai To, Victor — 2/2 Note: The members of the Remuneration Committee can attend meetings in person, by phone or through other means of electronic communication in accordance with the Articles of Association. • The Remuneration Committee has approved the number of shares awarded to senior managements of the Company with regard to the Employee Incentive Scheme during meetings of the committee.
B.1.2	The remuneration committee should consult the chairman and/or chief executive officer about their proposals relating to the remuneration of other executive directors and have access to professional advice if considered necessary.	√	• The Remuneration Committee has consulted the Chairman and/or the executive Director about proposals relating to the remuneration packages and other human resources issues of the Directors and senior management, including, without limitation, succession plan and key personnel movements as well as policies for recruiting and retaining qualified personnel. • The emoluments of Directors were based on the skill, knowledge, involvement in the Company's affairs and the performance of each Director, together with reference to the profitability of the Company, remuneration benchmarks in the industry, and prevailing market conditions. • To enable them to better advise on the Group's future remuneration policy and related strategies, the Remuneration Committee has been advised of the Group's existing remuneration policy and succession plan, such as guidelines on designing employees' remuneration packages and related market trends and information.

Code Ref.	Code Provisions	Compliance	Corporate Governance
B.1.3	Terms of reference of the remuneration committee include, among others, the following duties: — determine specific remuneration packages of all executive directors and senior management — review and approve performance-based remuneration and the compensation payable on loss or termination of office or appointment — ensure that no director or any of his associates is involved in deciding his own remuneration	√	• The terms of reference of the Remuneration Committee, which follow closely the requirements of the code provisions set out in the Code on CG Practices and have been adopted by the Board, are posted on the Company's website. • The principal responsibilities of the Remuneration Committee include determining the policy and structure for the remuneration of executive Directors, evaluating the performance of executive Directors, reviewing incentive schemes and Directors' service contracts and fixing the remuneration packages for all Directors and senior management.
B.1.4	The remuneration committee should make available its terms of reference, explaining its role and the authority delegated to it by the board.	√	• Each Director has kept one copy of the terms of reference for the Remuneration Committee and fully understands the function and roles of the Remuneration Committee. Also, the terms of reference of the Remuneration Committee are posted on the Company's website.
B.1.5	The remuneration committee should be provided with sufficient resources to discharge its duties.	√	• The Human Resources Department and the Finance Department provided administrative support and implemented the approved remuneration packages and other human resources related decisions approved by the Remuneration Committee.

Code Ref.	Code Provisions	Compliance	Corporate Governance
C. ACCOUNTABILITY AND AUDIT			
C.1 Financial reporting ***Corporate Governance Principle*** *The Board should present a balanced, clear and comprehensible assessment of the company's performance, position and prospects.*			
C.1.1	Management should provide such explanation and information to the board as will enable the board to make an informed assessment of the financial and other information put before the board for approval.	√	• Directors were provided with a review of the Group's major business activities and detailed financial information on a quarterly basis.
C.1.2	— The directors should acknowledge in the Corporate Governance Report their responsibility for preparing the accounts. — There should be a statement by the auditors about their reporting responsibilities in the auditors' report on the financial statements.	√ √	• The Directors annually acknowledge in writing their responsibility for preparing the financial statements of the Group. • With the assistance of the Finance/Accounts Department which was under the supervision of the Qualified Accountant of the Company, the Directors ensure the preparation of the financial statements of the Group was in accordance with statutory requirements and applicable accounting standards. • The Directors also ensured the publication of the financial statements of the Group was in a timely manner. • The statement by the auditors of the Company regarding their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on pages 69 and 70. • The Directors are not aware of material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern as referred to in Code provision C.1.2 of the Code on CG Practices.

Code Ref.	Code Provisions	Compliance	Corporate Governance
C.1.2 (Continued)	— Unless it is inappropriate to assume that the company will continue in business, the directors should prepare the accounts on a going concern basis, with supporting assumptions or qualifications as necessary. — When the directors are aware of material uncertainties relating to events or conditions that may cast significant doubt upon the company's ability to continue as a going concern, such uncertainties should be clearly and prominently set out and discussed at length in the Corporate Governance Report.	√ N/A	
C.1.3	The board's responsibility to present a balanced, clear and understandable assessment extends to annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements.	√	• The Board aims to present a clear, balanced and understandable assessment of the Group's performance and position in all shareholder communications. • The Board has been aware of the requirements under the applicable rules and regulations about timely disclosure of price-sensitive information or matters regarding the Company and had authorised the publication of such announcements as and when the occasion arises. The Company Secretary and Chief Financial Officer worked closely and in consultation with legal advisers to review the materiality and sensitivity of transactions and proposed transactions and advise the Board accordingly.

<table>
<tr><th>Code Ref.</th><th>Code Provisions</th><th>Compliance</th><th>Corporate Governance</th></tr>
<tr><td colspan="4">C.2 Internal controls

Corporate Governance Principle

The board should ensure that the Company maintains sound and effective internal controls to safeguard the shareholders' investment and the Company's assets.</td></tr>
<tr><td>C.2.1</td><td>— Directors to review effectiveness of the system of internal control of the company and its subsidiaries and report to shareholders that they have done so in their Corporate Governance Report.
— The review should cover all material controls, including financial, operational and compliance controls and risk management functions.</td><td>√
√</td><td>• The Board has overall responsibility for maintaining sound and effective internal control system of the Group. The Group's system of internal control includes a defined management structure with limits of authority. It is designed to help the achievement of business objectives, safeguard assets against unauthorised use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with relevant legislation and regulations. The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure in operational systems and achievement of the Group's objectives.

Internal Control Environment
• An organisational structure with operating policies and procedures, lines of responsibility and delegated authority has been established.
• The relevant executive Directors and senior management are delegated with respective levels of authorities with regard to key corporate strategy and policy and contractual commitments.</td></tr>
</table>

Code Ref.	Code Provisions	Compliance	Corporate Governance
C.2.1 (Continued)			• Operational budgets are prepared by operational departments and reviewed by the responsible Directors prior to being adopted. There are procedures for the appraisal, review and approval of major capital and recurrent expenditure. Results of operations against budgets are reported regularly to the executive Directors. • Proper controls are in place for the recording of complete, accurate and timely accounting and management information. Regular reviews and audits are carried out to ensure that the preparation of financial statements is carried out in accordance with generally accepted accounting principles, the Group's accounting policies and applicable laws and regulations. • The Internal Audit Department provides an independent appraisal of the Group's financial and operational activities, and makes constructive recommendations to the relevant management for necessary actions.

Code Ref.	Code Provisions	Compliance	Corporate Governance
C.2.1 (Continued)			• The Internal Audit Department carries out annual risk assessment on each audit area and derives a yearly audit plan according to their risk ratings. The audit plan is reviewed and endorsed by the Audit Committee. In addition to its agreed schedule of work, the Internal Audit Department conducts other review and investigative work as may be required. The results of internal audit reviews and agreed action plans in response to the Internal Audit Department's recommendations are reported to the executive Directors and Audit Committee periodically. The Internal Audit Department also follows up the corrective actions to ensure that satisfactory controls are maintained. • The Directors, through the Audit Committee, have conducted an annual review of the effectiveness of the system of internal control of the Company and its subsidiaries. The review covers all material controls, including financial, operational and compliance controls and risk management functions. • The remuneration of the auditors for the year ended 31 December 2008 was set out in note 23 of the consolidated financial statements of this report.

<table>
<tr><th>Code Ref.</th><th>Code Provisions</th><th>Compliance</th><th>Corporate Governance</th></tr>
<tr><td colspan="4">C.3 Audit Committee

Corporate Governance Principle

The board should establish formal and transparent arrangements for considering how it will apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors.</td></tr>
<tr><td>C.3.1</td><td>— Full minutes of audit committee meetings should be kept by a duly appointed secretary of the meeting.

— Draft and final versions of minutes of the audit committee meetings should be sent to all members of the committee for their comment and records respectively, in both cases within a reasonable time after the meeting.</td><td>√

√</td><td>• All minutes were kept by the Company Secretary and circulated to all members of the Audit Committee within a reasonable time after each meeting.
• Audit Committee meetings were held in January, March, May, August, and October 2008. Details of the attendance records of members of the Audit Committee are as follows:

Members of the Audit Committee — Attendance
Mr. SHEN Bing (Chairman) — 5/5
Mr. ZUE Wai To, Victor — 5/5
Mr. LIU Chung Laung — 5/5

Note: The members of the Audit Committee can attend meetings in person, by phone or through other means of electronic communication or by their alternates in accordance with the Company's Articles of Association.

• The following is a summary of the work of the Audit Committee during 2008:
1. Review and recommendation to the Board of the 2007 annual report and 2008 interim report;
2. Review and recommendation to the Board of the two quarterly results in 2008;
3. Review of issues relating to the security of the computer and data systems;
4. Review of the findings and recommendations of the Internal Audit Department on the work of various departments;
5. Review of the external auditors' audit service plan for the year ended 31 December 2008;
6. Review of the external auditors' audit findings;
7. Review of the auditors' remuneration;
8. Review and approval of the Internal Audit Plan of 2009.</td></tr>
</table>

Code Ref.	Code Provisions	Compliance	Corporate Governance
C.3.2	A former partner of the existing auditing firm shall not act as a member of the audit committee for 1 year after he ceases to be a partner of or to have any financial interest in, the firm, whichever is the later.	√	• No member of the Audit Committee is a former partner of the existing auditing firm of the Company during the one year after he ceases to be a partner of the auditing firm.
C.3.3	The terms of reference of the audit committee should include at least the following duties: — recommendation to the board on the appointment and removal of external auditors and approval of their terms of engagement — review and monitor external auditors' independence and effectiveness of audit process — develop and implement policy on the engagement of an external auditor to supply non-audit services — review of financial information of the company — oversight of the company's financial reporting system and internal control procedures.	√	• The principal duties of the Audit Committee include the review and supervision of the Group's financial reporting system and internal control procedures, review of the Group's financial information and review of the relationship with the external auditors of the Company. Regular meetings have been held by the Audit Committee since its establishment. In accordance with the requirements of the Code on CG Practices, the official terms of reference of the Audit Committee were released and approved on 27 October 2007 in terms substantially the same as the provisions set out in the Code on CG Practices. The terms of reference of the Audit Committee are available on the Company's website.

Code Ref.	Code Provisions	Compliance	Corporate Governance
C.3.4	The audit committee should make available its terms of reference, explaining its role and the authority delegated to it by the board.	√	• The Company established the Audit Committee in June 2007, with reference to "A Guide for Formation of an Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants (formerly known as Hong Kong Society of Accountants), comprising three members who are independent non-executive Directors only and one of whom have appropriate professional qualifications, or accounting or related financial management expertise. • In accordance with the requirements of the Code on CG Practices, the official terms of reference of the Audit Committee were released and approved on 27 October 2007 in terms substantially the same as the provisions set out in the Code on CG Practices. The terms of reference of the Audit Committee are available on the Company's website. • In 2008, the members of the Audit Committee had not changed and comprised three Independent non-executive Directors, namely, Mr. SHEN Bing (Chairman), Mr. ZUE Wai To, Victor and Mr. LIU Chung Laung. Five meetings were held during the year.
C.3.5	Where the board disagrees with the audit committee's view on the selection, appointment, resignation or dismissal of the external auditors, the company should include in the Corporate Governance Report a statement from the audit committee explaining its recommendation and also the reason(s) why the board has taken a different view.	N/A	• This issue did not arise in 2008.
C.3.6	The audit committee should be provided with sufficient resources to discharge its duties.	√	• The Audit Committee is able to obtain sufficient resources through the Chief Financial Officer and Internal Auditor. Should the need arise, the Audit Committee can seek independent professional advice at the expense of the Company.

Code Ref.	Code Provisions	Compliance	Corporate Governance
D. DELEGATION BY THE BOARD			
D.1 Management functions			
Corporate Governance Principle			
The Company should have a formal schedule of matters specifically reserved to the Board and those delegated to management.			
D.1.1	When the board delegates aspects of its management and administration functions to management, it must at the same time give clear directions as to the powers of management, in particular, with respect to the circumstances where management should report back and obtain prior approval from the board before making decisions or entering into any commitments on behalf of the company.	√	• Executive Directors are in charge of different businesses and functional divisions in accordance with their respective areas of expertise. • For matters or transactions of a magnitude requiring disclosure under the Listing Rules or other applicable rules or regulations, appropriate disclosure will be made and where necessary, circular will be prepared and shareholders' approval will be obtained in accordance with the requirements of the applicable rules and regulations.
D.1.2	Formalise functions reserved to the board and those delegated to management. It should review those arrangements on a periodic basis to ensure that they remain appropriate to the needs of the company.	√	• The Board, led by the Chairman, is responsible for the Group's future development directions; overall strategies and policies; evaluation of the performance of the Group and the management; and approval of matters that are of a material or substantial nature. • Under the leadership of the Chairman, management is responsible for the day-to-day operations of the Group.

Code Ref.	Code Provisions	Compliance	Corporate Governance
D.2	**Board Committees**		
	Corporate Governance Principle		
	Board committees should be formed with specific written terms of reference which deal clearly with the committees' authority and duties.		
D.2.1	Where board committees are established to deal with matters, the board should prescribe sufficiently clear terms of reference to enable such committees to discharge their functions properly.	√	• Three Board Committees, namely, Nomination Committee, Remuneration Committee and Audit Committee have been established with specific terms of reference as mentioned in A.4.5, B.1.3 and C.3.3 and above.
D.2.2	The terms of reference of board committees should require such committees to report back to the board on their decisions or recommendations, unless there are legal or regulatory restrictions on their ability to do so (such as a restriction on disclosure due to regulatory requirements).	√	• Board Committees reported to the Board of their decisions and recommendations at the Board meetings.

Code Ref.	Code Provisions	Compliance	Corporate Governance
E. COMMUNICATION WITH SHAREHOLDERS			
E.1 Effective communication			
Corporate Governance Principle *The Board should endeavour to maintain an on-going dialogue with shareholders and in particular, use annual general meetings or other general meetings to communicate with shareholders and encourage their participation.*			
E.1.1	In respect of each substantially separate issue at a general meeting, a separate resolution should be proposed by the chairman of that meeting.	√	• Separate resolutions were proposed at the general meeting on each substantially separate issue, including the election of individual Directors.
E.1.2	— The chairman of the board should attend the annual general meeting and arrange for the chairmen of the audit, remuneration and nomination committees (as appropriate) or in the absence of the chairman of such committees, another member of the committee or failing this his duly appointed delegate, to be available to answer questions at the annual general meeting.	√	• In 2008, the Chairman of the Board, Chairman of the Audit Committee, Chairman of the Nomination Committee and Chairman of the Remuneration Committee attended the annual general meeting held on 24 April 2008 to answer Shareholders' questions. • The Company establishes different communication channels with shareholders and investors, including (i) printed copies of corporate communication (including but not limited to annual report, interim report, notice of meeting, circular and proxy form) required under the Listing Rules, and shareholders can select to receive such documents by electronic means, (ii) the annual general meeting which provides a forum for shareholders to raise comments and exchange views with the Board, (iii) updated key information on the Group is available on the website of the Company, (iv) the Company's website which offers a communication channel between the Company and its shareholders and investors, (v) regular press conferences and briefing meetings with analysts from the investment sectors which are set up from time to time on updated performance information of the Group, (vi) the Company's Registrars who deal with shareholders for all share registration and related matters, and (vii) Investor Relations Department of the Company which handles enquiries from shareholders, and investors generally.

Code Ref.	Code Provisions	Compliance	Corporate Governance
E.1.2 (Continued)	— The chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval.	√	

Code Ref.	Code Provisions	Compliance	Corporate Governance
E.2 Voting by Poll			
Corporate Governance Principle			
The Company should ensure that shareholders are familiar with the detailed procedures for conducting a poll.			
E.2.1	— The chairman of a meeting should ensure disclosure in the circulars to shareholders of the procedures for and the rights of shareholders to demand a poll.	√	• At the 2008 Annual General Meeting, the right to demand a poll set out in the circular containing the notice of annual general meeting. • At the 2008 Annual General Meeting, the Chairman of the meeting exercised his power under the Articles of Association of the Company to put each resolution set out in the notice to be voted by way of a poll.
	— The Chairman of a meeting and/or directors who, individually or collectively, hold proxies in respect of shares representing 5% or more of the total voting rights at a particular meeting shall demand a poll in certain circumstances where, on a show of hands, a meeting votes in the opposite manner to that instructed in those proxies.	√	
	— If a poll is required under such circumstances, the chairman of the meeting should disclose to the meeting the total number of votes represented by all proxies held by directors indicating an opposite vote to the votes cast at the meeting on a show of hands.	√	

Code Ref.	Code Provisions	Compliance	Corporate Governance
E.2.2	— The company should count all proxy votes and, except where a poll is required, the chairman of a meeting should indicate to the meeting the level of proxies lodged on each resolution, and the balance for and against the resolution, after it has been dealt with on a show of hands. — The company should ensure that votes cast are properly counted and recorded.	√ √	• Representatives of the Share Registrars of the Company appointed as scrutineers to monitor and count the poll votes cast at the annual general meeting. • Poll results announced at the adjourned meeting, posted on the websites of the Company and the Stock Exchange following the annual general meeting of the Company.
E.2.3	The chairman of a meeting should at the commencement of the meeting ensure that an explanation is provided of:- — the procedures for demanding a poll by shareholders before putting a resolution to the vote on a show of hands; and — the detailed procedures for conducting a poll and then answer any questions from shareholders whenever voting by way of a poll is required	√	• At the 2008 Annual General Meeting, the Chairman of the meeting explained the detailed procedures for conducting a poll, which had also been set out in the circular containing the notice of annual general meeting, and then answer any questions from shareholders. • At the 2008 Annual General Meeting, the Chairman of the meeting exercised his power under the Articles of Association of the Company to put each resolution set out in the notice to be voted by way of a poll.

EXECUTIVE DIRECTORS

Mr. LIANG Ker Uon, Sam（梁克勇先生）, aged 60, is the chairman and chief executive officer of the Company. He is also a director of a number of subsidiaries of the Company. He joined the Group in November 2002 and is responsible for developing and implementing the Group's strategic objectives and business plans. Mr. LIANG was a chief technical officer and a director of DEI (the Company's holding company) until 6 July 2007. Mr. LIANG has over 31 years of engineering and management experience in the communications industry. Before joining the Group, Mr. LIANG was the president of D-Link Corporation (a company listed on the Taiwan Stock Exchange, stock code: 2332) and also held engineering and management positions at Rockwell, Siemens and Ericsson. Mr. LIANG obtained a Master's degree in Electrical Engineering from Mississippi State University in the U.S.. He also holds three patents and is a member of the Institute of Electrical and Electronics Engineers, Inc..

Mr. CHENG An, Victor（鄭安先生）, aged 45, is a director of a number of subsidiaries of the Company. He joined the Group in October 1993 and is responsible for overseeing the entire operations and general management of the Group. Prior to assuming his current position in 2002, Mr. CHENG was the general manager of the DEI Group's video display business unit, covering a broad product range including computer CRT color monitors, TFT-LCD monitors, data projectors and rear projection displays. Mr. CHENG had served on the board of Macronix International Co., Ltd., a company listed on the Taiwan Stock Exchange (stock code: 2337), from April 2001 to June 2004. He is a son of Mr. CHENG Chung Hua, Bruce, a non-executive Director of the Company, and a brother of Mr. CHENG Ping, a director of DEI. Mr. CHENG obtained a Bachelor's degree and a Master's degree in Electrical Engineering from Santa Clara University in the U.S..

NON-EXECUTIVE DIRECTORS

Mr. CHENG Chung Hua, Bruce（鄭崇華先生）, aged 72, joined the Company in 2002. Mr. CHENG founded the DEI Group in 1971 and is currently the chairman and a director of DEI. He is also the chairman and a director of a number of DEI's subsidiaries. In addition, Mr. CHENG is currently serving on the board of Cyntec Co., Ltd., a company listed on the Taiwan Stock Exchange (stock code: 2452). Mr. CHENG has more than 46 years of experience in manufacturing operations, products management and development in switch power supplies, electronic components, video displays, networking products and renewable energy. He is the father of Mr. CHENG An, Victor, an executive Director of the Company, and Mr. CHENG Ping, a director of DEI. He graduated from National Cheng Kung University in Taiwan with a Bachelor's degree in Electrical Engineering in 1959. Mr. CHENG also received an honorary Doctorate degree from National Tsing Hua University in Taiwan in 2006.

Mr. HAI Ing-Jiunn, Yancey（海英俊先生）, aged 59, is the chairman of the Nomination Committee and the Remuneration Committee of the Company. He joined the Company in May 2006. Mr. HAI is currently the vice-chairman, chief executive officer and a director of DEI. In addition, he is a director of a number of DEI's subsidiaries. Mr. HAI is currently serving on the board of the other company listed on the Taiwan Stock Exchange, namely CTCI Corporation (stock code: 9933). He had served as a director of two companies listed on the Taiwan Stock Exchange, namely Macronix International Co., Ltd. (stock code: 2337) from April 2001 to June 2004 and Fubon Financial Holding Co., Ltd. (stock code: 2881) until 13 June 2008. Mr. HAI has over 31 years of experience in strategic planning, operations and management for major multinational organizations, including Citibank, JP Morgan and GE Capital. Mr. HAI obtained a Bachelor's degree with a major in Sociology from National Taiwan University in 1972 and a Master's degree in International Business Management from the University of Texas in 1978.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. ZUE Wai To, Victor（舒維都先生）, aged 63, is a member of the Audit Committee, Remuneration Committee and Nomination Committee of the Company. He joined the Company in June 2007. Mr. ZUE is a professor of Electrical Engineering and Computer Science at the Massachusetts Institute of Technology ("MIT"). He is also a director of MIT's Computer Science and Artificial Intelligence Laboratory, which researches and develops, among other things, networking technology. Mr. ZUE has been on the technology advisory board of DEI since 2001 and has been involved in networking technology development and product planning. Outside of MIT, Mr. ZUE has acted as a consultant for many multinational corporations and has served on many planning, advisory, and review committees for the U.S. Department of Defense, the National Science Foundation and the National Academy of Science and Engineering. He chaired the information science and technology study group for the Defense Advanced Research Projects Agency of the U.S. Department of Defense from 1996 to 1998. He received the Defense Advanced Research Projects Agency Sustained Excellence Award in 1999 and the Speech Technology Magazine's inaugural Lifetime Achievement Award in 2002. He was inducted into the National Academy of Engineering in 2004.

Mr. LIU Chung Laung（劉炯朗先生）, aged 74, is a member of both the Audit Committee and Nomination Committee of the Company. He joined the Company in June 2007. Mr. LIU is currently an independent director of Lightronik Technology Inc. (stock code: 3343), Macronix International Co., Ltd. (stock code: 2337) and United Microelectronics Corporation (stock code: 2303), Anpec Electronics Corporation (stock code: 6138), and an independent supervisor of MediaTek Incorporation (stock code: 2454). All of the above companies are listed on the Taiwan Stock Exchange, among which United Microelectronics Corporation is also listed on the New York Stock Exchange. Mr. LIU is also an independent non-executive director of TCL Communication Technology Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 2618). In addition, he was a director of Optimax Technology Corporation, a company listed on the Taiwan Stock Exchange (stock code: 3051), from May 2003 to June 2004. Mr. LIU is a Professor of Computer Science at the National Tsing Hua University in Taiwan and has held this position since 1998. He was also the National Tsing Hua University's president from 1998 to 2002. Prior to joining the National Tsing Hua University, he was a faculty member of the University of Illinois at Urbana-Champaign from 1972 to 1998 and served as an associate provost from 1995 to 1998. From 1962 to 1972, Mr. LIU was a faculty member of Massachusetts Institute of Technology in the U.S..

Mr. SHEN Bing（沈平先生）, aged 59, is the chairman of the Audit Committee and a member of the Remuneration Committee of the Company. He joined the Company in June 2007. Mr. SHEN has 34 years of experience in accounting, banking, and investment management. He is currently a director of The Taiwan Fund, Inc., a company listed on the New York Stock Exchange, and a supervisor and the chairman of the audit committee of CTCI Corporation ("CTCI"), a company listed on the Taiwan Stock Exchange (stock code: 9933). His responsibilities as the chairman of the audit committee of CTCI include, among other matters, reviewing CTCI's audited financial statements, participating in establishing CTCI's risk control system and working closely with CTCI's internal auditing department to ensure integrity of CTCI's internal processes and its legal and regulatory compliance. Mr. SHEN had served as a director of TISCO Bank Public Company Limited ("TISCO"), a company listed on The Stock Exchange of Thailand, from May 2004 to August 2005 and was involved in reviewing the audited financial statements of TISCO for the year 2004 before its public release. He was previously the president of CDIB & Partners Investment Holding Corporation, Taiwan, and an executive vice president of China Development Industrial Bank, Taiwan. Before that, he also worked as an executive director of Morgan Stanley and as an investment officer in the International Finance Corporation of the World Bank Group. Mr. SHEN graduated from Princeton University, the U.S., with a Bachelor's degree from the Woodrow Wilson School of Public and International Affairs, and received his Master's degree in Business Administration from Harvard Business School.

SENIOR MANAGEMENT

Mr. LEE Yi Pin (李宜平先生), aged 51, is the chief financial officer of our Company. He joined our Group in August 2006. He oversees our finance and accounting functions, and is responsible for our overall financial control and management. He has more than 18 years of experience in accounting, financial control and management. Prior to joining us, he served as the chief financial officer of CMC Magnetics Corporation for six years and worked at Acer Group for 12 years, gaining experience in finance, basic treasury operations and insight into the role of a chief financial officer. Mr. LEE holds a Master's degree in Business Administration from Central Missouri State University in the U.S.

Dr. KUO Jyh-Ming, James (郭志鳴先生), aged 49, is the vice president of sales division who joined our Group in January 2009. He used to be an associate professor in the EE department of ISU, Taiwan before he started up a networking multimedia IC design house. Afterward, he joined Yahorng, a company listed on the Taiwan Stock Exchange, as the vice president responsible for new business development and corporate operation. He also worked for Accton Technology as the CTO for the planning and marketing of CE-related networking products. Dr. KUO holds a Ph.D.'s degree in EE from the University of Florida in U.S.

Mr. LIAO Hsiao-Ti, Peter (廖曉狄先生), aged 57 is the vice president of software engineering division. He joined our Group in 2004 and is responsible for the overall management of the sales functions of our Group. He has more than 20 years of experience in the design, development and management of the computer and communications industry of the U.S. and more than five years of experience in the business development of the OEM/ODM communications industry of Taiwan. Mr. LIAO obtained a Bachelor's degree in Electrical Engineering from National Taiwan University in Taiwan and a Master's degree in Computer Science from the University of Southern California in the U.S.

Mr. WU Honda (吳宏達先生), aged 47, is the vice president of our software engineering division. He joined our Group in 1999 and is responsible for overseeing the operation of our software engineering division. Prior to that, he worked for the DEI Group for one year. Mr. WU has around 17 years of experience in Ethernet technology and its application in embedded systems and networking. Mr. WU obtained a Master's degree in Electrical Engineering from Pennsylvania State University in the U.S.

Mr. WEN Hsin-Chin, Mike (溫新鏡先生), aged 51, is the head of operations at our production plant in Taoyuan, Taiwan. He joined our Group in 2001 and is responsible for supervising the manufacturing operations at our production plant in Taoyuan. He has more than 25 years of manufacturing and engineering experience in the industry. Prior to joining our Group, he worked for the DEI Group for around 17 years. Mr. WEN graduated from Nan-Ya College in Taiwan with a Bachelor's degree in Industry Engineering and is currently taking a Master's degree in Business Administration from Mingshin University of Science and Technology in Taiwan.

Mr. YU Cheng-Hsiung, Clint (余正雄先生), aged 48, is the vice president of our hardware engineering division. He joined our Group in 2002 and is responsible for the development of networking products. Mr. YU has strong background in hardware design procedure and products development. He has over 20 years of experience in analog and digital circuitry design and networking product design. Before joining our Group, he was with Xinetron, Inc. and Accton Technology Corporation and was in charge of the development of various networking products. He also held senior engineering and management positions in Digital Equipment International Limited. Mr. YU holds a Bachelor's degree in Electric Engineering from Tatung Institute of Technology in Taiwan.

Mr. CHEN Chao-Chih, George (陳昭智先生), aged 41, is the director of our material procurement division. He joined our Group in 2004 and is responsible for procurement and material planning of our Group. Mr. CHEN has over 14 years of experience in material planning. Prior to joining our Group, he worked for the DEI Group for 12 years. Mr. CHEN holds a Bachelor's degree in Industrial Engineering from National Chiao Tung University in Taiwan.

Mr. LEUNG Sai Cheong (梁世昌先生), aged 45, is our qualified accountant. He worked at a large international accountancy firm for several years. He was the financial controller of Jet Air International Group Limited (now known as China Best Group Holding Limited), a company listed on the Main Board of the Stock Exchange. He was also an independent non-executive director of Sunny Global Holdings, Limited, a company listed on the Main Board of the Stock Exchange from September 2004 to August 2006. Mr. LEUNG holds a Master's degree in Business Administration from the University of South Australia. Mr. LEUNG is an associate member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants and has more than 15 years of experience in audit, accounting and taxation matters.

Ms. SOON Yuk Tai (孫玉蒂女士), aged 42, was appointed as the secretary of the Company in November 2008. She is a director of the Corporate Services Division of Tricor Services Limited, a global professional services provider specializing in integrated business, corporate and investor services. Ms. SOON is a Chartered Secretary and an Associate of both the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom. Apart from the Company, Ms. SOON has been providing professional secretarial services to a number of listed companies.

The Directors are pleased to present their report together with the audited financial statements for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES AND ANALYSIS OF OPERATIONS

The principal activities of the Group are manufacturing and selling of networking system and peripherals. An analysis of the Group's performance for the year by geographical and business segments is set out in note 5 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2008 are set out in the consolidated income statement on page 74. The Directors recommended the payment of a final dividend of 0.83 US cent per Share, totaling US$9,846,000 in respect of the year ended 31 December 2008.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial year is set out on page 148.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year are set out in note 6 to the financial statements.

PRE-EMPTIVE RIGHTS

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

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 14 to the financial statements.

RESERVES

Details of movements in reserves of the Company and the Group during the year are set out in notes 15 and 16 to the financial statements and in the consolidated statement of changes in equity on page 75, respectively.

DISTRIBUTABLE RESERVES

Distribution reserves of the Company as at 31 December 2008, calculated under respective regulation of the Companies Law of the Cayman Islands, amounted to US$2,319.

DIRECTORS

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

Executive Directors
Mr. LIANG Ker Uon, Sam
Mr. CHENG An, Victor

Non-executive Directors
Mr. CHENG Chung Hua, Bruce
Mr. HAI Ing-Jiunn, Yancey

Independent non-executive Directors
Mr. ZUE Wai To, Victor
Mr. LIU Chung Laung
Mr. SHEN Bing

In accordance with Clause 130 of the Articles of Association, all of the above Directors who had retired and were re-elected at the annual general meeting of the Company held on 24 April 2008, will not be subject to retirement at the AGM.

The biographical details of the Directors and senior management are set out under the section "Directors and Senior Management Profile" of this annual report.

Each of Mr. LIANG Ker Uon, Sam and Mr. CHENG An, Victor has entered into a service contract with the Company for an initial term of three years commencing on 13 June 2007; each of Mr. CHENG Chung Hua, Bruce and Mr. HAI Ing-Jiunn, Yancey has been appointed as a non-executive Director for an initial term of two years commencing from 13 June 2007; and each of Mr. ZUE Wai To, Victor, Mr. LIU Chung Laung and Mr. SHEN Bing has been appointed as an independent non-executive Director for an initial term of two years commencing from 13 June 2007. All of these service contracts or, where applicable, appointment letters shall be terminated in accordance with the provisions of the service contracts or, where applicable, appointment letters by either party giving to the other not less than three months' prior notice in writing.

None of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

The Company has received from each of its independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and the Company considered all the independent non-executive Directors to be independent.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance to which the Company, its subsidiaries, its fellow subsidiaries or its holding company was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2008, the Group had a total of 2,444 employees. Total staff costs incurred for the year ended 31 December 2008 amounted to approximately US$36.2 million (2007: US$48.6 million). We offer a comprehensive remuneration policy, which is reviewed by the management and the Remuneration Committee on a regular basis.

The Company has adopted the Employee Incentive Scheme, the Share Option Scheme and the Management Share Subscription Scheme respectively. The purposes of these schemes are to give incentive to eligible participants who contribute to the Group's operations. The Employee Incentive Scheme and Management Share Subscription Scheme are not subject to the provisions of Chapter 17 of the Listing Rules.

The Employee Incentive Scheme was first approved and adopted by the Board on 21 August 2006. It was modified and approved by the Board on 13 June 2007. Under such scheme, the Shares have been allotted and issued to a trustee to hold such Shares in trust for satisfying grant of awards that may be made to eligible employees as part of their remuneration package for the services rendered by them in the previous year.

The Management Share Subscription Scheme was adopted by the Board on 21 August 2006. It is a one-off plan and is close-ended, and therefore, apart from the beneficiaries who have been awarded and have agreed to subscribe for the Shares, no further awards will be made and no one is entitled to subscribe for any Shares under the scheme.

The Share Option Scheme was approved at a meeting of the Board on 13 June 2007. The options granted under the scheme do not give immediate ownership of the underlying Shares as payment of subscription price is required based on the then prevailing market price of the Shares. Such scheme is governed by Chapter 17 of the Listing Rules. No option has been granted under the Share Option Scheme since it came into effect on 6 July 2007 and up to the date of this report.

DISCONTINUED SHARE-BASED COMPENSATION SCHEME — DEI SHARE AWARDS

Historically, we rewarded our eligible employees for their contributions annually with DEI bonus shares. Similarly, we planned to reward our Directors, senior management and existing employees for their services in 2006 with bonus shares of DEI. Traditionally, all non-hourly rate employees who worked with the Group would receive/would be entitled to receive shares of the DEI Group. The number of shares which might be received by each employee is based upon the financial performance of the Group, his or her categorisation and ranking among the five-tier assessment system. The issuance of these bonus shares was approved at the annual general meeting of DEI held on 8 June 2007, and following such approval, DEI shares were delivered to our eligible employees in July 2007. Following the Listing, we replaced the DEI Share Awards with the Employee Incentive Scheme.

CONTINUING SHARE-BASED COMPENSATION SCHEMES

(a) Employee Incentive Scheme

The Employee Incentive Scheme was first approved and adopted by resolutions of our Board on 21 August 2006. It was modified and approved by our Board on 13 June 2007 and its implementation was conditional on the Listing.

Pursuant to the Employee Incentive Scheme, the Company allotted and issued 124,000,000 Shares (the "124,000,000 Shares"), representing the total number of Shares under the Employee Incentive Scheme, to the Employee Incentive Scheme Trustee prior to Listing to be held in trust for satisfying grants of awards by the Company to eligible participants. No further Shares will be issued by the Company to the Employee Incentive Scheme Trustee under the scheme. The 124,000,000 Shares represented approximately 10.36% of the total issued share capital at the time of the Listing and approximately 10.48% of the issued share capital of the Company as at 31 December 2008.

Immediately after completion of the Global Offering, assuming that no Share had yet been allotted and issued pursuant to the Management Share Subscription Scheme, and that no options were granted under the Share Option Scheme, the Employee Incentive Scheme Trustee held 124,000,000 Shares representing approximately 10.36% of the then total issued share capital of the Company. As the Employee Incentive Scheme Trustee's shareholding in our Company was 10% or more of the total issued Shares immediately after completion of the Global Offering, it was a substantial shareholder pursuant to the Listing Rules, and therefore, our connected person. No grant of award or transfer of any of the 124,000,000 Shares by the Employee Incentive Scheme Trustee to a connected person of our Company would require compliance with requirements of Chapter 14A of the Listing Rules.

As the Shares in the Employee Incentive Scheme are funded by us, those Shares held by the Employee Incentive Scheme Trustee will not be counted towards the calculation of the amount of Shares in the public float. No grant of award or transfer of Shares will be made by the Employee Incentive Scheme Trustee unless the minimum public float is maintained.

The 124,000,000 Shares were set to be issued over the period from 6 March 2008 to and including 31 December 2011 such that in any given financial year of our Company (which begins on 1 January), the aggregate of (i) the total number of Shares to be awarded through the Employee Incentive Scheme Trustee pursuant to the Employee Incentive Scheme during such financial year and (ii) the total number of Shares covered by options granted during such financial year under the Share Option Scheme, shall not in aggregate exceed 3% of the total issued share capital of the Company as of the beginning of such financial year (after giving effect to any share consolidation, share split or other capital reorganisation during such financial year).

For the year ended 31 December 2008, a total of 26,794,800 Shares have been granted and issued to the eligible participants pursuant to the Employee Incentive Scheme. We expect to make grants under the Employee Incentive Scheme through the Employee Incentive Scheme Trustee in 2009 for employees' services rendered in 2008. Further details of the principal terms of the Employee Incentive Scheme were summarized in "Statutory and General Information — Continuing Share-based Compensation Schemes — Employee Incentive Scheme" in Appendix VI to the Prospectus.

(b) Share Option Scheme

The Share Option Scheme was adopted by resolutions of our Board on 13 June 2007 and its implementation was conditional on the Listing. The options granted under the Share Option Scheme do not give immediate ownership of the underlying Shares as payment of subscription price is required based on the then prevailing market price of the Shares after Listing.

The purpose of the Share Option Scheme is to reward participants who have contributed to the Group and to encourage participants to work towards enhancing the value of the Company and its Shares for the benefit of the Company and the Shareholders as a whole.

Participants under the Share Option Scheme include Directors and employees of the Group and any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters or service providers of any member of the Group whom the Board considers have contributed or will contribute to the Group.

The subscription price for Shares under the Share Option Scheme shall be determined by the Board in its absolute discretion but in any event shall not be less than the higher of (i) the closing price of the Shares as stated in the daily quotations sheet issued by the Stock Exchange on the date of the grant of options which must be a Business Day; (ii) the average closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange for the five Business Days immediately preceding the date of the grant of options; and (iii) the nominal value of the Shares.

The maximum number of Shares issued and to be issued upon exercise of the options granted to each grantee under the Share Option Scheme in any 12-month period shall not (other than those options granted pursuant to specific approval by the Shareholders in a general meeting) exceed 1% of the Shares in issue for the time being. Any grant or further grant of options in excess of this limit is subject to Shareholder's approval in advance in general meeting of the Company with such grantees and their associates abstaining from voting.

Any grant of options to any Director, chief executive or substantial shareholder (as defined in the Listing Rules) of the Company, or any of their respective associates under the Share Option Scheme or any other share option schemes of the Company or any of its subsidiaries shall be subject to the prior approval of the independent non-executive Directors (excluding independent non-executive Directors who are the proposed grantees of the options in question). Where any grant to options to a substantial shareholder or an independent non-executive Director, or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled or outstanding) to such person, in the 12-month period up to and including the date of such grant:

(1) representing in aggregate over 0.1% of the Shares in issue on the date of such grant; and

(2) having an aggregate value, based on the closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant, in excess of HK$5 million,

is subject to Shareholders' approval in advance in a general meeting of the Company.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during the period to be determined and notified by the Board to each grantee, at the time of making an offer of the grant of an option, which shall not expire later than 10 years from the date of the grant of the option.

An offer of option shall remain open for acceptance by the participants concerned for a period of 28 days from the date of grant. On acceptance of options granted, a grantee shall pay to the Company US$1.00 as consideration for the grant of options.

The Share Option Scheme was adopted for a period of 10 years commencing from 13 June 2007, and shall expire on 12 June 2017.

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% in nominal amount of Shares in issue on the Listing Date, i.e. 119,680,000 Shares, which represented approximately 10.12% of the issued share capital of the Company as at the date of this report. As at the date of this report, no option had been issued under the Share Option Scheme.

CONTINUING SHARE-BASED COMPENSATION SCHEME WITH NO FURTHER REWARDS

Management Share Subscription Scheme

The Management Share Subscription Scheme was adopted by the Board on 21 August 2006. The Management Share Subscription Scheme is a one-off plan and is close-ended, and therefore, apart from the beneficiaries who have been awarded and have agreed to subscribe for the Shares, no further awards will be made and no one is entitled to subscribe for any Shares under the scheme. As at the date of this report, the number of granted but unvested Shares to our Directors, senior management and selected employees of the Company are 41,928,000 Shares, which will be allotted and issued directly to the beneficiaries upon the vesting of the awards under the scheme. During the fiscal year 2008, a total of 13,976,000 Shares have been vested and issued to the eligible participants pursuant to the Management Share Subscription Scheme.

Under the scheme, we invited members of the Group's Board of Directors, senior management and other employees who contributed to the success of the Group and who we consider as valuable assets to our growth to acquire Shares representing an aggregate of 4.5% of the Reference Share Capital. In order to acquire Shares under the scheme, eligible participants have paid upon the acceptance of an award under the scheme, and the Company has received US$2.42 per Share (at the then par value of US$1.00), an amount equal to a 50% discount to the fair value of each Share (having par value of US$1.00) as of 31 July 2006, as determined by an independent valuer. In accordance with acceptances made by eligible participants under the Management Share Subscription Scheme, 36,000,000 Shares, 3,120,000 Shares and 17,624,000 Shares have been awarded under the scheme to our Directors, seven senior management members and 109 other employees of our Group, respectively. Subject to the terms and conditions under the scheme rules, Shares to be acquired by the eligible participants under the Management Share Subscription Scheme have been/will be vested in four equal annual installments, namely on (i) 1 April 2008, (ii) 1 April 2009, (iii) 1 April 2010 and (iv) 1 April 2011.

For the year ended 31 December 2008, options have been exercised pursuant to the Management Share Subscription Scheme to subscribe for 13,976,000 Shares, out of which 9,000,000 Shares were issued to Directors (as detailed below), and the remaining 4,976,000 Shares were issued to 113 eligible grantees.

Awards granted under the Management Share Subscription Scheme

The details of the Share awards made and subscribed under the Management Share Subscription Scheme are set out below:

Name	Title/Position	Number of options awarded and subscribed as at 1 January 2008	Number of Shares allotted and issued during the year ended 31 December 2008	Number of options awarded and subscribed as at 31 December 2008
Directors				
Mr. LIANG Ker Uon, Sam	Executive Director	12,000,000	3,000,000	9,000,000
Mr. CHENG An, Victor	Executive Director	8,000,000	2,000,000	6,000,000
Mr. CHENG Chung Hua, Bruce	Non-executive Director	4,000,000	1,000,000	3,000,000
Mr. HAI Ing-Jiunn, Yancey	Non-executive Director	4,000,000	1,000,000	3,000,000
Mr. LIU Chung Laung	Independent Non-executive Director	4,000,000	1,000,000	3,000,000
Mr. ZUE Wai To, Victor	Independent Non-executive Director	4,000,000	1,000,000	3,000,000

RETIREMENT BENEFIT SCHEME

Information on the Group's retirement benefit schemes is set out in note 18 to the financial statements.

DISCLOSURE OF INTERESTS IN SECURITIES

Interests and short positions of Directors or chief executive of the Company in the shares or underlying shares or debentures of the Company and its associated corporations

As at 31 December 2008, interests of the Directors in any shares or underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO) or which were required pursuant to section 352 of the SFO to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Name of Director	The Company/ name of associated corporation	Capacity/ nature of interest	Number and class of securities *(Note 1)*	Approximate percentage of issued share capital (%) of the Company/ associated corporation
Mr. LIANG Ker Uon, Sam	The Company	Beneficial owner	12,000,000 Shares (L) *(Note 2)*	1.01
	DEI	Beneficial owner	1,996,606 common stocks (each a “Stock”) (L)	0.09
Mr. CHENG An, Victor	The Company	Beneficial owner	8,000,000 Shares (L) *(Note 3)*	0.67
	DEI	Beneficial owner/ interest of spouse	3,950,988 Stocks (L) *(Note 4)*	0.18
Mr. CHENG Chung Hua, Bruce	The Company	Beneficial owner	4,000,000 Shares (L) *(Note 5)*	0.33
	DEI	Beneficial owner/ interest of spouse	178,650,241 Stocks (L) *(Note 6)*	8.17
Mr. HAI Ing-Jiunn, Yancey	The Company	Beneficial owner	4,000,000 Shares (L) *(Note 7)*	0.33
	DEI	Beneficial owner	839,739 Stocks (L)	0.03
Mr. ZUE Wai To, Victor	The Company	Beneficial owner	4,000,000 Shares (L) *(Note 8)*	0.33

Name of Director	The Company/ name of associated corporation	Capacity/ nature of interest	Number and class of securities *(Note 1)*	Approximate percentage of issued share capital (%) of the Company/ associated corporation
Mr. SHEN Bing	DEI	Beneficial owner/ joint interest	27,413 Stocks (L) *(Note 9)*	0.001
Mr. LIU Chung Laung	The Company	Beneficial owner	4,000,000 Shares (L) *(Note 10)*	0.33

Notes:

1. The letter "L" represents the Director's long position in the shares or underlying shares of the Company or its associated corporations.

2. Mr. LIANG Ker Uon, Sam, was awarded 12,000,000 Shares pursuant to the MSSS. Pursuant to the rules of the MSSS, these Shares were allotted and issued to him subject to the vesting schedule as set out in Appendix VI to the Prospectus. Movement of the Shares allotted and issued pursuant to the MSSS are set out in the table headed "Awards granted under the Management Share Subscription Scheme" in this annual report.

3. Mr. CHENG An, Victor, was awarded 8,000,000 Shares pursuant to the MSSS. Pursuant to the rules of the MSSS, these Shares were allotted and issued to him subject to the vesting schedule as set out in Appendix VI to the Prospectus. Movement of the Shares allotted and issued pursuant to the MSSS are set out in the table headed "Awards granted under the Management Share Subscription Scheme" in this annual report.

4. Out of these Stocks, Mr. CHENG An, Victor was deemed or taken to be interested in, for the purpose of the SFO, the 516,440 Stocks which were beneficially owned by his spouse, Ms. JEN Hsiao-Yuan.

5. Mr. CHENG Chung Hua, Bruce, was awarded 4,000,000 Shares pursuant to the MSSS. Pursuant to the rules of the MSSS, these Shares were allotted and issued to him subject to the vesting schedule as set out in Appendix VI to the Prospectus. Movement of the Shares allotted and issued pursuant to the MSSS are set out in the table headed "Awards granted under the Management Share Subscription Scheme" in this annual report.

6. Out of these Stocks, Mr. CHENG Chung Hua, Bruce was deemed or taken to be interested in, for the purpose of the SFO, the 43,720,477 Stocks which were beneficially owned by his spouse, Ms. HSIEH Yih-Ying.

7. Mr. HAI Ing-Jiunn, Yancey, was awarded 4,000,000 Shares pursuant to the MSSS. Pursuant to the rules of the MSSS, these Shares were allotted and issued to him subject to the vesting schedule as set out in Appendix VI to the Prospectus. Movement of the Shares allotted and issued pursuant to the MSSS are set out in the table headed "Awards granted under the Management Share Subscription Scheme" in this annual report.

8. Mr. ZUE Wai To, Victor, was awarded 4,000,000 Shares pursuant to the MSSS. Pursuant to the rules of the MSSS, these Shares were allotted and issued to him subject to the vesting schedule as set out in Appendix VI to of the Prospectus. Movement of the Shares allotted and issued pursuant to the MSSS are set out in the table headed "Awards granted under the Management Share Subscription Scheme" in this annual report.

9. Out of these Stocks, 18,174 Stocks were held jointly by Mr. SHEN and his spouse, Ms. Terry Kam Ha YIP.

10. Mr. LIU Chung Laung, was awarded 4,000,000 Shares pursuant to the MSSS. Pursuant to the rules of the MSSS, these Shares were allotted and issued to him subject to the vesting schedule as set out in Appendix VI to the Prospectus. Movement of the Shares allotted and issued pursuant to the MSSS are set out in the table headed "Awards granted under the Management Share Subscription Scheme" in this annual report.

Save as disclosed above, as at 31 December 2008, none of the Directors or the chief executives of the Company had any interests or short positions 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 have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO) or which are required pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code; nor had there been any grant or exercise of rights during the year ended 31 December 2008.

Interests and short positions discloseable under Divisions 2 and 3 of Part XV of the SFO

As at 31 December 2008, the following entities, other than Directors or chief executive of the Company, had interests in the Shares of the Company as recorded in the register required to be kept under section 336 of the SFO which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as the Company is aware:

Name of entity	**Capacity/ nature of interest**	**Number of Shares *(Note 1)***	**Approximate percentage of issued share capital of the Company (%)**
DNHL *(Note 2)*	Beneficial owner	712,160,000(L)	60.20
DEI *(Note 2)*	Interest of controlled corporation	712,160,000(L)	60.20
HSBC International Trustee Limited *(Note 3)*	Trustee	97,205,200(L)	8.21

Notes:

1. The letter “L” represents a long position in the Shares.

2. DNHL is a direct wholly owned subsidiary of DEI and therefore, DEI is deemed or taken to be interested in the Shares which are beneficially owned by DNHL.

3. These Shares were allotted and issued pursuant to the Employee Incentive Scheme, and such Shares were held by Grand Networks Assets Limited, a company wholly-owned by HSBC International Trustee Limited as trustee of the trust known as Delta Networks, Inc. Employee Incentive Scheme, which has been created for the purpose of holding these Shares for the employees of the Group under the Employee Incentive Scheme. During the year ended 31 December 2008, a total of 26,794,800 these Shares have been awarded to the employees.

Save as disclosed above and so far as the Directors are aware of, as at 31 December 2008, there was no person, other than the Directors or the chief executives of the Company, who had interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, the Company repurchased its own listed Shares on the Stock Exchange as follows:

Month of repurchases	Number of shares repurchased	Repurchase price per share Highest (HK$)	Lowest (HK$)	Aggregate price paid (HK$)
April 2008	2,961,000	2.31	2.03	6,390,560
May 2008	766,000	2.33	2.16	1,708,290
June 2008	17,371,000	2.55	2.35	42,986,160
July 2008	6,601,000	2.43	2.34	15,644,510
September 2008	92,000	2.00	1.92	183,090
	27,791,000			66,912,610

Except as disclosed above, neither the Company nor any of its subsidiaries has purchased or sold any of the Company’s listed securities during the year and the Company has not redeemed any of its listed securities during the year.

PUBLIC FLOAT

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

MAJOR CUSTOMERS AND SUPPLIERS

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

Percentage of purchases attributable to the Group's largest supplier	19.34%
Percentage of purchases attributable to the Group's five largest suppliers	44.00%
Percentage of sales attributable to the Group's largest customer	22.00%
Percentage of sales attributable to the Group's five largest customers	76.00%

None of the Directors, or their associates or shareholders of the Company (which to the knowledge of the Directors own more than 5% of the Company's issued share captial), held any interests in the Group's five largest suppliers or five largest customers listed above.

MANAGEMENT CONTRACTS

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

AUDITORS

The financial statements have been audited by PricewaterhouseCoopers who shall retire, and being eligible, offer themselves for re-appointment at the forthcoming AGM.

PROPOSED PRIVATISATION OF THE COMPANY

On 12 March 2009, DNHL proposed to privatise the Company (the "Proposal") by requesting the Board to put forward a scheme of arrangement (the "Scheme") under Section 86 of the Companies Law (2007 Revision) of the Cayman Islands to the shareholders (other than DNHL and parties acting in concert with DNHL or DEI) of the Company ("the Independent Shareholders"). If approved and implemented, the Scheme would result in the cancellation of the shares held by the shareholders other than DNHL, the Company becoming wholly-owned by DNHL and the withdrawal of the listing of the Shares on the Stock Exchange. The Proposal is conditional upon the fulfilment or waiver, as applicable, of certain conditions (which include, amongst other things, the approval of the Scheme by the Independent Shareholders at a meeting to be convened at the direction of the Grand Court of the Cayman Islands (the "Grand Court") for the purpose of approving the Scheme and the sanction of the Scheme by the Grand Court). The Company will apply for the withdrawal of listing of the Shares on the Stock Exchange, in accordance with Rule 6.15 of the Listing Rules, with effect from the date on which the Scheme becomes effective.

Please refer to the announcement dated 12 March 2009 of the Company for details of, amongst other things, the Proposal (including the conditions of the Proposal) and the Scheme.

On behalf of the Board
LIANG Ker Uon, Sam
Chairman

Taipei, Taiwan
26 February 2009

PRICEWATERHOUSECOOPERS

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TO THE SHAREHOLDERS OF DELTA NETWORKS, INC.

(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Delta Networks, INC. (the "Company") and its subsidiaries (together, the "Group") set out on pages 69 to 145, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and of the Group as of 31 December 2008, and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

OTHER MATTERS

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 February 2009

CONSOLIDATED BALANCE SHEET

As at 31 December 2008

	Note	2008 US$'000	2007 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	18,047	17,655
Land use rights	8	278	285
Deferred income tax assets	21	4,169	3,322
		22,494	21,262
Current assets			
Inventories	9	28,248	32,229
Trade receivables	10	71,905	88,893
Prepayments and other assets	11	4,112	3,812
Derivative financial instruments	12	909	5,202
Cash and cash equivalents	13	257,920	251,969
		363,094	382,105
Total assets		385,588	403,367
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	14	59,149	59,840
Share premium	14	118,026	117,024
Other reserves	15	43,394	43,565
Retained earnings			
Proposed final dividend		9,846	12,581
Others		66,458	53,577
		296,873	286,587
Minority interest		315	287
Total equity		297,188	286,874

The notes on pages 77 to 147 are an integral part of these financial statements.

As at 31 December 2008

	Note	2008 US$'000	2007 US$'000
LIABILITIES			
Non-current liabilities			
Provisions and other liabilities	17	3,663	3,663
Retirement benefit obligations	18	4,123	3,913
Deferred income tax liabilities	21	829	1,301
		8,615	8,877
Current liabilities			
Trade and other payables	19	73,615	99,436
Income tax liabilities		2,244	1,754
Derivative financial instruments	12	1,723	2,483
Provisions and other liabilities	17	2,203	3,943
		79,785	107,616
Total liabilities		88,400	116,493
Total equity and liabilities		385,588	403,367
Net current assets		283,309	274,489
Total assets less current liabilities		305,803	295,751

LIANG Ker Uon, Sam
Director

CHENG An, Victor
Director

The notes on pages 77 to 147 are an integral part of these financial statements.

As at 31 December 2008

	Note	2008 US$'000	2007 US$'000
ASSETS			
Non-current assets			
Investments in subsidiaries	7	63,803	67,610
Current assets			
Prepayments and others assets	11	6,431	421
Cash and cash equivalents	13	145,769	162,976
		152,200	163,397
Total assets		216,003	231,007
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	14	59,149	59,840
Share premium	14	118,026	117,024
Other reserves	15	7,899	11,071
Retained earnings	16		
Proposed final dividend		9,846	12,581
Others		15,320	21,705
Total equity		210,240	222,221
LIABILITIES			
Non-current liabilities			
Provisions and other liabilities	17	3,663	3,663
Current liabilities			
Other payables	19	691	1,957
Provisions and other liabilities	17	1,409	3,166
		2,100	5,123
Total liabilities		5,763	8,786
Total equity and liabilities		216,003	231,007
Net current assets		150,100	158,274
Total assets less current liabilities		213,903	225,884

LIANG Ker Uon, Sam
Director

CHENG An, Victor
Director

The notes or pages 77 to 147 are an integral part of these financial statements.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	Note	2008 US$'000	2007 US$'000
Revenue	5	409,612	418,621
Cost of sales	23	(350,237)	(345,955)
Gross profit		59,375	72,666
Other gains	22	7,400	8,810
Selling expenses	23	(16,024)	(14,436)
General and administration expenses	23	(11,171)	(13,316)
Research and development expenses	23	(19,333)	(26,154)
Profit from operations		20,247	27,570
Finance income	25	7,138	7,156
Finance cost	25	(266)	(324)
		6,872	6,832
Profit before income tax		27,119	34,402
Income tax expense	20	(2,505)	(2,949)
Profit for the year		24,614	31,453
Attributable to:			
Equity holders of the Company		24,586	31,356
Minority interest		28	97
		24,614	31,453
Earnings per share for profit attributable to the equity holders of the Company during the year (in US cents per share)			
– Basic	27	2.25	3.29
– Diluted	27	2.17	3.12
Dividend (in US cents per share)	28	0.83	1.03

The notes or pages 77 to 147 are an integral part of these financial statements.

For the year ended 31 December 2008

	Note	Attributable to equity holders of the Company					Minority interest	Total equity
		Share capital US$'000	Share premium US$'000	Other reserves US$'000	Retained earnings US$'000	Subtotal US$'000	US$'000	US$'000
Balance at 1 January 2008		**59,840**	**117,024**	**43,565**	**66,158**	**286,587**	**287**	**286,874**
Profit for the year		—	—	—	**24,586**	**24,586**	**28**	**24,614**
Employee incentive scheme reward settled by means of Company's shares	15	—	**5,535**	**(5,535)**	—	—	—	—
Employee incentive scheme reward settled in cash	15	—	—	**(2,288)**	—	**(2,288)**	—	**(2,288)**
Accrual of employee incentive scheme reward	15	—	—	**4,744**	—	**4,744**	—	**4,744**
Issue of shares for management share subscription scheme reward	15	**699**	**2,684**	**(1,692)**	—	**1,691**	—	**1,691**
Recognition of management share subscription scheme reward	15	—	—	**1,599**	—	**1,599**	—	**1,599**
Repurchase and cancellation of shares	15	**(1,390)**	**(7,217)**	—	—	**(8,607)**	—	**(8,607)**
Transfer to statutory reserves	15	—	—	**3,001**	**(3,001)**	—	—	—
Dividend related to 2007		—	—	—	**(11,439)**	**(11,439)**	—	**(11,439)**
Balance at 31 December 2008		**59,149**	**118,026**	**43,394**	**76,304**	**296,873**	**315**	**297,188**
Balance at 1 January 2007		41,880	—	26,355	36,754	104,989	190	105,179
Profit for the year		—	—	—	31,356	31,356	97	31,453
Shares issued at premium	14	11,760	123,630	—	—	135,390	—	135,390
Share issuance costs	14	—	(6,606)	—	—	(6,606)	—	(6,606)
Issue of shares to employee incentive scheme trust	15	6,200	—	(6,200)	—	—	—	—
Share-based payment settled by ultimate holding company's shares without recharge	15	—	—	9,361	—	9,361	—	9,361
Recognition of management share subscription scheme reward	15	—	—	2,934	—	2,934	—	2,934
Accrual of employee incentive scheme reward	15	—	—	9,163	—	9,163	—	9,163
Transfer to statutory reserves	15	—	—	1,952	(1,952)	—	—	—
Balance at 31 December 2007		59,840	117,024	43,565	66,158	286,587	287	286,874

The notes on pages 77 to 147 are an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	Note	2008 US$'000	2007 US$'000
Cash flows from operating activities			
Cash generated from operations	29	32,484	49,903
Interest paid		(266)	(8)
Income tax paid		(2,733)	(959)
Employee incentive scheme reward paid in cash	15(b)(i)	(2,288)	—
Net cash generated from operating activities		27,197	48,936
Cash flows from investing activities			
Acquisition of property, plant and equipment		(7,579)	(9,496)
Interest received		7,001	6,669
Net cash used in investing activities		(578)	(2,827)
Cash flows from financing activities			
Repayment of bank borrowing		—	(6,000)
Payment of dividend		(11,439)	—
Receipt pursuant to management share subscription scheme		—	513
Refund in relation to withdrawal from management share subscription scheme		(65)	(87)
Proceeds from issue of shares		—	128,784
Repurchase of shares		(8,607)	—
Net cash (used in)/generated from financing activities		(20,111)	123,210
Foreign exchange difference		(557)	(57)
Net increase in cash and cash equivalents		5,951	169,262
Cash and cash equivalents at beginning of year		251,969	82,707
Cash and cash equivalents at end of year		257,920	251,969

The notes on pages 77 to 147 are an integral part of these financial statements.

1 GENERAL INFORMATION

Delta Networks, Inc. ("the Company" or "DNI") was incorporated in the Cayman Islands on 25 November 2002 as an exempted company with limited liability under the Company Law, Cap 22, (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The Company and its subsidiaries (together "the Group") are engaged in the manufacturing and selling of networking system and peripherals. Its production bases are primarily located in Mainland China and Taiwan.

The address of its registered office is Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman, Cayman Islands. Its immediate holding company is Delta Networks Holding Ltd. which is incorporated in the Cayman Islands, and its ultimate holding company is Delta Electronics, Inc. ("DEI"), which is incorporated in Taiwan and listed on Taiwan Stock Exchange Corporation.

The Company's shares have been listed on The Stock Exchange of Hong Kong Limited since 6 July 2007.

These consolidated financial statements have been approved for issue by the Board of Directors on 26 February 2009.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

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

During the year, the Group has adopted the following new standards, amendments and interpretations.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

(a) Amendments and interpretations effective in 2008

- International Accounting Standard ("IAS") 39, 'Financial Instruments: Recognition and Measurement', amendment on reclassification of financial assets permits reclassification of certain financial assets out of the held-for-trading and available-for-sale categories if specified conditions are met. The related amendment to IFRS 7, 'Financial Instruments: Disclosures', introduces disclosure requirements with respect to financial assets reclassified out of the held-for-trading and available-for-sale categories. The amendment is effective prospectively from 1 July 2008. This amendment does not have an impact on the Group's financial statements, as the Group has not reclassified any financial assets.

- International Financial Reporting Interpretations Committee ("IFRIC") 11, 'IFRS 2 – Group and Treasury Share Transactions', provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone financial statements of the parent and group companies. This interpretation does not have an impact on the Group's financial statements as it is consistent with the existing accounting policies adopted by the Group.

- IFRIC 14, 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction', provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation does not have an impact on the Group's financial statements.

(b) Interpretations effective in 2008 but not relevant

- IFRIC 12, 'Service Concession Arrangements' is mandatory for accounting periods beginning on or after 1 January 2008 but it is not relevant to the Group's operations.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

(c) Standards, amendments and interpretations that are effective from the Group's annual periods beginning on or after 1 January 2009 or later periods, and have not been early adopted by the Group

The following standards and amendments to existing standards have been published and are mandatory for the Group's annual periods beginning on or after 1 January 2009 or later periods, but the Group has not early adopted them:

- IAS 1 (Revised), 'Presentation of Financial Statements' (effective from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the consolidated income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Group will apply IAS 1 (Revised) from 1 January 2009. It is likely that both the consolidated income statement and statement of comprehensive income will be presented as performance statements.

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

- IAS 27 (Revised), 'Consolidated and Separate Financial Statements' (effective from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. The Group will apply IAS 27 (Revised) for annual periods beginning on or after 1 January 2010.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

(c) Standards, amendments and interpretations that are effective from the Group's annual periods beginning on or after 1 January 2009 or later periods, and have not been early adopted by the Group (Cont'd)

- IAS 32 (Amendment), 'Financial Instruments: Presentation', and IAS 1 (Amendment), 'Presentation of Financial Statements' – 'Puttable Financial Instruments and Obligations Arising on Liquidation' (effective from 1 January 2009). The amended standards require entities to classify puttable financial instruments and instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions. The Group will apply IAS 32 (Amendment) and IAS 1 (Amendment) for annual periods beginning on or after 1 January 2009, but it is not expected to have an impact on the Group's financial statements.

- IAS 39 (Amendment) 'Financial Instruments: Recognition and Measurement' – 'Eligible Hedged Items' (effective from 1 July 2009). This amendment is to clarify how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation shall be applied in particular situations. The Group will apply IAS 39 (Amendment) for annual periods beginning on or after 1 January 2010 but it is not expected to have an impact on the Group's financial statements.

- IFRS 2 (Amendment), 'Share-based Payment' (effective from 1 January 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group will apply IFRS 2 (Amendment) from 1 January 2009, but it is not expected to have an impact on the Group's financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

(c) Standards, amendments and interpretations that are effective from the Group's annual periods beginning on or after 1 January 2009 or later periods, and have not been early adopted by the Group (Cont'd)

- IFRS 3 (Revised), 'Business Combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated income statement. There is a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply IFRS 3 (Revised) prospectively for annual periods beginning on or after 1 January 2010.

- IFRS 8, 'Operating Segments' (effective from 1 January 2009). IFRS 8 replaces IAS 14, 'Segment Reporting', and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about Segments of an Enterprise and Related Information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker. The Group will apply IFRS 8 from 1 January 2009. The expected impact is still being assessed by management.

- IFRIC 16, 'Hedges of a Net Investment in a Foreign Operation' (effective from 1 October 2008). IFRIC 16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the Group. The requirements of IAS 21, 'The Effects of Changes in Foreign Exchange Rates', apply to the hedged item. The Group will apply IFRIC 16 for annual periods beginning on or after 1 January 2009. It is not expected to have an impact on the Group's financial statements.

- International Accounting Standards Board's ("IASB") annual improvements project published in May 2008

  — IAS 1 (Amendment), 'Presentation of Financial Statements' (effective from 1 January 2009). The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with IAS 39, 'Financial Instruments: Recognition and Measurement' are examples of current assets and liabilities respectively. The Group will apply the IAS 1 (Amendment) from 1 January 2009. It is not expected to have any impact on the Group's financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

(c) Standards, amendments and interpretations that are effective from the Group's annual periods beginning on or after 1 January 2009 or later periods, and have not been early adopted by the Group (Cont'd)

- IASB's annual improvements project published in May 2008 (Cont'd)

  — IAS 19 (Amendment), 'Employee Benefits' (effective from 1 January 2009).

  — The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.

  — The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.

  — The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.

  — IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets' requires contingent liabilities to be disclosed, not recognised. IAS 19 has been amended to be consistent.

  The Group will apply IAS 19 (Amendment) from 1 January 2009. It is not expected to have any significant impact on the Group's financial statements.

  — IAS 23 (Amendment), 'Borrowing Costs' (effective from 1 January 2009). The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in IAS 39 'Financial Instruments: Recognition and Measurement'. This eliminates the inconsistency of terms between IAS 39 and IAS 23. The Group will apply the IAS 23 (Amendment) prospectively to the capitalisation of borrowing costs on qualifying assets from 1 January 2009.

  — IAS 27 (Amendment), 'Consolidated and Separate Financial Statements' (effective from 1 January 2009). Where an investment in a subsidiary that is accounted for under IAS 39, 'Financial Instruments: Recognition and Measurement', is classified as held for sale under IFRS 5, 'Non-current Assets Held for Sale and Discontinued Operations', IAS 39 would continue to be applied. The amendment will not have any significant impact on the Group's financial statements because it is the Group's policy for an investment in subsidiary to be recorded at cost in the standalone financial statements of each entity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

(c) Standards, amendments and interpretations that are effective from the Group's annual periods beginning on or after 1 January 2009 or later periods, and have not been early adopted by the Group (Cont'd)

- IASB's annual improvements project published in May 2008 (Cont'd)

  — IAS 36 (Amendment), 'Impairment of Assets' (effective from 1 January 2009). Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Group will apply IAS 36 (Amendment) and provide the required disclosure where applicable for impairment tests from 1 January 2009.

  — IAS 38 (Amendment), 'Intangible Assets' (effective from 1 January 2009). The amendment deletes the wording that states that there is 'rarely, if ever' support for use of a method that results in a lower rate of amortisation than the straight line method. The amendment will not currently have an impact on the Group's operations as all intangible assets are amortised using the straight line method. In addition, a prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The Group will apply this IAS 38 (Amendment) and provide the required disclosure where applicable for impairment tests from 1 January 2009.

  — IAS 39 (Amendment), 'Financial Instruments: Recognition and Measurement' (effective from 1 January 2009).

    — This amendment clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.

    — The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit-taking is included in such a portfolio on initial recognition.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

(c) Standards, amendments and interpretations that are effective from the Group's annual periods beginning on or after 1 January 2009 or later periods, and have not been early adopted by the Group (Cont'd)

- IASB's annual improvements project published in May 2008 (Cont'd)

  — The current guidance on designating and documenting hedges states that a hedging instrument needs to involve a party external to the reporting entity and cites a segment as an example of a reporting entity. This means that in order for hedge accounting to be applied at segment level, the requirements for hedge accounting are currently required to be met by the applicable segment. The amendment removes this requirement so that IAS 39 is consistent with IFRS 8, 'Operating Segments' which requires disclosure for segments to be based on information reported to the chief operating decision maker.

  — When remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) is used.

  The Group will apply IAS 39 (Amendment) from 1 January 2009. It is not expected to have any significant impact on the Group's financial statements.

— IFRS 5 (Amendment), 'Non-current Assets Held for Sale and Discontinued Operations' (and consequential amendment to IFRS 1, 'First-time Adoption of International Financial Reporting Standards') (effective from 1 July 2009). The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control, and relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. A consequential amendment to IFRS 1 states that these amendments are applied prospectively from the date of transition to IFRSs. The Group will apply IFRS 5 (Amendment) prospectively for annual periods beginning on or after 1 January 2010.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

(c) Standards, amendments and interpretations that are effective from the Group's annual periods beginning on or after 1 January 2009 or later periods, and have not been early adopted by the Group (Cont'd)

- IASB's annual improvements project published in May 2008 (Cont'd)

  — There are a number of minor amendments to IFRS 7, 'Financial Instruments: Disclosures', IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', IAS 10, 'Events After the Balance Sheet Date', IAS 18, 'Revenue' and IAS 34, 'Interim Financial Reporting' which are not addressed above. These amendments are unlikely to have an impact on the Group's financial statements and have therefore not been analysed in detail.

(d) Standards, amendments and interpretations that are effective for the Group's annual periods beginning on or after 1 January 2009 or later periods, and not relevant to the Group's operations

The following interpretations and amendments to existing standards have been published and are mandatory for the Group's annual periods beginning on or after 1 January 2009 or later periods but are not relevant for the Group's operations:

- IFRS 1 (Amendment), 'First time adoption of International Financial Reporting Standards' and IAS 27, 'Consolidated and Separate Financial Statements' (effective from 1 January 2009)

- IFRIC 13, 'Customer Loyalty Programmes' (effective from 1 July 2008)

- IFRIC 15, 'Agreements for Construction of Real Estates' (effective from 1 January 2009)

- IFRIC 17, 'Distributions of Non-cash Assets to Owners' (effective from 1 July 2009)

- IASB's annual improvements project published in May 2008

  — IAS 16 (Amendment), 'Property, Plant and Equipment' (and consequential amendment to IAS 7, 'Statement of Cash Flows') (effective from 1 January 2009)

  — IAS 20 (Amendment), 'Accounting for Government Grants and Disclosure of Government Assistance' (effective from 1 January 2009)

  — IAS 28 (Amendment), 'Investments in Associates' (and consequential amendments to IAS 32, 'Financial Instruments: Presentation' and IFRS 7, 'Financial Instruments: Disclosures') (effective from 1 January 2009)

  — IAS 29 (Amendment), 'Financial Reporting in Hyperinflationary Economies' (effective from 1 January 2009)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.1 Basis of preparation (Cont'd)

(d) Standards, amendments and interpretations that are effective for the Group's annual periods beginning on or after 1 January 2009 or later periods, and not relevant to the Group's operations (Cont'd)

- IASB's annual improvements project published in May 2008 (Continued)

  — IAS 31 (Amendment), 'Interests in Joint Ventures' (and consequential amendments to IAS 32 and IFRS 7) (effective from 1 January 2009)

  — IAS 40 (Amendment), 'Investment Property' (and consequential amendments to IAS 16) (effective from 1 January 2009)

  — IAS 41 (Amendment), 'Agriculture' (effective from 1 January 2009)

2.2 Consolidation

Subsidiaries and controlled special purpose entities

Subsidiaries and controlled special purpose entities are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries and controlled special purpose entity are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions among group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.3 Segment reporting

A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments. A business segment is a group of assets and operations engaged in providing products or services that are subject to risk and returns that are different from those of other business segments. Jointly used assets are allocated to segments if, and only if, their related revenues and expenses are also allocated to those segments.

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses (if any). Historical cost includes expenditures that are directly attributable to the acquisition of the items.

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

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

Buildings	20 years
Machinery and factory equipment	2-8 years
Office equipment and fixtures	2-5 years
Leasehold improvements	Over lease terms or estimated useful lives, whichever is shorter

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other gain/(loss) – net in the income statement.

2.6 Land use rights

Land use rights are stated at historical cost less accumulated amortisation and accumulated impairment losses (if any). Cost represents consideration paid for the rights to use the land on which various plants and buildings are situated. Amortisation of land use rights is calculated on a straight-line basis over the period of the leases.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.7 Impairment of investments in subsidiaries and non-financial assets

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

2.8 Derivative financial instruments

The Group has no derivative financial instrument designated as a hedging instrument. Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Changes in the fair value are recognised immediately in the income statement within other gains/(losses), net.

2.9 Inventories

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

2.10 Trade and other receivables

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.11 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash at banks, short-term bank deposits and other short-term highly liquid investments with original maturities of three months or less.

2.12 Employee benefit

(a) Pension obligations

The Group operates various pension schemes, including defined benefit and defined contribution plans.

A defined contribution plan is a pension plan under which a company pays fixed contributions into separately administered funds. A company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all qualified employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds or treasury bond that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to the income statement over the employees' expected average remaining working lives. Past-service costs are recognised immediately in the income statement, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.12 Employee benefit (Cont'd)

(b) Share-based compensation

(i) DEI incentive scheme

Certain eligible employees of the Group receive equity-settled share-based compensation granted by DEI, the Group's ultimate holding company, in the form of the shares of DEI ("DEI Shares") as part of the distribution of employee bonuses to compensate their services to the Group. The Group estimates and recognises compensation expense at the end of each reporting period based on the estimated fair value of the DEI Shares expected to be granted in the following year, with a corresponding credit to equity through "contributed reserve" as the Group has no obligation to reimburse DEI for value of such shares. The difference between the amount so recorded and the actual fair value of the DEI Shares granted at the grant date is recognised in the following period. The fair value of the DEI Shares granted is determined based on the quoted market price at the grant date.

(ii) Employee incentive scheme

Employee incentive scheme ("EIS") is a profit-sharing scheme with distribution in the form of the shares of DNI ("DNI Shares") as a replacement for DEI incentive scheme. The Group estimates and recognises compensation expense at the end of each reporting period based on the estimated fair value of the DNI Shares expected to be granted in the following year, with a corresponding credit to equity through "share-based payment reserve". The difference between the amount so recorded and the actual fair value of the DNI Shares granted at the grant date is recognised in the following period. The fair value of the DNI Shares granted is determined based on the discounted cash flow method or quoted market price, where applicable, at the grant date.

(iii) Management share subscription scheme

Management share subscription scheme ("MSSS") contemplates the grant of an award to eligible employees of DNI to subscribe for DNI Shares at a discounted price. Shares subscribed will vest and be issued over four years in equal instalments. Upon joining the MSSS, the subscribers are required to pay in advance the subscription price which is refundable under certain circumstances before shares subscribed are vested. The receipts are recognised as liability within "Provisions and other liabilities". When the shares subscribed are vested and issued, the corresponding receipts will be treated as the proceeds for the issuance of shares and be transferred to equity. The fair value of the award is recognised as employees' compensation expense over the vesting period with a corresponding credit to equity through "share-based payment reserve". Fair value of the award is determined based on the fair value of DNI Shares less the received payment at the grant date. The fair value of the DNI Shares is determined based on the discounted cash flow method or quoted market price, where applicable.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.12 Employee benefit (Cont'd)

(c) Bonus complementary to EIS

The Group recognises a liability and an expense for bonus complementary to EIS based on a formula that takes into consideration the fair value of EIS to be granted to eligible EIS participants. The fair value of EIS is measured based on number of DNI Shares to be granted and the closing market price of DNI Shares as at each measurement date. The Group recognises a provision where contractually obliged.

2.13 Share capital

Ordinary shares are classified as equity.

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

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

2.14 Trade payables

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

2.15 Current and deferred income taxes

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.15 Current and deferred income taxes (Cont'd)

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

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

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

2.16 Provisions

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

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

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

2.17 Operating leases (as the lessee)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating lease. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.18 Revenue recognition

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

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

(a) Revenue from the sale of goods is recognised upon shipment when significant risks and rewards of ownership of the goods are transferred to the buyer and collectibility of related receivables is reasonably assured.

(b) Revenue from the rendering of services is recognised in the accounting period in which the services are rendered.

(c) Interest income is recognised on a time proportion basis using the effective interest method.

(d) Dividends are recognised when the right to receive payment is established.

2.19 Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

(a) it is technically feasible to complete the intangible asset so that it will be available for use or sale;

(b) management intends to complete the intangible asset and use or sell it;

(c) there is an ability to use or sell the intangible asset;

(d) it can be demonstrated how the intangible asset will generate probable future economic benefits;

(e) adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.19 Research and development (Cont'd)

(f) the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

2.20 Contingent liabilities

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

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

2.21 Dividend distribution

Dividend distribution to the Company's equity holders is recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's equity holders or directors, where applicable.

3 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

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

(i) Foreign exchange risk

The Group operates in several regions and is exposed to foreign exchange risk arising from foreign currency exchange, primarily with respect to the US dollar. The Group mainly operates in Taiwan and in Mainland China where the primary currencies are New Taiwan dollar ("NTD") and Renminbi ("RMB"), respectively, but revenues are mainly denominated in US dollar. Exposure to foreign exchange risk is monitored by management on an ongoing basis.

As at 31 December 2008, if US dollar had strengthened/weakened by 2% (2007: 2%) against NTD and RMB with all other variables held constant, the net assets and profit before income tax as at and for the year ended 31 December 2008 would have been approximately US$426,000 (2007: US$460,000) higher/lower (unaudited).

(ii) Cash flow and fair value interest rate risk

The Group is subject to interest rate risk in relation to borrowings and bank balances. Borrowings and bank balances carried at floating rates expose the Group to cash flow interest rate risk whereas those carried at fixed rates expose the Group to fair value interest rate risk. The Group has not entered into any interest rate swaps to hedge its exposure to interest rate risks.

As at 31 December 2008, if the market interest rates for bank deposits denominated in US dollar, NTD and RMB had been had been 0.25% (2007: 1%), 0.5% (2007: 1%) and 1% (2007: 1%), respectively, higher/lower from the year end rates with all other variables held constant, the net assets and the profit before income tax expense as at and for the year ended 31 December 2008 would have been approximately US$707,000 (2007: US$1,673,000) higher/lower (unaudited), as a result of higher/lower interest income on floating rate bank deposits.

3 FINANCIAL RISK MANAGEMENT (Cont'd)

(a) Financial risk factors (Cont'd)

(iii) Credit risk

Trade receivables

Credit risk with respect to trade receivables are managed through regular review of the credit standing, credit terms and credit limits granted to individual customers. There are policies in place to ensure that sales are made to customers with satisfactory credit record. If management is in doubt of the creditability of particular customers, it is the Group's policy to enter into credit insurance covering the credit risk to the extent of the open credit limits granted to the customers.

In respect of the customers which are determined to be with high risk profile and not covered by insurance, the sales orders placed by these customers are assessed for recoverability on an order by order basis. No sales are made to these customers unless senior management is satisfied with the trading terms and assessment results of recoverability.

The carrying amounts of these balances represent the Group's maximum exposure to credit risk in relation to financial assets.

Cash and cash equivalents

A significant portion of the Group's cash and cash equivalents is deposited with banks located in areas, for example Hong Kong and Taiwan, where local governments provide full guarantee covering all bank deposits. Cash and cash equivalents in Mainland China are mainly deposited with state-owned banks for which the default risk is considered low. Regarding cash and cash equivalents deposited with banks in regions other than Hong Kong, Taiwan and Mainland China, the credit quality of counterparties has been assessed by reference to external credit ratings (if available) or to historical information about the counterparty default rates. The existing counterparties do not have defaults in the past.

3 FINANCIAL RISK MANAGEMENT (Cont'd)

(a) Financial risk factors (Cont'd)

(iii) Credit risk (Cont'd)

Cash and cash equivalents (Cont'd)

The table below shows cash and cash equivalent balances deposited with banks in respective regions as at 31 December 2008.

	2008	2007
	US$'000	US$'000
Banks in Hong Kong	**41,642**	108,631
Banks in Taiwan	**175,748**	99,918
Banks in Mainland China	**34,526**	35,639
Banks in other regions and cash on hand	**649**	6,690
Other short-term investments under custody by a financial institution in Taiwan	**5,355**	1,091
	257,920	251,969

Derivative financial assets

Counterparties for derivative financial assets are limited to financial institutions with high credit ratings or state-owned banks in Mainland China.

(iv) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Given that as at 31 December 2008 the Group had cash and cash equivalents of US$257,920,000; and all trade and other payables and net-settled derivative financial liabilities were due within 12 months, management considers that the liquidity risk is low.

3 FINANCIAL RISK MANAGEMENT (Cont'd)

(b) Fair value estimation

The fair value of publicly traded derivatives and trading and available-for-sale securities is based on market quoted bid prices at the balance sheet date. In assessing the fair value of non-traded derivatives and other financial instruments, management uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for the specific or similar instruments are used for forward exchange contracts. Other techniques, such as estimated discounted value of future cash flows, are used to determine fair value for the remaining financial instruments.

The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair value. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

(c) Capital risk management

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

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

Total equity of the Group amounted to US$297,188,000 (2007: US$286,874,000) and the gearing ratio was zero as at 31 December 2008 (2007: zero), as the Group had no borrowings.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

(a) Depreciation and impairment of non-financial assets

The Group's management determines the estimated useful lives, residual values and related depreciation charges for the property, plant and equipment with reference to the estimated periods that the Group intends to derive future economic benefits from the use of these assets. Management will revise the depreciation charge where useful lives are different from previous estimate. These calculations require the use of judgements and estimates.

Management judgement is required in the area of asset impairment particularly in assessing : (i) whether an event has occurred that may indicated that the related assets values may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell or net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value in the impairment test and as a result affect the Group's financial condition and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to take an impairment charge to the income statement.

(b) Impairment of trade and other receivables

Provision for impairment of trade and other receivables is determined based on the evaluation of collectibility of trade and other receivables. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current market condition.

(c) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. Management reassesses the estimation on a product-by-product basis at each balance sheet date. In respect of certain inventories specifically purchased or manufactured for particular customers, the creditability of the relevant customers may be taken into account for assessing the net realisable value of such inventories.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

(d) Income tax

The Group is subject to income taxes in several jurisdictions. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences, tax losses and tax credits are recognised when management considers it is likely that future taxable profits will be available against which the temporary differences or tax losses can be utilised. When the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and income tax charges in the period in which such estimates are changed.

(e) Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date. The foreign currency forward contracts of the Group are valued based on the applicable forward exchange rates available as at year end. The fair value measured based on the forward exchange rates as at year end may not equal to the gains or losses realised upon the maturity of the contacts.

(f) Pension obligations

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost for pensions include the discount rate, expected return rate on plan assets and the average rate of salary increase. Any changes in these assumptions will impact the carrying amount of pension obligations. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of long-term government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for pension obligations are based in part on current market conditions.

(g) Share-based compensation

In relation to the EIS awards, the Group estimates and recognises the compensation expense based on management's estimate of number of shares could be granted upon the approval of the board of directors in subsequent year. The actual number of awards to be granted is subject to the market price at the grant date.

5 SEGMENT FINANCIAL INFORMATION

The primary format, geographical segments, is based on the Group's management and internal reporting structure. Inter-segment pricing is based on results of negotiations between segments. The Group is organised, based on location of production, into two main geographical segments:

(i) Manufacturing and selling of newly-developed networking system and peripherals in Taiwan; and

(ii) Manufacturing and selling of matured networking system and peripherals in Mainland China.

(a) Primary reporting format – geographical segments

The Group operates in two main geographical areas. The geographic information based on location of production is as follows:

	Year ended 31 December 2008				
	Mainland China US$'000	Taiwan US$'000	Elimination US$'000	Unallocated US$'000	Consolidated US$'000
External sales and service:					
Sales revenue	348,787	54,375	—	—	403,162
Service revenue	623	5,827	—	—	6,450
	349,410	60,202	—	—	409,612
Inter-segment sales and services:					
Sales revenue	44,449	1,760	(46,209)	—	—
Service revenue	1,678	17,703	(19,381)	—	—
	46,127	19,463	(65,590)	—	—
Total operating revenue	395,537	79,665	(65,590)	—	409,612
Segment result/profit from operations	19,250	3,893	(387)	(2,509)	20,247
Finance income					7,138
Finance cost					(266)
					6,872
Profit before income tax					27,119
Income tax expense					(2,505)
Profit for the year					24,614

5 SEGMENT FINANCIAL INFORMATION (Cont'd)

(a) Primary reporting format – geographical segments (Cont'd)

	Year ended 31 December 2008				
	Mainland China US$'000	Taiwan US$'000	Elimination US$'000	Unallocated US$'000	Consolidated US$'000
Attributable to:					
Equity holders of the Company					24,586
Minority interest					28
					24,614
Other information					
Depreciation	5,245	1,835	—	1	7,081
Amortisation	7	—	—	—	7
Inventory write-down	4,474	500	—	—	4,974
Segment assets	180,291	55,852	—	149,445	385,588
Segment liabilities	62,196	19,891	—	6,313	88,400
Capital expenditure	5,585	1,991	—	3	7,579
Research and development expenses	2,119	17,214	—	—	19,333

5 SEGMENT FINANCIAL INFORMATION (Cont'd)

(a) Primary reporting format – geographical segments (Cont'd)

	Year ended 31 December 2007				
	Mainland China US$'000	Taiwan US$'000	Elimination US$'000	Unallocated US$'000	Consolidated US$'000
External sales and service:					
Sales revenue	350,614	64,741	—	—	415,355
Service revenue	1,591	1,675	—	—	3,266
	352,205	66,416	—	—	418,621
Inter-segment sales and services:					
Sales revenue	40,617	4,421	(45,038)	—	—
Service revenue	140	15,948	(16,088)	—	—
	40,757	20,369	(61,126)	—	—
Total operating revenue	392,962	86,785	(61,126)	—	418,621
Segment result/profit from operations	40,593	(12,501)	(154)	(368)	27,570
Finance income					7,156
Finance cost					(324)
					6,832
Profit before income tax					34,402
Income tax expense					(2,949)
Profit for the year					31,453

5 SEGMENT FINANCIAL INFORMATION (Cont'd)

(a) Primary reporting format – geographical segments (Cont'd)

	Year ended 31 December 2007				
	Mainland China US$'000	Taiwan US$'000	Elimination US$'000	Unallocated US$'000	Consolidated US$'000
Attributable to:					
Equity holders of the Company					31,356
Minority interest					97
					31,453
Other information					
Depreciation	3,286	1,434	—	—	4,720
Amortisation	7	—	—	—	7
Inventory write-down	597	248	—	—	845
Segment assets	170,619	62,473	—	170,275	403,367
Segment liabilities	81,814	24,842	—	9,837	116,493
Capital expenditure	7,479	2,017	—	—	9,496
Research and development expenses	1,999	24,155	—	—	26,154

Segment assets comprise operating assets. Unallocated assets comprise assets of non-production sites, mainly including corporate cash and deferred tax assets. Segment liabilities comprise operating liabilities. Unallocated liabilities mainly comprise income tax payables and deferred tax liabilities. Capital expenditure comprises mainly additions to property, plant and equipment as set out in Note 6.

5 SEGMENT FINANCIAL INFORMATION (Cont'd)

(a) Primary reporting format – geographical segments (Cont'd)

(ii) The amounts of revenue from sales to external customers for each customer-based geographical segment whose revenue from sales to external customers is 10% or more of total revenue are as follows:

	2008		2007	
	Amounts US$'000	%	Amounts US$'000	%
Asia	108,409	26	87,601	21
Americas	176,993	43	168,817	40
Europe	123,042	30	161,485	39
Others	1,168	1	718	—
	409,612	100	418,621	100

(b) Secondary reporting format – business segment

The Group manufactures and sells two main different categories of networking system related products, switches for separate connection within a network ("Ethernet switch") and devices for networking through broadband or wireless network ("Broadband and wireless").

5 SEGMENT FINANCIAL INFORMATION (Cont'd)

(b) Secondary reporting format – business segment (Cont'd)

The segment information for the sales and services of the two categories of products and the others is as follows:

2008

	Ethernet switch					
	Carrier US$'000	Enterprise US$'000	SOHO US$'000	Broadband and wireless US$'000	Others US$'000	Total US$'000
External sales and services	55,841	175,176	71,314	91,853	15,428	409,612

2007

	Ethernet switch					
	Carrier US$'000	Enterprise US$'000	SOHO US$'000	Broadband and wireless US$'000	Others US$'000	Total US$'000
External sales and services	64,486	176,296	99,696	57,718	20,425	418,621

The Group's assets are jointly used for all types of products and services and cannot be allocated without causing concerns of arbitrary allocation.

6 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery and factory equipment	Office equipment, fixtures and leasehold improvements	Total
	US$'000	US$'000	US$'000	US$'000
Year ended 31 December 2007				
Opening net book amount	4,800	7,207	943	12,950
Additions	366	8,220	910	9,496
Disposals	—	(65)	(6)	(71)
Depreciation charge	(386)	(3,581)	(753)	(4,720)
Closing net book amount	4,780	11,781	1,094	17,655
As at 31 December 2007				
Cost	7,828	37,576	3,520	48,924
Accumulated depreciation	(3,048)	(25,795)	(2,426)	(31,269)
Net book amount	4,780	11,781	1,094	17,655
Year ended 31 December 2008				
Opening net book amount	**4,780**	**11,781**	**1,094**	**17,655**
Additions	—	**6,178**	**1,401**	**7,579**
Disposals	—	**(100)**	**(6)**	**(106)**
Depreciation charge	**(394)**	**(5,624)**	**(1,063)**	**(7,081)**
Closing net book amount	**4,386**	**12,235**	**1,426**	**18,047**
As at 31 December 2008				
Cost	**7,828**	**42,131**	**4,299**	**54,258**
Accumulated depreciation	**(3,442)**	**(29,896)**	**(2,873)**	**(36,211)**
Net book amount	**4,386**	**12,235**	**1,426**	**18,047**

6 PROPERTY, PLANT AND EQUIPMENT (Cont'd)

The amounts of depreciation expenses recognised in the consolidated income statement are as follows:

	2008 US$'000	2007 US$'000
Cost of sales	5,849	3,725
Selling expenses	43	19
General and administration expenses	67	104
Research and development expenses	1,122	872
	7,081	4,720

Rental expense amounting to US$1,166,000 for the lease of buildings has been included in the consolidated income statement (2007: US$993,000).

7 INVESTMENTS IN SUBSIDIARIES – THE COMPANY

	2008 US$'000	2007 US$'000
Unlisted investments, at cost	63,803	67,610

Particulars of the Company's principal subsidiaries are set out in Notes 33 and 34. During the year, two subsidiaries of the Company, Delta Networks (Shanghai) Ltd. and Delta Networks (Wujiang) Ltd. were transferred by the Company to a subsidiary, Delta Networks (Dong Guan) Ltd.

8 LAND USE RIGHTS

The Group's interest in land use rights represents prepaid operating lease payments and the net book value is analysed as follows:

	2008 US$'000	2007 US$'000
In Mainland China held on:		
Leases of between 10 and 50 years	278	285
Beginning of year	285	292
Amortisation	(7)	(7)
End of the year	278	285
Cost	341	341
Accumulated amortization	(63)	(56)
Closing net book amount	278	285

9 INVENTORIES

	2008 US$'000	2007 US$'000
Raw materials	13,651	15,994
Work-in-progress	1,854	4,272
Finished goods	12,743	11,963
	28,248	32,229

The cost of inventory recognised as expense and included in cost of sales in the consolidated income statement amounted to US$345,263,000 (2007: US$345,110,000).

Allowance for decline in market value and inventory obsolescence amounted to US$4,974,000 (2007: US$845,000).

10 TRADE RECEIVABLES

	2008 US$'000	2007 US$'000
Trade receivables	73,544	88,865
Trade receivables from related parties (Note 32(d))	223	50
	73,767	88,915
Less: Provision for impairment of trade receivables	(1,862)	(22)
Trade receivables – net	71,905	88,893

The carrying amounts of trade receivables approximate their fair values.

The details of provision for impairment of receivables are as follows:

	2008 US$'000	2007 US$'000
Beginning of the year	22	1,806
Additional provision	1,842	8
Write-off	—	(1,758)
Reversal of provisions	—	(34)
Exchange difference	(2)	—
End of the year	1,862	22

The maximum exposure to credit risk at the reporting date is the fair value of the each class of receivable mentioned above. The Group does not hold any collateral as security.

10 TRADE RECEIVABLES (Cont'd)

Majority of the Group's sales are with credit terms of 30 to 60 days. The ageing analysis of trade receivables is as follows:

	2008 US$'000	2007 US$'000
Days outstanding		
0 - 30 days	26,936	40,174
31 - 60 days	25,505	34,318
61 - 90 days	20,138	14,050
91 - 180 days	1,188	373
Total	73,767	88,915

As of 31 December 2008, trade receivables of US$8,933,000 (2007: US$4,098,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The credit quality of trade receivables neither past due nor impaired has been assessed by reference to historical information about the counterparty default rates. The existing counterparties do not have defaults in the past.

The analysis of these trade receivables is as follows:

	2008 US$'000	2007 US$'000
Days past due		
0 - 30 days	8,529	3,765
31 - 60 days	404	333
Total	8,933	4,098

10 TRADE RECEIVABLES (Cont'd)

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

	2008 US$'000	2007 US$'000
US dollar	70,607	82,294
Chinese Renminbi	3,113	3,614
New Taiwan dollar	47	2,999
Others	—	8
	73,767	88,915

11 PREPAYMENTS AND OTHER ASSETS

	Group		Company	
	2008 US$'000	2007 US$'000	2008 US$'000	2007 US$'000
Value-added tax recoverable	1,439	1,123	—	—
Rental deposits	144	158	—	—
Interest receivable	735	569	660	378
Receivables from subsidiaries and a controlled special purpose entity	—	—	5,745	—
Claims receivable from suppliers and customers	539	814	—	—
Others	1,255	1,148	26	43
	4,112	3,812	6,431	421

The carrying amounts of prepayments and other assets approximate their fair values.

The receivables due from subsidiaries and a controlled special purpose entity are unsecured, interest free and repayable on demand.

12 DERIVATIVE FINANCIAL INSTRUMENTS

(a) The net fair value of derivative financial instruments is as follows:

	2008		2007	
	Asset	Liability	Asset	Liability
	US$'000	US$'000	US$'000	US$'000
Foreign currency forward contracts in respect of:				
Sell US dollar/Buy Renminbi and Sell Renminbi/Buy US dollar	909	1,723	5,202	2,483

The fair value of the foreign currency forward contracts represented the unrealised gain or loss on revaluation of the contracts at the year-end forward exchange rates.

(b) The notional principal amounts and exercise prices or rates of the outstanding derivative financial instruments are as follows:

	2008	2007
Foreign currency forward contracts		
– notional principal amounts (US$'000)	260,000	210,000
– exercise prices		
Chinese Renminbi vs US dollar	6.6310~7.170	7.0462~7.612

(c) The maximum exposure to credit risk at the reporting date is the fair value of the derivative financial assets in the balance sheet.

13 CASH AND CASH EQUIVALENTS

	Group		Company	
	2008	2007	2008	2007
	US$'000	US$'000	US$'000	US$'000
Cash at bank and on hand	35,604	54,634	3,432	11,448
Short-term bank deposits	216,961	196,244	142,337	151,528
Other short-term investments	5,355	1,091	—	—
	257,920	251,969	145,769	162,976

Cash at banks are with effective interest rates of between 0.01% to 0.03% per annum (2007: 0.04% to 4.95%).

Short-term bank deposits are time deposits with effective interest rates of 0.28% to 4.2% per annum (2007: 1.71% to 5.18%). These bank deposits have original maturities of less than three months.

Other investments are treasury bonds issued by Taiwan government with effective interest rate of 0.5% per annum (2007: 1.85%). These bond investments have original maturities of less than three months.

Cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	2008	2007	2008	2007
	US$'000	US$'000	US$'000	US$'000
US dollar	216,515	222,788	144,432	159,383
Chinese Renminbi	33,577	23,074	—	—
New Taiwan dollar	6,172	2,159	—	—
Others	1,656	3,948	1,337	3,593
	257,920	251,969	145,769	162,976

The Group's cash and cash equivalents denominated in Chinese Renminbi are deposited with banks in Mainland China. The conversion of Chinese Renminbi denominated balances into foreign currencies and the remittance of funds out of these bank accounts are subject to the rules and regulations promulgated by Mainland China government.

14 SHARE CAPITAL AND SHARE PREMIUM

	Number of shares (in thousands)	Share capital US$'000	Share premium US$'000	Total US$'000
Authorised:				
At 1 January 2007	50,000	50,000	—	50,000
Increase in authorised share capital (note (a))	30,000	30,000	—	30,000
	80,000	80,000	—	80,000
Additions due to 1 to 20 share sub-division (note (b))	1,520,000	—	—	—
At 31 December 2007 and 2008	1,600,000	80,000	—	80,000
Issued and fully paid:				
At 1 January 2007	41,880	41,880	—	41,880
Additions due to 1 to 20 shares sub-division (note (b))	795,720	—	—	—
	837,600	41,880	—	41,880
Shares issued to EIS trust (note (c))	124,000	6,200	—	6,200
Shares issued on 5 July 2007 (note (d))	235,200	11,760	123,630	135,390
Share issuance costs	—	—	(6,606)	(6,606)
At 31 December 2007	1,196,800	59,840	117,024	176,864
At 1 January 2008	1,196,800	59,840	117,024	176,864
Shares issued for EIS (note (15)(b)(i))	—	—	5,535	5,535
Shares issued for MSSS (note (15)(b)(ii))	13,976	699	2,684	3,383
Repurchase and cancellation of shares (note (e))	(27,791)	(1,390)	(7,217)	(8,607)
At 31 December 2008	**1,182,985**	**59,149**	**118,026**	**177,175**

14 SHARE CAPITAL AND SHARE PREMIUM (Cont'd)

Notes:

(a) Pursuant to a resolution passed by the equity holders of the Company on 8 June 2007, the authorised share capital of the Company was increased from US$50,000,000, divided into 50,000,000 shares of US$1 each, to US$80,000,000 by the creation of an additional 30,000,000 shares of a par value of US$1 each to rank pari passu in all respect with the shares then in issue.

(b) Pursuant to another resolution passed on 8 June 2007, each issued and unissued share capital of the Company of a par value of US$1 each was sub-divided into 20 shares of a par value of US$0.05 each. As a result of the share sub-division, the authorised share capital and issued share capital of the Company amounted to US$80,000,000, divided into 1,600,000,000 shares of US$0.05 each, and US$41,880,000, divided into 837,600,000 shares of US$0.05 each, respectively.

(c) On 5 July 2007, 124,000,000 shares of US$0.05 each were allotted and issued to Employee Incentive Scheme ("EIS") trust at nil consideration. These shares will be granted to the participants of EIS in the coming years. Please also see Notes 15 (b)(i) and 34.

(d) Pursuant to a global offering, on 5 July 2007, 235,200,000 shares of US$0.05 each were allotted and issued for cash at a price of HK$4.5 (equivalent to US$0.58) per share.

(e) For the year ended 31 December 2008, the Company repurchased a total of 27,791,000 ordinary shares of the Company at an aggregate purchase price of US$8,607,000 (equivalent to HK$66,913,000) on the Stock Exchange.

15 OTHER RESERVES

The Group

	Contributed reserves (note (a)) US$'000	Share-based payment reserves (note (b)) US$'000	Statutory reserves (note (c)) US$'000	Contribution to EIS trust US$'000	Total US$'000
Balance at 1 January 2008	**30,697**	**13,209**	**5,859**	**(6,200)**	**43,565**
Employee incentive scheme reward settled by means of Company's shares	**—**	**(6,875)**	**—**	**1,340**	**(5,535)**
Employee incentive scheme reward settled in cash	**—**	**(2,288)**	**—**	**—**	**(2,288)**
Accrual of employee incentive scheme reward	**—**	**4,744**	**—**	**—**	**4,744**
Issue of shares for management share subscription scheme reward	**—**	**(1,692)**	**—**	**—**	**(1,692)**
Recognition of management share subscription scheme reward	**—**	**1,599**	**—**	**—**	**1,599**
Transfer from retained earnings	**—**	**—**	**3,001**	**—**	**3,001**
Balance at 31 December 2008	**30,697**	**8,697**	**8,860**	**(4,860)**	**43,394**
Balance at 1 January 2007	17,274	5,174	3,907	—	26,355
Shares issued to employee incentive scheme trust (note 14 (c))	—	—	—	(6,200)	(6,200)
Share-based payment settled by ultimate holding company's shares without recharge (note 32 (b))	9,361	—	—	—	9,361
Recognition of management share subscription scheme reward	—	2,934	—	—	2,934
Accrual of employee incentive scheme reward	—	9,163	—	—	9,163
Transfer from retained earnings	—	—	1,952	—	1,952
Replacement of employee incentive scheme award with ultimate holding company's shares (note (a))	4,062	(4,062)	—	—	—
Balance at 31 December 2007	30,697	13,209	5,859	(6,200)	43,565

15 OTHER RESERVES (Cont'd)

Company

	Contributed reserves (note (a))	Share-based payment reserves (note (b))	Contribution to EIS trust	Total
	US$'000	US$'000	US$'000	US$'000
Balance at 1 January 2008	**4,062**	**13,209**	**(6,200)**	**11,071**
Employee incentive scheme reward settled by means of Company's shares	**—**	**(6,875)**	**1,340**	**(5,535)**
Employee incentive scheme reward settled in cash	**—**	**(2,288)**	**—**	**(2,288)**
Accrual of employee incentive scheme reward	**—**	**4,744**	**—**	**4,744**
Issue of shares for management share subscription scheme reward	**—**	**(1,692)**	**—**	**(1,692)**
Recognition of Management share subscription scheme reward	**—**	**1,599**	**—**	**1,599**
Balance at 31 December 2008	**4,062**	**8,697**	**(4,860)**	**7,899**
Balance at 1 January 2007	—	5,174	—	5,174
Recognition of management share subscription scheme reward	—	2,934	—	2,934
Accrual of employee incentive scheme reward	—	9,163	—	9,163
Replacement of employee incentive scheme award with ultimate holding company's shares (note 32(b))	4,062	(4,062)	—	—
Shares issued to employee incentive scheme trust (note 14 (c))	—	—	(6,200)	(6,200)
Balance at 31 December 2007	4,062	13,209	(6,200)	11,071

15 OTHER RESERVES (Cont'd)

(a) Contributed reserves

Contributed reserves mainly represent capital reserves arising from DEI incentive scheme. This scheme has been replaced by an employee incentive scheme (see note (b)(i)) since June 2007.

The amounts of total compensation expenses in respect of DEI incentive scheme recognised in the consolidated income statement are as follows:

	2008 US$'000	2007 US$'000
Cost of sales	—	1,680
Selling expenses	—	1,464
General and administrative expenses	—	1,153
Research and development expenses	—	5,064
	—	9,361

(b) Share-based payment reserve

(i) Employee incentive scheme ("EIS")

EIS was first approved and adopted by resolutions of the Board of Directors on 21 August 2006. It was modified and approved by the Board of Directors on 13 June 2007. Pursuant to the terms of EIS, EIS participants are entitled to EIS awards if they have rendered the services to the Group during the period from the beginning of each financial year to the grant date in subsequent financial year.

Upon the implementation of EIS, the Company issued 124,000,000 ordinary shares ("DNI Shares") to an independently administered trust for granting to EIS participants in the future. The maximum number of DNI Shares to be granted to EIS participants for every financial year must not exceed 3% of the total issued share capital of the Company as at the beginning of that financial year.

Based on the closing market price of US$0.33 per DNI Share as at 31 December 2007, an amount of US$9,163,000 was estimated and recognised as compensation expense in the consolidation income statement for the year ended 31 December 2007 with a corresponding recognition of share-based payment reserve for EIS. On 7 March 2008, 26,794,800 of DNI Shares were granted to EIS participants with a total fair value of US$6,875,000 calculating based on the closing market price of US$0.25 per DNI Share of that day. The remaining balance of US$2,288,000 was settled through payment of cash. In addition, the issue of 26,794,800 DNI Shares resulted in recognition of share premium of US$5,535,000 and reversal of reserve "Contribution to EIS trust" of US$1,340,000.

15 OTHER RESERVES (Cont'd)

(b) Share-based payment reserve

(i) Employee incentive scheme ("EIS") (Cont'd)

In 2008, management estimated the fair value of DNI Shares to be granted to EIS participants for their services rendered during the vesting period from January 2008 to the grant date in 2009 would amount to US$5,534,000, estimating based on 3% (equivalent to 35,631,000 shares) of the total issued share capital of the Company as at the beginning of financial year in which DNI Shares to be granted and the closing market price of US$0.16 per DNI Share as at 31 December 2008. On a pro-rated basis of the vesting period, US$4,744,000 (2007: US$9,163,000) was recognised as compensation expenses in the consolidated income statement as follows:

	2008 US$'000	2007 US$'000
Cost of sales	829	1,643
Selling expenses	760	1,434
General and administrative expenses	656	1,128
Research and development expenses	2,499	4,958
	4,744	9,163

(ii) Management share subscription scheme ("MSSS")

MSSS was adopted by the Board of Directors on 21 August 2006. Pursuant to MSSS, 56,924,000 MSSS awards (after share sub-division) were granted to certain eligible employees of the Group for subscribing the same number of DNI Shares at a subscription price of US$0.121 (after share sub-division) per share. According to the original rules of MSSS, these awards would be vested and issued in four equal installments up to September 2010. In March 2007, it was decided that the vesting period of shares subscribed would be extended for an additional seven months up to April 2011. MSSS awards will therefore be vested and issued in four equal installments on 1 April 2008, 1 April 2009, 1 April 2010 and 1 April 2011, respectively. Since the extension of vesting period would not be beneficial to employees, the Group takes no account of the modified service condition when recognising service received. Accordingly, on a pro-rated basis of the original vesting period, US$1,599,000 was recognised as compensation expenses (2007: US$2,934,000) for the year ended 31 December 2008. As at 31 December 2008, subscription proceeds of US$5,072,000 (2007: US$6,829,000) (Note 17) were received from the subscribers.

In respect of MSSS awards being vested during the year ended 31 December 2008, 13,976,000 DNI Shares were issued which resulted in a transfer of share-based payment reserves of US$699,000 to share capital and of US$992,000 to share premium respectively; and a transfer of subscription proceeds of US$1,692,000 from "Provisions and other liabilities" account to share premium.

15 OTHER RESERVES (Cont'd)

(b) Share-based payment reserve (Cont'd)

(ii) Management share subscription scheme ("MSSS") (Cont'd)

The subscription proceeds are refundable at principal amount plus interest of 3.5% per annum subject to certain conditions and are included in "Provisions and other liabilities" in the consolidated balance sheet. For the purpose of measurement subscription price, the Company used the following principal assumptions for estimated fair value:

Expected economic growth rate	2.9% per annum
Discount rates	14.4% to 17.3% per annum

The amounts of total compensation expenses in respect of MSSS recognised in the consolidated income statement are as follows:

	2008 US$'000	2007 US$'000
Cost of sales	142	261
Selling expenses	88	161
General and administrative expenses	1,104	2,021
Research and development expenses	265	491
	1,599	2,934

The movements in the number of outstanding MSSS awards are as follows:

	2008	2007
	No. of outstanding MSSS award (in thousands)	
At 1 January	56,564	56,744
Abandon	(660)	(180)
Vested and issued shares	(13,976)	—
At 31 December	41,928	56,564

(c) Statutory reserves

As stipulated by regulations in Mainland China and Taiwan, each of the Company's subsidiaries established and operated in Mainland China and Taiwan have to appropriate 10% of its after-tax profit (after offsetting prior year losses) to the general reserve. Subject to certain conditions, the general reserve can be utilised to make up prior year losses or be utilised for the issuance of share dividend.

16 RETAINED EARNINGS – COMPANY

	US$'000
Balance at 1 January 2008	**34,286**
Profit for the year	**2,319**
Dividend related to 2007	**(11,439)**
Balance at 31 December 2008	**25,166**
Balance at 1 January 2007	19,028
Profit for the year	15,258
Balance at 31 December 2007	34,286

17 PROVISIONS AND OTHER LIABILITIES

	Group		Company	
	2008	2007	**2008**	2007
	US$'000	US$'000	**US$'000**	US$'000
Current				
Receipts in advance from customers	**794**	777	**—**	—
Receipts under MSSS plan (Note 15(b)(ii))	**1,409**	3,166	**1,409**	3,166
	2,203	3,943	**1,409**	3,166
Non-current				
Receipts under MSSS plan (Note 15(b)(ii))	**3,663**	3,663	**3,663**	3,663
	5,866	7,606	**5,072**	6,829

18 RETIREMENT BENEFIT OBLIGATIONS

The Group has various employee retirement plans offering pension benefits for each subsidiary in accordance with laws and regulations of the countries where the subsidiaries are operating.

(a) The Group has defined benefit plans for the benefits of certain employees working in Taiwan and Mainland China. The plan for employees in Taiwan ("Old Plan") is only available for the employees who joined the Group before 1 July 2005. Effective from 1 July 2005, the employees who joined the Old Plan can choose to switch to a new defined contribution plan in Taiwan ("New Plan"). Those employees who have switched to the New Plan are still entitled to the Old Plan benefits earned with their service years under the Old Plan provided all the criteria for the Old Plan benefits entitlements are met upon retirement. The Old Plan benefits of the employees switched to the New Plan are assessed annually together with the pension benefits of the employees staying with the Old Plan as a whole. The details of the New Plan have been set out in Note 18(b).

As at 31 December 2008, benefit obligations under these defined benefit plans and recognised in the consolidated balance sheet are as follows:

	2008 US$'000	2007 US$'000
Present value of funded obligation	7,282	5,890
Fair value of plan assets	(1,828)	(1,663)
	5,454	4,227
Unrecognised actuarial loss	(1,331)	(314)
Liability in the balance sheet	4,123	3,913

18 RETIREMENT BENEFIT OBLIGATIONS (Cont'd)

(a) (Cont'd)

The plans are valued by ClientView Management Consulting Co., Ltd ("ClientView"), an independent actuary in Taiwan, using the projected unit credit method.

The principal actuarial assumptions used are as follows:

	2008 US$'000	2007 US$'000
Discount rate of funded obligation	2.50%	3.00%
Discount rate of unfunded obligation	2.50%	3.00%
Expected return rate on plan assets	2.50%	2.50%
The average rate of salary increase	3.00%	3.00%

The amounts recognised in the consolidated income statement are as follows:

	2008 US$'000	2007 US$'000
Current service cost	293	266
Interest cost	182	143
Expected return on plan assets	(44)	(32)
Net pension cost	431	377

The actual return of funded obligation on plan assets was US$41,000 (2007: US$33,000).

The movements in pension benefit obligation are as follows:

	2008 US$'000	2007 US$'000
Beginning of year	5,890	5,503
Current service cost	293	266
Interest cost	182	143
Actuarial losses	1,086	153
Benefits paid	(59)	(218)
Exchange difference	(110)	43
End of year	7,282	5,890

18 RETIREMENT BENEFIT OBLIGATIONS (Cont'd)

(a) (Cont'd)

The movements in the fair value of plan assets are as follows:

	2008 US$'000	2007 US$'000
Beginning of year	1,663	1,526
Employer contribution	173	170
Expected return on plan assets	44	32
Actuarial losses	20	12
Benefits paid	(45)	(86)
Exchange difference	(27)	9
End of year	1,828	1,663

Based on estimation of ClientView, the expected contributions to the plan assets for the year ending 31 December 2009 is US$172,000 (unaudited).

Current and historical defined benefit retirement plans information are summarised as follows:

	2008 US$'000	2007 US$'000
Present value of defined benefit obligation	7,282	5,890
Fair value of plan assets	(1,828)	(1,663)
Deficit	5,454	4,227
Experience adjustments on plan liabilities	293	266
Experience adjustments on plan assets	(20)	(12)

18 RETIREMENT BENEFIT OBLIGATIONS (Cont'd)

(b) The Group has defined contribution plans covering employees in Mainland China,Taiwan and the United States of America.

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

New employees in Taiwan recruited on and subsequent to 1 July 2005 can only join a defined contribution plan, namely the New Plan. The Group contributes monthly 6% of salaries and wages to an individual and portable account of each participating employee administered by the Bureau of Labor Insurance. The Company has no further legal or constructive obligations of additional payments in addition to the contributions made. The contributions by employees are on a voluntary basis.

The defined contribution plan in the United States of America is covering pension and other employee benefits in accordance with the local regulations. Participating employees may contribute up to US$15,000 of their salaries. The Group matches the employees' contributions under a defined formula as stipulated by relevant local regulations.

The employee retirement benefit expense recognised in the consolidated income statements for these defined contribution plans was US$1,081,000 (2007: US$639,000).

For all plans, there was no significant forfeited contribution available for offsetting the Group's contribution obligations for the year ended 31 December 2008 (2007: Nil).

(c) The amounts of total employee retirement benefit expenses recognised in the consolidated income statement are as follows:

	2008	2007
	US$'000	US$'000
Cost of sales	**738**	374
Selling expenses	**146**	133
General and administrative expenses	**128**	76
Research and development expenses	**500**	433
	1,512	1,016

19 TRADE AND OTHER PAYABLES

	Group		Company	
	2008	2007	2008	2007
	US$'000	US$'000	US$'000	US$'000
Trade payables	49,101	64,880	—	—
Trade payables due to related parties (Note 32(e))	6,496	9,520	—	—
	55,597	74,400	—	—
Accruals and other payables:				
Accrued payrolls and bonuses	5,521	6,348	—	1,357
Accrued customs duties and value added tax	522	4,022	—	—
Other accrued expenses and payables	11,880	12,363	691	600
Other payables due to related parties (Note 32(f))	95	2,303	—	—
	18,018	25,036	691	1,957
	73,615	99,436	691	1,957

The carrying amounts of trade and other payables approximate their fair values.

The aging analysis of the trade payables of the Group is as follows:

	2008	2007
	US$'000	US$'000
0 - 30 days	15,933	26,413
31 - 60 days	16,335	23,089
61 - 90 days	13,009	15,485
Over 90 days	10,320	9,413
	55,597	74,400

20 INCOME TAX EXPENSE

The amounts of taxation charged to the consolidated income statement represent:

	2008 US$'000	2007 US$'000
Current taxation		
Taiwan	495	1,199
Mainland China	3,213	1,475
Other countries	74	41
	3,782	2,715
Under/(over) provision in prior years – net	42	(336)
Deferred taxation	(1,319)	570
	2,505	2,949

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the domestic tax rates applicable to profits of the group entities as follows:

	2008 US$'000	2007 US$'000
Profit before income tax	27,119	34,402
Tax calculated at domestic tax rates	3,742	4,947
Income not subject to tax	(9)	(360)
Expenses not deductible for tax purposes	288	418
Increase in deferred tax liabilities resulting from increase in tax rate	—	780
Decrease in deferred tax liabilities resulted from decrease in tax rate	(520)	—
Under/(over) provision in prior years – net	42	(336)
	3,543	5,449
Utilisation of investment tax credits	(1,038)	(2,500)
Income tax expense	2,505	2,949

20 INCOME TAX EXPENSE (Cont'd)

The weighted average applicable tax rate was 14% (2007: 14%).

The Company is an exempted company incorporated in the Cayman Islands and, as such, is not liable for taxation in the Cayman Islands on its non-Cayman Islands income.

達創科技（東莞）有限公司 (Delta Networks (Dongguan) Ltd.) ("DNI Dongguan") is a foreign investment enterprise in Mainland China. In 2007, DNI Dongguan was subject to a corporate income tax rate of 10%. Pursuant to the new Corporate Income Tax Law of the People's Republic of China which has been in effect since 1 January 2008, DNI Dongguan is qualified as a High/New Tech Enterprise and is subject to a corporate income tax rate of 15% from 2008 onwards.

達創科技股份有限公司 ("DNI Taiwan") was incorporated in Taiwan and is subject to a corporate income tax rate of 25%. However, it is entitled to certain tax incentives under the Statute for Upgrading Industries in Taiwan. Pursuant to such regulation, 30% of the expenditure incurred for research and development and training activities can be credited against the corporate income tax in Taiwan in each year within a period of five years from the year for which such expenditure is incurred. If such expenditure of that year exceeds the average expenditure of the previous two years, 50% of the excess amount can be credited against the corporate income tax payable. In addition, subject to certain conditions, DNI Taiwan may credit 5% to 7% of the cost spent on qualifying machinery and equipment against the corporate income tax payable in each year within a period of five years from the year for which such cost is incurred. The utilisation of the available tax credits in each year is limited to 50% of the corporate income tax payable in that year, except that any not fully utilised tax credit which is due to expire at the end of the five-year period can be offset against 90% of the corporate income tax of the last year of the five-year period.

Delta Networks International Limited ("DNI Labuan") carries on offshore trading activities in Labaun, Malaysia with other group companies which are non-residents of Malaysia, in currencies other than Malaysia Ringgit. As such, it is qualified as an offshore trading company in Labuan and is taxed at a fixed annual sum rate of Malaysian RM20,000.

Macao branch of DNI Labuan was incorporated under Decree-Law no.58/99/M ("58/99/M Company") and is exempted from Macao complementary tax (Macao income tax) as long as the 58/99/M Company does not sell its products to a Macao resident it satisfies a number of conditions. These include: (i) all activities shall be conducted only in non-Macao currency (other than for the purpose of paying local expenses); (ii) the target customers cannot be Macao residents; and (iii) the target markets must be outside Macao. In addition, the Macao branch must have substance in Macao and must carry on its business in accordance with the investment plan previously submitted to the Macau authorities.

21 DEFERRED TAXATION

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

	2008 US$'000	2007 US$'000
Deferred tax assets	4,169	3,322
Deferred tax liabilities	(829)	(1,301)
Deferred tax assets – net	3,340	2,021

The gross movements on the deferred income tax account are as follows:

	2008 US$'000	2007 US$'000
Beginning of year	2,021	2,591
Credited/(charged) to consolidated income statement	1,319	(570)
End of year	3,340	2,021

21 DEFERRED TAXATION (Cont'd)

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

Deferred tax liabilities	**Unrealised foreign exchange gains**	**Withholding tax in respect of unremitted earnings of a subsidiary**	**Total**
	US$'000	US$'000	US$'000
At 1 January 2007	—	—	—
Charged to consolidated income statement	1,301	—	1,301
At 31 December 2007	1,301	—	1,301
At 1 January 2008	1,301	—	1,301
(Credited)/charged to consolidated income statement	(1,301)	829	(472)
At 31 December 2008	**—**	**829**	**829**

Deferred tax assets	**Unrealised foreign exchange loss-net**	**Decelerated depreciation allowance**	**Inventory provision and others**	**Tax credit**	**Total**
	US$'000	US$'000	US$'000	US$'000	US$'000
At 1 January 2007	111	280	85	2,115	2,591
Credited/(charged) to consolidated income statement	(101)	(280)	126	986	731
At 31 December 2007	10	—	211	3,101	3,322
At 1 January 2008	10	—	211	3,101	3,322
Credited/(charged) to consolidated income statement	351	—	516	(20)	847
At 31 December 2008	**361**	**—**	**727**	**3,081**	**4,169**

21 DEFERRED TAXATION (Cont'd)

The Group also did not recognise deferred income tax assets in respect of investment tax credits amounting to US$8,323,000 that can be carried forward against future tax liability (2007: US$7,834,000). These investment tax credits will expire in the next one to four years.

As at 31 December 2008, certain subsidiaries had unremitted earnings totaling US$33,413,000 (2007: US$35,127,000). The Group determined that there are no deferred income tax liabilities to be recognised for the withholding tax and other taxes that would be payable on remitted earnings of these subsidiaries as the Group has no plan to distribute the these subsidiaries' unremitted earnings at 31 December 2008 and the amount is more likely to be reinvested.

22 OTHER GAINS

	2008 US$'000	2007 US$'000
Other income and expense		
– Commission income	1,071	694
– Claims from suppliers and customers	1,142	1,017
– Tax refund in respect of reinvestment	166	597
– Scrap sales	451	323
– Others	2,438	632
	5,268	3,263
Derivative instruments		
– forward contracts	(688)	3,892
Gains on disposal of available-for-sale investments	—	119
Net foreign exchange gains	2,820	1,536
	7,400	8,810

Other income primarily consists of the Group's various activities, transactions and events, which differ in frequency, potential for gains or loss and predictability, from sales and service revenue.

23 EXPENSES BY NATURE

The Group's profit from operations is arrived at after charging the following main items:

	2008 US$'000	2007 US$'000
Amortisation of land use rights	7	7
Auditor's remuneration	282	582
Depreciation of property, plant and equipment (Note 6)	7,081	4,720
Impairment provision of trade receivables	1,842	8
Inventory write-down	4,974	845
Changes in inventories of finished goods and work in progress	5,668	3,482
Raw materials and consumables used	308,844	309,787
Operating lease rental – buildings	1,166	993
Employee benefit expense (Note 24)	36,226	48,592
Other expenses	30,675	30,845
Total cost of sales, selling expenses, general and administration expenses and research and development expenses	396,765	399,861

24 EMPLOYEE BENEFIT EXPENSE

	2008 US$'000	2007 US$'000
Basic salary and allowance	23,303	19,928
Bonus	3,397	2,712
Social security costs	1,671	1,070
Share-based payment		
– DEI's incentive scheme	—	9,361
– Employee incentive scheme	4,744	11,571
– Management share subscription scheme	1,599	2,934
Pension cost		
– defined contribution plans	1,081	639
– defined benefit plans (Note 18)	431	377
	36,226	48,592

24 EMPLOYEE BENEFIT EXPENSE (Cont'd)

(a) Directors' emoluments

The remuneration of each director of the Company for the year ended 31 December 2008 is set out below:

Name of director	Fees	Salaries	Discretionary bonus	MSSS	Employer's contributions to retirement schemes	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Executive Directors						
LIANG Ker Uon, Sam	—	71	709	333	3	1,116
CHENG An, Victor	—	92	213	223	3	531
Non-executive directors						
CHENG Chung Hua, Bruce	30	—	—	111	—	141
HAI Ing-Jiunn, Yancey	30	—	—	111	—	141
Independent non-executive directors						
ZUE Wai To, Victor	53	—	—	111	—	164
LIU Chung Laung	53	—	—	111	—	164
SHEN Bing	67	—	—	—	—	67
	233	163	922	1,000	6	2,324

24 EMPLOYEE BENEFIT EXPENSE (Cont'd)

(a) Directors' emoluments (Cont'd)

The remuneration of each director of the Company for the year ended 31 December 2007 is set out below:

Name of director	Fees	Salaries	Discretionary bonus	MSSS	Employer's contributions to retirement schemes	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Executive Directors						
LIANG Ker Uon, Sam	—	67	1,044	378	1	1,490
CHENG An, Victor	—	90	313	252	3	658
Non-executive directors						
CHENG Chung Hua, Bruce	17	—	—	126	—	143
HAI Ing-Jiunn, Yancey	17	—	—	126	—	143
Independent non-executive directors						
ZUE Wai To, Victor	22	—	—	126	—	148
LIU Chung Laung	22	—	—	126	—	148
SHEN Bing	28	—	—	—	—	28
	106	157	1,357	1,134	4	2,758

24 EMPLOYEE BENEFIT EXPENSE (Cont'd)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include two directors for each of the two years ended 31 December 2008 and 2007 whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three individuals for each of the two years ended 31 December 2008 are as follows:

	2008 US$'000	2007 US$'000
Basic salaries, housing allowances and other allowances	198	176
Discretionary bonuses	324	998
MSSS	30	34
Retirement schemes	9	6
	561	1,214

The emoluments fell within the following bands:

	2008	2007
US$Nil - US$128,041 (equivalent to approximately HK$1,000,000)	—	—
US$128,042 - US$192,061 (equivalent to approximately HK$1,000,001 - HK$1,500,000)	2	—
US$192,062 - US$256,410 (equivalent to approximately HK$1,500,001 - HK$2,000,000)	1	—
US$256,411 - US$320,510 (equivalent to approximately HK$2,000,001 - HK$2,500,000)	—	—
US$320,511 - US$384,615 (equivalent to approximately HK$2,500,001 - HK$3,000,000)	—	1
US$384,615 - US$512,820 (equivalent to approximately HK$3,500,001 - HK$4,000,000)	—	2
	3	3

(c) During the year ended 31 December 2008 and 2007, no emoluments were paid by the Company to any director or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

25 FINANCE INCOME AND FINANCE COST

	2008 US$'000	2007 US$'000
Bank interest income	7,138	7,071
Interest income of share subscription monies received	—	85
	7,138	7,156
Interest on bank borrowing and overdrafts wholly repayable within five years	(165)	(8)
Interest on MSSS subscription money	(101)	(316)
	(266)	(324)
Net finance costs	6,872	6,832

26 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of US$2,319,000 (2007: US$15,258,000).

27 EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year after taking into account the effect of share repurchase during the year. The weighted average number of ordinary shares in issue is adjusted for the share sub-division of 1 to 20 in 2007.

	2008 US$'000	2007 US$'000
Profit attributable to equity holders of the Company (US$'000)	24,586	31,356
Weighted average number of ordinary shares in issue after share sub-division of 1 to 20 (in thousands)	1,092,265	952,300
Basic earnings per share (in US cents per share)	2.25	3.29

27 EARNINGS PER SHARE (Cont'd)

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

The weighted average number of ordinary shares for the purpose of calculating diluted earnings per share is adjusted for outstanding shares of share-based payments under EIS of 32,804,000 shares (2007: 27,586,000 shares) and MSSS of 7,122,000 shares (2007: 25,972,000). A calculation is made for MSSS and EIS in order to determine the number of shares that could have been acquired at fair value based on the subscription price attached to outstanding share. The number of shares calculated above is based on the estimated number of shares that would have been issued assuming vesting of all outstanding shares.

	2008 US$'000	2007 US$'000
Profit attributable to equity holders of the Company (US$'000)	24,586	31,356
Weighted average number of ordinary shares in issue after share sub-division of 1 to 20 (in thousands)	1,092,265	952,300
Adjustments for		
– MSSS and EIS after share sub-division of 1 to 20 (in thousands)	39,926	53,558
Weighted average number of ordinary shares for diluted earnings per share (in thousands)	1,132,191	1,005,858
Diluted earnings per share (in US cents per share)	2.17	3.12

28 DIVIDEND

At a meeting held on 26 February 2009, the board of directors recommended a final dividend in respect of the year ended 31 December 2008 of 0.83 US cents per share (2007: 1.03 US cents), totaling US$9,846,000 (2007: US$12,581,000). This dividend is subject to the approval of the shareholders at the annual general meeting to be held on 24 April 2009. These financial statements do not reflect this dividend payable.

29 CONSOLIDATED CASH FLOW STATEMENT

Cash generated from operations

	2008 US$'000	2007 US$'000
Profit before income tax	27,119	34,402
Adjustments for:		
Impairment provision/(reversal of impairment provision) of receivables	1,842	(26)
Depreciation	7,081	4,720
Inventory write-down	4,974	845
Amortisation of land use rights	7	7
Unrealised loss/(gain) from derivative instruments	3,534	(2,609)
Share-based payment compensation	6,343	23,866
Loss on disposal of property, plant and equipment	106	132
Profit on disposal of available-for-sale financial assets	—	(119)
Impairment provision of other financial assets	280	—
Interest income	(7,138)	(7,156)
Interest expense	266	324
Changes in working capital:		
Inventories	(993)	(5,032)
Prepayments and other assets	(472)	(617)
Trade receivables	15,146	(29,466)
Trade and other payables	(25,821)	30,119
Retirement benefit obligation	210	118
Provisions and other liabilities	—	395
	32,484	49,903

30 CONTINGENT LIABILITIES

As at 31 December 2008 and 2007, the Group and the Company did not have any material contingent liabilities.

31 COMMITMENTS

(a) Capital commitments

As at 31 December 2008, the Group and the Company did not have any material capital commitments.

(b) Operating lease commitments

As at 31 December 2008, the Group had future aggregate minimum lease payments under non-cancellable operating leases of land and buildings as follows:

	2008 US$'000	2007 US$'000
Not later than one year	1,215	1,095
Later than one year and not later than five years	—	1,095
	1,215	2,190

The relevant lease agreements were entered into with Delta Electronics, Inc., the ultimate holding company. Please also see Note 32(b).

32 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

(a) For the year ended 31 December 2008, the Group's management are of the view that the following companies are related parties of the Group during the year:

Names of related parties	Relationship with the Group
Delta Electronics, Inc. ("DEI")	The ultimate holding company
Delta International Holding Ltd.	A subsidiary of DEI
Delta Electronics (Japan) Inc.	A subsidiary of DEI
Delta Electronics (Dongguan) Co., Ltd.	A subsidiary of DEI
Delta Electronics Power (Dongguan) Co.	A subsidiary of DEI
Delta Electronics Component	
A subsidiary of DIH (Dongguan) Co., Ltd.	A subsidiary of DEI
Delta Electronics (Jiangsu) Ltd.	A subsidiary of DEI
Delta Electronics Components (Wujiang) Ltd.	A subsidiary of DEI
Delta Electro-optics (Wujiang) Ltd.	A subsidiary of DEI
Delta Video Display System (Wujiang) Ltd.	A subsidiary of DEI
Delta Power Sharp Limited	A subsidiary of DEI
Delta Electronics International Ltd.	A subsidiary of DEI
Delta Electronics International Ltd. (Labuan)	A subsidiary of DEI

32 RELATED PARTY TRANSACTIONS (Cont'd)

(b) The Group had the following significant related party transactions:

	Note	2008 US$'000	2007 US$'000
Ultimate holding company			
Purchase of goods by the Group	i	562	432
Supporting expenses paid by the Group	ii	635	614
DEI incentive scheme received by the Group (Note 15(a))		—	9,361
Rental expenses to ultimate holding company	iii	1,103	1,098
Fellow subsidiaries			
Purchase of goods by the Group	i	29,970	31,854
Supporting expenses paid by the Group	ii	—	1,709
Selling expenses and commission paid by the Group	iv	658	600
Other expenses recharged to the Group	v	—	1,161
Purchases of property, plant and equipment by the Group	vi	—	1,431

Notes:

(i) The purchase terms, including prices and credit terms, were negotiated based on cost, market, competitors and other factors.

(ii) Supporting expense related to provision of utilities and management services and was charged in accordance with the terms of agreement made between the parties.

(iii) Properties leased by ultimate holding company to the Group for production and office use were charged in accordance with the terms of agreement made between the parties.

(iv) The selling expenses and commission were calculated based on a certain percentage of the transaction value arranged by the follow subsidiaries.

(v) Other expenses recharged by related parties related to provision of production capacity and labour force and was charged in accordance with the terms of agreement made between the parties.

(vi) The purchases were conducted based on the terms of agreed made between the parties.

32 RELATED PARTY TRANSACTIONS (Cont'd)

(c) Key management compensation

	2008 US$'000	2007 US$'000
Fee	233	105
Basic salary and allowance	1,788	2,084
Share-based payments		
– DEI's incentive scheme	—	579
– Employee incentive scheme	280	675
– Management share subscription scheme	1,073	1,219
Pension cost-defined contribution plans	13	10
Pension cost-defined benefit plans	11	6
	3,398	4,678

(d) Trade receivables due from related parties

	2008 US$'000	2007 US$'000
Ultimate holding company	5	4
Fellow subsidiaries	218	46
	223	50

The trade receivables from related parties arose mainly from sales transactions and payment terms were negotiated with related parties. The receivables were unsecured and interest-free.

32 RELATED PARTY TRANSACTIONS (Cont'd)

(e) Trade payables due to related parties

	2008 US$'000	2007 US$'000
Ultimate holding company	70	140
Fellow subsidiaries	6,426	9,380
	6,496	9,520

The trade payables arose mainly from purchase transactions and payment terms were negotiated with related parties. The payables were unsecured and interest-free.

(f) Other payables due to related parties

	2008 US$'000	2007 US$'000
Ultimate holding company	37	271
Fellow subsidiaries	58	2,032
	95	2,303

Other payables were payments made by related parties on behalf of the Group for purchase of equipment and other miscellaneous expenses. The payment terms of other payables were determined based on negotiation. The payables were unsecured and interest-free.

33 PARTICULARS OF SUBSIDIARIES

As at 31 December 2008, the Company had direct and indirect interests in the following subsidiaries:

Directly held

Name	Place of incorporation/ establishment	Kind of legal equity	Issued and fully paid up share capital/ registered capital	Attributable equity interests 2008	Attributable equity interests 2007	Principal activities and place of operations
Delta Networks, Inc.	Taiwan	Limited liability company	50,000,000 ordinary shares of NT$10 each	99.20%	99.20%	Manufacturing of networking system and peripherals in Taiwan
DNI Logistics (USA) Corp.	United States of America	Limited liability company	500,000 ordinary shares of US$1 each	100%	100%	Trading of networking system and peripherals in USA
Delta Networks International Ltd – Labuan	Malaysia	Limited liability company	1,000,000 ordinary shares of US$1 each	100%	100%	Trading of networking system and peripherals in Macau
Delta Networks (H.K.) Limited	Hong Kong	Limited liability company	35,000,000 ordinary shares of US$1 each	100%	100%	Investment holding in Hong Kong

Indirectly held

Name	Place of incorporation/ establishment	Kind of legal equity	Issued and fully paid up share capital/ registered capital	Attributable equity interests 2008	Attributable equity interests 2007	Principal activities and place of operations
Delta Networks (Dong Guan) Ltd.	Mainland China	Wholly-owned foreign enterprise	Paid up capital of US$27,000,000	100%	100%	Manufacturing of networking system and peripherals in Mainland China
Delta Networks (Shanghai) Ltd.	Mainland China	Wholly-owned foreign enterprise	Paid up capital of US$15,000,000	100%	100%	Product research and development in Mainland China
Delta Networks (Wujiang) Ltd.	Mainland China	Wholly-owned foreign enterprise	Paid up capital of US$5,000,000	100%	100%	Manufacturing of networking system and peripherals in Mainland China

34 PARTICULARS OF A CONTROLLED SPECIAL PURPOSE ENTITY

As at 31 December 2008, there was one special purpose entity controlled by the Company which operates in Hong Kong, particulars of which are as follows:

Name	Principal activities
Delta Networks, Inc. Employee Incentive Scheme ("EIS Trust")	Administering and holding DNI Shares for EIS for the benefit of eligible participants of EIS (Note 15 (b)(i))

As the Company has the power to govern the financial and operating policies of EIS Trust, accordingly the Group has consolidated EIS Trust. Upon the implementation of EIS, the Company had issued 124,000,000 ordinary shares to EIS Trust. As at 31 December 2008, 97,205,200 DNI Shares (2007:124,000,000) were retained by EIS Trust.

FIVE-YEAR FINANCIAL SUMMARY

	For the year ended 31 December				
	2004	2005	2006	2007	**2008**
	(US$'million)	(US$'million)	(US$'million)	(US$'million)	**(US$'million)**
Results					
Revenue	199.83	289.42	357.42	418.62	**409.61**
Profit from operations	3.32	15.69	22.12	27.57	**20.25**
Financial cost	(0.61)	(0.09)	(0.05)	(0.32)	**(0.27)**
Financial income	0.46	0.55	2.19	7.16	**7.14**
Profit before tax	3.17	16.14	24.26	34.40	**27.12**
Income tax (expense)/benefit	(0.16)	(0.60)	1.31	(2.95)	**(2.51)**
Profit after tax and before minority interests	3.01	15.54	25.57	31.45	**24.61**
Minority interests	(0.01)	(0.04)	(0.10)	(0.10)	**(0.03)**
Net profit for the year	3.00	15.50	25.47	31.35	**24.58**

	As at 31 December				
	2004	2005	2006	2007	**2008**
	(US$'million)	(US$'million)	(US$'million)	(US$'million)	**(US$'million)**
Assets and liabilities					
Total assets	118.28	139.31	190.25	403.37	**385.59**
Total liabilities	(72.20)	(70.98)	(85.07)	(116.49)	**(88.40)**
Minority interests	(0.06)	(0.10)	(0.19)	(0.29)	**(0.32)**
Capital and reserves	46.02	68.23	104.99	286.59	**296.87**