
THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in the Company, you should at once hand this document and the accompanying forms of proxy to the purchaser or the transferee or to the licensed securities dealer or registered institution in securities or other agent, through whom the sale or transfer was effected, for transmission to the purchaser or the transferee.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.



DELTA NETWORKS HOLDING LIMITED
(Incorporated in the Cayman Islands with limited liability)

Delta Networks, Inc.
達創科技股份有限公司*
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 722)

**PROPOSED PRIVATISATION
OF
DELTA NETWORKS, INC.
BY
DELTA NETWORKS HOLDING LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT**

Financial Adviser to Delta Networks Holding Limited



Independent Financial Adviser to the IBC



A letter from the Board is set out on pages 14 to 20 of this document. An Explanatory Statement is set out on pages 52 to 74 of this document. The IBC Letter, containing the IBC's advice to the Independent Shareholders and the MS Participants in respect of the Proposal, is set out on pages 21 to 22 of this document. The IFA Letter, containing the IFA's advice to the IBC in respect of the Proposal, is set out on pages 23 to 51 of this document.

Notices convening the Court Meeting and the EGM to be held at Beijing Suite I, 3/F, Marco Polo Prince Hotel, Harbour City, 23 Canton Road, Kowloon, Hong Kong on Thursday, 11 June 2009 at respectively 11:00 am and 11:30 am (or, in the case of the EGM, immediately after the conclusion or adjournment of the Court Meeting) are set out on pages 152 to 156 of this document.

Regardless of whether or not you are able to attend the Court Meeting and/or the EGM, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting (and the enclosed white form of proxy in respect of the EGM) in accordance with the instructions printed on them and to lodge them with the Company's branch share registrar in Hong Kong (being Tricor Investor Services Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong) as soon as possible, but in any event not later than the respective times and dates as stated under the paragraph headed "Actions to be Taken" in the section headed "Important Notice" on page 1 of this document. The pink form of proxy in respect of the Court Meeting may also be returned in the manner set out under the paragraph headed "Actions to be Taken" in the section headed "Important Notice" on page 1 of this document.

* For identification purpose only

15 May 2009

CONTENTS

	<i>Page</i>
IMPORTANT NOTICE	1
DEFINITIONS	4
EXPECTED TIMETABLE	11
LETTER FROM THE BOARD	14
LETTER FROM THE IBC	21
LETTER FROM THE IFA	23
EXPLANATORY STATEMENT	52
1. INTRODUCTION	52
2. ISSUED SHARES AND DETAILS OF WARRANTS, OPTIONS AND CONVERSION RIGHTS	52
3. TERMS OF THE PROPOSAL	54
4. CONDITIONS OF THE PROPOSAL	56
5. SCHEME OF ARRANGEMENT UNDER SECTION 86 OF THE COMPANIES LAW AND COURT MEETING	58
6. ADDITIONAL REQUIREMENTS IMPOSED BY RULE 2.10 OF THE TAKEOVERS CODE	58
7. BINDING EFFECT OF THE SCHEME	59
8. EFFECTS OF THE SCHEME	59
9. COMPARISON OF VALUE	61
10. 2008 FINAL DIVIDEND	63
11. REASONS FOR THE PROPOSAL AND BENEFITS TO THE SHAREHOLDERS	63
12. INFORMATION ON THE COMPANY	64
13. INFORMATION ON THE OFFEROR	65
14. OFFEROR'S INTENTION REGARDING THE COMPANY	66
15. INTERESTS OF THE DIRECTORS IN THE SCHEME AND EFFECTS THEREON	66
16. SHARE CERTIFICATES, DEALINGS AND LISTING	66
17. REGISTRATION AND PAYMENT	67
18. OVERSEAS SHAREHOLDERS AND OVERSEAS MS PARTICIPANTS	68
19. TAXATION	69
20. COURT MEETING AND THE EGM	69
21. RESOLUTION TO BE APPROVED BY WAY OF A POLL AT THE EGM	71
22. ACTIONS TO BE TAKEN	71
23. COSTS OF THE SCHEME	74
24. RECOMMENDATION	74
25. FURTHER INFORMATION	74

CONTENTS

	<i>Page</i>
APPENDIX I — FINANCIAL INFORMATION ON THE GROUP	75
1. THREE YEAR FINANCIAL SUMMARY	75
2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED THE LAST ACCOUNTING DATE	76
3. INDEBTEDNESS	134
4. MATERIAL CHANGE	134
APPENDIX II — GENERAL INFORMATION	135
1. RESPONSIBILITY STATEMENT	135
2. SHARE CAPITAL OF THE COMPANY	135
3. MARKET PRICES OF SHARES	136
4. DISCLOSURE OF INTERESTS UNDER THE SFO	136
5. DISCLOSURE OF INTERESTS UNDER THE TAKEOVERS CODE	139
6. DEALINGS IN SHARES	141
7. LITIGATION	142
8. MATERIAL CONTRACTS	142
9. EXPERTS	142
10. CONSENTS	142
11. DOCUMENTS AVAILABLE FOR INSPECTION	143
12. MISCELLANEOUS	143
SCHEME OF ARRANGEMENT	146
NOTICE OF THE COURT MEETING	152
NOTICE OF THE EGM	154

IMPORTANT NOTICE

ACTIONS TO BE TAKEN

Actions to be taken by Independent Shareholders

If you are an Independent Shareholder, regardless of whether or not you are able to attend the Court Meeting and/or the EGM, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting (and the enclosed white form of proxy in respect of the EGM) in accordance with the instructions printed on them and to lodge them with the Share Registrar (being Tricor Investor Services Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong) as soon as possible, but in any event not later than the respective times and dates as stated below.

In order to be valid, the pink form of proxy for use at the Court Meeting should be lodged not later than 11:00 am on Tuesday, 9 June 2009 and the white form of proxy for use at the EGM should be lodged not later than 11:30 am on Tuesday, 9 June 2009. The pink form of proxy in respect of the Court Meeting may alternatively be handed to the chairman of the Court Meeting at the Court Meeting if it is not so lodged.

The completion and return of a form of proxy for the Court Meeting or the EGM will not preclude you from attending and voting in person at the relevant meeting. In such event, the returned form of proxy will be deemed to have been revoked.

Actions to be taken by Beneficial Owners

Any Beneficial Owner whose Shares are registered in the name of a Registered Owner should contact such Registered Owner (or the appropriate intermediary) to give instructions to and/or to make arrangements with such Registered Owner as to the manner in which the Shares beneficially owned by the Beneficial Owner should be voted at the Court Meeting and/or the EGM.

Any Beneficial Owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees must (unless such Beneficial Owner is an Investor Participant) contact their broker, custodian or nominee (or other relevant person who is or has in turn deposited such Shares with a CCASS participant) regarding voting instructions to be given to such persons if they wish to vote in respect of the Scheme.

Any Beneficial Owner who wishes to attend and vote at the Court Meeting and/or the EGM personally should contact the Registered Owner (or the appropriate intermediary) directly to make the appropriate arrangements with the Registered Owner to enable the Beneficial Owner to attend and vote at the Court Meeting and/or the EGM and, for such purpose, the Registered Owner may appoint the Beneficial Owner as its proxy.

Any Beneficial Owner who wishes to vote at the Court Meeting and be counted towards the number of Scheme Shareholders present and voting at the Court Meeting for or against the Scheme (as required under Section 86 of the Companies Law) must have his/her/its name entered in the register of members of the Company before the Court Meeting.

IMPORTANT NOTICE

Further details are set out under paragraph 20 headed “Court Meeting and the EGM” and paragraph 22 headed “Actions to be taken” in the Explanatory Statement.

Actions to be taken by MS Participants

If you are a MS Participant and you wish to accept the MS Offer, you are strongly urged to complete and return the signed MS Acceptance Form before the MS Cut-Off Time.

The completed and signed MS Acceptance Form must be delivered to the Company at its head office and principal place of business in Taiwan at 186 Ruey Kuang Road, Neihsu, Taipei 11491, Taiwan (marked for the attention of “Mr. Lee Yipin — Chief Financial Officer”).

EXERCISE YOUR RIGHT TO VOTE

If you are an Independent Shareholder, we strongly encourage you to exercise your right to vote or give instructions to the relevant Registered Owner to vote at the Court Meeting and at the EGM. If you keep or think you may keep any Shares in a stock lending programme, we urge you to recall any outstanding Shares on loan to avoid market participants using borrowed stock to vote against the Proposal, which potentially could have a negative impact on the value of your Shares.

If you are acting as a Registered Owner, you should inform the Beneficial Owners about the importance of exercising their vote.

If you are a Beneficial Owner and you wish to attend and vote at the Court Meeting and/or the EGM personally, please refer to the instructions set out under the paragraph headed “Actions to be taken by Beneficial Owners” above.

If you are in any doubt as to the action to be taken, you are encouraged to consult your licensed securities dealer or other registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

The actions which you are required to take in relation to the Proposal are set out under paragraph 20 headed “Court Meeting and the EGM” and paragraph 22 headed “Actions to be taken” in the Explanatory Statement.

NOTICE TO US SHAREHOLDERS

The Proposal relates to the Shares in the ordinary share capital of the Company (being an exempted company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Stock Exchange), and is proposed to be implemented by way of a scheme of arrangement under the Companies Law and applicable rules and regulations in Hong Kong. Accordingly, the Scheme is subject to disclosure requirements, rules and practices applicable in the Cayman Islands and Hong Kong, and the information disclosed in this document may not be the same as that which would have been disclosed if this document had been prepared for the purpose of complying with the requirements of the US federal securities laws or in accordance with the laws or regulations of any other

IMPORTANT NOTICE

jurisdiction. The financial information included in this document has been prepared in accordance with the International Financial Reporting Standards and thus may not be comparable to financial information of US companies or companies whose financial statements are prepared in accordance with generally accepted accounting principles in the US. In addition, the settlement procedure with respect to the Proposal will comply with the rules of the Takeovers Code and the Companies Law, which differ from US domestic settlement procedures in certain material respects, particularly with regard to the date of payment of consideration.

It may be difficult for US Shareholders to enforce their rights and any claim arising out of US securities law, since the Offeror and the Company are incorporated outside the US, some or all of their respective officers and directors are resident outside the US and a substantial portion of their respective assets are located outside the US. US Shareholders may not be able to sue a non-US incorporated company or its officers or directors in a non-US court for violations of US securities laws, or enforce against them a judgement rendered by a US court. Further, it may be difficult to compel a non-US incorporated company and its affiliates to subject themselves to a US court's jurisdiction.

Neither the US Securities and Exchange Commission nor any other US federal or state securities commission or regulatory authority has approved or disapproved or passed upon the accuracy or adequacy of this document. Any representation to the contrary is a criminal offence in the US.

Shareholders may obtain free copies of this document at the website maintained by the Stock Exchange at www.hkexnews.hk.

DEFINITIONS

In this document, the following expressions have the meanings respectively set opposite them, unless the context otherwise requires:

“2008 Final Dividend”	the amount of US\$0.0083 per Share, being the final dividend for the year ended 31 December 2008 which was recommended by the Board and was approved by the Shareholders at the AGM
“acting in concert”	has the meaning ascribed to it under the Takeovers Code, and “persons acting in concert” and “concert parties” will be construed accordingly
“Adjusted NAV per Share”	the value per Share as derived from dividing the audited consolidated net asset value of the Company as at the Last Accounting Date (adjusted to take into account the 2008 Final Dividend) by the Fully Diluted Capital (details of which are set out under paragraph 12 headed “Information on the Company” in the Explanatory Statement)
“AGM”	the annual general meeting of the Company which was held on 24 April 2009 to approve, among other things, the 2008 Final Dividend
“Announcement”	the announcement dated 12 March 2009 issued jointly by the Company and the Offeror in relation to the Proposal
“Associate”	has the meaning ascribed to it under the Takeovers Code
“Authorisations”	all necessary approvals, licences, consents, registrations, filing, rulings, permits and authorisations which may be required from any Authority in connection with the Proposal
“Authority”	any relevant government, quasi-governmental, supranational, regulatory, administrative or investigative body, court, tribunal, arbitrator, agency, authority or department in any jurisdiction
“Beneficial Owner”	any beneficial owner of Shares registered in the name of any nominee, custodian, trustee, depository or any other third party
“Board”	the board of directors of the Company
“Board Letter”	the letter from the Board to the Shareholders and the MS Participants, as set out in the section headed “Letter from the Board” on pages 14 to 20 of this document
“Business Day”	a day other than a Saturday, Sunday or public holiday in Hong Kong or the Cayman Islands
“Cancellation Consideration”	the consideration of HK\$1.83 in cash for every Scheme Share cancelled

DEFINITIONS

“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Companies Law”	the Companies Law, Cap.22 (Law 3 of 1961), as consolidated and revised, of the Cayman Islands
“Company”	Delta Networks, Inc., an exempted company incorporated in the Cayman Islands with limited liability and the Shares of which are listed on the Stock Exchange
“Concert Parties”	Mr. Cheng Chung Hua, Bruce (a non-executive Director, a director of the Offeror and a director of the Parent), Mr. Cheng An, Victor (an executive Director, a director of the Offeror and the son of Mr. Cheng Chung Hua, Bruce), Mr. Liang Ker Uon, Sam (an executive Director and a director of the Offeror) and Mr. Hai Ing-Jiunn, Yancey (a non-executive Director and a director of the Parent), being persons presumed to be acting in concert with the Offeror
“Conditions”	the conditions to the Scheme set out under paragraph 4 headed “Conditions of the Proposal” in the Explanatory Statement
“Court Meeting”	a meeting of the Scheme Shareholders to be convened at the direction of the Grand Court for the purpose of approving the Scheme (which will be held at Beijing Suite I, 3/F, Marco Polo Prince Hotel, Harbour City, 23 Canton Road, Kowloon, Hong Kong at 11:00 am on 11 June 2009), or any adjournment of such meeting
“Directors”	directors of the Company
“Effective Date”	the date on which the Scheme becomes effective
“EGM”	an extraordinary general meeting of the Company to be convened immediately following the close of the Court Meeting for the purpose of approving the Reduction (which will be held at Beijing Suite I, 3/F, Marco Polo Prince Hotel, Harbour City, 23 Canton Road, Kowloon, Hong Kong at 11:30 am on 11 June 2009, or as soon as the Court Meeting has been concluded or adjourned), or any adjournment of such meeting
“EIS”	the employee incentive scheme of the Company adopted on 21 August 2006 (and modified and approved by the Board on 13 June 2007), pursuant to which HSBC Trustee holds Shares in trust for satisfying grants of awards by the Company to eligible participants over the period from 6 March 2008 to and including 31 December 2011

DEFINITIONS

“Executive”	the Executive Director of the Corporate Finance Division of the SFC (or any delegate of the Executive Director)
“Explanatory Statement”	the explanatory statement issued in compliance with the rules of the Grand Court, which is set out on pages 52 to 74 of this document
“Facility”	the bank facility which the Offeror has obtained for the purpose of financing the Proposal
“Fully Diluted Capital”	1,224,398,000 Shares, being the fully diluted share capital of the Company (assuming the Shares underlying the outstanding 27,512,000 MS Awards are all vested and issued under the MSSS) as at the Latest Practicable Date
“Grand Court”	the Grand Court of the Cayman Islands
“Grand Court Hearing”	the Grand Court’s hearing of the petition to sanction the Scheme and to confirm the Reduction
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HSBC Trustee”	HSBC International Trustee Limited, a limited liability company established in Delaware, being the trustee of the trust under the EIS
“IBC”	the independent committee of the Board formed for the purpose of advising the Independent Shareholders and the MS Participants as to what action they should take in relation to the Proposal
“IBC Letter”	the letter from the IBC to the Independent Shareholders and the MS Participants, as set out in the section headed “Letter from the IBC” on pages 21 to 22 of this document
“IFA”	the independent financial adviser appointed to advise the IBC on the Proposal, being KGI Capital

DEFINITIONS

“IFA Letter”	the letter from the IFA to the IBC, as set out in the section headed “Letter from the IFA” on pages 23 to 51 of this document
“Independent Shareholders”	the Shareholders (other than the Offeror, the Concert Parties and any other persons acting in concert with the Offeror)
“Investor Participant”	a person admitted to participate in CCASS as an investor participant
“IPO”	the listing of the Shares on the Stock Exchange on 6 July 2007
“KGI Capital”	KGI Capital Asia Limited, a corporation licensed under the SFO to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities, being the IFA
“Last Accounting Date”	31 December 2008, being the date to which the latest published audited consolidated financial statements of the Company were made up
“Last Trading Date”	20 February 2009, being the last full trading day prior to the suspension of trading in the Shares pending the issue of the Announcement
“Latest Practicable Date”	13 May 2009, being the latest practicable date prior to the printing of this document for the purpose of ascertaining certain information contained in this document
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	18 August 2009 (or such later date as the Offeror and the Company may agree in writing or as the Court on application of the Offeror or the Company may allow)
“MS Acceptance Form”	the yellow form to be signed and completed by the MS Participants for acceptance of the MS Offer, which is enclosed with this document for the MS Participants
“MS Amount”	HK\$0.8862 in respect of each MS Award, being the amount by which the Cancellation Consideration exceeds the Refund Amount in respect of each MS Award
“MS Awards”	the rights to subscribe for Shares under the MSSS, with each MS Award representing the right to subscribe for one Share

DEFINITIONS

“MS Cut-Off Time”	4:00 pm on Friday, 31 July 2009 (or such later date and time as may be notified to the MS Participants by the Company and the Offeror), being the latest time to accept the MS Offer
“MS Notice”	the notice from the Offeror and the Company addressed to the MS Participants informing them of the MS Offer and their respective positions in relation to the MS Offer, which is enclosed with this document for the MS Participants
“MS Offer”	the offer made by the Offeror and the Company pursuant to the MS Notice for the cancellation of the outstanding MS Awards, subject to the Scheme becoming unconditional
“MS Offer Period”	the 14 day period commencing immediately after the Effective Date
“MS Participants”	certain employees of the Company who were granted MS Awards
“MS Subscription Price”	US\$0.121 per Share (equivalent to approximately HK\$0.9438 per Share), being the subscription money per Share which has been paid to the Company by each holder of MS Awards pursuant to the terms of the MSSS
“MSSS”	the management share subscription scheme adopted by the Board on 21 August 2006, pursuant to which MS Awards were granted to the MS Participants
“New Shares”	the new Shares to be issued to the Offeror pursuant to the Scheme, the number of which is equal to the number of Scheme Shares to be cancelled
“Notice of Court Meeting”	the notice of the Court Meeting as set out on pages 152 to 153 of this document
“Notice of EGM”	the notice of the EGM as set out on pages 154 to 156 of this document
“Offer Period”	the period from the date of the Announcement until the earlier of: (i) the Effective Date; (ii) the date on which the Scheme lapses; or (iii) the date on which an announcement is made for the withdrawal of the Scheme
“Offeror”	Delta Networks Holding Limited, a company incorporated in the Cayman Islands, being a wholly-owned subsidiary of the Parent and the immediate holding company of the Company
“Offeror Board”	the board of directors of the Offeror

DEFINITIONS

“Offeror Directors”	the directors of the Offeror
“Offeror Group”	the Offeror, the Parent and the subsidiaries of the Parent (other than the Group)
“Parent”	台達電子工業股份有限公司 (Delta Electronics, Inc.), a company incorporated in Taiwan and whose shares are listed on the Taiwan Stock Exchange Corporation
“person”	any natural person, firm, company, joint venture, partnership, corporation, association or other entity (whether or not having a separate legal personality) or any of them as the context so requires
“Polaris Capital”	Polaris Capital (Asia) Limited, a corporation licensed under the SFO for carrying out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities, being the financial adviser to the Offeror in connection with the Proposal
“PRC”	the People’s Republic of China
“Proposal”	the proposed privatisation of the Company by the Offeror by way of the Scheme and the MS Offer
“Proxy Forms”	the pink form of proxy in respect of the Court Meeting and the white form of proxy in respect of the EGM, which are enclosed with this document for the Independent Shareholders
“Record Date”	16 July 2009 (or such later date as the Company and the Offeror may agree), being the record date for determining entitlements under the Scheme
“Record Time”	4:00 pm on the Record Date (Hong Kong time)
“Reduction”	the proposed reduction of the issued share capital of the Company by cancelling and extinguishing the Scheme Shares
“Refund Amount”	HK\$0.9438 in respect of each MS Award, being the amount of MS Subscription Price which was received by the Company in respect of each MS Award
“Registered Owner”	any nominee, custodian, trustee, depository or any other third party who is the registered holder of Shares
“Registrar of Companies”	the registrar of companies appointed under the Companies Law

DEFINITIONS

“Relevant Period”	the period commencing on the date six months before the commencement date of the Offer Period and ending on the Latest Practicable Date
“Scheme”	a scheme of arrangement under Section 86 of the Companies Law for the implementation of the Proposal
“Scheme Shareholders”	the Shareholders other than the Offeror
“Scheme Shares”	the Shares held by the Scheme Shareholders
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“Share Registrar”	the Company’s branch share registrar in Hong Kong (being Tricor Investor Services Limited, at 26/F, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong)
“Shareholders”	registered holders of Shares whose names appear on the Company’s register of members
“Shares”	ordinary shares of US\$0.05 each in the capital of the Company
“SOA”	the scheme of arrangement which contains the terms of the Scheme, as set out in the section headed “Scheme of Arrangement” on pages 146 to 151 of this document
“SOS”	the share option scheme adopted by the Board on 13 June 2007
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“US”	the United States of America
“US\$”	US dollars, the lawful currency of the US
“%”	per cent

Unless otherwise specified in this document, translations of US\$ into HK\$ are made in this document, for illustration only, at the rate of US\$1.00 to HK\$7.80. No representation is made that any amounts in US\$ or HK\$ could have been or could be converted at that rate or at any other rate.

EXPECTED TIMETABLE

Hong Kong time
(unless otherwise stated)

Latest time for lodging transfers of the Shares in order to qualify for attending and voting at the Court Meeting and the EGM	4:30 pm on Monday, 8 June 2009
Register of members of the Company closed for determination of entitlements of the relevant Shareholders to attend and vote at the Court Meeting and at the EGM ^(Note 1)	Tuesday, 9 June 2009 to Thursday, 11 June 2009 (both days inclusive)
Latest time for lodging forms of proxy with the Share Registrar in respect of the: Court Meeting ^(Note 2)	11:00 am on Tuesday, 9 June 2009
EGM ^(Note 2)	11:30 am on Tuesday, 9 June 2009
Suspension of dealing in the Shares	9:30 am on Thursday, 11 June 2009
Court Meeting ^(Note 3)	11:00 am on Thursday, 11 June 2009
EGM ^(Note 3)	11:30 am on Thursday, 11 June 2009 (or immediately after the conclusion or adjournment of the Court Meeting)
Announcement of the results of the Court Meeting and the EGM published on the website of the Stock Exchange and the website of the Company	no later than 7:00 pm on Thursday, 11 June 2009
Resumption of dealing in the Shares	9:30 am on Friday, 12 June 2009
Grand Court hearing of the Company's summons for directions in respect of the Reduction ^(Note 4)	Thursday, 18 June 2009
Latest time for dealing in the Shares	4:00 pm on Friday, 10 July 2009

EXPECTED TIMETABLE

Grand Court Hearing ^(Note 4)	Friday, 10 July 2009
Suspension of dealing in the Shares pending withdrawal of listing on the Stock Exchange	9:30 am on Monday, 13 July 2009
Announcement of: (1) the results of the Grand Court Hearing; (2) the Effective Date; and (3) the withdrawal of listing of the Company from the Stock Exchange	no later than 7:00 pm on Monday, 13 July 2009
Latest time for lodging transfers of the Shares to qualify for entitlements under the Scheme	4:30 pm on Wednesday, 15 July 2009
Register of members of the Company closed for determination of the Scheme Shareholders who are qualified for entitlements under the Scheme	Thursday, 16 July 2009 to Friday, 17 July 2009 (both days inclusive)
Record Time	4:00 pm on Thursday, 16 July 2009
Effective Date ^(Notes 4 & 5)	Thursday, 16 July 2009
Withdrawal of the listing of the Shares on the Stock Exchange	9:30 am on Friday, 17 July 2009
Cheques for the Cancellation Consideration under the Scheme to be despatched on or before ^(Note 6)	Friday, 24 July 2009
Latest time to complete and return the MS Acceptance Form by the MS Participants ^(Note 7)	4:00 pm on Friday, 31 July 2009
Cheques for the MS Amount and the Refund Amount under the MS Offer to be despatched on or before ^(Note 8)	Monday, 10 August 2009

Shareholders, MS Participants and investors should note that the timetable is subject to change. A further announcement will be made in the event that there is any material change to the expected timetable.

Notes:

- (1) The closure of the register of members of the Company during this period is not for the purpose of determining entitlements under the Scheme. Instead, it is for the purpose of determining entitlements of the Independent Shareholders to attend and vote at the Court Meeting and the EGM.

EXPECTED TIMETABLE

- (2) The Proxy Forms are to be completed and signed in accordance with the instructions printed on them and then submitted in accordance with the terms set out under the paragraph headed “Actions to be Taken” in the section headed “Important Notice” on page 1 of this document.
- (3) The Court Meeting and the EGM will be held at Beijing Suite I, 3/F, Marco Polo Prince Hotel, Harbour City, 23 Canton Road, Kowloon, Hong Kong at the times and dates specified above, details of which are set out in the Notice of the Court Meeting and the Notice of the EGM.
- (4) All references in this document to times and dates are references to Hong Kong times and dates, other than references to the expected dates of: (a) the Grand Court’s hearing of the Company’s summons for directions in respect of the Reduction; (b) the Grand Court Hearing; and (c) the Effective Date, which are the relevant dates in the Cayman Islands. Cayman Islands time is 13 hours behind Hong Kong time.
- (5) The Scheme will become effective upon all the Conditions having been satisfied or waived, as applicable.
- (6) The cheques to the Scheme Shareholders for the Cancellation Consideration will be despatched by post within 10 days after the Effective Date. For further details, please refer to paragraph 17 headed “Registration and Payment” in the Explanatory Statement.
- (7) The MS Participants who wish to accept the MS Offer must return the signed MS Acceptance Form to the Company before the MS Cut-Off Time. For further details, please refer to paragraph 22 headed “Actions to be Taken” in the Explanatory Statement.
- (8) The cheques to the MS Participants for the MS Amount and the Refund Amount will be despatched by post on or before the date which is 10 days after the expiry of the MS Offer Period. For further details, please refer to paragraph 17 headed “Registration and Payment” in the Explanatory Statement.

LETTER FROM THE BOARD



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

Registered office:

Scotia Centre
4th Floor
PO Box 2804
George Town
Grand Cayman
Cayman Islands

*Principal place of business
in Hong Kong:*

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

15 May 2009

To the Shareholders and the MS Participants

Dear Sir or Madam,

**PROPOSED PRIVATISATION
OF
DELTA NETWORKS, INC.
BY
DELTA NETWORKS HOLDING LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT
AT THE CANCELLATION CONSIDERATION
OF HK\$1.83 PER SCHEME SHARE**

1. INTRODUCTION

On 12 March 2009, the Offeror requested the Board to put forward the Scheme to the Independent Shareholders which, if approved and implemented, would result in the Company becoming wholly-owned by the Offeror and the withdrawal of the listing of the Shares on the Stock Exchange in accordance with Rule 6.15 of the Listing Rules.

LETTER FROM THE BOARD

The Scheme will be implemented by way of a scheme of arrangement under Section 86 of the Companies Law. If the Scheme becomes effective, the Scheme Shares will be cancelled and the New Shares will be issued as fully paid to the Offeror. Further, the Offeror and the Company have, by the MS Notice, made the MS Offer to the MS Participants for their agreement to cancel their outstanding MS Awards. The MS Offer is conditional upon the Scheme becoming effective.

In compliance with Rule 2.1 of the Takeovers Code, the Board has established the IBC, which will advise the Scheme Shareholders in respect of the Proposal and the MS Participants in respect of the MS Offer. The IBC has approved the appointment of KGI Capital as the IFA to advise the IBC in respect of the Proposal.

The purpose of this document is to provide you with further information regarding the Proposal and to give notices of the Court Meeting and the EGM.

Your attention is drawn to the following sections of this document: (i) the IBC Letter; (ii) the IFA Letter; (iii) the Explanatory Statement; (iv) the Notice of the Court Meeting; (v) the Notice of the EGM; and (vi) the Proxy Forms.

Particular attention of the MS Participants is also drawn to the MS Notice and the MS Acceptance Form.

2. TERMS OF THE PROPOSAL

Terms of the Scheme

The Scheme is to be implemented by way of a scheme of arrangement under Section 86 of the Companies Law. Subject to the satisfaction or waiver (as applicable) of the Conditions, the Scheme will be implemented and the Scheme Shares will be cancelled and, as consideration, all of the Scheme Shareholders whose names appear on the register of members of the Company at the Record Time will be entitled to receive from the Offeror the Cancellation Consideration:

HK\$1.83 in cashfor every Scheme Share cancelled

Your attention is drawn to: (i) paragraph 9 headed “Comparison of Value” in the Explanatory Statement for a comparison of the recent market prices, assets and other values of the Shares; and (ii) paragraph 10 headed “2008 Final Dividend” in the Explanatory Statement.

LETTER FROM THE BOARD

Terms of the MS Offer

The Offeror and the Company have, by the MS Notice, made the MS Offer to the MS Participants for their agreement to cancel their outstanding MS Awards. The MS Offer is conditional upon the Scheme becoming effective. If the Scheme becomes effective, under the MS Offer, the MS Participants will receive the following payments as consideration for their agreement to cancel their unvested MS Awards:

- (i) the Refund Amount from the Company; and
- (ii) the MS Amount from the Offeror,

which in aggregate represents the same amount of cash per Share as the Cancellation Consideration.

The MS Offer is calculated on a “see-through” basis, so that each of the MS Participants will be entitled to receive a price for each of the outstanding MS Awards being an amount equivalent to the Cancellation Consideration.

Particular attention of the MS Participants is drawn to the MS Notice and the MS Acceptance Form, which are enclosed with this document to them. The MS Participants who wish to accept the MS Offer need to return the completed and signed MS Acceptance Form to the Company before the MS Cut-Off Time.

Total cash consideration

If the Proposal is implemented, the aggregate Cancellation Consideration and the aggregate MS Amount payable by the Offeror in cash under the Proposal will be approximately HK\$887.05 million and HK\$24.38 million respectively. The aggregate Refund Amount payable by the Company in cash under the MS Offer will be approximately HK\$25.97 million.

3. CONDITIONS OF THE PROPOSAL

The Proposal is subject to the fulfilment or waiver (as applicable) of the Conditions. When the Conditions are fulfilled or waived (as applicable), the Scheme will become effective and binding on the Company, the Offeror and the Scheme Shareholders.

For details of the Conditions, your attention is drawn to paragraph 4 headed “Conditions of the Proposal” in the Explanatory Statement.

The Offeror reserves the right to waive Conditions (e), (f), (g), (h) and (i), either in whole or in respect of any particular matter. All of the Conditions must be fulfilled or waived (as applicable) on or before the Long Stop Date, otherwise the Proposal will lapse. As at the Latest Practicable Date, none of the Conditions has been fulfilled or waived.

LETTER FROM THE BOARD

Shareholders, MS Participants and investors should note that the implementation of the Proposal is subject to the Conditions being fulfilled or waived, as applicable. Therefore, the Proposal may or may not become effective. Shareholders and investors should exercise caution when dealing in the Shares.

Further, speculation or rumour appearing in newspapers or elsewhere may not be reliable and, accordingly, Shareholders and investors should rely only on the announcements by the Company and/or the Offeror from time to time on this matter.

4. SHAREHOLDING STRUCTURE

As at the Latest Practicable Date, there were 1,196,886,000 Shares in issue and the Offeror held 712,160,000 Shares (representing approximately 59.50% of the Shares in issue).

The Scheme Shareholders held an aggregate of 484,726,000 Shares (representing approximately 40.50% of the Shares in issue) as at the Latest Practicable Date, of which 467,569,000 Shares were held by the Independent Shareholders (representing approximately 39.07% of the Shares in issue) and 17,157,000 Shares (representing approximately 1.43% of the Shares in issue) were held by the Concert Parties.

As at the Latest Practicable Date, the Offeror and the Concert Parties held an aggregate of 729,317,000 Shares (representing approximately 60.93% of the Shares in issue) and the Concert Parties held an aggregate of 14,000,000 MS Awards (representing approximately 50.89% of the outstanding MS Awards). Save as disclosed under paragraph 8 headed “Effects of the Scheme” in the Explanatory Statement, the Offeror, the Offeror Directors and the Concert Parties did not hold any other types of securities in the Company as at the Latest Practicable Date.

The Shares owned by the Offeror will not form part of the Scheme Shares and the Offeror will not vote at the Court Meeting. All the Independent Shareholders will be entitled to vote at the Court Meeting and all the Shareholders will be entitled to vote at the EGM. The Concert Parties will, in compliance with the Takeovers Code, abstain from voting in the Court Meeting.

In respect of the Shares which HSBC Trustee holds in trust under the EIS, HSBC Trustee is required to abstain from exercising the voting rights attaching to those Shares at any general meeting of the Company in accordance with the rules of the EIS, and accordingly HSBC Trustee will not vote those Shares at the Court Meeting and the EGM.

Your attention is drawn to: (i) paragraph 2 headed “Issued Shares and Details of Warrants, Options and Conversion Rights” in the Explanatory Statement; and (ii) paragraph 8 headed “Effects of the Scheme” in the Explanatory Statement.

5. REASONS FOR THE PROPOSAL AND BENEFITS TO THE SHAREHOLDERS

The Directors (other than members of the IBC, whose views are set out in the IBC Letter) are of the view that the terms of the Proposal are attractive to the Independent Shareholders and that the proposed privatisation of the Company will be beneficial to the Independent Shareholders in a number of ways, and have decided to put forward the Proposal to the Independent Shareholders and the MS Participants for their consideration.

LETTER FROM THE BOARD

Your attention is drawn to paragraph 11 headed “Reasons for the Proposal and Benefits to the Shareholders” in the Explanatory Statement.

6. OFFEROR’S AND DIRECTORS’ INTENTION REGARDING THE COMPANY

It is the intention of the Offeror to continue the existing businesses of the Group in all material respects upon the successful privatisation of the Company.

The Offeror has no plan, in the event that the Scheme becomes effective, to: (i) make any material changes to the existing businesses of the Group (including any material redeployment of the fixed assets of the Group); or (ii) make any material changes to the continued employment of the employees of the Group, as a result of the Proposal.

On the other hand, the Offeror will continue to assess any business opportunity that may arise from time to time involving the business and/or assets of the Group and will formulate strategic corporate planning as and when appropriate (including the possible listing of all or part of the business or assets of the Group in an appropriate securities exchange at an appropriate time).

The Directors are of the view that, as and when appropriate, the Directors may consider a possible listing of all or part of the business or assets of the Group at an appropriate securities exchange if such listing would be in the interests of the Company and its then Shareholders. The Directors do not currently have any concrete plan to apply for a listing of all or part of the business or assets of the Group on any stock exchange if the Shares are delisted from the Stock Exchange after the Proposal is successfully implemented.

7. INFORMATION ON THE COMPANY AND THE OFFEROR

Your attention is drawn to: (i) paragraph 12 headed “Information on the Company” in the Explanatory Statement; (ii) paragraph 13 headed “Information on the Offeror” in the Explanatory Statement; and (iii) the section headed “Financial Information on the Group” set out in Appendix I to this document.

8. OVERSEAS SHAREHOLDERS AND OVERSEAS MS PARTICIPANTS

Your attention is drawn to paragraph 18 headed “Overseas Shareholders and Overseas MS Participants” in the Explanatory Statement.

9. COURT MEETING AND THE EGM

In accordance with the direction of the Grand Court, the Court Meeting will be held for the purpose of considering and, if thought fit, passing a resolution to approve the Scheme (with or without modifications).

The Scheme will be subject to the approval of the Independent Shareholders at the Court Meeting in the manner referred to under paragraph 4 headed “Conditions of the Proposal” in the Explanatory Statement.

LETTER FROM THE BOARD

The resolution will be passed if a majority in number of the Independent Shareholders (present in person or by proxy) vote in favour of the resolution and the Scheme Shares held by them represent not less than three-fourths in value of the Scheme Shares voted at the Court Meeting.

In addition, in compliance with Rule 2.10 of the Takeovers Code, the Scheme will only be implemented if the number of votes cast against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to the Scheme Shares held by the Independent Shareholders.

The EGM will be held for the purpose of considering and, if thought fit, passing a special resolution to approve and give effect to the Reduction and, immediately thereafter, to apply the credit arising in its books of account as a result of the Reduction to pay up in full and issue the New Shares to the Offeror. The special resolution will be passed if it is approved by not less than three-fourths of the votes cast by the Shareholders (present in person or by proxy) at the EGM. All the Shareholders will be entitled to attend and vote on the special resolution at the EGM.

For further details of the Court Meeting and the EGM, your attention is drawn to paragraph 20 headed “Court Meeting and the EGM” in the Explanatory Statement.

The Court Meeting will be held at the time and the place specified in the Notice of the Court Meeting. A pink form of proxy for use at the Court Meeting is enclosed with this document.

The EGM will be held at the time (or immediately after the conclusion or adjournment of the Court Meeting) and the place specified in the Notice of the EGM. A white form of proxy for use at the EGM is enclosed with this document.

10. RESOLUTIONS TO BE TAKEN BY WAY OF A POLL

Pursuant to Rule 13.39 of the Listing Rules, any vote of the shareholders at a general meeting must be taken by poll and the relevant listed company must announce the results of the poll in accordance with the Listing Rules.

Accordingly, the resolution to be proposed at the Court Meeting and the resolution regarding the Reduction to be proposed at the EGM will both be taken by way of a poll. The results of the Court Meeting and the EGM are expected to be published on the respective website of the Stock Exchange and the Company on or before the next business day after the Court Meeting and the EGM are held.

11. ACTIONS TO BE TAKEN

The actions which you are required to take in relation to the Proposal are set out in paragraph 22 headed “Actions to be Taken” in the Explanatory Statement.

12. RECOMMENDATIONS

Your attention is drawn to the recommendations of the IBC and the advice of the IFA in respect of the Proposal, as set out in the IBC Letter and the IFA Letter respectively.

LETTER FROM THE BOARD

The Board also endorses the recommendations of the IBC. Accordingly, we recommend that:

- (i) the Independent Shareholders vote in favour of the resolution to approve the Scheme at the Court Meeting;
- (ii) the Shareholders vote in favour of the special resolution to approve and give effect to the Scheme and the Reduction at the EGM; and
- (iii) the MS Participants accept the MS Offer.

13. SHARE CERTIFICATES, DEALINGS, LISTING, REGISTRATION AND PAYMENT

Your attention is drawn to: (i) paragraph 16 headed “Share Certificates, Dealings and Listing” in the Explanatory Statement; and (ii) paragraph 17 headed “Registration and Payment” in the Explanatory Statement.

14. TAXATION, EFFECTS AND LIABILITIES

It is emphasised that none of the Company, the Offeror, Polaris Capital and KGI Capital (nor any of their respective directors or associates, or any other person involved in the Proposal) accepts responsibility for any tax or other effects on (or liabilities of) any person as a result of the implementation or otherwise of the Proposal.

Your attention is drawn to paragraph 19 headed “Taxation” in the Explanatory Statement and, if you are in any doubt as to any aspect of this document or as to the actions to be taken, you should consult an appropriately qualified professional adviser.

15. FURTHER INFORMATION

Your attention is drawn to the following sections of this document: (i) the other paragraphs in the Explanatory Statement; (ii) the financial information on the Group set out in Appendix I to this document; (iii) the general information set out in Appendix II to this document; (iv) the SOA; (v) the Notice of the Court Meeting; (vi) the Notice of the EGM; and (vii) the Proxy Forms.

Particular attention of the MS Participants is also drawn to the MS Notice and the MS Acceptance Form.

Yours faithfully
for and on behalf of the Board of
Delta Networks, Inc.
Cheng An, Victor
Executive Director

LETTER FROM THE IBC



15 May 2009

To the Independent Shareholders and the MS Participants

Dear Sir or Madam,

**PROPOSED PRIVATISATION
OF
DELTA NETWORKS, INC.
BY
DELTA NETWORKS HOLDING LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT**

We refer to the document dated 15 May 2009 jointly issued by the Company and the Offeror in relation to the Proposal (the “**Scheme Document**”), of which this letter forms part. Terms defined in the Scheme Document have the same meanings in this letter unless the context otherwise requires.

For the purpose of the Proposal, we have been appointed as members of the IBC to give recommendations to the Independent Shareholders and the MS Participants in respect of the Proposal. KGI Capital has been appointed with our approval as the IFA in respect of the Proposal. Details of the advice from KGI Capital and the principal factors which KGI Capital has taken into consideration in arriving at its recommendation are set out in the IFA Letter.

We also wish to draw the attention of the Independent Shareholders and the MS Participants to the additional information set out in the Explanatory Statement and the appendices to the Scheme Document.

Recommendations

Having reviewed the terms of the Proposal and the IFA Letter, we have concluded that the terms of the Scheme are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend that the Independent Shareholders vote in favour of the resolution to approve the Scheme at the Court Meeting and the Shareholders vote in favour of the special resolution to approve and give effect to the Scheme and the Reduction at the EGM.

LETTER FROM THE IBC

In respect of the MS Offer, having considered the terms of the MS Offer and the IFA Letter, we consider that the terms of the MS Offer are also fair and reasonable so far as the MS Participants are concerned, as the MS Offer is calculated on a “see-through” basis so that the MS Participants will be entitled to receive a price for each of the outstanding MS Awards being an amount equivalent to the Cancellation Consideration. Accordingly, we recommend the MS Participants to accept the MS Offer.

In our personal capacity as both Independent Shareholders and MS Participants, we intend to vote in favour of the resolution to approve the Scheme at the Court Meeting, vote in favour of the special resolution to approve and give effect to the Scheme and the Reduction at the EGM, and accept the MS Offer.

Yours faithfully,

Independent Committee of the Board

Mr. Zue Wai To, Victor
Independent non-executive Director

Mr. Liu Chung Laung
Independent non-executive Director

LETTER FROM THE IFA

Set out below is the text of the letter of advice from KGI Capital Asia Limited, the independent financial adviser to the IBC of Delta Networks, Inc., prepared for inclusion in this scheme document.



KGI Capital Asia Limited

27/F, ICBC Tower
Citibank Plaza
3 Garden Road
Central, Hong Kong

Tel: 2878 6888

Fax: 2970 0080

15 May 2009

To the IBC of Delta Networks, Inc.

Dear Sirs,

**PROPOSED PRIVATISATION
OF
DELTA NETWORKS, INC.
BY
DELTA NETWORKS HOLDING LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT**

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the IBC in respect of the Proposal, details of which are contained in the document to the Shareholders dated 15 May 2009 (the “Scheme Document”), of which this letter forms a part. Terms used in this letter shall have the same meanings as those defined in the Scheme Document unless the context otherwise requires. In addition, the expression of “NT\$” used in this letter shall mean New Taiwan dollars. For the purpose of illustration only, conversion of US dollars into Hong Kong dollars in this letter is based on the exchange rate of US\$1 = HK\$7.8 and conversion of New Taiwan dollars into Hong Kong dollars in this letter is based on the exchange rate of NT\$4.24 = HK\$1.

Reference is made to the Announcement in relation to a proposed privatisation of the Company. On 12 March 2009, the Offeror requested the Board to put forward the Scheme to the Independent Shareholders which, if approved and implemented, would result in the cancellation of the Scheme Shares, the Company becoming wholly-owned by the Offeror and the withdrawal of the listing of the Shares on the Stock Exchange in accordance with Rule 6.15 of the Listing Rules. The Scheme will be implemented by way of scheme of arrangement under Section 86 of the Companies Law. If the Scheme

LETTER FROM THE IFA

becomes effective, the Scheme Shares will be cancelled and the New Shares will be issued as fully paid to the Offeror. Furthermore, the Offeror and the Company have, by the MS Notice, made the MS Offer to the MS Participants for their agreement to cancel their outstanding MS Awards. The MS Offer is conditional upon the Scheme becoming effective.

THE IBC

The IBC (comprising Mr. Zue Wai To, Victor and Mr. Liu Chung Laung, being two of the three independent non-executive Directors) has been established to advise the Independent Shareholders and the MS Participants in respect of the Proposal. Mr. Shen Bing (being the other independent non-executive Director) is interested in certain shares in the Parent. In order to avoid any perceived conflict of interest, it was decided that Mr. Shen Bing would not become a member of the IBC. As Mr. Cheng Chung Hua, Bruce and Mr. Hai Ing-Jiunn, Yancey (being the non-executive Directors) are presumed to be persons acting in concert with the Offeror (as they are directors of the Parent), they are not considered to be independent in respect of the Proposal and are therefore not eligible to be members of the IBC.

We, KGI Capital, have been appointed to advise the IBC in respect of the Proposal. The IBC has approved the appointment of KGI Capital as the independent financial adviser to the IBC in this respect. KGI Capital is not associated or connected with the Company, the Offeror, the Parent or their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them and, accordingly, is considered eligible to give independent advice on the Proposal. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, the Offeror, the Parent or their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them.

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have relied on the information, financial information and facts supplied, and the opinions and representations expressed to us by the Company, the Directors and the management of the Company. We have also assumed that all such information, financial information, facts, statements of belief, opinion and intention and representation made to us by the Directors or referred to in the Scheme Document were reasonably made after due and careful enquiry and are based on honestly-held opinions. We have no reason to doubt the truth, accuracy and completeness of the information and representations referred to in the Scheme Document and provided to us by the Company, the Directors and the management of the Company. We have been advised by the Directors that no material facts have been omitted from the information provided to us and referred to in the Scheme Document. We have also assumed that all statement of intention of the Company, the Directors, management of the Company, the Offeror and the Parent as set out in the Scheme Document will be implemented. We have assumed that all information and representations made or referred to in the Scheme Document and provided to us by the Company, the Directors and the management of the Company, for which they were solely and wholly responsible, were true, complete and accurate at the time they were made and shall continue to be true, complete and accurate at the date of the Court Meeting and the EGM.

LETTER FROM THE IFA

In formulating our opinion, we have obtained and reviewed relevant information and documents provided by the Company, the Directors and the management of the Company in connection with the Proposal and discussed with the management of the Company so as to assess the fairness and reasonableness of the terms of the Proposal. Relevant information and documents included, among other things, the prospectus of the Company dated 22 June 2007, the annual report of the Company for the year ended 31 December 2007 (the “2007 Annual Report”), the annual report of Company for the year ended 31 December 2008 (the “2008 Annual Report”), the scheme of arrangement document and the “Explanatory Statement” contained in the Scheme Document. We believe that we have reviewed sufficient information to enable us to reach an informed view to justify our reliance on the accuracy of the information contained in the Scheme Document and to provide a reasonable basis for our opinion regarding the terms of the Proposal. We have not, however, carried out any independent verification of the information and representations provided to us by the management of the Company and the Directors nor have we conducted any form of independent investigation into the businesses and affairs, financial position or the future prospects of the Company, the Offeror, the Parent or their respective subsidiaries or associated companies.

We have not considered the tax, regulatory and other legal implications on the Independent Shareholders and the MS Participants of their acceptances or non-acceptance of the Scheme and the MS Offer respectively since these are particular to their individual circumstances. In particular, the Independent Shareholders and the MS Participants who are overseas residents or subject to overseas taxation or Hong Kong taxation on securities dealings should consider their own tax position with regard to the Scheme and the MS Offer in respect of their Scheme Shares and the outstanding MS Awards (where applicable) and, if in any doubt, should consult their own professional advisers.

Our opinion is necessarily based upon the financial, economic, market, regulatory and other conditions as they existed on, and the facts, information, representations and opinions made available to us as of, the Latest Practicable Date. Our opinion does not in any manner address the Company’s or the Offeror’s own decision to proceed with the Proposal. Except for its inclusion in the Scheme Document, this letter is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purpose, without our prior written consent.

PRINCIPAL TERMS OF THE PROPOSAL

In summary, the Proposal involves the followings:

- (i) the Scheme is to be implemented by way of a scheme of arrangement under Section 86 of the Companies Law. Subject to the satisfaction or waiver (as applicable) of the Conditions, the Scheme will be implemented and the Scheme Shares will be cancelled and, as consideration, all of the Scheme Shareholders whose name appear on the register of members of the Company at the Record Time will be entitled to receive from the Offeror the Cancellation Consideration:

HK\$1.83 in cash for every Scheme Share cancelled

LETTER FROM THE IFA

(ii) the Offeror and the Company have, by the MS Notice, made the MS Offer to the MS Participants for their agreement to cancel their outstanding MS Awards. The MS Offer is conditional upon the Scheme becoming effective. If the Scheme becomes effective, under the MS Offer, the MS Participants will receive the following payments as consideration for their agreement to cancel their unvested MS Awards:

(a) the Refund Amount for the Company; and

(b) the MS Amount from the Offeror,

which in aggregate represents the same amount of cash per Share as the Cancellation Consideration.

The MS Offer is calculated on a “see-through” basis, so that each of the MS Participants will be entitled to receive a price for each of the outstanding MS Awards being an amount equivalent to the Cancellation Consideration.

Particular attention of the MS Participants is drawn to the MS Notice and the MS Acceptance Form. The MS Participants who wish to accept the MS Offer need to return the completed and signed MS Acceptance Form to the Company before the MS Cut-Off Time.

(iii) upon the Scheme becoming effective, the Company will become a wholly owned subsidiary of the Offeror and the listing of the Shares will be withdrawn from the Stock Exchange in accordance with Rule 6.15 of the Listing Rules.

Shareholding structures

As stated in the “Explanatory Statement” contained in the Scheme Document, as at the Latest Practicable Date, there were 1,196,886,000 Shares in issue and the Offeror held 712,160,000 Shares (representing approximately 59.5% of the total Shares in issue). The Scheme Shareholders held an aggregate of 484,726,000 Shares (representing approximately 40.5% of the total Shares in issue) as at the Latest Practicable Date, of which 467,569,000 Shares were held by the Independent Shareholders (representing approximately 39.1% of the total Shares in issue) and 17,157,000 Shares (representing approximately 1.4% of the total Shares in issue) were held by the Concert Parties.

As at the Latest Practicable Date, the Offeror and the Concert Parties held an aggregate of 729,317,000 Shares (representing approximately 60.9% of the total Shares in issue) and the Concert Parties held an aggregate of 14,000,000 MS Awards (representing approximately 50.9% of the outstanding MS Awards).

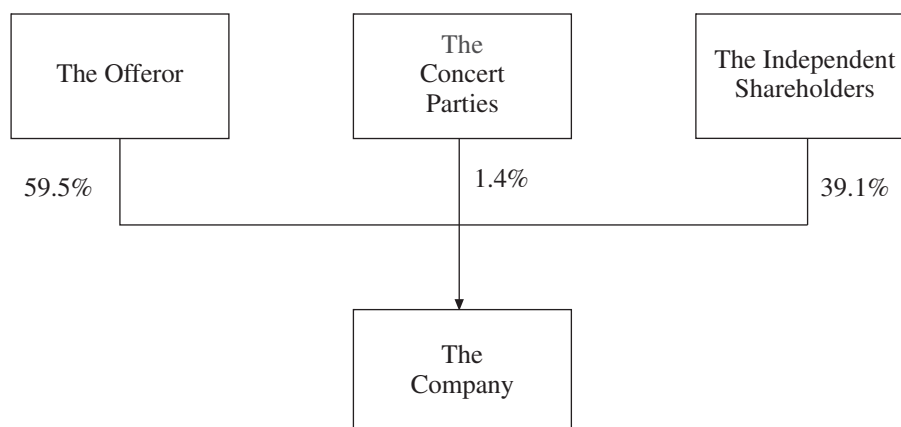
The Shares owned by the Offeror will not form part of the Scheme Shares and the Offeror will not vote at the Court Meeting. All the Independent Shareholders will be entitled to vote at the Court Meeting and all the Shareholders will be entitled to vote at the EGM. The Concert Parties will, in compliance with the Takeovers Code, abstain from voting in the Court Meeting.

As at the Latest Practicable Date, 61,837,600 Shares (representing approximately 5.2% of the total Shares in issue) were held by HSBC Trustee in trust under the EIS. In respect of the Shares which HSBC Trustee holds in trust under the EIS, HSBC Trustee is required to abstain from exercising the voting rights attaching to those Shares at any general meeting of the Company in accordance with the rules of the EIS, and accordingly HSBC Trustee will not vote at the Court Meeting and the EGM.

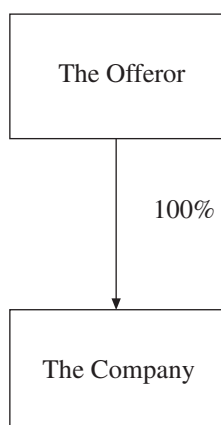
LETTER FROM THE IFA

Set out below are the charts showing the shareholding structures of the Company as at the Latest Practicable Date and immediately after the Scheme becoming effective:

As at the Latest Practicable Date:



Immediately after the Scheme becoming effective:



Conditions of the Proposal

The Scheme will become effective and binding on the Company, the Offeror and all the other Shareholders subject to the fulfilment or waiver, as applicable, of the conditions, as set out in paragraph headed “Conditions of the Proposal” in the “Explanatory Statement” contained in the Scheme Document, on or before the Long Stop Date, otherwise the Proposal will lapse. If the Scheme is withdrawn, not approved or lapses, the Shares will remain listed on the Stock Exchange. The Independent Shareholders and the MS Participants are recommended to read the terms and conditions of the Proposal and the MS Offer carefully.

The Shareholders, MS Participants and investors should note that the implementation of the Proposal is subject to the Conditions being fulfilled or waived, as applicable. Therefore, the Proposal may or may not become effective. Shareholders and investors should exercise caution when dealing in the Shares.

LETTER FROM THE IFA

RECENT PRIVATISATION TRANSACTIONS IN HONG KONG

For information only, we set out in the table below the privatisation transactions involving companies listed on the Stock Exchange announced since 1 January 2008 and up to the Latest Practicable Date (i) by way of scheme of arrangement; or (ii) by way of voluntary general offer with acceptance condition of at least 90% and intention to exercise compulsory acquisition if such offer becomes unconditional:

Date of initial announcement of privatisation	Company	Stock Code	Offer or cancellation price (HK\$)	Premium/(Discount) of offer or cancellation price over/(to) the average closing prices of the shares of the relevant companies for different periods up to and including the last trading date prior to initial announcement of privatisation and the closing prices of the shares on the last trading date prior to initial announcement of privatisation				Result
				1 month	3 months	6 months	the last trading date	
13 February 2008	Pacific Century Premium Developments Limited	432	2.85	20.8%	15.9%	15.4%	26.1%	Failed
28 February 2008	Mirabell International Holdings Limited	1179	6.00	15.6%	18.3%	19.5%	15.2%	Successful
2 June 2008	China Netcom Group Corporation (Hong Kong) Limited (Note 2)	906	27.87	14.1%	19.5%	18.1%	3.0%	Successful
10 June 2008	CITIC International Financial Holdings Limited (Notes 1 and 2)	183	7.5	41.8%	63.0%	65.2%	31.6%	Successful
4 November 2008	PCCW Limited (Note 1)	8	4.5	35.5%	1.4%	(3.2%)	63.6%	Failed
25 November 2008	Natural Beauty Bio-Technology Limited	157	1.2	(7.7%)	(20.5%)	(26.4%)	(15.5%)	Failed
3 December 2008	GST Holdings Limited	416	3.38	107.4%	65.7%	48.2%	77.9%	Pending
22 December 2008	Shaw Brothers (Hong Kong) Limited	80	13.35	73.4%	54.0%	(4.5%)	64.2%	Successful
17 February 2009	Crocodile Garments Limited (Note 1)	122	0.42	104.9%	103.9%	85.0%	101.9%	Pending
23 February 2009	China Resources Microelectronics Limited	597	0.30	125.6%	163.2%	154.2%	80.7%	Pending
24 February 2009	Nam Tai Electronic & Electrical Products Limited	2633	1.5	134.4%	134.4%	105.5%	163.2%	Failed
Median				41.8%	54.0%	19.5%	63.6%	
Maximum				134.4%	163.2%	154.2%	163.2%	
Minimum				(7.7%)	(20.5%)	(26.4%)	(15.5%)	
12 March 2009	The Proposal (Note 3)	722	1.83	47.6%	67.9%	36.6%	19.6%	

LETTER FROM THE IFA

Notes:

1. The offer price of the privatisation proposal of the respective company was revised upwards after the initial announcement of privatisation. The computation was based on the revised offer price.
2. The offer in the privatisation proposal of the respective company consisted of share exchange offer or cash plus share exchange offer. The computation above was based on, among other things, the closing price of the respective shares to be exchanged (if they were publicly listed) before the initial announcement of the privatisation proposal.
3. The calculation of the respective premium of the offer price as represented by the Proposal was based on (i) the Cancellation Consideration of HK\$1.83 per Share; and (ii) the respective average closing prices of the Shares for different periods up to and including the Last Trading Date.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendations to the IBC with regard to the Proposal and the MS Offer, we have taken into consideration the following principal factors and reasons:

1. Information of the Company

The Company is an exempted company incorporated in the Cayman Islands with limited liability, the shares of which have been listed on the Stock Exchange since 6 July 2007. The Group is principally engaged in the design and manufacture of a wide range of networking products (including Ethernet switches, broadband access products, wireless adaptors and routers).

2. Reasons for the Proposal

As set out in the “Explanatory Statement” contained in the Scheme Document, the Directors (other than members of the IBC) are of the view that the terms of the Proposal are attractive to the Independent Shareholders and that the proposed privatisation of the Company will be beneficial to the Independent Shareholders in a number of ways.

The Directors (other than members of the IBC) consider that the Scheme provides an opportunity for the Independent Shareholders to realise their Shares (which have a relatively low degree of market liquidity) in return for cash. In this regard, the Board noted that the trading volume of the Shares on the Stock Exchange has been generally low and the average daily trading volume of the Shares between the IPO and the Last Trading Date was less than 2.3 million Shares (representing approximately 0.19% of the total Shares in issue as at the Last Trading Date). Given this low liquidity of the Shares traded on the Stock Exchange, the Directors believe that there is currently limited opportunity for the Independent Shareholders to divest their investment in the Company. The Directors (other than members of the IBC) believe that in view of the relatively thin trading liquidity and persistently weak performance of the Shares since the IPO, access to the equity capital markets in Hong Kong does not provide the Company with an attractive fund raising avenue, and that the costs and management resources associated with the maintenance of the Company’s listing status are not warranted.

As stated in the “Explanatory Statement” contained in the Scheme Document, the Proposal provides the Scheme Shareholders with an opportunity to divest their holding of the Shares in exchange for cash during the current global economic downturn and reduced consumer demand, at an attractive premium to the market price prevailing during the three months period preceding the Last Trading Date. In addition, the Proposal allows the Scheme Shareholders a chance to redeploy capital from accepting the Proposal into other investment opportunities that they may consider more attractive in the current market environment.

LETTER FROM THE IFA

3. Financial information of the Group

(i) *Financial results*

The following table is a summary of the audited consolidated income statements of the Group for the three years ended 31 December 2008:

	For the year ended 31 December		
	2006	2007	2008
	<i>(US\$'000)</i>	<i>(US\$'000)</i>	<i>(US\$'000)</i>
Revenue	357,419	418,621	409,612
Cost of sales	<u>(300,102)</u>	<u>(345,955)</u>	<u>(350,237)</u>
Gross profit	57,317	72,666	59,375
Other gains	3,855	8,810	7,400
Selling expenses	(11,659)	(14,436)	(16,024)
General and administrative expenses	(8,725)	(13,316)	(11,171)
Research and development expenses	<u>(18,672)</u>	<u>(26,154)</u>	<u>(19,333)</u>
Profit from operations	22,116	27,570	20,247
Finance income	2,192	7,156	7,138
Finance cost	<u>(49)</u>	<u>(324)</u>	<u>(266)</u>
Profit before income tax	24,259	34,402	27,119
Income tax (expense)/benefit	<u>1,311</u>	<u>(2,949)</u>	<u>(2,505)</u>
Profit for the year	<u>25,570</u>	<u>31,453</u>	<u>24,614</u>
Attributable to:			
Equity holders of the Company	25,475	31,356	24,586
Minority interest	<u>95</u>	<u>97</u>	<u>28</u>
	<u>25,570</u>	<u>31,453</u>	<u>24,614</u>
Earnings per share for profit attributable to the equity holders of the Company during the year (in US cents per Share)			
Basic	3.04	3.29	2.25
Diluted	2.92	3.12	2.17
Dividend (in US cents per Share)	—	1.03	0.83

LETTER FROM THE IFA

Revenue

As set out in the table above, revenue of the Group, which was mainly contributed from the sales of switches for separate connection within a network and devices for networking through broadband or wireless network, increased by approximately 17.1% from approximately US\$357.4 million for the year ended 31 December 2006 to approximately US\$418.6 million for the year ended 31 December 2007. As stated in the 2007 Annual Report, the increase in the revenue in 2007 as compared to 2006 was mainly due to a strong growth of OEM (Original Equipment Manufacturer)/ODM (Original Design Manufacturer) customers especially from the enterprise and telecommunication sectors, new products with higher technology know-how, expanded customer base and continuous support of existing customers.

Revenue of the Group decreased by approximately 2.2% from approximately US\$418.6 million for the year ended 31 December 2007 to approximately US\$409.6 million for the year ended 31 December 2008. As stated in the 2008 Annual Report, such decrease was mainly attributable to the global economy slowdown which affected the demand for the products of the Group.

Gross profit and margin

Gross profit increased by approximately 26.8% from approximately US\$57.3 million for the year ended 31 December 2006 to approximately US\$72.7 million for the year ended 31 December 2007. The gross profit margin increased from approximately 16% in 2006 to approximately 17.4% in 2007. As stated in the 2007 Annual Report, such increase was mainly due to a continuous cost-cutting effort in the material handling and efficiency of supply chain management, partly offset by increase in raw material and labour cost.

Gross profit decreased by approximately 18.3% from approximately US\$72.7 million for the year ended 31 December 2007 to approximately US\$59.4 million for the year ended 31 December 2008. Gross profit margin also decreased from approximately 17.4% in 2007 to approximately 14.5% in 2008. As stated in the 2008 Annual Report, the decrease in the gross profit margin in 2008 was the result of the change in product mix, and the increase in price of raw materials as well as labour cost.

Net profit

Net profit attributable to equity holders of the Company increased by approximately 23.1% from approximately US\$25.5 million for the year ended 31 December 2006 to approximately US\$31.4 million for the year ended 31 December 2007. It then decreased by approximately 21.7% to approximately US\$24.6 million for the year ended 31 December 2008 as compared to 2007. The net profit margin also decreased from 7.5% in 2007 to 6% in 2008. As stated in the 2008 Annual Report, such decrease 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.

LETTER FROM THE IFA

Dividend

A final dividend of 1.03 US cents (equivalent to HK\$0.08034) per Share was declared and paid in respect of the year ended 31 December 2007. As stated in the Company's final results announcement for the year ended 31 December 2008 dated 26 February 2009, the Board had recommended the 2008 Final Dividend. The record date for the purpose of determining the entitlements for the 2008 Final Dividend has been fixed at 24 April 2009. As the 2008 Final Dividend was approved at the AGM, the Shareholders on such record date will be entitled to the 2008 Final Dividend, which is expected to be paid on or about 25 May 2009.

(ii) Financial position

Set out in the table below is a summary of the audited consolidated balance sheets of the Group as at 31 December 2006, 2007 and 2008:

	As at 31 December		
	2006	2007	2008
	<i>(US\$'000)</i>	<i>(US\$'000)</i>	<i>(US\$'000)</i>
Non-current assets			
Property, plant and equipment	12,950	17,655	18,047
Land use rights	292	285	278
Available-for-sale financial assets	774	—	—
Deferred income tax assets	2,591	3,322	4,169
	<u>16,607</u>	<u>21,262</u>	<u>22,494</u>
Current assets			
Inventories	28,042	32,229	28,248
Trade receivables	59,421	88,893	71,905
Prepayments and other assets	2,443	3,812	4,112
Available-for-sale financial assets	214	—	—
Derivative financial instruments	814	5,202	909
Cash and cash equivalents	82,707	251,969	257,920
	<u>173,641</u>	<u>382,105</u>	<u>363,094</u>
Total assets	<u>190,248</u>	<u>403,367</u>	<u>385,588</u>
Total liabilities	<u>85,069</u>	<u>116,493</u>	<u>88,400</u>

LETTER FROM THE IFA

	As at 31 December		
	2006	2007	2008
	(US\$'000)	(US\$'000)	(US\$'000)
Capital and reserves attributable to the Company's equity holders			
Share capital	41,880	59,840	59,149
Share premium	—	117,024	118,026
Other reserves	26,355	43,565	43,394
Retained earnings			
Proposed final dividend	—	12,581	9,846
Others	<u>36,754</u>	<u>53,577</u>	<u>66,458</u>
	104,989	286,587	296,873
Minority interests	<u>190</u>	<u>287</u>	<u>315</u>
Total equity	<u>105,179</u>	<u>286,874</u>	<u>297,188</u>

Property, plant and equipment

Property, plant and equipment mainly comprise the production facilities in Taiwan and the PRC.

Inventory

Inventory mainly comprises raw materials, work-in-progress and finished goods. According to the 2008 Annual Report, the cost recognized as expense and included in cost of sales in the consolidated income statement amounted to approximately US\$345.3 million and approximately US\$345.1 million for the year ended 31 December 2008 and 2007, respectively. Allowance for decline in market value and inventory obsolescence amounted to approximately US\$4.97 million and US\$0.85 million for the year ended 31 December 2008 and 2007 respectively.

Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and on hand, short-term bank deposits and other investments of treasury bonds. Cash and cash equivalents as at 31 December 2008 were approximately US\$257.9 million, compared to approximately US\$252.0 million as at 31 December 2007. Cash and cash equivalents are mainly denominated in US dollars, RMB and NT\$.

Other assets

Other non-current assets mainly consist of land use rights, available-for-sale financial assets and deferred income tax assets. Other current assets mainly consist of trade receivables, prepayments and other assets, available-for-sale financial assets and derivative financial instruments of foreign currency forward contracts.

LETTER FROM THE IFA

Total liabilities

Total liabilities mainly consist of provisions and other liabilities, retirement benefit obligations, deferred income tax liabilities, trade and other payables, income tax liabilities and derivative financial instruments of foreign currency forward/option contracts.

4. Future prospects of the Group

The Group has been able to achieve consistent growth in turnover and earnings for the past five years except that in 2008, revenue of the Group and net profit attributable to equity holders of the Company decreased by approximately 2.2% and approximately 21.7% to approximately US\$409.6 million and approximately US\$24.6 million respectively as compared to the year ended 31 December 2007. According to the 2008 Annual Report, such decrease was the result of the slowdown since the global economy in the fourth quarter of 2008.

The recent global financial and credit crisis and market downturn has seriously affected the global economy, including, inter alia, the United States and Europe. According to the Bureau of Economic Analysis of the Department of Commerce of the United States (the “BEA”), the real Gross Domestic Product (“GDP”) of the United States in the fourth quarter of 2008 (i.e. from the third quarter to the fourth quarter) decreased at an annual rate of approximately 6.3%, being the worst quarterly economic slowdown since the first quarter of 1982. It was further mentioned in the report that such decrease in real GDP in the fourth quarter was primarily due to the negative contributions from export, personal consumption expenditures, equipment and software, and residential fixed investment. According to more recent advance estimates released by the BEA, the real GDP of the United States continued to decrease at an annual rate of approximately 6.1% in the first quarter of 2009 (i.e. from the fourth quarter of 2008 to the first quarter of 2009).

On the other hand, the Euro-zone has also been facing a weakening economy since the fourth quarter of 2008. According to Eurostat (the Statistical Office of the European Communities), the Euro-zone’s economy contracted by approximately 1.6% in the fourth quarter of 2008, being the region’s worst GDP contraction in at least the past 13 years.

According to the 2008 Annual Report, Americas and Europe are the top two geographical regions that the Group sold its products to in 2008 in terms of amount of revenue, in aggregate representing approximately 73% of the total revenue of the Group for the year ended 31 December 2008. Having considered the adverse effects that the recent global financial and credit crisis has already placed on the operating results of the Group for the year ended 31 December 2008 and the uncertainty of the length and depth of the deteriorating global economic conditions and market downturn, we concur with the Directors’ view that the Group will face an increasingly challenging and uncertain operating environment ahead.

5. Information on the Offeror and the Parent and the Offeror’s intention regarding the Group

As stated in the “Explanatory Statement” contained in the Scheme Document, the Offeror is an investment holding company incorporated in the Cayman Islands with limited liability and a wholly-owned subsidiary of the Parent.

LETTER FROM THE IFA

The Parent is principally engaged in the design and manufacture of a wide range of power management products, visual displays products and other electronic components (including switching power supplies, DC/DC converters, AC/DC adapters, digital projectors, and telecom and networking components). Its shares are listed on the Taiwan Stock Exchange Corporation. As at the Latest Practicable Date, the directors of the Offeror are Mr. Cheng Chung Hua, Bruce, Mr. Cheng An, Victor and Mr. Liang Ker Uon, Sam.

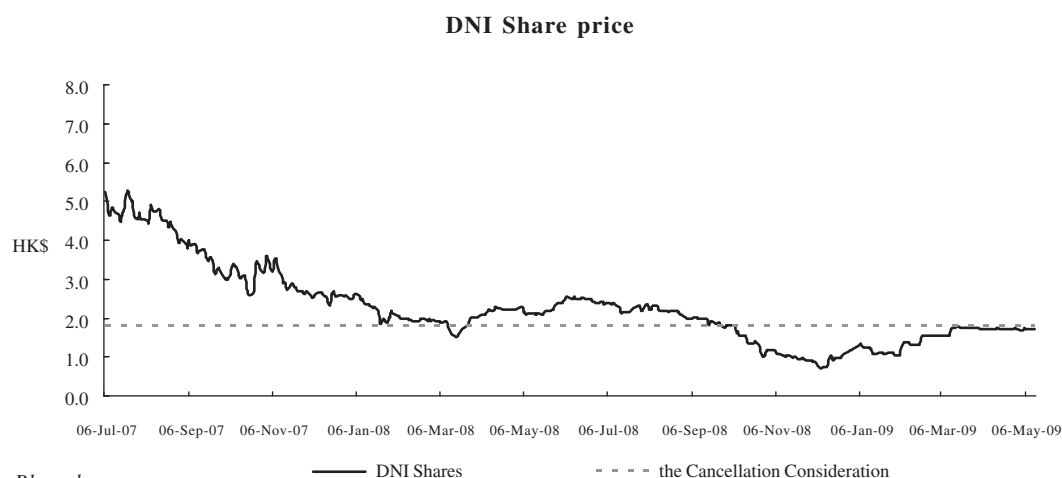
As stated in the “Explanatory Statement” contained in the Scheme Document, it is the intention of the Offeror to continue the existing businesses of the Group in all material respects upon the successful privatisation of the Company. The Offeror has no plan, in the event the Scheme becomes effective, to: (i) make any material changes to the existing businesses of the Group (including any material redeployment of the fixed assets of the Group); or (ii) make any material changes to the continued employment of the employees of the Group, as a result of the Proposal.

On the other hand, the Offeror will continue to assess any business opportunity that may arise from time to time involving the business and/or assets of the Group and will formulate strategic corporate planning as and when appropriate (including the possible listing of all or part of the business or assets of the Group in an appropriate securities exchange at an appropriate time). As stated in the paragraph headed “Offeror’s and Directors’ intention regarding the Company” in the “Letter from the Board” in the Scheme Document, the Directors are of the view that as and when appropriate, the Directors may consider a possible listing of all or part of the business or assets of the Group at an appropriate securities exchange if such listing would be in the interests of the Company and its then Shareholders. The Directors do not currently have any concrete plan to apply for a listing of all or part of the business or assets of the Group on any stock exchange if the Shares are delisted from the Stock Exchange after the Proposal is successfully implemented. We wish to draw the Independent Shareholders’ attention that the timing of the listing is uncertain and there is no guarantee that such listing plan will proceed.

6. Historical price and trading performance of the Shares

(i) Share price performance

The chart below sets out the movement of the closing prices of the Shares as quoted on the Stock Exchange from 6 July 2007 (the first date of commencement of dealings in the Shares on the Stock Exchange) to the Latest Practicable Date (the “Reviewed Period”):



LETTER FROM THE IFA

The Shares were listed on the Stock Exchange on 6 July 2007 at an initial public offering price of HK\$4.5 per Share. As set out in the chart above, the closing price of the Shares was HK\$5.44 per Share on 6 July 2007 and then reached its peak at HK\$5.45 per Share on 23 July 2007. Since then, the price of the Shares has generally shown a declining trend with occasional rises which however were not sustainable. On 18 March 2008, the Share price was closed at HK\$1.55 per Share, being a then historical low since the listing of the Shares. The Share price started to rebound since then and reached at HK\$2.55 per Share on 6 June 2008 and 12 June 2008. The Share price then started to drop again and reached its lowest closing price of HK\$0.69 per Share on 8 December 2008, significantly decreased by approximately 87.3% as compared to the highest closing price during the Reviewed Period, being HK\$5.45 per Share on 23 July 2007. Starting from mid December 2008, the closing price of the Shares began to rebound and closed at HK\$1.53 per Share on the Last Trading Date, and increased to HK\$1.72 on 13 March 2009 immediately after the release of the Announcement. Since the release of the Announcement, the Shares have been traded within a range between HK\$1.67 and HK\$1.78 per Share. As at the Latest Practicable Date, the Share closed at HK\$1.71. We are of the opinion that the rise in the Share price after the date of the Announcement might have reflected the terms of the proposed privatisation of the Company.

In general, the closing prices of the Shares were above the Cancellation Consideration for most of the time during the Reviewed Period from July 2007 to September 2008. However, the closing price of the Shares were below the Cancellation Consideration since 30 September 2008 and up to the Latest Practicable Date.

(ii) *Trading volume of the Shares*

The following table sets out the total monthly trading volume of the Shares from July 2007 to the Latest Practicable Date:

	Total monthly trading volume of the Shares <i>(Number of Shares)</i>	Percentage of the total monthly trading volume of the Shares to the total issued Shares <i>(Note 1)</i>	Percentage of total monthly trading volume of the Shares to public float <i>(Note 2)</i>
2007			
July	314,456,163	26.27%	64.88%
August	77,999,900	6.52%	16.09%
September	45,807,932	3.83%	9.45%
October	113,672,230	9.50%	23.45%
November	45,818,149	3.83%	9.45%
December	16,492,644	1.38%	3.40%
2008			
January	19,473,000	1.63%	4.02%
February	6,267,599	0.52%	1.29%

LETTER FROM THE IFA

	Total monthly trading volume of the Shares <i>(Number of Shares)</i>	Percentage of the total monthly trading volume of the Shares to the total issued Shares <i>(Note 1)</i>	Percentage of total monthly trading volume of the Shares to public float <i>(Note 2)</i>
March	15,200,740	1.27%	3.14%
April	30,305,300	2.51%	6.11%
May	7,782,200	0.64%	1.57%
June	25,945,800	2.15%	5.23%
July	21,851,933	1.85%	4.64%
August	4,908,000	0.41%	1.04%
September	17,195,400	1.45%	3.65%
October	18,441,000	1.56%	3.92%
November	3,826,000	0.32%	0.81%
December	82,495,900	6.97%	17.52%
2009			
January	16,951,400	1.43%	3.60%
February	21,577,140	1.82%	4.58%
March	53,940,900	4.56%	11.46%
April	24,354,000	2.03%	5.02%
1 May 2009 to the Latest Practicable Date	3,034,000	0.25%	0.63%

Source: Bloomberg and the Stock Exchange's website

Notes:

1. The calculation is based on the number of the Shares in issue as at the end of each month from July 2007 to the Latest Practicable Date, being 1,196,800,000 Shares from July 2007 to March 2008, 1,207,815,000 Shares from April 2008 to June 2008, 1,183,077,000 Shares from July 2008 to February 2009 and 1,182,985,000 Shares for March 2009, respectively. From April 2009 to the Latest Practicable Date, the calculation is based on 1,196,886,000 Shares in issue.
2. The calculation is based on the number of Shares in issue as set out in Note 1 above excluding the 712,160,000 Shares held by the Offeror.

As illustrated in the table above, the trading of the Shares was active during the first five months from July 2007 to November 2007 immediately following listing in July 2007. The trading volume of the Shares started to diminish since November 2007, which in general corresponded to the declining trading volume and performance of the Hong Kong stock market. The trading volume of the Shares was generally thin in 2008 except in December 2008 in which the Company made two announcements on 8 December 2008 and 15 December 2008 that the Board was not aware of any reasons for the

LETTER FROM THE IFA

increase in the trading volume of the Shares. The trading of the Shares remained inactive in January and February 2009. The sudden increase in the trading volume of the Shares in March 2009 might be possibly due to the release of the Announcement.

7. Cancellation Consideration analysis

(i) Comparable companies

The Group is based in Taiwan and is principally engaged in the design and manufacture of a wide range of networking products (including Ethernet switches, broadband access products, wireless adaptors and routers). For comparison purpose, we have selected comparable companies which (i) operate in the industry of communication and/or networking products similar to the Group; (ii) are listed on the Stock Exchange (including the Main Board and the Growth Enterprise Market) or the Taiwan Stock Exchange Corporation; and (iii) have a market capitalisation in the range from HK\$500 million to HK\$3,500 million as at the Latest Practicable Date.

Based on the abovementioned criteria, two companies listed on the Stock Exchange (the “Hong Kong Comparable Companies”) and nine companies listed on the Taiwan Stock Exchange Corporation (the “Taiwan Comparable Companies”) were identified on a best effort basis in our research through public information and to the best of our knowledge, the list is an exhaustive list under the above-mentioned criteria. We set out in the table below details of these eleven companies (the “Comparable Companies”):

Name of company	Stock code	Principal activities	Market capitalisation as at the Latest Practicable Date (HK\$ million)	Latest financial year end date (Note)
<i>Hong Kong Comparable Companies:</i>				
Comba Telecom Systems Holdings Ltd (“Comba”)	2342.HK	Manufacture and sale of wireless telecommunications network enhancement system equipment and the provision of related engineering services	2,809	31 December 2008
SIM Technology Group Ltd (“SIM Tech”)	2000.HK	Manufacture, design and development and sale of liquid crystal display modules, mobile handset solutions, and wireless communication module solutions	1,184	31 December 2008

LETTER FROM THE IFA

Name of company	Stock code	Principal activities	Market capitalisation as at the Latest Practicable Date (HK\$ million)	Latest financial year end date (Note)
<i>Taiwan Comparable Companies:</i>				
D-LINK Corporation ("D-LINK")	2332.TT	Designer, developer and manufacturer of networking, broadband, digital electronics, voice, data and video communications solutions	3,459	31 December 2008
Gemtek Technology Co., Ltd ("Gemtek")	4906.TT	Design, software engineering and manufacturing wireless networking and broadband products	3,435	31 December 2008
CyberTAN Technology Inc. ("CyberTAN")	3062.TT	Manufacturer of broadband and wireless networking equipment	3,273	31 December 2008
ZyXEL Communications Corporation ("ZyXEL")	2391.TT	Provider of broadband access solutions	2,354	31 December 2008
Alpha Networks Inc. ("Alpha")	3380.TT	Design and manufacture of networking equipments	2,789	31 December 2008
Arcadyan Technology Corporation ("Arcadyan")	3596.TT	Develop and manufacture of broadband access, multimedia and wireless equipments	1,863	31 December 2008
Accton Technology Corp. ("Accton")	2345.TT	Manufacture of broadband and wireless networking equipment	1,355	31 December 2008
Cameo Communications Inc. ("Cameo")	6142.TT	Manufacture of broadband and wireless networking equipment	732	31 December 2008
Sercomm Corp. ("Sercomm")	5388.TT	Manufacture of broadband and wireless networking equipment	737	31 December 2008

Source: Bloomberg, the Stock Exchange's website and the Taiwan Stock Exchange Corporation's website

Note: Latest financial year end date represents the year end date of the most recent published annual results of the respective company.

LETTER FROM THE IFA

(ii) *Comparison of share price performance*

We have reviewed the price performance of the Shares as compared to the Comparable Companies:

	Share price as at the Last Trading Date (Note 1) (HK\$/NT\$)	Premium/(Discount) of the closing share prices as at the Last Trading Date relative to (Note 1)			
		the average closing prices for 10 trading days up to and including the Last Trading Date	the average closing prices for 30 trading days up to and including the Last Trading Date	the average closing prices for 90 trading days up to and including the Last Trading Date	the average closing prices for 180 trading days up to and including the Last Trading Date
Comba	HK\$2.23	(3.8%)	8.5%	64.0%	33.7%
SIM Tech	HK\$0.67	(2.2%)	3.3%	28.9%	11.5%
D-LINK	NT\$19.00	(1.6%)	(5.1%)	(9.3%)	(36.7%)
Gemtek	NT\$42.10	(0.7%)	(4.0%)	5.5%	(18.3%)
CyberTAN	NT\$24.00	(0.2%)	1.0%	14.9%	(24.1%)
ZyXEL	NT\$14.70	(3.0%)	(5.5%)	(13.4%)	(31.3%)
Alpha	NT\$15.20	(4.0%)	(9.2%)	(11.3%)	(29.9%)
Arcadyan	NT\$46.00	(3.7%)	(1.3%)	2.6%	(29.6%)
Accton	NT\$8.15	7.0%	5.6%	15.8%	(4.1%)
Cameo	NT\$9.68	(3.1%)	(6.2%)	(1.6%)	(26.9%)
Sercomm	NT\$11.10	(4.3%)	(6.1%)	(7.3%)	(34.1%)
Median		(3.0%)	(4.0%)	2.6%	(26.9%)
Maximum		7.0%	8.5%	64.0%	33.7%
Minimum		(4.3%)	(9.2%)	(13.4%)	(36.7%)
The Company	HK\$1.53	13.2%	25.7%	36.1%	(7.7%)
The Proposal (Note 2)	HK\$1.83	35.4%	50.3%	62.8%	10.4%

Source: Bloomberg

Notes:

1. The reason for using the closing share prices as at the Last Trading Date was that the Share prices increased after the publishing of the Announcement which, in our opinion, will distort our analysis. However, for illustration purpose only, we also list out below the comparison of the share price performance based on the closing prices of the shares of the Company and the Comparable Companies as at the Latest Practicable Date.
2. For the purpose of the Proposal, the price performance refers to the Cancellation Consideration of HK\$1.83 per Share relative to the respective average closing prices of the Shares for different trading days up to and including the Last Trading Date.

As shown in the table above, the Shares outperformed the median of the Comparable Companies in respect of the premium/(discount) of the closing price on the Last Trading Date relative to the respective average closing prices over the 10 trading days, 30 trading days, 90 trading days and 180 trading days up to and including the Last Trading Date of the Shares prior to the date of the

LETTER FROM THE IFA

Announcement. Furthermore, the Cancellation Consideration represents significant premiums of approximately 35.4%, 50.3%, 62.8% and 10.4% respectively, as compared to the respective average closing prices of the Shares over the 10 trading days, 30 trading days, 90 trading days and 180 trading days up to and including the Last Trading Date and such premiums are larger than the median of the premium/(discount) represented by the closing share prices of the Comparable Companies as at the Last Trading Date to the respective average closing prices over the same respective periods up to and including the Latest Trading Date.

For illustration purpose only, we also list out below the price performance of the Shares as compared to the Comparable Companies based on the closing prices of the shares of the Companies and the Comparable Companies as at the Latest Practicable Date:

		Premium/(Discount) of the closing share prices as at the Latest Practicable Date relative to			
Share price as at the Latest Practicable Date (HK\$/NT\$)		the average closing prices for 10 trading days up to and including the Latest Practicable Date	the average closing prices for 30 trading days up to and including the Latest Practicable Date	the average closing prices for 90 trading days up to and including the Latest Practicable Date	the average closing prices for 180 trading days up to and including the Latest Practicable Date
Comba	HK\$3.31	(2.9%)	3.7%	34.4%	80.5%
SIM Tech	HK\$0.78	11.1%	22.9%	24.5%	39.7%
D-LINK	NT\$25.95	6.0%	3.7%	18.4%	10.4%
Gemtek	NT\$56.40	5.6%	11.0%	20.6%	23.3%
CyberTAN	NT\$42.50	11.1%	26.9%	54.4%	59.3%
ZyXEL	NT\$19.30	2.4%	3.4%	14.7%	5.9%
Alpha	NT\$26.35	8.3%	13.5%	33.6%	32.0%
Arcadyan	NT\$72.00	6.4%	6.4%	22.6%	23.7%
Accton	NT\$10.55	2.2%	1.6%	16.7%	29.1%
Cameo	NT\$14.05	6.7%	8.6%	24.6%	25.4%
Sercomm	NT\$18.30	4.1%	8.3%	29.5%	30.1%
Median		6.0%	8.3%	24.5%	29.1%
Maximum		11.1%	26.9%	54.4%	80.5%
Minimum		(2.9%)	1.6%	14.7%	5.9%
The Company	HK\$1.71	(0.1%)	(0.7%)	21.8%	13.1%
The Proposal	HK\$1.83	7.0%	6.3%	30.4%	21.0%
	<i>(Note)</i>				

Source: Bloomberg

Note: For the purpose of the Proposal, the price performance refers to the Cancellation Consideration of HK\$1.83 per Share relative to the respective average closing prices of the Shares for different trading days up to and including the Latest Practicable Date.

As shown in the table above, the Cancellation Consideration of HK\$1.83 per Share offers higher premiums as compared to the median of the relevant premiums represented by the closing prices of the shares of the Comparable Companies as at the Latest Practicable Date over their respective average

LETTER FROM THE IFA

closing prices over the 10 trading days and 90 trading days up to and including the Latest Practicable Date and moderately lower premiums as compared to the median of the relevant premiums of those of the Comparable Companies over the 30 trading days and 180 trading days up to and including the Latest Practicable Date.

Based on the above, we consider that the Cancellation Consideration provides premiums to the historical price performance of the Shares. Therefore, the Proposal provides an opportunity for the Independent Shareholders to realise their holdings in the Shares at a premium to the historical performance of the Shares.

(iii) *Comparison of trading volume*

Set out in the table below is a comparison of the monthly trading volume of the shares of the Company and the Hong Kong Comparable Companies as a percentage of the total number of the outstanding shares of the respective companies as at the end of each corresponding month from January 2008 to April 2009:

	Monthly trading volume as a percentage of the total number of outstanding shares as at the end of each corresponding month of		
	The Company	Comba	SIM Tech
2008			
January	1.63%	5.40%	2.48%
February	0.52%	2.88%	1.07%
March	1.27%	4.95%	2.84%
April	2.51%	4.36%	3.21%
May	0.64%	29.75%	12.70%
June	2.15%	13.07%	5.42%
July	1.85%	10.43%	3.47%
August	0.41%	4.24%	3.24%
September	1.45%	5.46%	2.12%
October	1.56%	6.37%	2.21%
November	0.32%	11.26%	3.06%
December	6.97%	26.61%	20.58%
2009			
January	1.43%	21.66%	11.44%
February	1.82%	11.68%	6.77%
March	4.56%	12.08%	9.50%
April	2.03%	16.33%	13.47%

Source: *Bloomberg and the Stock Exchange's website*

Note: The reason for using only the Hong Kong Comparable Companies in the comparison of trading volume is that the Taiwan Comparable Companies are listed on Taiwan Stock Exchange Corporation, which in our opinion, might have different market characteristics and features from the Stock Exchange. Therefore, we consider the Taiwan Comparable Companies to be less comparable in terms of the comparison of trading volume and are excluded in such comparison in order to avoid the distortion of our analysis. However, for illustration purpose only, we also list out the liquidity of the shares of the Taiwan Comparable Companies below.

LETTER FROM THE IFA

As shown in the table above, the respective monthly trading volume of the Shares as a percentage of the total number of the outstanding Shares as at the end of each month from January 2008 to April 2009 was lower than such relevant percentages of each of the Hong Kong Comparable Companies for each corresponding month.

For illustration purpose only, we also list out below the range of the monthly trading volume of the shares of the Taiwan Comparable Companies as a percentage of the total number of the outstanding shares of the respective Taiwan Comparable Companies as at the end of each corresponding month from January 2008 to April 2009:

	Monthly trading volume as a percentage of the total number of outstanding shares as at the end of each corresponding month of the Company	The range of the monthly trading volume of the shares as a percentage of the total number of outstanding shares as at the end of each corresponding month of the Taiwan Comparable Companies	
		Lowest percentage among the Taiwan Comparable Companies	Highest percentage among the Taiwan Comparable Companies
2008			
January	1.63%	5.78%	83.49%
February	0.52%	5.33%	57.99%
March	1.27%	10.40%	54.03%
April	2.51%	10.07%	67.16%
May	0.64%	5.15%	59.65%
June	2.15%	3.79%	38.88%
July	1.85%	4.92%	40.00%
August	0.41%	8.57%	53.97%
September	1.45%	8.84%	35.13%
October	1.56%	6.40%	24.96%
November	0.32%	5.00%	27.93%
December	6.97%	8.67%	78.28%
2009			
January	1.43%	4.22%	52.10%
February	1.82%	5.29%	50.73%
March	4.56%	25.68%	76.06%
April	2.03%	22.14%	81.42%

Source: Bloomberg, the Stock Exchange's website and the Taiwan Stock Exchange Corporation's website

As shown in the table above, the relevant monthly trading volume of the Shares as a percentage of the total number of the outstanding Shares as at the end of each month from January 2008 to April 2009 was lower than the lower end of the relevant range of such percentages of the Taiwan Comparable Companies for each corresponding month.

LETTER FROM THE IFA

In view of the relatively thin trading volume of the Shares, we are of the opinion that it may be difficult for the Shareholders with significant holdings in the Shares to realize their holdings without creating a downward pressure on the market price of the Shares. Therefore, the Proposal provides a good opportunity for the Independent Shareholders to dispose of their entire holdings in the Shares in a relatively illiquid stock.

(iv) *Comparison of price to book value ratio (“PBR(s)”)*

Set out in the table below is a comparison of the PBR as implied by the Cancellation Consideration and the PBRs of the Comparable Companies based on their respective average closing prices from 13 March 2009, being the first trading day immediately after the release of the Announcement, to the Latest Practicable Date and the PBRs of the Comparable Companies based on their respective closing shares prices as at the Latest Practicable Date:

Company	Average closing prices from 13 March 2009, being the first trading day immediately after the release of the Announcement, to the Latest Practicable Date (HK\$/NT\$)	PBRs (Based on the average closing prices from 13 March 2009 to the Latest Practicable Date) (Note 1)	Closing prices as at the Latest Practicable Date (HK\$/NT\$)	PBRs (Based on the closing prices as at the Latest Practicable Date) (Note 2)
Comba	HK\$2.96	1.27	HK\$3.31	1.42
SIM Tech	HK\$0.61	0.69	HK\$0.78	0.89
D-LINK	NT\$24.22	1.00	NT\$25.95	1.07
Gemtek	NT\$49.78	1.74	NT\$56.40	1.97
CyberTAN	NT\$31.53	2.25	NT\$42.50	3.03
ZyXEL	NT\$18.20	1.00	NT\$19.30	1.07
Alpha	NT\$22.72	1.28	NT\$26.35	1.48
Arcadyan	NT\$68.74	2.75	NT\$72.00	2.89
Accton	NT\$10.23	0.85	NT\$10.55	0.88
Cameo	NT\$12.43	0.86	NT\$14.05	0.97
Sercomm	NT\$16.30	1.11	NT\$18.30	1.25
Mean		1.35		1.54
Median		1.11		1.25
Maximum		2.75		3.03
Minimum		0.69		0.88
The Cancellation Consideration		0.98		0.98
		<i>(Note 3)</i>		<i>(Note 3)</i>

Source: Bloomberg, the Stock Exchange’s website, the Taiwan Stock Exchange Corporation’s website and latest annual reports of the respective Comparable Companies

LETTER FROM THE IFA

Notes:

1. The PBRs are calculated based on (i) the consolidated net asset value attributable to the equity holders of the respective Comparable Companies as at the end of their respective latest financial year; and (ii) the respective market capitalisation of the Comparable Companies based on the average closing prices of the shares of the Comparable Companies from 13 March 2009, being the first trading day immediately after the release of the Announcement, to the Latest Practicable Date. The reason for using the average closing prices of the shares of the Comparable Companies during the aforesaid period is that the share prices of the Comparable Companies are volatile and therefore we are of the opinion that using the share prices on a particular date might not be appropriate for our analysis. However, for illustration purpose only, we also list out above the PBRs of the Comparable Companies based on their respective closing shares prices as at the Latest Practicable Date.
2. The PBRs are calculated based on (i) the consolidated net asset value attributable to the equity holders of the respective Comparable Companies as at the end of their respective latest financial year; and (ii) the respective market capitalisation of the Comparable Companies based on the closing prices of the shares of the Comparable Companies as at the Latest Practicable Date.
3. The calculation is based on (i) the Cancellation Consideration of HK\$1.83 per Share; and (ii) the adjusted consolidated net asset value per Share attributable to Shareholders as at 31 December 2008 (adjusted to the 2008 Final Dividend and based on 1,196,886,000 Shares in issue as at the Latest Practicable Date) of approximately US\$0.2397 (equivalent to approximately HK\$1.87) per Share.

As illustrated in the table above, the PBRs of the Comparable Companies (based on the average closing prices of the shares of the Comparable Companies from 13 March 2009, being the first trading day immediately after the release of the Announcement, to the Latest Practicable Date) range from approximately 0.69 to approximately 2.75 with a mean of approximately 1.35 and a median of approximately 1.11. In addition, the PBRs of the Comparable Companies (based on the closing prices of the shares of the Comparable Companies as at the Latest Practicable Date) range from approximately 0.88 to approximately 3.03 with a mean of approximately 1.54 and a median of approximately 1.25. The implied PBR of the Company based on the Cancellation Consideration is approximately 0.98 and we note that the implied PBR of the Company based on the Cancellation Consideration is below the mean, but nevertheless within the ranges of the PBRs of the Comparable Companies.

Based on the above, we are of the view that the Cancellation Consideration represents an acceptable PBR for the Company, as compared to those of the Comparable Companies.

LETTER FROM THE IFA

(v) *Comparison of price to earnings ratio (“PER(s)”)*

Set out in the table below is a comparison of the PER as implied by the Cancellation Consideration and the PERs of the relevant Comparable Companies based on their respective average closing prices from 13 March 2009, being the first trading day immediately after the release of the Announcement, to the Latest Practicable Date and the PERs of the relevant Comparable Companies based on their respective closing shares prices as at the Latest Practicable Date:

Company <i>(Note 3)</i>	Average closing prices from 13 March 2009, being the first trading day immediately after the release of the Announcement, to the Latest Practicable Date <i>(HK\$/NT\$)</i>	PERs (Based on the average closing prices from 13 March 2009 to the Latest Practicable Date) <i>(Note 1)</i>	Closing prices as at the Latest Practicable Date <i>(HK\$/NT\$)</i>	PERs (Based on the closing prices as at the Latest Practicable Date) <i>(Note 2)</i>
Comba	HK\$2.96	11.02	HK\$3.31	12.35
SIM Tech	HK\$0.61	6.44	HK\$0.78	8.23
D-LINK	NT\$24.22	11.40	NT\$25.95	12.22
Gemtek	NT\$49.78	11.31	NT\$56.40	12.82
CyberTAN	NT\$31.53	28.08	NT\$42.50	37.84
Alpha	NT\$22.72	9.69	NT\$26.35	11.24
Arcadyan	NT\$68.74	10.50	NT\$72.00	11.00
Accton	NT\$10.23	13.63	NT\$10.55	14.05
Cameo	NT\$12.43	12.15	NT\$14.05	13.74
Sercomm	NT\$16.30	8.46	NT\$18.30	9.50
Mean		12.27		14.30
Median		11.17		12.29
Maximum		28.08		37.84
Minimum		6.44		8.23
The Cancellation Consideration		11.42 <i>(Note 3)</i>		11.42 <i>(Note 3)</i>

Notes:

- The PERs are calculated based on (i) the consolidated net profit attributable to the equity holders of the respective relevant Comparable Companies for their respective latest financial year; and (ii) the respective market capitalisation of the relevant Comparable Companies based on the respective average closing prices of the shares of the respective Comparable Companies from 13 March 2009, being the first trading day immediately after the release of the Announcement, to the Latest Practicable Date. The reason for using the average closing prices of the shares of the relevant Comparable Companies during the aforesaid period is that the share prices of the relevant Comparable Companies are volatile and therefore we are of the opinion that using the share prices on a particular date might not be appropriate for our analysis. However, for illustration purpose only, we also list out above the PERs of the relevant Comparable Companies based on their respective closing shares prices as at the Latest Practicable Date.

LETTER FROM THE IFA

2. The PERs are calculated based on (i) the consolidated net profit attributable to the equity holders of the respective relevant Comparable Companies for their respective latest financial year; and (ii) the respective market capitalisation of the relevant Comparable Companies based on the closing prices of the shares of the Comparable Companies as at the Latest Practicable Date.
3. The calculation is based on (i) the Cancellation Consideration of HK\$1.83 per Share; and (ii) the consolidated net profit attributable to the equity holders of the Company for the year ended 31 December 2008 of approximately US\$24,586,000 (equivalent to approximately HK\$191,770,800).
4. In our analysis of the comparison of PER, we have excluded those Comparable Companies that (i) were loss making for the year ended 31 December 2008; or (ii) recorded substantial drops in their consolidated net profit attributable to the equity holders for the year ended 31 December 2008 by more than 75% as compared to 2007 and the consolidated net profit attributable to the equity holders for the year ended 31 December 2008 was below HK\$50 million which, in our opinion, would not be meaningful to be included in our analysis of the comparison of PER. Based on the above criteria, ZyXEL was excluded in our analysis. The net profit attributable to the equity holders of ZyXEL decreased by approximately 87% from approximately NT\$1,604,223,000 for the year ended 31 December 2007 to approximately NT\$200,763,000 (equivalent to approximately HK\$47.3 million) for the year ended 31 December 2008. We also noted that the consolidated net profit attributable to the equity holders of ZyXEL for each of the five years ended 31 December 2007 was approximately NT\$1,481 million, NT\$1,951 million, NT\$1,873 million, NT\$1,385 million and NT\$1,604 million, respectively, which were substantially higher than the net profit attributable to the equity holders of ZyXEL in 2008. We consider that the sudden drop of net profit of ZyXEL in 2008 was abnormal, based on its historical net profit figures for year 2003 to year 2007. We consider such net profit figure of ZyXEL in 2008 to be unreasonably and exceptionally low, which would result in a not meaningful PER for ZyXEL, of approximately 49.71 (based on the closing price of the shares of ZyXEL as at the Latest Practicable Date), as compared to the PERs of other Comparable Companies. However, for illustration purpose only, if ZyXEL is included in the analysis of PER, the mean and median of the PERs of the Comparable Companies (including ZyXEL) would be approximately 17.52 and approximately 12.35, respectively and the range of the PERs of the Comparable Companies (including ZyXEL) would be from approximately 8.23 to approximately 49.71, based on the closing share prices of the Comparable Companies (including ZyXEL) as at the Latest Practicable Date.

As illustrated in the table above, the PERs of the relevant Comparable Companies (based on the average closing prices of the shares of the Comparable Companies from 13 March 2009, being the first trading day immediately after the release of the Announcement, to the Latest Practicable Date) range from approximately 6.44 to approximately 28.08 with a mean of approximately 12.27 and a median of approximately 11.17 while the implied PER of the Company based on the Cancellation Consideration is approximately 11.42. Therefore, we consider that the Cancellation Consideration implies a slightly lower PER of the Company as compared to the mean of those of the relevant Comparable Companies. Nevertheless, the implied PER of the Company based on the Cancellation Consideration is within the range of and is higher than the median of the PERs of the relevant Comparable Companies.

Furthermore, the PERs of the relevant Comparable Companies (based on the closing prices of the shares of the Comparable Companies as at the Latest Practicable Date) range from approximately 8.23 to approximately 37.84 with a mean of approximately 14.30 and a median of approximately 12.29 while the implied PER of the Company based on the Cancellation Consideration is approximately 11.42. The Cancellation Consideration implies a moderately lower PER of the Company as compared to the mean and median of those of the relevant Comparable Companies (based on the closing prices of the shares of the Comparable Companies as at the Latest Practicable Date). Nevertheless, the implied PER of the Company based on the Cancellation Consideration is within the range of the relevant Comparable Companies.

LETTER FROM THE IFA

Based on the above, we are of the view that the Cancellation Consideration represents an acceptable PER for the Company, as compared to those of the relevant Comparable Companies.

DISCUSSION AND ANALYSIS

Summary

The Group has been able to achieve consistent growth in turnover and earnings for the past five years except that in year 2008, the Group recorded a decline in turnover and profit attributable to the equity holders of the Company of approximately 2.2% and approximately 21.7% respectively for the first time in the past five years. As summarized in the section headed “Financial information of the Group” above, the Group recorded a profit attributable to the equity holders of the Company of approximately US\$25.5 million, US\$31.4 million and US\$24.6 million for each of the three years ended 31 December 2008 respectively. As stated in the 2008 Annual Report, the Group was confronted by a challenging business environment in 2008, triggered by the US sub-prime mortgage crisis which led to the decline of the 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, the Directors considered that the snowstorm in the PRC caused labour shortage at the beginning of 2008 and the introduction of the new labour laws in the PRC since 1 January 2008 led to an increase in labour cost.

Moreover, the recent global financial and credit crisis and market downturn has seriously affected the global economy. As discussed in the section headed “Future prospects of the Group” above, both the United States and the Euro-zone, being the top two geographical markets of the Group’s products, have experienced a negative growth in GDP in the fourth quarter of 2008 and, according to a recent advance estimates released by the BEA, the GDP of the United States is estimated to continue to decrease in the first quarter of 2009. In view of the adverse effects that the recent global financial and credit crisis has already placed on the operating results of the Group for the year ended 31 December 2008 and the uncertainty of the length and depth of the deteriorating global economic conditions and market downturn, we concur with the Directors’ view that the Group will face an increasingly challenging and uncertain operating environment ahead.

Generally in line with the market downturn, the Share price of the Company has also declined substantially since mid 2008, from HK\$2.55 per Share on 6 June 2008 by 40% to HK\$1.53 per Share on the Last Trading Date. As discussed above, the trading volume of the Shares was generally thin during the period from January 2008 to the Latest Practicable Date. Apart from the funds raised at the IPO in July 2007, the Company has not raised any equity fund since then.

In addition, the Directors believe that, given the relatively low liquidity and weak performance of the Shares, access to the equity capital markets in Hong Kong does not provide the Company with an attractive fund raising avenue, and that the costs and management resources associated with the maintenance of the Company’s listing status are not warranted. Having considered the analysis above and the reasons behind the Proposal, we consider that the main benefit of the Proposal to the Independent Shareholders is to provide them with an opportunity to divest their holding of the Shares in exchange for cash in the current market environment.

LETTER FROM THE IFA

The Cancellation Consideration

The Cancellation Consideration of HK\$1.83 per Share represents a premium of approximately 19.6%, 47.6%, 67.9% and 36.6% respectively, over the closing price on the Last Trading Date, the 1-month average closing price, 3-month average closing price and the 6-month average closing price of the Shares during the respective periods up to and including the Last Trading Date. The Cancellation Consideration also represents larger premiums over the respective average closing prices for the 10 trading days, 30 trading days, 90 trading days and 180 trading days up to and including the Last Trading Date as compared to the median of those of the Comparable Companies based on their respective shares prices as at the Last Trading Date over the same respective periods.

The Cancellation Consideration represents a PBR of approximately 0.98, which is lower than the mean of the PBRs of the Comparable Companies, being approximately 1.35, but nevertheless within the range of the PBRs of the Comparable Companies and is fairly close to the median of the PBRs of the Comparable Companies of approximately 1.11 based on the respective average closing prices of the shares of the Comparable Companies from 13 March 2009, being the first trading day immediately after the release of the Announcement, to the Latest Practicable Date. In addition, the Cancellation Consideration represents a PER of approximately 11.42, which is slightly lower than the mean of the PERs of the relevant Comparable Companies, being approximately 12.27, but nevertheless within the range of the PERs of the relevant Comparable Companies and is higher than the median of the PERs of the relevant Comparable Companies of approximately 11.17 based on the respective average closing prices of the shares of the relevant Comparable Companies from 13 March 2009, being the first trading day immediately after the release of the Announcement, to the Latest Practicable Date.

The closing price of the Shares on the Last Trading Date was HK\$1.53 per Share. The Shares price has increased and closed at HK\$1.72 per Share on 13 March 2009, being the first trading date immediately after the release of the Announcement, and the Shares have been traded within a range of HK\$1.67 to HK\$1.78 per Share for the time between the date of the Announcement and the Latest Practicable Date. In our opinion, such increase in the Shares price might reflect the terms of the Proposal and it is not likely that the market price of the Shares will remain at the current level in the short term if the Scheme is withdrawn, not approved or lapses.

Having considered the various factors and reasons above and also taken into account that the trading volume of the Shares was generally thin, we are of the view that, if the Independent Shareholders wish to realise their investments in the Company in the current market condition, the Proposal provides a good opportunity to do so at a premium to its recent market prices and at a PBR which is within the range of the PBRs of the Comparable Companies and a PER which is around the median of and within the range of the PERs of the relevant Comparable Companies. Based on the above, we consider the Cancellation Consideration to be fair and reasonable so far as the Independent Shareholders are concerned.

The MS Offer

The MSSS was a one-off plan and is closed-ended. The MSSS was adopted by the Board on 21 August 2006. Under the MSSS, the Company granted 56,744,000 MS Awards to the MS Participants for the right to subscribe for 56,744,000 new Shares at the MS Subscription Price. The MS Participants have

LETTER FROM THE IFA

already fully paid the MS Subscription Price of US\$0.121 (equivalent to approximately HK\$0.9438 per Share) for their MS Awards, and are scheduled to receive the Shares under the MSSS in four equal annual instalments. The instalment dates are: (i) 1 April 2008; (ii) 1 April 2009; (iii) 1 April 2010; and (iv) 1 April 2011. As at the Latest Practicable Date, there are 27,512,000 outstanding unvested MS Awards.

The MS Offer is calculated on a “see-through” basis, so that the MS Participants will be entitled to receive a price for each of the outstanding MS Awards being an amount of the aggregate of the Refund Amount and the MS Amount, which is equal to the Cancellation Consideration. Such “see-through” principle is normally adopted in Hong Kong for privatisation proposals of a similar nature. On the basis that the Cancellation Consideration of HK\$1.83 is considered to be fair and reasonable and given that the MS Participant will be entitled to receive an amount equal to the Cancellation Consideration, we consider the terms of the MS Offer to be fair and reasonable so far as the MS Participants are concerned.

We wish to draw the attention of the MS Participants to the MS Notice and the MS Acceptance Form. The MS Participants who wish to accept the MS Offer need to return the completed and signed MS Acceptance Form to the Company before the MS Cut-Off Time.

OPINION AND RECOMMENDATION

Having considered the above principal factors and reasons, in particular that:

- (i) in view of the adverse effects that the recent global financial and credit crisis and market downturn has already placed on the operating results of the Group for the year ended 31 December 2008 and the uncertainty of the length and depth of the deteriorating global economic conditions and market downturn, we concur with the Directors’ view that the Group will face an increasingly challenging and uncertain operating environment ahead;
- (ii) the trading volume of the Shares on the Stock Exchange was generally thin;
- (iii) the Cancellation Consideration provides significant premiums to the respective average closing prices of the Shares for the 10 trading days, 30 trading days, 90 trading days and 180 trading days up to and including the Last Trading Date and such premiums are larger than the median of the premium/discount represented by the closing share prices of the Comparable Companies as at the Last Trading Date to the average closing prices over the same respective periods;
- (iv) we are of the view that the Cancellation Consideration represents an acceptable PBR and PER for the Company, as compared to those of the relevant Comparable Companies;
- (v) the Proposal provides a good opportunity to the Independent Shareholders to realise their investments in the Company in exchange for cash in the current market environment,

LETTER FROM THE IFA

we, on an overall basis, consider that the terms of the Proposal to be fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the IBC to advise the Independent Shareholders to vote in favour of the resolution to approve the Scheme at the Court Meeting and the Shareholders to vote in favour of the special resolution to approve and give effect to the Scheme at the EGM.

As discussed above, the terms of the MS Offer are calculated on a “see-through” basis for the outstanding unvested MS Awards. As the MS Participants will be entitled to receive a price for each of the outstanding MS Awards being an amount of the aggregate of the Refund Amount and the MS Amount, which is equal to the Cancellation Consideration and such basis of calculation is normally adopted in Hong Kong for privatisation proposals of a similar nature, we consider the MS Offer to be fair and reasonable so far as the MS Participants are concerned. We recommend the IBC to advise the MS Participants to accept the MS Offer in respect of the outstanding unvested MS Awards.

Those Independent Shareholders who are concerned that the Proposal may not become effective and that the Shares prices may fall back to lower levels existing prior to the Last Trading Date may consider disposing of their Shares in the open market before the Court Meeting, particularly if the market price of the Shares trades close to or above the Cancellation Consideration of HK\$1.83 per Share.

In making our recommendation above, we note that the Independent Shareholders are at liberty to vote and the MS Participants are at liberty to choose whether or not to accept the MS Offer according to their own individual preference and circumstances and they should consult their own professional advisers for professional advice. Independent Shareholders who are confident of the long term future prospects of the Group and/or wish to continue to retain an exposure in the Group or who are not attracted by the capital value of the Cancellation Consideration as compared with the historical trading performance or their respective investment costs of the Shares may wish to vote against the resolution in relation to the Proposal.

Yours faithfully,

For and on behalf of

KGI Capital Asia Limited

Laurent Leung

Director

Jimmy Chan

Senior Vice President

EXPLANATORY STATEMENT

This explanatory statement constitutes the statement required under Order 102, rule 21(4)(e) of the Rules of the Grand Court of the Cayman Islands 1995 (revised).

SCHEME OF ARRANGEMENT TO CANCEL ALL THE SCHEME SHARES IN CONSIDERATION OF THE OFFEROR AGREEING TO OFFER THE CANCELLATION CONSIDERATION OF HK\$1.83 PER SCHEME SHARE

1. INTRODUCTION

On 12 March 2009, the Offeror requested the Board to put forward the Scheme to the Independent Shareholders which, if approved and implemented, would result in the Company becoming wholly-owned by the Offeror and the withdrawal of the listing of the Shares on the Stock Exchange in accordance with Rule 6.15 of the Listing Rules. The Scheme will be implemented by way of a scheme of arrangement under Section 86 of the Companies Law. If the Scheme becomes effective, the Scheme Shares will be cancelled and the New Shares will be issued as fully paid to the Offeror. Further, the Offeror and the Company have, by the MS Notice, made the MS Offer to the MS Participants for their agreement to cancel their outstanding MS Awards. The MS Offer is conditional upon the Scheme becoming effective.

The purpose of this Explanatory Statement is to explain the terms and effects of the Scheme and the MS Offer (and to provide the Scheme Shareholders and the MS Participants with relevant information in relation to the Scheme and the MS Offer) and, in particular, to state any material interest of the Directors (whether as Directors, members, creditors of the Company or otherwise) and the effect of the Scheme on them, in so far as it differs from the effect on the like interests of other persons.

Particular attention of the Scheme Shareholders is drawn to the following sections of this document: (i) the Board Letter; (ii) the IBC Letter; (iii) the IFA Letter; (iv) the financial information on the Group set out in Appendix I to this document; (v) the general information set out in Appendix II to this document; (vi) the SOA; (vii) the Notice of the Court Meeting; (viii) the Notice of the EGM; and (ix) the Proxy Forms.

Particular attention of the MS Participants is also drawn to the MS Notice and the MS Acceptance Form.

2. ISSUED SHARES AND DETAILS OF WARRANTS, OPTIONS AND CONVERSION RIGHTS

Issued Shares and Scheme Shares

As at the Latest Practicable Date, the authorised share capital of the Company was 1,600,000,000 Shares, of which 1,196,886,000 Shares were in issue.

EXPLANATORY STATEMENT

The Scheme Shares will comprise all the Shares held by the Scheme Shareholders at the Record Time. The Offeror held an aggregate of 712,160,000 Shares (representing approximately 59.50% of the Shares in issue) as at the Latest Practicable Date. The Shares owned by the Offeror will not form part of the Scheme Shares and the Offeror will not vote at the Court Meeting.

Save as disclosed above, the Offeror does not own or control any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares.

The Scheme Shareholders held an aggregate of 484,726,000 Shares (representing approximately 40.50% of the Shares in issue) as at the Latest Practicable Date, of which 467,569,000 Shares were held by the Independent Shareholders (representing approximately 39.07% of the Shares in issue) and 17,157,000 Shares (representing approximately 1.43% of the Shares in issue) were held by the Concert Parties. All the Independent Shareholders will be entitled to vote at the Court Meeting, and all the Shareholders will be entitled to vote at the EGM.

Employee Incentive Schemes

As at the Latest Practicable Date, the Company had three types of employee incentive plans (namely, the MSSS, the EIS and the SOS).

Management Share Subscription Scheme

The MSSS was a one-off plan and is close-ended. Under the MSSS, the Company granted 56,744,000 MS Awards to the MS Participants for the right to subscribe for 56,744,000 Shares at the MS Subscription Price.

The MS Participants have already fully paid the MS Subscription Price for their MS Awards, and have received or are scheduled to receive the Shares under the MSSS in four equal annual instalments. The instalment dates were/are: (i) 1 April 2008; (ii) 1 April 2009; (iii) 1 April 2010; and (iv) 1 April 2011.

As at the Latest Practicable Date, a total of 27,512,000 Shares remain to be vested under the MSSS. The Company issued 13,901,000 Shares to the MS Participants pursuant to the second instalment of the MSSS on 1 April 2009. Such issued Shares are Scheme Shares and will not be subject to the MS Offer. Holders of such Shares will be entitled to participate in the Scheme and receive the Cancellation Consideration as consideration for the cancellation of the Scheme Shares.

In light of the expected timetable of the Scheme, the Shares under the last two instalments of the MSSS (being 27,512,000 Shares) are not expected to vest in the MS Participants. As those Shares have yet to be issued to the MS Participants, the MS Participants are not entitled to vote with respect to those Shares. Pursuant to Rule 13 of the Takeovers Code, the Offeror and the Company have, by the MS Notice, made the MS Offer to the MS Participants for their agreement to cancel the outstanding 27,512,000 MS Awards.

EXPLANATORY STATEMENT

Employee Incentive Scheme

An initial pool of 124,000,000 Shares has been allotted and issued to HSBC Trustee, which are held in trust for the purpose of the EIS. Under the EIS, the Board is entitled to instruct HSBC Trustee to transfer Shares to eligible employees of the Group as incentive for their employment with the Group. Consistent with its usual practice, the Board instructed HSBC Trustee to transfer 35,367,600 Shares under the EIS to eligible employees in April and in May 2009.

As at the Latest Practicable Date, a total of 62,162,400 Shares have been transferred by HSBC Trustee to the relevant employees of the Group and 61,837,600 Shares are being held in trust under the EIS.

The Shares held by HSBC Trustee for the purpose of the EIS will be cancelled pursuant to the Scheme. According to the rules of the EIS, for as long as HSBC Trustee holds any Shares in trust for the purpose of the EIS, HSBC Trustee is required to abstain from exercising the voting rights attaching to such Shares. As a result, HSBC Trustee will not vote at the Court Meeting and the EGM.

The Shares held by HSBC Trustee under the EIS are Scheme Shares. If the Scheme becomes effective, the Board will terminate the operation of the EIS. Upon notice of such termination, the proceeds received by HSBC Trustee pursuant to the Scheme will be remitted to the Company.

Share Option Scheme

No option has been granted under the SOS since its adoption. As a result, the Offeror is not required to make any offer with respect to the SOS pursuant to Rule 13 of the Takeovers Code.

Other Securities

Other than the Shares to be issued under the MSSS, the Company does not have any outstanding convertible securities, warrants, options or derivatives in respect of any Shares.

3. TERMS OF THE PROPOSAL

Terms of the Scheme

The Scheme is to be implemented by way of a scheme of arrangement under Section 86 of the Companies Law. Subject to the satisfaction or waiver (as applicable) of the Conditions, the Scheme will be implemented and the Scheme Shares will be cancelled and, as consideration, all of the Scheme Shareholders whose names appear on the register of members of the Company at the Record Time will be entitled to receive from the Offeror the Cancellation Consideration:

HK\$1.83 in cash for every Scheme Share cancelled

EXPLANATORY STATEMENT

Terms of the MS Offer

The Offeror and the Company have, by the MS Notice, made the MS Offer to the MS Participants for their agreement to cancel their outstanding MS Awards. The MS Offer is conditional upon the Scheme becoming effective. If the Scheme becomes effective, under the MS Offer, the MS Participants will receive the following payments as consideration for their agreement to cancel their unvested MS Awards:

- (i) the Refund Amount from the Company; and
- (ii) the MS Amount from the Offeror,

which in aggregate represents the same amount of cash per Share as the Cancellation Consideration.

The MS Offer is calculated on a “see-through” basis, so that the MS Participants will be entitled to receive a price for each of the outstanding MS Awards being an amount equivalent to the Cancellation Consideration.

Total Cash Consideration and Confirmation of Financial Resources

If the Proposal is implemented, the aggregate Cancellation Consideration and the aggregate MS Amount payable by the Offeror in cash under the Proposal will be approximately HK\$887.05 million and HK\$24.38 million respectively. The aggregate Refund Amount payable by the Company in cash under the MS Offer will be approximately HK\$25.97 million.

Polaris Capital has been appointed as the financial adviser to the Offeror in respect of the Proposal. Polaris Capital is satisfied that sufficient financial resources are available to the Offeror for the payment in cash of the aggregate Cancellation Consideration and the aggregate MS Amount payable under the Proposal.

The Offeror will finance the aggregate Cancellation Consideration and the aggregate MS Amount payable under the Proposal by using its internal cash resources and funds to be drawn down under the Facility.

The Company will finance the aggregate Refund Amount payable under the MS Offer by using its internal cash resources.

EXPLANATORY STATEMENT

4. CONDITIONS OF THE PROPOSAL

The Scheme will become effective and binding on the Company, the Offeror and all the other Shareholders subject to the fulfilment or waiver (as applicable) of the following Conditions:

- (a) the approval of the Scheme (by way of a poll) by a majority in number of Scheme Shareholders representing not less than three-fourths in value of the Scheme Shares held by the Scheme Shareholders present and voting at the Court Meeting (either in person or by proxy), provided that:
 - (i) the Scheme is approved (by way of a poll) by Independent Shareholders holding at least 75% of the votes attaching to the Scheme Shares held by the Independent Shareholders that are voted either in person or by proxy at the Court Meeting; and
 - (ii) the number of votes cast (by way of a poll) against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to the Scheme Shares held by all the Independent Shareholders;
- (b) the passing of a special resolution to approve and give effect to the Reduction by a majority of at least three-fourths of the votes cast by the Shareholders present and voting either in person or by proxy at the EGM and, immediately thereafter, to apply the credit arising in its books of account as a result of the Reduction to pay up in full and issue to the Offeror such number of New Shares as is equal to the number of Scheme Shares cancelled;
- (c) the sanction of the Scheme (with or without modifications) by the Grand Court and, to the extent necessary, the Grand Court's confirmation of the Reduction and the delivery to the Registrar of Companies in the Cayman Islands of a copy of the order of the Grand Court for registration;
- (d) compliance, to the extent necessary, with the procedural requirements of Section 15 of the Companies Law and compliance with any conditions imposed under Section 16 of the Companies Law, in each case in relation to the Reduction;
- (e) all Authorisations having been obtained from the relevant Authorities in the Cayman Islands, Hong Kong, Taiwan and/or any other relevant jurisdictions on terms reasonably satisfactory to the Offeror (including the approval from the Investment Commission of the Ministry of Economic Affairs in Taiwan);
- (f) all Authorisations remaining in full force and effect without variation, and all necessary statutory or regulatory obligations in all relevant jurisdictions having been complied with and no requirement having been imposed by any of the relevant Authorities which is not expressly provided for (or is in addition to requirements expressly provided for) in the relevant laws, rules, regulations or codes in connection with the Proposal (or any matters, documents or things relating to the Proposal), in each case up to the date immediately preceding the Effective Date;

EXPLANATORY STATEMENT

- (g) all Authorisations having been obtained from the relevant third parties (other than, for the avoidance of doubt, any that may be required from any member of the Offeror Group) under any existing contractual obligations of any member of the Group on terms reasonably satisfactory to the Offeror and remaining in full force and effect without modification;
- (h) save as publicly announced prior to the date of the Announcement (and except in so far as such event forms part of the Proposal), since the Last Accounting Date:
 - (i) there having been no material adverse change in the business, financial or trading position or prospects of any member of the Group; or
 - (ii) there not having been instituted or remaining outstanding any material litigation, arbitration proceedings, prosecution or other legal proceedings to which any member of the Group is a party (whether as plaintiff or defendant or otherwise) and no such proceedings having been threatened in writing against any such member and no investigation by any Authority against or in respect of any member of the Group (or the business carried on by any such member) having been threatened in writing, announced, instituted or remaining outstanding by, against or in respect of any such member,

in each case which is material and adverse in the context of the Group taken as a whole; and

- (i) each member of the Group remaining solvent and not being subject to any insolvency or bankruptcy proceedings or likewise and no liquidator, receiver or other person carrying out any similar function having been appointed anywhere in the world in respect of the whole or any substantial part of the assets or undertakings of any member of the Group up to the date immediately preceding the Effective Date, in each case which is material and adverse in the context of the Group taken as a whole.

The Offeror reserves the right to waive any of Conditions (e), (f), (g), (h) and (i), either in whole or in respect of any particular matter. When the Conditions are fulfilled or waived (as applicable) the Scheme will become effective and binding on the Offeror, the Company and all the Scheme Shareholders.

All of the Conditions must be fulfilled or waived (as applicable) on or before the Long Stop Date, otherwise the Proposal will lapse.

Assuming that the Conditions are fulfilled (or, as applicable, waived), it is expected that the Scheme will become effective on or before 31 July 2009 and the listing of the Shares on the Stock Exchange will be withdrawn on or about the Effective Date pursuant to Rule 6.15 of the Listing Rules. An announcement will be made in the event that there is any material change to the expected Effective Date.

EXPLANATORY STATEMENT

In the event that the terms of the Proposal are revised, an announcement will be made by the Company and the Offeror as to the terms of the revised Proposal. In that event, if the Court Meeting was to be convened on an earlier date, the Court Meeting will be reconvened on a date which is at least 14 days following the date on which the supplemental scheme document (containing the terms of the revised Proposal) has been despatched.

Further, an announcement will be made by the Company and the Offeror if the Scheme lapses and announcements regarding the Proposal will be made as and when appropriate.

Shareholders, MS Participants and investors should note that the implementation of the Proposal is subject to the Conditions being fulfilled or waived, as applicable. Therefore, the Proposal may or may not become effective. Shareholders and investors should exercise caution when dealing in the Shares.

Further, speculation or rumour appearing in newspapers or elsewhere may not be reliable and, accordingly, Shareholders and investors should rely only on the announcements by the Company and/or the Offeror from time to time on this matter.

5. SCHEME OF ARRANGEMENT UNDER SECTION 86 OF THE COMPANIES LAW AND COURT MEETING

According to Section 86 of the Companies Law, where an agreement is proposed between a company and its members or any class of them, the Grand Court may (on the application of the company or any member of the company) order a meeting of the members of the company or class of members (as the case may be) to be summoned in such manner as the Grand Court directs.

Section 86 of the Companies Law provides (among other things) that, if a majority in number representing 75% in value of the members or class of members (as the case may be) present and voting either in person or by proxy at the meeting or meetings (as the case may be) summoned as directed by the Grand Court, agree to any arrangement, the arrangement will (if sanctioned by the Grand Court) be binding on all members or class of members (as the case may be) and also on the company.

Accordingly, if the Conditions are fulfilled or waived (as applicable), the Scheme will become effective and binding on the Offeror, the Company and all the Scheme Shareholders.

6. ADDITIONAL REQUIREMENTS IMPOSED BY RULE 2.10 OF THE TAKEOVERS CODE

In addition to satisfying the requirements imposed by law as summarised above, but except with the consent of the Executive to dispense with compliance or strict compliance, Rule 2.10 of the Takeovers Code states that the Scheme may only be implemented if:

- (a) the Scheme is approved by the Independent Shareholders holding at least 75% of the votes attaching to the Scheme Shares held by the Independent Shareholders that are cast either in person or by proxy at a duly convened meeting; and

EXPLANATORY STATEMENT

- (b) the number of votes cast against the resolution to approve the Scheme at such meeting is not more than 10% of the votes attaching to the Scheme Shares held by the Independent Shareholders.

As at the Latest Practicable Date, the Independent Shareholders held 467,569,000 Shares. 10% of the votes attached to all Scheme Shares held by the Independent Shareholders referred to under paragraph (b) above therefore represent 46,756,900 Shares as at the Latest Practicable Date.

7. BINDING EFFECT OF THE SCHEME

Notwithstanding the fact that there may be a dissenting minority, if the Scheme is approved at the Court Meeting in accordance with the requirements set out in Section 86 of the Companies Law and Rule 2.10 of the Takeovers Code (as described above), the Scheme will (so long as it is sanctioned by the Grand Court) become binding on the Company, the Offeror and all the Scheme Shareholders.

8. EFFECTS OF THE SCHEME

Existing Shareholding Structure of the Company

As at the Latest Practicable Date, the authorised share capital of the Company was 1,600,000,000 Shares, of which 1,196,886,000 Shares were in issue.

The Shares owned by the Offeror will not form part of the Scheme Shares and the Offeror will not vote at the Court Meeting.

The Scheme Shareholders held an aggregate of 484,726,000 Shares (representing approximately 40.50% of the Shares in issue) as at the Latest Practicable Date, of which 467,569,000 Shares were held by the Independent Shareholders (representing approximately 39.07% of the Shares in issue) and 17,157,000 Shares (representing approximately 1.43% of the Shares in issue) were held by the Concert Parties.

As at the Latest Practicable Date, the Offeror and the Concert Parties held an aggregate of 729,317,000 Shares (representing approximately 60.93% of the Shares in issue) and the Concert Parties held an aggregate of 14,000,000 MS Awards (representing approximately 50.89% of the outstanding MS Awards).

All the Independent Shareholders will be entitled to vote at the Court Meeting and all the Shareholders will be entitled to vote at the EGM. The Concert Parties will, in compliance with the Takeovers Code, abstain from voting in the Court Meeting.

In respect of the Shares which HSBC Trustee holds in trust under the EIS, HSBC Trustee is required to abstain from exercising the voting rights attaching to those Shares at any general meeting of the Company in accordance with the rules of the EIS, and accordingly HSBC Trustee will not vote at the Court Meeting and the EGM.

EXPLANATORY STATEMENT

As at the Latest Practicable Date, Polaris Capital and its affiliate held 10,301,000 Shares for and on behalf of independent third parties, which (to the best knowledge and belief of Polaris Capital having made all reasonable enquires) were not persons acting in concert with the Offeror.

Shareholding Structure of the Company Upon Completion of the Proposal

The table below sets out the shareholding structure of the Company as at the Latest Practicable Date and, assuming there will be no changes to the shareholding structure in the meantime, immediately following the completion of the Scheme:

The Shareholders	Number of Shares as at the Latest Practicable Date	Approximate percentage of Shares in issue	Number of Shares upon completion of the Proposal	Approximate percentage of Shares in issue
Offeror	712,160,000	59.501%	1,196,886,000	100%
Concert Parties				
Mr. Cheng Chung Hua, Bruce ^(Note 1)	2,000,000	0.167%	0	0%
Mr. Cheng An, Victor ^(Note 2)	4,679,500	0.391%	0	0%
Mr. Liang Ker Uon, Sam ^(Note 3)	8,477,500	0.708%	0	0%
Mr. Hai Ing-Jiunn, Yancey ^(Note 4)	2,000,000	0.167%	0	0%
(a) Subtotal	<u>17,157,000</u>	<u>1.433%</u>	<u>0</u>	<u>0%</u>
Independent non-executive Directors				
Mr. Zue Wai To, Victor ^(Note 5)	2,000,000	0.167%	0	0%
Mr. Liu Chung Laung ^(Note 5)	2,000,000	0.167%	0	0%
(b) Subtotal	<u>4,000,000</u>	<u>0.334%</u>	<u>0</u>	<u>0%</u>
Other Shareholders				
HSBC Trustee ^(Note 6)	61,837,600	5.167%	0	0%
Others	401,731,400	33.565%	0	0%
(c) Subtotal	<u>463,569,000</u>	<u>38.732%</u>	<u>0</u>	<u>0%</u>
Total Shares in issue	<u><u>1,196,886,000</u></u>	<u><u>100%</u></u>	<u><u>1,196,886,000</u></u>	<u><u>100%</u></u>

Notes:

- Mr. Cheng Chung Hua, Bruce is a non-executive Director. He holds Scheme Shares and is presumed to be a person acting in concert with the Offeror in accordance with class (2) of the definition of “acting in concert” in the Takeovers Code (as he is a director of both the Offeror and the Parent). Accordingly, he will not be entitled to vote at the Court Meeting, but will be entitled to vote at the EGM. In addition, he owns 2,000,000 MS Awards, which are subject to the MS Offer.

EXPLANATORY STATEMENT

2. Mr. Cheng An, Victor is an executive Director. He holds Scheme Shares and is presumed to be a person acting in concert with the Offeror in accordance with class (2) of the definition of “acting in concert” in the Takeovers Code (as he is a director of the Offeror and also a son of Mr. Cheng Chung Hua, Bruce). Accordingly, he will not be entitled to vote at the Court Meeting, but will be entitled to vote at the EGM. In addition, he owns 4,000,000 MS Awards, which are subject to the MS Offer.
3. Mr. Liang Ker Uon, Sam is an executive Director. He holds Scheme Shares and is presumed to be a person acting in concert with the Offeror in accordance with class (2) of the definition of “acting in concert” in the Takeovers Code (as he is a director of the Offeror). Accordingly, he will not be entitled to vote at the Court Meeting, but will be entitled to vote at the EGM. In addition, he owns 6,000,000 MS Awards, which are subject to the MS Offer.
4. Mr. Hai Ing-Jiunn, Yancey is a non-executive Director. He holds Scheme Shares and is presumed to be a person acting in concert with the Offeror in accordance with class (2) of the definition of “acting in concert” in the Takeovers Code (as he is a director of the Parent). Accordingly, he will not be entitled to vote at the Court Meeting, but will be entitled to vote at the EGM. In addition, he owns 2,000,000 MS Awards, which are subject to the MS Offer.
5. Mr. Zue Wai To, Victor and Mr. Liu Cheng Laung are independent non-executive Directors and are Independent Shareholders. Accordingly, they will be entitled to vote at the Court Meeting and the EGM. In addition, each of Mr. Zue Wai To, Victor and Mr. Liu Cheng Laung owns 2,000,000 MS Awards, which are subject to the MS Offer.
6. HSBC Trustee is holding those Shares as the trustee of the trust under the EIS.

9. COMPARISON OF VALUE

The Cancellation Consideration

The Cancellation Consideration for each Scheme Shares under the Proposal represents:

- (a) a premium of approximately 19.6% over the closing price of HK\$1.53 per Share as quoted on the Stock Exchange on the Last Trading Date;
- (b) a premium of approximately 50.0% over the average closing price of approximately HK\$1.22 per Share as quoted on the Stock Exchange over the 30 trading days up to and including the Last Trading Date;
- (c) a premium of approximately 67.9% over the average closing price of approximately HK\$1.09 per Share as quoted on the Stock Exchange over the 60 trading days up to and including the Last Trading Date;
- (d) a premium of approximately 63.4% over the average closing price of approximately HK\$1.12 per Share as quoted on the Stock Exchange over the 90 trading days up to and including the Last Trading Date;
- (e) a premium of approximately 7.0% over the closing price of HK\$1.71 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

EXPLANATORY STATEMENT

- (f) a premium of approximately 6.4% over the average closing price of approximately HK\$1.72 per Share as quoted on the Stock Exchange over the 30 trading days up to and including the Latest Practicable Date;
- (g) an implied price to earnings multiple of approximately 10.4 times, based on the audited basic earnings per Share of approximately US\$0.0225 (equivalent to approximately HK\$0.1755) for the year ended the Last Accounting Date and a weighted average number of 1,092,265,000 Shares in issue for that year; and
- (h) an amount equivalent to the Adjusted NAV per Share of approximately HK\$1.83 (based on the Adjusted NAV per Share of approximately US\$0.2344).

Highest and Lowest Prices

During the Relevant Period, the highest closing price and the lowest closing price of the Shares as quoted on the Stock Exchange were HK\$2.20 per Share on 20 August 2008 and HK\$0.69 per Share on 8 December 2008 respectively.

A summary of the closing prices of the Shares on the Stock Exchange: (i) on the last trading day of each of the six calendar months preceding the date of this document; (ii) on the Last Trading Date; and (iii) on the Latest Practicable Date, is set out in Appendix II to this document.

Net asset value

As at 31 December 2007 and 2008, the audited consolidated net assets of the Company attributable to the Shareholders were approximately US\$286.6 million and US\$296.9 million respectively (equivalent to approximately HK\$2,235 million and HK\$2,316 million respectively).

Earnings

As at 31 December 2007 and 2008, the audited consolidated profit of the Company attributable to the Shareholders was approximately US\$31.36 million and US\$24.59 million respectively (equivalent to approximately HK\$244.61 million and HK\$191.80 million respectively) or representing a basic earning of approximately US\$0.0329 and US\$0.0225 per Share respectively (equivalent to approximately HK\$0.2566 and HK\$0.1755 respectively) based on a weighted average number of 952,300,000 and 1,092,265,000 Shares in issue during those years.

The Cancellation Consideration represents an implied price to earnings multiple of approximately 10.4 times, based on the audited basic earnings per Share of approximately US\$0.0225 (equivalent to approximately HK\$0.1755) for the year ended the Last Accounting Date and a weighted average number of 1,092,265,000 Shares in issue for that year.

EXPLANATORY STATEMENT

Dividends

For the financial years ended 31 December 2007 and 2008, the Company declared an aggregate dividend of US\$0.0103 (equivalent to approximately HK\$0.0803) and US\$0.0083 (equivalent to approximately HK\$0.0647) per Share respectively.

10. 2008 FINAL DIVIDEND

As stated in the Company's final results announcement dated 26 February 2009, the Board had recommended the 2008 Final Dividend. The record date for the purpose of determining the entitlements for the 2008 Final Dividend was 24 April 2009.

As the 2008 Final Dividend was approved at the AGM, the Shareholders on such record date will be entitled to the 2008 Final Dividend, which is expected to be paid on or about 25 May 2009.

11. REASONS FOR THE PROPOSAL AND BENEFITS TO THE SHAREHOLDERS

The Directors (other than members of the IBC, whose views are set out in the IBC Letter) are of the view that the terms of the Proposal are attractive to the Independent Shareholders and that the proposed privatisation of the Company will be beneficial to the Independent Shareholders in a number of ways.

The Directors (other than members of the IBC) consider that the Scheme provides an opportunity for the Independent Shareholders to realise their Shares (which have a relatively low degree of market liquidity) in return for cash. In this regard, the Board noted that the trading volume of the Shares on the Stock Exchange has been generally low. The average daily trading volume of the Shares between the IPO and the Last Trading Date was less than 2.3 million Shares (representing approximately 0.19% of the Shares in issue as at the Last Trading Date). Given this low liquidity of the Shares traded on the Stock Exchange, the Offeror Directors believe that there is currently limited opportunity for the Independent Shareholders to divest their investment in the Company.

The Directors (other than members of the IBC) believe that, in view of the relatively thin trading liquidity and persistently weak performance of the Shares since the IPO, access to the equity capital markets does not provide the Company with an attractive fund raising avenue, and that the costs and management resources associated with the maintenance of the Company's listing status are not warranted.

EXPLANATORY STATEMENT

Over the 180 trading days up to and including the Last Trading Date, the price of the Shares fell by approximately 34.3% and the market, as represented by the Hang Seng Index, fell by approximately 47.9%. During the period from the peak of the Hang Seng Index at 31,638 on 30 October 2007 to the Last Trading Date, the Hang Seng Index fell by approximately 59.9% to 12,699 and the price of the Shares fell by approximately 53.6% to HK\$1.53 per Share.

The Proposal provides the Scheme Shareholders with an opportunity to divest their holding of Shares in exchange for cash during the current global economic downturn and reduced consumer demand, at an attractive premium to the market price prevailing during the three months period preceding the Last Trading Date.

In addition, the Proposal allows the Scheme Shareholders a chance to redeploy capital from accepting the Proposal into other investment opportunities that they may consider more attractive in the current market environment.

The Board has therefore decided to put forward the Proposal to the Scheme Shareholders and the MS Participants for their consideration.

12. INFORMATION ON THE COMPANY

The Company is an exempted company incorporated in the Cayman Islands with limited liability, the shares of which have been listed on the Stock Exchange since July 2007. The Group is principally engaged in the design and manufacture of a wide range of networking products (including Ethernet switches, broadband access products, wireless adaptors and routers).

A summary of the audited consolidated results of the Company for each of the two financial years ended 31 December 2007 and 2008 is set out below:

	Year ended 31 December	
	2007	2008
	<i>US\$'000</i>	<i>US\$'000</i>
Revenue	418,621	409,612
Profit before income tax	34,402	27,119
Profit for the period	31,453	24,614
Profit attributable to the Shareholders	31,356	24,586
	<i>US cents</i>	<i>US cents</i>
Earnings per Share:		
- Basic	3.29	2.25
- Diluted	3.12	2.17
Dividend per Share	1.03	0.83

EXPLANATORY STATEMENT

The Fully Diluted Capital is calculated as follows:

	Number of Shares
Shares in issue as at 31 December 2008	1,182,985,000
Shares issued under the second instalment of the MSSS at 1 April 2009	13,901,000
Shares to be issued under the other instalments of the MSSS ^(Note 1)	<u>27,512,000</u>
Fully Diluted Capital ^(Note 2)	<u><u>1,224,398,000</u></u>

Notes:

- 1 In light of the expected timetable of the Scheme, the Shares under the last two instalments of the MSSS (being 27,512,000 Shares) are not expected to vest in the MS Participants, but are subject to the MS Offer.
- 2 The Fully Diluted Capital represents the total number of Shares which will be in issue if all outstanding subscription rights for Shares had been exercised.

The Adjusted NAV per Share is calculated as follows:

	As at the Last Accounting Date	
	<i>US\$'000</i>	<i>HK\$'000</i>
Audited consolidated net assets	296,873	2,315,609
Less: 2008 Final Dividend ^(Note 3)	(9,934)	(77,485)
Adjusted consolidated net tangible assets	286,939	2,238,124
	<i>US\$</i>	<i>HK\$</i>
Adjusted NAV per Share ^(Note 4)	0.2344	1.8279

Notes:

- 3 This figure takes into account the 2008 Final Dividend to be paid to the MS Participants in respect of the 13,901,000 Shares issued pursuant to the second instalment of the MSSS on 1 April 2009.
- 4 The Adjusted NAV per Share represents the value per Share based on the Fully Diluted Capital.

13. INFORMATION ON THE OFFEROR

The Offeror is an investment holding company incorporated in the Cayman Islands with limited liability and a wholly-owned subsidiary of the Parent. It is the immediate holding company of the Company.

EXPLANATORY STATEMENT

The Parent is principally engaged in the design and manufacture of a wide range of power management products, visual displays products and other electronic components (including switching power supplies, DC/DC converters, AC/DC adapters, digital projectors, and telecom and networking components). Its shares are listed on the Taiwan Stock Exchange Corporation.

As at the Latest Practicable Date, the Offeror Board was comprised of Mr. Cheng Chung Hua, Bruce, Mr. Cheng An, Victor and Mr. Liang Ker Uon, Sam.

14. OFFEROR'S INTENTION REGARDING THE COMPANY

It is the intention of the Offeror to continue the existing businesses of the Group in all material respects upon the successful privatisation of the Company.

The Offeror has no plan, in the event that the Scheme becomes effective, to: (i) make any material changes to the existing businesses of the Group (including any material redeployment of the fixed assets of the Group); or (ii) make any material changes to the continued employment of the employees of the Group, as a result of the Proposal.

On the other hand, the Offeror will continue to assess any business opportunity that may arise from time to time involving the business and/or assets of the Group and will formulate strategic corporate planning as and when appropriate (including the possible listing of all or part of the business or assets of the Group in an appropriate securities exchange at an appropriate time).

15. INTERESTS OF THE DIRECTORS IN THE SCHEME AND EFFECTS THEREON

As at the Latest Practicable Date, the shareholding of the Offeror Directors, the Concert Parties and the Directors in the Company are set out in paragraph 8 headed "Effects of the Scheme" above.

Save as disclosed in the paragraph referred to above, none of the Offeror Directors, the Concert Parties and the Directors owns or controls any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares.

16. SHARE CERTIFICATES, DEALINGS AND LISTING

Upon the Scheme becoming effective, all the Scheme Shares will be cancelled and extinguished (with an equivalent number of New Shares being issued to the Offeror) and the share certificates for Scheme Shares will thereafter cease to have effect as evidence of title, and the register of members of the Company will be updated to reflect the same.

The Offeror will apply to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange with effect from Friday, 17 July 2009.

EXPLANATORY STATEMENT

Dealings in the Shares on the Stock Exchange are expected to cease after 4:00 pm on Friday, 10 July 2009, and the listing of the Shares on the Stock Exchange is expected to be withdrawn at 9:30 am on Friday, 17 July 2009 pursuant to Rule 6.15 of the Listing Rules. The Shareholders will be notified by way of an announcement of the exact date on which the Scheme and the withdrawal of the listing of the Shares on the Stock Exchange will become effective.

The Scheme will lapse if any of the Conditions has not been fulfilled or waived (as applicable) on or before the Long Stop Date. The Shareholders will be notified by way of an announcement accordingly. If the Scheme is withdrawn, not approved or lapses, the Shares will remain to be listed on the Stock Exchange.

17. REGISTRATION AND PAYMENT

In order to determine entitlements of the Scheme Shareholders to attend (and the Independent Shareholders to vote at) the Court Meeting and the Shareholders to attend and vote at the EGM, it is proposed that the register of members of the Company will be closed from Tuesday, 9 June 2009 to Thursday, 11 June 2009 (both days inclusive), or such other dates as may be notified to the Shareholders by announcement. The Shareholders, the transferees of Shares or their successors in title should ensure that their Shares are registered or lodged for registration in their names or in the name(s) of their nominees with the Share Registrar before 4:30 pm on Monday, 8 June 2009.

In the event that the Scheme becomes effective, payment of the consideration for the Scheme Shares will be made to the Scheme Shareholders in accordance with the timetable and the terms of the Scheme. All existing certificates representing the Scheme Shares will cease to have effect as evidence of title as from the Effective Date. In order to determine entitlements under the Scheme, it is further proposed that the register of members of the Company will be closed from Thursday, 16 July 2009 to Friday, 17 July 2009 (both days inclusive), or such other dates as may be notified to the Shareholders by announcement. The Shareholders, the transferees of Shares or their successors in title should ensure that their Shares are registered or lodged for registration in their names or in the name(s) of their nominees with the Share Registrar before 4:30 pm on Wednesday, 15 July 2009.

Assuming that the Scheme becomes effective on Thursday, 16 July 2009: (i) cheques for the Cancellation Consideration will be despatched to the Scheme Shareholders on or before Friday, 24 July 2009; and (ii) cheques for the MS Amount and the Refund Amount will be despatched to the MS Participants on or before Monday, 10 August 2009.

In the absence of any specific instructions to the contrary received in writing by the Share Registrar before the Record Time, cheques will be sent to the Scheme Shareholders at their respective registered addresses (or, in the case of joint holders, to the registered address of that joint holder whose name stands first in the register of members of the Company in respect of the joint holding as it appears in the register of members of the Company on the Record Time) and to the MS Participants at their respective registered addresses. All such cheques will be sent at the risk of the persons entitled thereto. The Offeror, the Company and the Share Registrar will not be responsible for any loss or delay in despatch.

EXPLANATORY STATEMENT

The Shareholders are recommended to consult their professional advisers if they are in doubt as to the above procedures.

On or after the day being six calendar months after the posting of such cheques, the Offeror will have the right to cancel or countermand payment of any such cheque which has not been cashed or has been returned uncashed, and will place all monies represented by such cheques in a deposit account in the Company's name with a licensed bank in Hong Kong selected by the Company.

The Company will hold such monies in trust for those entitled under the terms of the Scheme until the expiry of six years from the Effective Date and will, prior to such date, make payments (without interest) out of such monies to persons who satisfy the Company that they are respectively entitled to such monies (provided that the cheques of which they are payees have not been cashed). On the expiry of six years from the Effective Date, the Offeror will be released from any further obligation to make any payments under the Scheme and the Company will thereafter transfer to the Offeror the balance (if any) of the sums then standing to the credit of the deposit account in its name (including accrued interest), subject to the deduction of any withholding or other tax (or any other deduction required by law) and subject to the deduction of any expenses.

Settlement of the consideration under the Scheme will be implemented in full in accordance with the terms of the Scheme without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror or the Company may otherwise be, or claim to be, entitled against any of the Scheme Shareholders.

18. OVERSEAS SHAREHOLDERS AND OVERSEAS MS PARTICIPANTS

This document has been prepared for the purpose of complying with the applicable laws, rules and regulations of the Cayman Islands and Hong Kong, and the information disclosed in this document may not be the same as that which would have been disclosed if this document has been prepared in accordance with the laws of any other jurisdiction.

This document does not constitute an offer or invitation to sell, purchase, subscribe for or issue any securities (or the solicitation of an offer to buy or subscribe for securities) pursuant to this document or otherwise in any jurisdiction in which such offer, invitation or solicitation is unlawful.

The distribution of this document and the making of the Proposal to and acceptance of the Proposal by persons not resident in Hong Kong may be subject to the laws of the relevant jurisdictions. Such persons should inform themselves about and observe any applicable legal, tax or regulatory requirements. It is the responsibility of any overseas Shareholders and any overseas MS Participants wishing to accept the Proposal to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection with such acceptance (including the obtaining of any governmental, exchange control or other consents which may be required, or the compliance with other necessary formalities) and the payment of any issue, transfer or other taxes due in any such jurisdiction.

EXPLANATORY STATEMENT

Any acceptance by such overseas Shareholders and overseas MS Participants will be deemed to constitute a representation and warranty from such persons to the Company and the Offeror that those local laws and requirements have been complied with. If you are in doubt as to your position, you should consult your own professional advisers.

19. TAXATION

As the Scheme does not involve the sale and purchase of Hong Kong stock, no stamp duty will be payable pursuant to the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong) on the cancellation of the Scheme Shares upon the Scheme becoming effective. No stamp duty is payable in relation to the MS Offer.

Nonetheless, the Scheme Shareholders and the MS Participants (whether in Hong Kong or in other jurisdictions) are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting the Proposal and, in particular, whether the receipt of the relevant consideration would make such Scheme Shareholder and/or MS Participant liable to taxation in Hong Kong or in other jurisdictions.

It is emphasised that none of the Company, the Offeror, Polaris Capital and KGI Capital (nor any of their respective directors or associates, or any other person involved in the Proposal) accepts responsibility for any tax or other effects on (or liabilities of) any person as a result of the implementation or otherwise of the Proposal.

20. COURT MEETING AND THE EGM

In accordance with the direction of the Grand Court, the Court Meeting will be held at 11:00 am on Thursday, 11 June 2009 for the purpose of considering and, if thought fit, passing a resolution to approve the Scheme (with or without modifications). The Scheme will be subject to the approval of the Independent Shareholders at the Court Meeting in the manner referred to under paragraph 4 headed “Conditions of the Proposal” above. The resolution will be passed if a majority of the Independent Shareholders (present in person or by proxy), representing not less than three-fourths in value of the Scheme Shares held by the Independent Shareholders, voted in favour of the resolution.

In addition, in compliance with Rule 2.10 of the Takeovers Code, the Scheme will only be implemented if the number of votes cast against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to the Scheme Shares held by the Independent Shareholders. As at the Latest Practicable Date, the Independent Shareholders held in aggregate 467,569,000 Shares. 10% of the votes attached to all Scheme Shares held by the Independent Shareholders represented 46,756,900 Shares as at the Latest Practicable Date.

EXPLANATORY STATEMENT

The EGM will be held at 11:30 am on Thursday, 11 June 2009 (or immediately after the conclusion or adjournment of the Court Meeting) for the purpose of considering and, if thought fit, passing a special resolution to approve and give effect to the Reduction and, immediately thereafter, to apply the credit arising in its books of account as a result of the Reduction to pay up in full and issue the New Shares to the Offeror. The special resolution will be passed provided that it is approved by not less than three-fourths of the votes cast by the Shareholders present and voting, either in person or by proxy, at the EGM. All the Shareholders will be entitled to attend and vote on the special resolution at the EGM.

The Beneficial Owners are urged to have their names entered in the register of members of the Company as soon as possible for, *inter alia*, the following reasons:

- (a) to enable the Scheme Shareholders to attend the Court Meeting as required under Section 86 of the Companies Law in their capacity as members of the Company or to be represented by proxies appointed by them;
- (b) to enable their votes cast at the Court Meeting to count towards the number of Scheme Shareholders present and voting at the Court Meeting for or against the Scheme (as required under Section 86 of the Companies Law);
- (c) to enable the Company to properly classify members of the Company for the purposes of Section 86 of the Companies Law; and
- (d) to enable the Company and the Offeror to make arrangements to effect payments by way of the delivery of cheques to the Scheme Shareholders who will receive the Cancellation Consideration.

Further details are set out under paragraph 22 headed “Actions to be taken” below.

All deliveries of cheques required for making payment in respect of the Scheme Shares and the outstanding MS Awards will be effected by duly posting the same in pre-paid envelopes, addressed to the Scheme Shareholders at their respective registered addresses (or, in the case of joint holders, to the registered address of that joint holder whose name stands first in the register of members of the Company in respect of the joint holding as it appears in the register of members of the Company on the Record Time) and to the MS Participants at their respective registered addresses.

No person will be recognised by the Company as holding any Shares upon any trust.

The appointment of a proxy by the Registered Owner at the relevant Court Meeting and/or the EGM must be in accordance with all relevant provisions in the articles of association of the Company. In the case of the appointment of a proxy by the Registered Owner, the relevant Proxy Form must be completed and signed by the Registered Owner and must be lodged in the manner and before the latest time for lodging the relevant Proxy Form as more particularly set out under paragraph 22 headed “Actions to be Taken” below.

EXPLANATORY STATEMENT

The Court Meeting will be held at the time and the place specified in the Notice of the Court Meeting. A pink form of proxy for the Court Meeting is enclosed with this document for the Independent Shareholders.

The EGM will be held at the time and the place specified in the Notice of the EGM. A white form of proxy for the EGM is enclosed with this document for the Shareholders.

21. RESOLUTION TO BE APPROVED BY WAY OF A POLL AT THE EGM

Pursuant to Rule 13.39 of the Listing Rules, any vote of the shareholders at a general meeting must be taken by poll and the relevant listed company must announce the results of the poll in the accordance with the Listing Rules.

Accordingly, the resolution regarding the Reduction to be passed at the EGM will be approved by way of a poll. As described above, the resolution regarding the Scheme to be passed at the Court Meeting will also be approved by way of a poll. The results of the Court Meeting and the EGM are expected to be published on the respective website of the Stock Exchange and the Company no later than 7:00 pm on the day that the Court Meeting and the EGM are held.

22. ACTIONS TO BE TAKEN

The Independent Shareholders

A pink form of proxy for use at the Court Meeting and a white form of proxy for use at the EGM are enclosed with this document for the Independent Shareholders.

If you are an Independent Shareholder, regardless of whether or not you are able to attend the Court Meeting and/or the EGM, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting (and the enclosed white form of proxy in respect of the EGM) in accordance with the instructions printed on them and to lodge them with the Share Registrar as soon as possible, but in any event not later than the respective times and dates as stated below.

In order to be valid, the pink form of proxy for use at the Court Meeting should be lodged not later than 11:00 am on Tuesday, 9 June 2009 and the white form of proxy for use at the EGM should be lodged not later than 11:30 am on Tuesday, 9 June 2009. The pink form of proxy in respect of the Court Meeting may alternatively be handed to the chairman of the Court Meeting at the Court Meeting if it is not so lodged.

The completion and return of a Proxy Form will not preclude you from attending and voting in person at the Court Meeting and/or the EGM. In such event, the returned Proxy Form will be deemed to have been revoked.

The Independent Shareholders should also note that, should they not appoint a proxy or not attend and vote at the Court Meeting, they would still be bound by the outcome of such Court Meeting.

EXPLANATORY STATEMENT

An announcement will be made by the Company (no later than 7:00 pm on the day that the Court Meeting and the EGM are held) in relation to the results of the Court Meeting and the EGM. If the Scheme and the Reduction are approved by the requisite majorities at the Court Meeting and the EGM, respectively, the announcement will also include details of the last day of dealings in Shares on the Stock Exchange and the Record Time. In addition, as Cayman Islands time is 13 hours behind Hong Kong time, an announcement will be made no later than 7:00 pm on the next Business Day (Hong Kong time) after the date of the Grand Court Hearing (which will be held in the Cayman Islands) as to the results of the Grand Court Hearing (and, if the Scheme is sanctioned, the Effective Date and the date of the withdrawal of the listing of the Shares on the Stock Exchange). Based on the current timetable, the latest time for dealing in Shares is expected to be 4:00 pm on Friday, 10 July 2009 and the Record Time is expected to be 4:00 pm on Thursday, 16 July 2009.

For the purpose of determining the entitlements of the Scheme Shareholders to attend (and the Independent Shareholders to vote at) the Court Meeting and the Shareholders to attend and vote at the EGM, the register of members of the Company will be closed from Tuesday, 9 June 2009 to Thursday, 11 June 2009 (both days inclusive) and, during such period, no transfer of Shares will be effected. In order to qualify to vote at the Court Meeting and the EGM, all transfers accompanied by the relevant share certificates must be lodged with the Share Registrar before such closure.

The Beneficial Owners

Any Beneficial Owner whose Shares are registered in the name of a Registered Owner should contact such Registered Owner (or the appropriate intermediary) to give instructions to and/or to make arrangements with such Registered Owner as to the manner in which the Shares beneficially owned by the Beneficial Owner should be voted at the Court Meeting and/or the EGM.

Any Beneficial Owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees must (unless such Beneficial Owner is an Investor Participant) contact their broker, custodian or nominee (or other relevant person who is or has in turn deposited such Shares with a CCASS participant) regarding voting instructions to be given to such persons if they wish to vote in respect of the Scheme. The procedure for voting in respect of the Scheme by Investor Participants and other CCASS participants with respect to the Shares registered under the name of HKSCC Nominees will be in accordance with the “General Rules of CCASS”, the “CCASS Operational Procedures” and any other requirements of CCASS.

Any Beneficial Owner who wishes to attend and vote at the Court Meeting and/or the EGM personally should contact the Registered Owner (or the appropriate intermediary) directly to make the appropriate arrangements with the Registered Owner to enable the Beneficial Owner to attend and vote at the Court Meeting and/or the EGM and, for such purpose, the Registered Owner may appoint the Beneficial Owner as its proxy.

Any Beneficial Owner who wishes to vote at the Court Meeting and be counted towards the number of Scheme Shareholders present and voting at the Court Meeting for or against the Scheme (as required under Section 86 of the Companies Law) must have his/her/its name entered in the register of members of the Company before the Court Meeting.

EXPLANATORY STATEMENT

In the case of any Beneficial Owner whose Shares are held by a Registered Owner, such Beneficial Owner should contact the Registered Owner (or the appropriate intermediary) and provide the Registered Owner with instructions in relation to the manner in which the Shares beneficially owned by the Beneficial Owner should be voted at the Court Meeting and/or the EGM. Such instructions should be given before the latest time for the lodgement of the Proxy Forms (or otherwise in accordance with the instructions of the Registered Owner, in order to provide the Registered Owner with sufficient time to accurately complete the Proxy Forms and to submit them by the deadline stated above). To the extent that any Registered Owner requires instructions from or arrangements to be made with any Beneficial Owner at a particular date and time in advance of the latest time for the lodgement of the Proxy Forms, any such Beneficial Owner should comply with the requirements of the Registered Owner.

All Beneficial Owners whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees must (unless such Beneficial Owner is an Investor Participant) contact their broker, custodian or nominee (or other relevant person who is or has in turn deposited such Shares with a CCASS participant) if they wish to: (i) give voting instructions to such person for such Shares in respect of the Scheme; and (ii) have their names registered in the register of members of the Company for their shareholdings in the Company. The same timeframes for contacting their broker, custodian, nominee or other relevant person (as described in the immediately preceding paragraph) apply to such Beneficial Owners. The procedure for voting in respect of the Scheme by the Investor Participants and other CCASS participants with respect to the Shares registered under the name of HKSCC Nominees will be in accordance with the “General Rules of CCASS”, the “CCASS Operational Procedures” and any other requirements of CCASS.

Further details are set out under paragraph 20 headed “Court Meeting and the EGM” above.

General

If you have sold or transferred all or part of your Shares, you should at once hand this document to the purchaser or the transferee (or to the licensed securities dealer or other registered institution in securities or other agent, through whom the sale or transfer was effected, for transmission to the purchaser or the transferee). Copies of this document can also be obtained from the Share Registrar at any time before the Record Time.

Any Scheme Shareholder who holds Scheme Shares as a nominee, trustee or registered owner in any other capacity will not be treated differently from any other Registered Owner. Each Beneficial Owner should make arrangements with his/her/its nominee, trustee or Registered Owner in relation to the Scheme and may consider whether he/she/it wishes to arrange for the registration of the relevant Scheme Shares in the name of the Beneficial Owner prior to the Record Time (or be appointed as the proxy or corporate representative, as the case may be, to vote on behalf of the Registered Owner).

The Scheme Shareholders (including any Beneficial Owner who gives voting instructions to a custodian or clearing house that subsequently votes at the Court Meeting) should note that they are entitled to appear in person or by counsel at the Grand Court Hearing on Friday, 10 July 2009 (Cayman Islands time) at which the Company will seek the sanction of the Scheme.

EXPLANATORY STATEMENT

The MS Participants

The MS Participants who wish to accept the MS Offer must return the signed MS Acceptance Form before the MS Cut-Off Time. The completed and signed MS Acceptance Form must be delivered to the Company at its head office and principal place of business in Taiwan at 186 Ruey Kuang Road, Neihu, Taipei 11491, Taiwan (marked for the attention of “Mr. Lee Yipin — Chief Financial Officer”). No acknowledgement of receipt of the MS Acceptance Form will be given.

Any MS Participant who: (i) has not returned the MS Acceptance Form as described in the immediately preceding paragraph; or (ii) has returned the MS Acceptance Form which is not duly completed and signed in accordance with the terms of the MS Offer, will be taken to have forgone their right to participate in the MS Offer, in which case their entitlements to the MS Amount and the Refund Amount would automatically lapse, and the MS Awards will vest in accordance with the MSSS. In that event, such MS Participant will become a shareholder in an unlisted private company after the Effective Date.

23. COSTS OF THE SCHEME

In the event that the Scheme becomes effective, the costs of the Scheme will be borne by the Company. The costs of the Scheme and of its implementation are expected to amount to approximately HK\$4.0 million. These primarily consist of fees for financial advisers, legal advisers, accounting, printing and other related charges.

As the Scheme is recommended by the IBC and is recommended as fair and reasonable by the IFA, even if the Scheme is not approved at the Court Meeting, all the expenses incurred by the Company in connection with the Scheme will still be borne by the Company.

24. RECOMMENDATION

Your attention is drawn to the recommendations of the IBC and the advice of the IFA in respect of the Proposal, as set out in the IBC Letter and the IFA Letter respectively.

25. FURTHER INFORMATION

Further information is set out in the appendices to (and elsewhere in) this document, all of which form part of this Explanatory Statement.

1. THREE YEAR FINANCIAL SUMMARY

Set out below is a summary of the audited consolidated results of the Group for each of the three financial years ended the Last Accounting Date, as extracted from the audited consolidated financial statements of the Group for 2006, 2007 and 2008. The audited consolidated financial statements of the Group for each of the three financial years ended 31 December 2006, 2007 and 2008 did not contain any qualification.

The summary consolidated income statement for the Group for each of the three financial years ended 31 December 2006, 2007 and 2008 set out below does not contain any extraordinary items or exceptional items.

THREE-YEAR FINANCIAL SUMMARY

	For the year ended 31 December		
	2006	2007	2008
	<i>(US\$'million)</i>	<i>(US\$'million)</i>	<i>(US\$'million)</i>
Results			
Revenue	<u>357.42</u>	<u>418.62</u>	<u>409.61</u>
Profit from operations	22.12	27.57	20.25
Financial income	2.19	7.15	7.14
Financial cost	<u>(0.05)</u>	<u>(0.32)</u>	<u>(0.27)</u>
Profit before tax	24.26	34.40	27.12
Income tax (expense)/benefit	<u>1.31</u>	<u>(2.95)</u>	<u>(2.50)</u>
Profit for the year	25.57	31.45	24.62
Minority interests	<u>(0.10)</u>	<u>(0.09)</u>	<u>(0.03)</u>
Net profit for the year	<u>25.47</u>	<u>31.36</u>	<u>24.59</u>
As at 31 December			
	2006	2007	2008
	<i>(US\$'million)</i>	<i>(US\$'million)</i>	<i>(US\$'million)</i>
Assets and liabilities			
Total assets	190.25	403.37	385.59
Total liabilities	(85.07)	(116.49)	(88.40)
Minority interests	<u>(0.19)</u>	<u>(0.29)</u>	<u>(0.32)</u>
Capital and reserves	<u>104.99</u>	<u>286.59</u>	<u>296.87</u>

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED THE LAST ACCOUNTING DATE

Set out below are the audited consolidated financial statements of the Group for the year ended the Last Accounting Date, together with the notes to those financial statements, which have been extracted from the annual report of the Group for the year ended the Last Accounting Date. Unless the context otherwise requires, capitalised terms used in those accounts have the same meanings as defined in the annual report of the Company for the year ended the Last Accounting Date.

CONSOLIDATED BALANCE SHEET

As at 31 December 2008

	<i>Note</i>	2008 <i>US\$'000</i>	2007 <i>US\$'000</i>
ASSETS			
Non-current assets			
Property, plant and equipment	6	18,047	17,655
Land use rights	8	278	285
Deferred income tax assets	21	<u>4,169</u>	<u>3,322</u>
		<u>22,494</u>	<u>21,262</u>
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	<u>257,920</u>	<u>251,969</u>
		<u>363,094</u>	<u>382,105</u>
Total assets		<u>385,588</u>	<u>403,367</u>
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		<u>66,458</u>	<u>53,577</u>
		296,873	286,587
Minority interest		<u>315</u>	<u>287</u>
Total equity		<u>297,188</u>	<u>286,874</u>

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

APPENDIX I**FINANCIAL INFORMATION ON THE GROUP****CONSOLIDATED BALANCE SHEET (Continued)***As at 31 December 2008*

	<i>Note</i>	2008 <i>US\$'000</i>	2007 <i>US\$'000</i>
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	<u>829</u>	<u>1,301</u>
		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	<u>2,203</u>	<u>3,943</u>
		79,785	107,616
		-----	-----
Total liabilities		<u>88,400</u>	<u>116,493</u>
		-----	-----
Total equity and liabilities		<u>385,588</u>	<u>403,367</u>
		-----	-----
Net current assets		<u>283,309</u>	<u>274,489</u>
		-----	-----
Total assets less current liabilities		<u>305,803</u>	<u>295,751</u>
		-----	-----

APPENDIX I**FINANCIAL INFORMATION ON THE GROUP****BALANCE SHEET***As at 31 December 2008*

	<i>Note</i>	2008 <i>US\$'000</i>	2007 <i>US\$'000</i>
ASSETS			
Non-current assets			
Investments in subsidiaries	7	<u>63,803</u>	<u>67,610</u>
Current assets			
Prepayments and others assets	11	6,431	421
Cash and cash equivalents	13	<u>145,769</u>	<u>162,976</u>
		<u>152,200</u>	<u>163,397</u>
Total assets		<u>216,003</u>	<u>231,007</u>
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		<u>15,320</u>	<u>21,705</u>
Total equity		<u>210,240</u>	<u>222,221</u>

BALANCE SHEET (Continued)*As at 31 December 2008*

	<i>Note</i>	2008 <i>US\$'000</i>	2007 <i>US\$'000</i>
LIABILITIES			
Non-current liabilities			
Provisions and other liabilities	17	<u>3,663</u>	<u>3,663</u>
Current liabilities			
Other payables	19	691	1,957
Provisions and other liabilities	17	<u>1,409</u>	<u>3,166</u>
		<u>2,100</u>	<u>5,123</u>
Total liabilities		<u>5,763</u>	<u>8,786</u>
Total equity and liabilities		<u>216,003</u>	<u>231,007</u>
Net current assets		<u>150,100</u>	<u>158,274</u>
Total assets less current liabilities		<u>213,903</u>	<u>225,884</u>

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	<i>Note</i>	2008 <i>US\$'000</i>	2007 <i>US\$'000</i>
Revenue	5	409,612	418,621
Cost of sales	23	<u>(350,237)</u>	<u>(345,955)</u>
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	<u>(19,333)</u>	<u>(26,154)</u>
Profit from operations		<u>20,247</u>	<u>27,570</u>
Finance income	25	7,138	7,156
Finance cost	25	<u>(266)</u>	<u>(324)</u>
		<u>6,872</u>	<u>6,832</u>
Profit before income tax		27,119	34,402
Income tax expense	20	<u>(2,505)</u>	<u>(2,949)</u>
Profit for the year		<u>24,614</u>	<u>31,453</u>
Attributable to:			
Equity holders of the Company		24,586	31,356
Minority interest		<u>28</u>	<u>97</u>
		<u>24,614</u>	<u>31,453</u>
Earnings per share for profit attributable to the equity holders of the Company during the year (in US cents per share)			
— Basic	27	<u>2.25</u>	<u>3.29</u>
— Diluted	27	<u>2.17</u>	<u>3.12</u>
Dividend (in US cents per share)	28	<u>0.83</u>	<u>1.03</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	Note	Attributable to equity holders of the Company					Minority interest	Total equity
		Share capital	Share premium	Other reserves	Retained earnings	Subtotal		
		US\$'000	US\$'000	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		<u>59,149</u>	<u>118,026</u>	<u>43,394</u>	<u>76,304</u>	<u>296,873</u>	<u>315</u>	<u>297,188</u>
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		<u>59,840</u>	<u>117,024</u>	<u>43,565</u>	<u>66,158</u>	<u>286,587</u>	<u>287</u>	<u>286,874</u>

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	<i>Note</i>	2008 <i>US\$'000</i>	2007 <i>US\$'000</i>
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)	<u>(2,288)</u>	<u>—</u>
Net cash generated from operating activities		<u>27,197</u>	<u>48,936</u>
Cash flows from investing activities			
Acquisition of property, plant and equipment		(7,579)	(9,496)
Interest received		<u>7,001</u>	<u>6,669</u>
Net cash used in investing activities		<u>(578)</u>	<u>(2,827)</u>
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		<u>(8,607)</u>	<u>—</u>
Net cash (used in)/generated from financing activities		<u>(20,111)</u>	<u>123,210</u>
Foreign exchange difference		<u>(557)</u>	<u>(57)</u>
Net increase in cash and cash equivalents		5,951	169,262
Cash and cash equivalents at beginning of year		<u>251,969</u>	<u>82,707</u>
Cash and cash equivalents at end of year		<u><u>257,920</u></u>	<u><u>251,969</u></u>

NOTES TO THE 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.

(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.
- (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.

- 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.
- 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.
 - 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.
- 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.
 - 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.
- 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)
- 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.

2.3 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.

2.5 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.

2.7 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.

2.11 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.

(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.

(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.

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.

2.18 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
- (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.

(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.

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

	2008	2007
	<i>US\$'000</i>	<i>US\$'000</i>
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
	<u>257,920</u>	<u>251,969</u>

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.

(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.

(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 contracts.

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

APPENDIX I
FINANCIAL INFORMATION ON THE GROUP

	Year ended 31 December 2007				
	Mainland China	Taiwan	Elimination	Unallocated	Consolidated
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Attributable to:					
Equity holders of the Company					31,356
Minority interest					<u>97</u>
					<u>31,453</u>
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	<u>1,999</u>	<u>24,155</u>	<u>—</u>	<u>—</u>	<u>26,154</u>

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.

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

(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”).

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

	2008					Total US\$'000
	Ethernet switch		SOHO US\$'000	Broadband and wireless		
	Carrier US\$'000	Enterprise US\$'000		Others US\$'000		
External sales and services	<u>55,841</u>	<u>175,176</u>	<u>71,314</u>	<u>91,853</u>	<u>15,428</u>	<u>409,612</u>

	2007					Total US\$'000
	Ethernet switch		SOHO US\$'000	Broadband and wireless		
	Carrier US\$'000	Enterprise US\$'000		Others US\$'000		
External sales and services	<u>64,486</u>	<u>176,296</u>	<u>99,696</u>	<u>57,718</u>	<u>20,425</u>	<u>418,621</u>

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
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
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	<u>(386)</u>	<u>(3,581)</u>	<u>(753)</u>	<u>(4,720)</u>
Closing net book amount	<u>4,780</u>	<u>11,781</u>	<u>1,094</u>	<u>17,655</u>
As at 31 December 2007				
Cost	7,828	37,576	3,520	48,924
Accumulated depreciation	<u>(3,048)</u>	<u>(25,795)</u>	<u>(2,426)</u>	<u>(31,269)</u>
Net book amount	<u>4,780</u>	<u>11,781</u>	<u>1,094</u>	<u>17,655</u>
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	<u>(394)</u>	<u>(5,624)</u>	<u>(1,063)</u>	<u>(7,081)</u>
Closing net book amount	<u>4,386</u>	<u>12,235</u>	<u>1,426</u>	<u>18,047</u>
As at 31 December 2008				
Cost	7,828	42,131	4,299	54,258
Accumulated depreciation	<u>(3,442)</u>	<u>(29,896)</u>	<u>(2,873)</u>	<u>(36,211)</u>
Net book amount	<u>4,386</u>	<u>12,235</u>	<u>1,426</u>	<u>18,047</u>

APPENDIX I**FINANCIAL INFORMATION ON THE GROUP**

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

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

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	2007
	<i>US\$'000</i>	<i>US\$'000</i>
Unlisted investments, at cost	<u>63,803</u>	<u>67,610</u>

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

9 INVENTORIES

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

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

The carrying amounts of trade receivables approximate their fair values.

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

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

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.

APPENDIX I**FINANCIAL INFORMATION ON THE GROUP**

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	2007
	<i>US\$'000</i>	<i>US\$'000</i>
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	<u>1,188</u>	<u>373</u>
Total	<u><u>73,767</u></u>	<u><u>88,915</u></u>

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	2007
	<i>US\$'000</i>	<i>US\$'000</i>
Days past due		
0 - 30 days	8,529	3,765
31 - 60 days	<u>404</u>	<u>333</u>
Total	<u><u>8,933</u></u>	<u><u>4,098</u></u>

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

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

11 PREPAYMENTS AND OTHER ASSETS

	Group		Company	
	2008	2007	2008	2007
	US\$'000	US\$'000	US\$'000	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
	<u>4,112</u>	<u>3,812</u>	<u>6,431</u>	<u>421</u>

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	<u>909</u>	<u>1,723</u>	<u>5,202</u>	<u>2,483</u>

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	—	—
	<u>257,920</u>	<u>251,969</u>	<u>145,769</u>	<u>162,976</u>

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
	<u>257,920</u>	<u>251,969</u>	<u>145,769</u>	<u>162,976</u>

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 <i>(in thousands)</i>	Share capital <i>US\$'000</i>	Share premium <i>US\$'000</i>	Total <i>US\$'000</i>
Authorised:				
At 1 January 2007	50,000	50,000	—	50,000
Increase in authorised share capital (note (a))	<u>30,000</u>	<u>30,000</u>	<u>—</u>	<u>30,000</u>
	80,000	80,000	—	80,000
Additions due to 1 to 20 share sub-division (note (b))	<u>1,520,000</u>	<u>—</u>	<u>—</u>	<u>—</u>
At 31 December 2007 and 2008	<u>1,600,000</u>	<u>80,000</u>	<u>—</u>	<u>80,000</u>
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))	<u>795,720</u>	<u>—</u>	<u>—</u>	<u>—</u>
	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	<u>—</u>	<u>—</u>	<u>(6,606)</u>	<u>(6,606)</u>
At 31 December 2007	<u>1,196,800</u>	<u>59,840</u>	<u>117,024</u>	<u>176,864</u>
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))	<u>(27,791)</u>	<u>(1,390)</u>	<u>(7,217)</u>	<u>(8,607)</u>
At 31 December 2008	<u>1,182,985</u>	<u>59,149</u>	<u>118,026</u>	<u>177,175</u>

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)) <i>US\$'000</i>	Share-based payment reserves (note (b)) <i>US\$'000</i>	Statutory reserves (note (c)) <i>US\$'000</i>	Contribution to EIS trust <i>US\$'000</i>	Total <i>US\$'000</i>
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	<u>30,697</u>	<u>8,697</u>	<u>8,860</u>	<u>(4,860)</u>	<u>43,394</u>
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	<u>30,697</u>	<u>13,209</u>	<u>5,859</u>	<u>(6,200)</u>	<u>43,565</u>

Company

Company	Contributed	Share-based	Contribution to EIS trust	Total
	reserves (note (a))	payment reserves (note (b))		
	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	<u>4,062</u>	<u>8,697</u>	<u>(4,860)</u>	<u>7,899</u>
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	<u>4,062</u>	<u>13,209</u>	<u>(6,200)</u>	<u>11,071</u>

(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	2007
	US\$'000	US\$'000
Cost of sales	—	1,680
Selling expenses	—	1,464
General and administrative expenses	—	1,153
Research and development expenses	—	5,064
	<u>—</u>	<u>9,361</u>

(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.

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	2007
	<i>US\$'000</i>	<i>US\$'000</i>
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
	<u>4,744</u>	<u>9,163</u>

(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.

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

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

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

(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

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

17 PROVISIONS AND OTHER LIABILITIES

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

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).

APPENDIX I**FINANCIAL INFORMATION ON THE GROUP**

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

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

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	2007
	<i>US\$'000</i>	<i>US\$'000</i>
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	2007
	<i>US\$'000</i>	<i>US\$'000</i>
Current service cost	293	266
Interest cost	182	143
Expected return on plan assets	<u>(44)</u>	<u>(32)</u>
Net pension cost	<u><u>431</u></u>	<u><u>377</u></u>

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	2007
	<i>US\$'000</i>	<i>US\$'000</i>
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	<u>(110)</u>	<u>43</u>
End of year	<u><u>7,282</u></u>	<u><u>5,890</u></u>

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

	2008	2007
	<i>US\$'000</i>	<i>US\$'000</i>
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	<u>(27)</u>	<u>9</u>
End of year	<u><u>1,828</u></u>	<u><u>1,663</u></u>

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

- (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
	<i>US\$'000</i>	<i>US\$'000</i>
Cost of sales	738	374
Selling expenses	146	133
General and administrative expenses	128	76
Research and development expenses	<u>500</u>	<u>433</u>
	<u>1,512</u>	<u>1,016</u>

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))				
	<u>6,496</u>	<u>9,520</u>	<u>—</u>	<u>—</u>
	<u>55,597</u>	<u>74,400</u>	<u>—</u>	<u>—</u>
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))	<u>95</u>	<u>2,303</u>	<u>—</u>	<u>—</u>
	<u>18,018</u>	<u>25,036</u>	<u>691</u>	<u>1,957</u>
	<u>73,615</u>	<u>99,436</u>	<u>691</u>	<u>1,957</u>

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	<u>10,320</u>	<u>9,413</u>
	<u>55,597</u>	<u>74,400</u>

20 INCOME TAX EXPENSE

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

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

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	2007
	<i>US\$'000</i>	<i>US\$'000</i>
Profit before income tax	<u>27,119</u>	<u>34,402</u>
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	<u>42</u>	<u>(336)</u>
	3,543	5,449
Utilisation of investment tax credits	<u>(1,038)</u>	<u>(2,500)</u>
Income tax expense	<u><u>2,505</u></u>	<u><u>2,949</u></u>

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 Labuan, 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	2007
	<i>US\$'000</i>	<i>US\$'000</i>
Deferred tax assets	4,169	3,322
Deferred tax liabilities	<u>(829)</u>	<u>(1,301)</u>
Deferred tax assets — net	<u>3,340</u>	<u>2,021</u>

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

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

APPENDIX I
FINANCIAL INFORMATION ON THE GROUP

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
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
At 1 January 2007	—	—	—
Charged to consolidated income statement	<u>1,301</u>	<u>—</u>	<u>1,301</u>
At 31 December 2007	<u>1,301</u>	<u>—</u>	<u>1,301</u>
At 1 January 2008	1,301	—	1,301
(Credited)/charged to consolidated income statement	<u>(1,301)</u>	<u>829</u>	<u>(472)</u>
At 31 December 2008	<u>—</u>	<u>829</u>	<u>829</u>

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

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	2007
	<i>US\$'000</i>	<i>US\$'000</i>
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	<u>2,438</u>	<u>632</u>
	5,268	3,263
Derivative instruments		
— forward contracts	(688)	3,892
Gains on disposal of available-for-sale investments	—	119
Net foreign exchange gains	<u>2,820</u>	<u>1,536</u>
	<u>7,400</u>	<u>8,810</u>

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	2007
	<i>US\$'000</i>	<i>US\$'000</i>
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	<u>30,675</u>	<u>30,845</u>
Total cost of sales, selling expenses, general and administration expenses and research and development expenses	<u>396,765</u>	<u>399,861</u>

24 EMPLOYEE BENEFIT EXPENSE

	2008	2007
	<i>US\$'000</i>	<i>US\$'000</i>
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
	<u>36,226</u>	<u>48,592</u>

(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	Employer's contributions to retirement		Total
				MSSS	schemes	
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
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
	<u>233</u>	<u>163</u>	<u>922</u>	<u>1,000</u>	<u>6</u>	<u>2,324</u>

APPENDIX I**FINANCIAL INFORMATION ON THE GROUP**

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
	<u>106</u>	<u>157</u>	<u>1,357</u>	<u>1,134</u>	<u>4</u>	<u>2,758</u>

(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	2007
	<i>US\$'000</i>	<i>US\$'000</i>
Basic salaries, housing allowances and other allowances	198	176
Discretionary bonuses	324	998
MSSS	30	34
Retirement schemes	9	6
	<u>561</u>	<u>1,214</u>

The emoluments fell within the following bands:

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
	<u>3</u>	<u>3</u>

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

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

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

APPENDIX I**FINANCIAL INFORMATION ON THE GROUP**

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	2007
	<i>US\$'000</i>	<i>US\$'000</i>
Profit attributable to equity holders of the Company (US\$'000)	<u>24,586</u>	<u>31,356</u>
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)	<u>39,926</u>	<u>53,558</u>
Weighted average number of ordinary shares for diluted earnings per share (in thousands)	<u>1,132,191</u>	<u>1,005,858</u>
Diluted earnings per share (in US cents per share)	<u>2.17</u>	<u>3.12</u>

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	2007
	<i>US\$'000</i>	<i>US\$'000</i>
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
	<u>32,484</u>	<u>49,903</u>

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	2007
	<i>US\$'000</i>	<i>US\$'000</i>
Not later than one year	1,215	1,095
Later than one year and not later than five years	<u>—</u>	<u>1,095</u>
	<u>1,215</u>	<u>2,190</u>

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

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

	<i>Note</i>	2008 <i>US\$'000</i>	2007 <i>US\$'000</i>
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.

(c) Key management compensation

	2008	2007
	<i>US\$'000</i>	<i>US\$'000</i>
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
	<u>3,398</u>	<u>4,678</u>

(d) Trade receivables due from related parties

	2008	2007
	<i>US\$'000</i>	<i>US\$'000</i>
Ultimate holding company	5	4
Fellow subsidiaries	218	46
	<u>223</u>	<u>50</u>

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.

(e) Trade payables due to related parties

	2008	2007
	<i>US\$'000</i>	<i>US\$'000</i>
Ultimate holding company	70	140
Fellow subsidiaries	6,426	9,380
	<u>6,496</u>	<u>9,520</u>

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	2007
	<i>US\$'000</i>	<i>US\$'000</i>
Ultimate holding company	37	271
Fellow subsidiaries	<u>58</u>	<u>2,032</u>
	<u><u>95</u></u>	<u><u>2,303</u></u>

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		Principal activities and place of operations
				2008	2007	
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		Principal activities and place of operations
				2008	2007	
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.

3. INDEBTEDNESS

At the close of business on 31 March 2009 (being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this document), the Group did not have any outstanding bank overdrafts or loans or other similar indebtedness, mortgages, charges, guarantees or other material contingent liabilities.

The Directors have confirmed that, as at the Latest Practicable Date, there has been no material change to the Group’s indebtedness and contingent liability position since 31 March 2009.

4. MATERIAL CHANGE

As at the Latest Practicable Date, there were no material changes in the financial or trading position or outlook of the Group since the Last Accounting Date.

1. RESPONSIBILITY STATEMENT

This document includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Proposal, the Offeror and the Company.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this document (other than that relating to the Offeror Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this document (other than those expressed by the Offeror Group) have been arrived at after due and careful consideration and there are no other facts not contained in this document, the omission of which would make any statement in this document misleading.

The Offeror Directors jointly and severally accept full responsibility for the accuracy of the information contained in this document (other than that relating to the Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this document (other than those expressed by the Group) have been arrived at after due and careful consideration and there are no other facts not contained in this document, the omission of which would make any statement in this document misleading.

2. SHARE CAPITAL OF THE COMPANY

As at the Latest Practicable Date, the authorised and issued share capital of the Company was as follows:

	<i>(Nominal value)</i>
<i>Authorised:</i>	<i>US\$</i>
1,600,000,000 Shares	80,000,000.00
 <i>Issued and fully paid up:</i>	
1,196,886,000 Shares	59,844,300.00

All of the Shares currently in issue rank pari passu in all respects with each other (including, in particular, dividends, voting rights and capital). Other than the 13,901,000 Shares which were issued to the MS Participants pursuant to the second instalment of the MSSS on 1 April 2009, no other Shares were issued during the period from the Last Accounting Date to the Latest Practicable Date.

The Shares are listed on the Stock Exchange and none of the securities of the Company are listed, or dealt in, on any other stock exchange (and no such listing or permission to deal is being, or is proposed to be, sought).

As at the Latest Practicable Date, there were 27,512,000 outstanding MS Awards. If all the outstanding MS Awards were vested, a total of 27,512,000 new Shares would be issued.

As at the Latest Practicable Date, other than the outstanding MS Awards, there were no outstanding warrants, options, derivatives or convertible securities in respect of the Shares.

3. MARKET PRICES OF SHARES

- (a) The highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the Relevant Period were HK\$2.20 per Share on 20 August 2008 and HK\$0.69 per Share on 8 December 2008 respectively.
- (b) The table below sets out the closing prices of the Shares as quoted on the Stock Exchange on the last Business Day of each of the six calendar months immediately preceding the Announcement and ending on the Latest Practicable Date:

Dates	Closing price (HK\$)
29 August 2008	2.08
30 September 2008	1.83
31 October 2008	1.18
28 November 2008	0.90
31 December 2008	1.21
30 January 2009	1.09
20 February 2009 <i>(Note)</i>	1.53
31 March 2009	1.75
30 April 2009	1.72
Latest Practicable Date	1.71

Note: This is the closing price on the Last Trading Date, being the last Business Day in February 2009 on which the Shares were traded on the Stock Exchange. The Shares were suspended from trading on the Stock Exchange from 9:30 am on 23 February 2009 and resumed trading at 9:30 am on 13 March 2009, pending the release of the Announcement.

4. DISCLOSURE OF INTERESTS UNDER THE SFO

- (a) **Interests and short positions of Directors in shares or debentures of the Company and its associated corporations**

As at the Latest Practicable Date, the interests and short positions of the Directors in shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required: (i) to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions

which are deemed or taken to be owned by the Directors under such provisions of the SFO); (ii) pursuant to Section 352 of the SFO, to be entered in the register referred to in that section; or (iii) pursuant to the “Model Code for Securities Transactions by Directors of Listed Issuers” of the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Name of Directors	Company or associated corporation	Capacity/ Nature of interest	Number of (underlying) Shares and class of securities ^(Notes 1 & 2)	Approximate percentage of issued share capital of the Company/ associated corporation (%)
Mr. Liang Ker Uon, Sam ^(Note 3)	Company	Beneficial owner	14,477,500 Shares (L)	1.210
	Parent	Beneficial owner	1,996,606 common stocks (L)	0.091
Mr. Cheng An, Victor ^(Note 3)	Company	Beneficial owner	8,679,500 Shares (L)	0.725
	Parent	Beneficial owner/ interest of spouse	3,883,644 common stocks (L) ^(Note 6)	0.178
Mr. Cheng Chung Hua, Bruce ^(Note 4)	Company	Beneficial owner	4,000,000 Shares (L)	0.334
	Parent	Beneficial owner/ interest of spouse	178,650,241 common stocks (L) ^(Note 7)	8.176
Mr. Hai Ing-Jiunn, Yancey ^(Note 5)	Company	Beneficial owner	4,000,000 Shares (L)	0.334
	Parent	Beneficial owner	713,739 common stocks (L)	0.033
Mr. Zue Wai To, Victor	Company	Beneficial owner	4,000,000 Shares (L)	0.334
Mr. Shen Bing	Parent	Beneficial owner/ interest of spouse	27,413 common stocks (L) ^(Note 8)	0.001
Mr. Liu Chung Laung	Company	Beneficial owner	4,000,000 Shares (L)	0.334

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. Some of the Shares, in the form of MS Awards, are scheduled to vest and be issued to the Directors in four equal annual instalments pursuant to the MSSS. However, for the purpose of the SFO, these Shares are already deemed or taken to be owned by the Directors. For details of the MSSS, and the number of vested and issued Shares held by the Directors, please refer to paragraphs 2 and 15 headed “Issued Shares and Details of Warrants, Options and Conversion Rights” and “Interests of the Directors in the Scheme and Effects thereon” in the Explanatory Statement.
3. Mr. Liang Ker Uon, Sam and Mr. Cheng An, Victor are presumed to be persons acting in concert with the Offeror in accordance with class (2) of the definition of “acting in concert” in the Takeovers Code as they are Offeror Directors.
4. Mr. Cheng Chung Hua, Bruce is presumed to be a person acting in concert with the Offeror in accordance with class (2) of the definition of “acting in concert” in the Takeovers Code as he is a director of both the Offeror and the Parent.
5. Mr. Hai Ing-Jiunn, Yancey is presumed to be a person acting in concert with the Offeror in accordance with class (2) of the definition of “acting in concert” in the Takeovers Code as he is a director of the Parent.
6. Mr. Cheng An, Victor was deemed or taken to be interested in, for the purpose of the SFO, the 516,440 common stocks which were beneficially owned by his spouse, Ms. Jen Hsiao-Yuan.
7. Mr. Cheng Chung Hua, Bruce was deemed or taken to be interested in, for the purpose of the SFO, the 43,720,477 common stocks which were beneficially owned by his spouse, Ms. Hsieh Yih-Ying.
8. Out of these common stocks, 18,714 common stocks were held jointly by Mr. Shen Bing and his spouse, Ms. Kam Ha Yip, Terry.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required: (i) to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions which are deemed or taken to be owned by the Directors under such provisions of the SFO); (ii) pursuant to Section 352 of the SFO, to be entered in the register referred to in that section; or (iii) pursuant to the “Model Code for Securities Transactions by Directors of Listed Issuers” of the Listing Rules, to be notified to the Company and the Stock Exchange.

(b) Interests and short positions of substantial Shareholders and other interests discloseable under Part XV of the SFO

As at the Latest Practicable Date, other than the Directors, the following entities had an interest or a short position in the Shares or underlying Shares of the Company: (i) 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 Division 2 and 3 of Part XV of the SFO; or (ii) as the Company is aware:

Name of entities	Capacity/ Nature of interests	Number of Shares	Approximate percentage of issued share capital (%)
Offeror ^(Note 1)	Beneficial owner	712,160,000	59.50
Parent ^(Note 1)	Interest of controlled corporation	712,160,000	59.50
HSBC Trustee ^(Note 2)	Trustee	61,837,600	5.17

Notes:

1. The Offeror is a wholly-owned subsidiary of the Parent and, therefore, the Parent is deemed or taken to be interested in the Shares which are beneficially owned by the Offeror.
2. These Shares were allotted and issued to HSBC Trustee as trustee under the EIS, and such Shares were held by Grand Networks Assets Limited (being a company wholly-owned by HSBC Trustee).

Save as disclosed above and so far as the Directors are aware, as at the Latest Practicable Date, there was no other person who had interests or short positions in the Shares and 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.

5. DISCLOSURE OF INTERESTS UNDER THE TAKEOVERS CODE**(a) Interests discloseable under Schedule I to the Takeovers Code**

- (i) The shareholding of the Offeror in the Company, as at the Latest Practicable Date, are set out under paragraph 2 headed “Issued Shares and Details of Warrants, Options and Conversion Rights” in the Explanatory Statement.
- (ii) Save as disclosed under paragraph 8 headed “Effects of the Scheme” in the Explanatory Statement, the Offeror, the Offeror Directors and the Concert Parties did not hold any other types of securities in the Company as at the Latest Practicable Date.

- (iii) As at the Latest Practicable Date, none of the Offeror or the Concert Parties had borrowed or lent any Shares (or any convertible securities, warrants, options or derivatives in respect of Shares), save for any Shares which had been either on-lent or sold.
- (iv) As at the Latest Practicable Date, no person has irrevocably committed to vote in favour of or against the Scheme.

(b) Interests discloseable under Schedule II to the Takeovers Code

- (i) As at the Latest Practicable Date, the Company had no holdings of any shares (or any convertible securities, warrants, options or derivatives in respect of shares) of the Offeror.
- (ii) The shareholding of the Directors in the Company, as at the Latest Practicable Date, are set out under paragraph 8 headed “Effects of the Scheme” in the Explanatory Statement. As at the Latest Practicable Date, the Directors had no holdings of any shares (or any convertible securities, warrants, options or derivatives in respect of shares) of the Offeror.
- (iii) As at the Latest Practicable Date, none of the subsidiaries of the Company, nor any of the pension funds of the Group or any adviser to the Company as specified in class (2) of the definition of “associate” in the Takeovers Code (but excluding exempt principal traders), owned or controlled any Shares (or any convertible securities, warrants, options or derivatives in respect of Shares).
- (iv) As at the Latest Practicable Date, no fund managers (other than exempt fund managers) connected with the Company who managed funds on a discretionary basis owned or controlled any Shares (or any convertible securities, warrants, options or derivatives in respect of Shares).
- (v) As at the Latest Practicable Date, the Directors (other than the Concert Parties) intend to vote in favour of the Scheme in respect of their shareholdings in Shares and the Directors intend to accept the MS Offer in respect of their holdings of outstanding MS Awards.
- (vi) As at the Latest Practicable Date, none of the Company or the Directors had borrowed or lent any Shares (or any convertible securities, warrants, options or derivatives in respect of Shares), save for any Shares which had been either on-lent or sold.
- (vii) As at the Latest Practicable Date, no person had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of “associate” in the Takeovers Code.

6. DEALINGS IN SHARES

- (a) The Offeror had not dealt for value in any Shares (or any convertible securities, warrants, options or derivatives in respect of Shares) during the Relevant Period.
- (b) Save as disclosed below and other than certain dealings by certain broking affiliates of Polaris Capital on an agency or non-discretionary basis, none of the Offeror Directors nor any other person acting in concert with the Offeror had dealt for value in Shares (or any convertible securities, warrants, options or derivatives in respect of Shares) during the Relevant Period.

Name of person acting in concert with the Offeror	Nature of dealings	Number of Shares	Dealing Date	Price per Share
Mr. Liang Ker Uon, Sam	Shares issued under the MSSS	3,000,000	1 April 2009	US\$0.121
Mr. Liang Ker Uon, Sam	Shares transferred under the EIS	2,477,500	27 April 2009	Nil
Mr. Cheng An, Victor	Shares issued under the MSSS	2,000,000	1 April 2009	US\$0.121
Mr. Cheng An, Victor	Shares transferred under the EIS	679,500	27 April 2009	Nil
Mr. Cheng Chung Hua, Bruce	Shares issued under the MSSS	1,000,000	1 April 2009	US\$0.121
Mr. Hai Ing-Jiunn, Yancey	Shares issued under the MSSS	1,000,000	1 April 2009	US\$0.121

- (c) No person who had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Offeror or the Concert Parties had dealt for value in any Shares (or any convertible securities, warrants, options or derivatives in respect of Shares) during the Relevant Period.
- (d) None of the Directors had dealt for value in any shares (or any convertible securities, warrants, options or derivatives in respect of shares) of the Offeror during the Relevant Period.
- (e) Save as disclosed in paragraph (b) above, none of the Directors had dealt for value in any Shares (or any convertible securities, warrants, options or derivatives in respect of Shares) during the Relevant Period.
- (f) None of the subsidiaries of the Company, nor any of the pension funds of the Group or any adviser to the Company as specified in class (2) of the definition of “associate” in the Takeovers Code (but excluding exempt principal traders), had dealt for value in any Shares (or any convertible securities, warrants, options or derivatives in respect of Shares) during the Offer Period and ending with the Latest Practicable Date.
- (g) No person who had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or any person who is an associate of the Company by virtue of classes

(1), (2), (3) and (4) of the definition of “associate” in the Takeovers Code, had dealt for value in any Shares (or any convertible securities, warrants, options or derivatives in respect of Shares) during the Offer Period and ending with the Latest Practicable Date.

- (h) No fund managers (other than exempt fund managers) connected with the Company who managed funds on a discretionary basis, had dealt for value in any Shares (or any convertible securities, warrants, options or derivatives in respect of Shares) during the Offer Period and ending with the Latest Practicable Date.

7. LITIGATION

No members of the Group are engaged in any litigation or arbitration or claim of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

8. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business of the Group) have been entered into by members of the Group between 12 March 2007 (being the date two years before the commencement of the Offer Period) and the Latest Practicable Date, and which are material to the Group:

- (a) the deed of non-competition undertaking dated 16 June 2007 by the Parent in favour of the Company (in relation to the non-competition covenants by the Parent given in connection with the IPO); and
- (b) the deed of settlement dated 20 June 2007 between the Company and HSBC Trustee (in relation to the establishment of the trust under the EIS).

9. EXPERTS

The following are the qualifications of each of the experts who have been named in this document or given their opinion or advice which are contained in this document:

Name	Qualification
Polaris Capital (Asia) Limited	a corporation licensed under the SFO to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities
KGI Capital	a corporation licensed under the SFO to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities

10. CONSENTS

Each of Polaris Capital and KGI Capital has given and has not withdrawn its written consent to the issue of this document, with the inclusion in this document of the text of its letter or opinion (as the case may be) and references to its name in the form and context in which they are included.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection: (i) from 9:30 am to 5:30 pm, Monday to Friday (excluding any public holiday in Hong Kong), at the Hong Kong office of the Company (at Level 28, Three Pacific Place, 1 Queen's Road East, Hong Kong); (ii) at the website of the Company at <http://www.dninetworks.com>; and (iii) at the website of the SFC at <http://www.sfc.hk>, from the date of this document until the Effective Date (or the date on which the Scheme lapses, whichever is earliest):

- (a) the articles of incorporation of the Parent;
- (b) the memorandum and articles of association of the Offeror;
- (c) the memorandum and articles of association of the Company;
- (d) the annual reports of the Company for the two financial years ended 31 December 2007 and 2008 respectively;
- (e) the Board Letter;
- (f) the IBC Letter;
- (g) the IFA Letter;
- (h) the material contracts referred to under paragraph 8 headed "Material Contracts" in this Appendix; and
- (i) the written consents referred to under paragraph 10 headed "Consents" in this Appendix.

12. MISCELLANEOUS

- (a) None of the existing Directors will be given any benefit as compensation for loss of office or otherwise in connection with the Scheme.
- (b) As at the Latest Practicable Date, there was no agreement or arrangement between any of the Directors and any other person which is conditional on or dependent upon the outcome of the Scheme or otherwise connected with the Scheme.
- (c) As at the Latest Practicable Date, there was no agreement or arrangement or understanding (including any compensation arrangement) between the Offeror or the Concert Parties (on the one part) and any of the Directors, recent Directors, Shareholders or recent Shareholders (on the other part) having any connection with or dependence upon the Scheme.
- (d) As at the Latest Practicable Date, there was no material contract entered into by the Offeror in which any of the Directors had a material personal interest.

- (e) As at the Latest Practicable Date, there is no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code between Offeror, the Concert Parties and any other person.
- (f) As at the Latest Practicable Date, none of the Directors has entered into any service contract with the Company or any of its subsidiaries or associated companies which: (i) have been entered into or amended within 6 months before the commencement of the Offer Period (including both continuous and fixed term contracts); (ii) are continuous contracts with a notice period of 12 months or more; or (iii) are fixed term contracts with more than 12 months to run irrespective of the notice period.
- (g) As at the Latest Practicable Date, there were no arrangements or agreements to which the Offeror is a party which relate to the circumstances in which it may or may not invoke or seek to invoke a condition to the Proposal.
- (h) The Offeror does not have any intention to transfer, charge or pledge any of the Shares acquired pursuant to the Scheme to any other person.
- (i) The registered office of the Offeror is at PO Box 2804, Scotia Centre, 4th Floor, George Town, Grand Cayman, Cayman Islands. As the Offeror does not have a place of business in Hong Kong, any correspondence in respect of the Proposal which may need to be sent to the Offeror in Hong Kong during the Offer Period may be addressed to the Offeror (c/o Delta Electronics (HK) Ltd.) at 21/F, Prosperity Centre, 25 Chong Yip Street, Kwun Tong, Hong Kong.
- (j) The Offeror is ultimately owned by the Parent, a company incorporated in Taiwan and whose shares are listed on the Taiwan Stock Exchange Corporation. The directors of the Parent are:
 - (i) Mr. Cheng Chung Hua, Bruce (Chairman);
 - (ii) Mr. Hai Ing-Jiunn, Yancey (Vice Chairman);
 - (iii) Mr. Ko Tzu Shing, Mark;
 - (iv) Mr. Cheng Ping;
 - (v) Mr. Hsu Rong Yuan, Raymond;
 - (vi) Mr. Lo Yi Chiang;
 - (vii) Mr. Chang Hsun Hai, Simon; and
 - (viii) Mr. Lee Chai Yan, Fred.
- (k) The principal place of business of Polaris Capital in Hong Kong is at Units 6503-05, The Center, 99 Queen's Road Central, Hong Kong.
- (l) The principal place of business of KGI Capital is at 27/F, ICBC Tower, Citibank Plaza, 3 Garden Road, Central, Hong Kong.
- (m) The company secretary of the Company is Ms. Soon Yuk Tai, ACS, ACIS, who is an Associate of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators.

- (n) The qualified accountant of the Company is Mr. Leung Sai Cheong, who is an associate member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.
- (o) The registered office of the Company is at the offices of Offshore Incorporations (Cayman) Limited, PO Box 2804, Scotia Centre, 4th Floor, George Town, Grand Cayman, Cayman Islands.
- (p) The principal place of business of the Company in Hong Kong is at Level 28, Three Pacific Place, 1 Queen's Road East, Hong Kong.
- (q) The principal share registrar and transfer agent of the Company is Butterfield Fulcrum Group (Cayman) Limited, at Butterfield House, 68 Fort Street, PO Box 705, Grand Cayman, KY1-1107, Cayman Islands.
- (r) The Share Registrar is Tricor Investor Services Limited, at 26/F Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (s) The English language text of this document will prevail over the Chinese language text.

SCHEME OF ARRANGEMENT

IN THE GRAND COURT OF THE CAYMAN ISLANDS
CAUSE NO: 178 OF 2009

IN THE MATTER OF
DELTA NETWORKS, INC.
AND
IN THE MATTER OF
SECTION 86 OF THE COMPANIES LAW, CAP.22 (LAW 3 OF 1961)
AS CONSOLIDATED AND REVISED OF THE CAYMAN ISLANDS

SCHEME OF ARRANGEMENT
BETWEEN
DELTA NETWORKS, INC.
AND
THE HOLDERS OF SCHEME SHARES

PRELIMINARY

(A) In this Scheme of Arrangement, unless the context otherwise requires, the following expressions shall have the meanings respectively set opposite them:

“acting in concert”	has the meaning ascribed to it in the Takeovers Code
“Consideration”	HK\$1.83 per Scheme Share in cash payable to holders of Scheme Shares under this Scheme of Arrangement
“Companies Law”	Companies Law, Cap.22 (Law 3 of 1961) of the Cayman Islands
“Company”	Delta Networks, Inc., a company incorporated in the Cayman Islands with limited liability, the securities of which are listed on the Stock Exchange
“Court”	the Grand Court of the Cayman Islands
“Effective Date”	the date on which this Scheme of Arrangement, if sanctioned by the Court, becomes effective in accordance with the Companies Law (which date is expected to be 16 July 2009, or such other date as the Company and the Offeror may agree)
“holder”	a registered holder (and includes a person entitled by transmission to be registered as such and joint holders)

SCHEME OF ARRANGEMENT

“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Latest Practicable Date”	13 May 2009, being the latest practicable date for ascertaining certain information contained in this Scheme of Arrangement
“Offeror”	Delta Networks Holding Limited, a company incorporated in the Cayman Islands
“Record Date”	the date on which the entitlements of the Shareholders under this Scheme of Arrangement are determined (which date is expected to be 16 July 2009, or such other date as the Company and the Offeror may agree)
“Record Time”	4:00 pm on the Record Date (Hong Kong time)
“Register”	the register of members of the Company
“Scheme of Arrangement”	a scheme of arrangement between the Company and the Scheme Shareholders pursuant to Section 86 of the Companies Law in its present form (with or subject to any modification, addition or condition which the Court may approve or impose)
“Scheme Shareholders”	Shareholders of the Company other than the Offeror
“Scheme Shares”	Shares held by the Scheme Shareholders
“Shares”	shares of par value US\$0.05 each in the share capital of the Company
“Shareholders”	holders of Shares
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“US”	the United States of America
“US\$”	US dollars, the lawful currency of the US

SCHEME OF ARRANGEMENT

- (B) The Company was incorporated as an exempted company on 25 November 2002 in the Cayman Islands under the Companies Law.
- (C) As at the Latest Practicable Date, the authorised share capital of the Company was US\$80,000,000 divided into 1,600,000,000 Shares, 1,196,886,000 of which had been issued and were fully paid and the remainder were unissued.
- (D) The Offeror has proposed the privatisation of the Company by way of this Scheme of Arrangement.
- (E) The primary purpose of this Scheme of Arrangement is to privatise the Company by cancelling and extinguishing all the Scheme Shares, so that the Company shall thereafter become a wholly-owned subsidiary of the Offeror.
- (F) As at the Latest Practicable Date, 729,317,000 Shares in aggregate were legally and/or beneficially owned by the Offeror and persons acting in concert with it, and such Shares were registered as follows:

Name of Shareholder	Name of registered holders	Number of Shares
Offeror	Delta Networks Holding Limited	712,160,000
Mr. Cheng Chung Hua, Bruce	HKSCC Nominees Limited	1,000,000
	Mr. Cheng Chung Hua, Bruce	1,000,000
Mr. Cheng An, Victor	HKSCC Nominees Limited	2,679,500
	Mr. Cheng An, Victor	2,000,000
Mr. Liang Ker Uon, Sam	HKSCC Nominees Limited	5,477,500
	Mr. Liang Ker Uon, Sam	3,000,000
Mr. Hai Ing-Jiunn, Yancey	HKSCC Nominees Limited	1,000,000
	Mr. Hai Ing-Jiunn, Yancey	1,000,000

The Offeror and persons acting in concert with it have undertaken that, in relation to such Shares in which they are legally and/or beneficially interested, all such Shares will remain so registered (and they shall remain so legally and/or beneficially interested in them until the date on which this Scheme of Arrangement becomes effective, is withdrawn or lapses) and will procure that such Shares will not be represented or voted at the meeting convened by direction of the Court for the purpose of considering and, if thought fit, approving this Scheme of Arrangement.

- (G) This Scheme of Arrangement involves the cancellation and extinguishment of all the Scheme Shares on the Effective Date and, in consideration, the Scheme Shareholders will receive the Consideration.
- (H) The Offeror has agreed to appear by counsel at the hearing of the petition to sanction this Scheme of Arrangement and to undertake to the Court (whether at the hearing or before hand) to be bound thereby and will execute and do (and procure to be executed and done) all such documents, acts and things as may be necessary or desirable to be executed or done for the purpose of giving effect to this Scheme of Arrangement (including, without limitation, satisfying its obligations under this Scheme of Arrangement).

SCHEME OF ARRANGEMENT

SCHEME OF ARRANGEMENT

PART I

Cancellation of the Scheme Shares

1. On the Effective Date:
 - (a) the issued share capital of the Company shall be reduced by cancelling and extinguishing the Scheme Shares;
 - (b) subject to and forthwith upon such reduction of capital taking effect, the share capital of the Company shall be increased to its former amount by issuing to the Offeror the same number of Shares as the number of Scheme Shares cancelled and extinguished; and
 - (c) the Company shall apply the amount of credit arising in its books of account, as a result of the reduction of its issued share capital referred to in Clause 1(a) above, in paying up in full at par the new Shares issued to the Offeror, credited as fully paid.

PART II

Consideration for the cancellation and extinguishment of the Scheme Shares

2. In consideration of the cancellation and extinguishment of the Scheme Shares, each Scheme Shareholder shall receive the Consideration from the Offeror.

PART III

Conditions

3. This Scheme of Arrangement is conditional upon the capital reduction referred to in Clause 1(a) above becoming effective.

PART IV

General

4. As from the Effective Date, any instruments of transfer relating to and all certificates representing the Scheme Shares shall cease to have effect as documents of title, and every Scheme Shareholder shall be bound at the request of the Company to deliver up to the Company the certificates relating to the Scheme Shares.
5. (a) Not later than ten days after the Effective Date, the Offeror shall send (or cause to be sent) to the Scheme Shareholders cheques in respect of the Consideration payable to the holders of Scheme Shares.

SCHEME OF ARRANGEMENT

- (b) Unless otherwise indicated in writing to the Company's branch share registrar in Hong Kong (being Tricor Investor Services Limited) before the Record Date, all such cheques shall be sent by post in pre-paid envelopes addressed to such Scheme Shareholders at their respective addresses as appearing on the Register at the Record Time (or, in the case of joint Scheme Shareholders, at the address as appearing on the Register at the Record Time of the joint Scheme Shareholder whose name then stands first in the Register in respect of the relevant joint holding).
 - (c) Cheques shall be posted at the risk of the addressees and neither the Offeror nor the Company shall be responsible for any loss or delay in transmission.
 - (d) Each such cheque shall be payable to the order of the person to whom, in accordance with the provisions of Clause 5(b) above, the envelope containing the same is addressed and the encashment of any such cheque shall be a good discharge to the Offeror for the money represented by such cheque.
 - (e) On or after the day being six calendar months after the posting of the cheques pursuant to Clause 5(b) above, the Offeror shall have the right to cancel or countermand payment of any such cheque which has not been cashed or registered (or has been returned uncashed) and shall place all monies represented by such cheques in a deposit account in the Company's name with a licensed bank in Hong Kong selected by the Company. The Company shall hold such monies in trust for those entitled under the terms of this Scheme of Arrangement until the expiration of six years from the effective date of this Scheme of Arrangement, and shall prior to such date make payments of the sums payable pursuant to Clause 2 above to persons who satisfy the Company that they are respectively entitled to such monies and the cheques referred to in Clause 5(b) above of which they are payees have not been cashed or registered. Any payments made by the Company under this Clause 5(e) shall be made without any interest. The Company shall exercise its absolute discretion in determining whether or not it is satisfied that any person is so entitled and a certificate of the Company to the effect that any particular person is so entitled or not so entitled, as the case may be, shall be conclusive and binding upon all persons claiming an interest in the relevant monies.
 - (f) On the expiration of six years from the Effective Date, the Offeror shall be released from any further obligation to make any payments under this Scheme of Arrangement and the Company shall transfer to the Offeror the balance (if any) of the sums standing to the credit of the deposit account referred to in Clause 5(e) above, including all accrued interest (subject, if applicable, to the deduction of any interest, withholding or other tax or any other deductions required by law and subject to the deduction of any expenses).
 - (g) Clause 5(f) above shall take effect subject to any prohibition or condition imposed by law.
6. All mandates or relevant instructions to the Company in force at the Record Time relating to any of the Scheme Shares shall cease to be valid as effective mandates or instructions.

SCHEME OF ARRANGEMENT

7. Subject to Clause 3 above, this Scheme of Arrangement shall become effective as soon as a copy of the order of the Court sanctioning this Scheme of Arrangement under Section 86 of the Companies Law shall have been duly registered by the Registrar of Companies in the Cayman Islands.
8. Unless this Scheme of Arrangement shall have become effective on or before 18 August 2009 (or such later date, if any, as the Offeror and the Company may agree or as the Court on application of the Offeror or the Company may allow), this Scheme of Arrangement shall lapse.
9. The Company and the Offeror may jointly consent, for and on behalf of all concerned, to any modification of or addition to this Scheme of Arrangement (or to any condition which the Court may think fit to approve or impose).
10. All costs, charges and expenses of and incidental to this Scheme of Arrangement and the costs of carrying this Scheme of Arrangement into effect will be borne by the Company.

Date 15 May 2009

NOTICE OF THE COURT MEETING

IN THE GRAND COURT OF THE CAYMAN ISLANDS
CAUSE NO. 178 OF 2009

IN THE MATTER OF
DELTA NETWORKS, INC.
AND
IN THE MATTER OF
SECTION 86 OF THE COMPANIES LAW, CAP.22 (LAW 3 OF 1961)
AS CONSOLIDATED AND REVISED OF THE CAYMAN ISLANDS

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that, by an order dated 7 May 2009 (the “**Order**”) made in the above matter, the Grand Court of the Cayman Islands (the “**Court**”) has directed a meeting (the “**Court Meeting**”) to be convened of the Scheme Shareholders (as defined in the Scheme of Arrangement mentioned below) for the purpose of considering and, if thought fit, approving (with or without modifications) a scheme of arrangement (the “**Scheme of Arrangement**”) proposed to be made between Delta Networks, Inc. (the “**Company**”) and the Scheme Shareholders, and that the Court Meeting will be held at Beijing Suite I, 3/F, Marco Polo Prince Hotel, Harbour City, 23 Canton Road, Kowloon, Hong Kong on 11 June 2009 at 11:00 am (Hong Kong time) at which place and time all such Scheme Shareholders are requested to attend.

A copy of the Scheme of Arrangement and a copy of an explanatory memorandum explaining the effect of the Scheme of Arrangement are incorporated in the composite document of which this Notice forms part (the “**Scheme Document**”). A copy of the Scheme Document can also be obtained by the Scheme Shareholders from the Company’s branch share registrar in Hong Kong (being Tricor Investor Services Limited, at 26/F, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong).

The Scheme Shareholders may vote in person at the Court Meeting or they may appoint one or more proxies, whether a member of the Company or not, to attend and vote in their stead. A pink form of proxy for use at the Court Meeting is enclosed with the Scheme Document despatched to members of the Company on 15 May 2009.

In the case of joint holders of a share, the vote of the senior who tenders a vote (whether in person or by proxy) will be accepted to the exclusion of the vote of the other joint holder(s) and, for this purpose, seniority will be determined by the order in which their names stand in the register of members of the Company in respect of the relevant joint holding.

It is requested that forms appointing proxies be lodged with the Company’s branch share registrar in Hong Kong (being Tricor Investor Services Limited, at 26/F, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong) as soon as possible, but in any event not later than 48 hours before the time appointed for the Court Meeting. The pink form of proxy may alternatively be handed to the chairman of the Court Meeting at the Court Meeting if it is not so lodged.

NOTICE OF THE COURT MEETING

By the Order, the Court has appointed Mr. Liang Ker Uon, Sam, a director of the Company (or failing him, Mr. Cheng An, Victor, also a director of the Company, or failing him, any other person who is a director of the Company as at the date of the Order), to act as the chairman of the Court Meeting and has directed the chairman of the Court Meeting to report the results of the Court Meeting to the Court.

The Scheme of Arrangement will be subject to a subsequent application seeking the sanction of the Court.

By order of the board of
Delta Networks, Inc.
LIANG Ker-Uon, Sam
Chairman

Dated 15 May 2009

Registered Office:

PO Box 2804
Scotia Centre
4th Floor
George Town
Grand Cayman
Cayman Islands

Head Office and Principal Place of Business in Hong Kong:

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

NOTICE OF THE EGM



Delta Networks, Inc.
達創科技股份有限公司*
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 722)

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting (the “**Meeting**”) of Delta Networks, Inc. (the “**Company**”) will be held at Beijing Suite I, 3/F, Marco Polo Prince Hotel, Harbour City, 23 Canton Road, Kowloon, Hong Kong on 11 June 2009 at 11:30 am (Hong Kong time) (or so soon thereafter as the meeting of the Scheme Shareholders (as defined in the Scheme of Arrangement mentioned below) convened by direction of the Grand Court of the Cayman Islands for the same place and day has been concluded or adjourned), for the purpose of considering and, if thought fit, passing the following resolution as a Special Resolution:

SPECIAL RESOLUTION

“**THAT:**

- (A) the Scheme of Arrangement dated 15 May 2009 (the “**Scheme**”) between the Company and the Scheme Shareholders (as defined in the Scheme) in the form of the print which has been produced to this Meeting and for the purposes of identification signed by the chairman of this Meeting (subject to such modifications, additions or conditions as may be approved or imposed by the Grand Court of the Cayman Islands) be approved;
- (B) for the purposes of giving effect to the Scheme, on the Effective Date (as defined in the Scheme):
- (i) the cancellation and extinguishment of the Scheme Shares (as defined in the Scheme) in consideration of which Scheme Shareholders will receive HK\$1.83 in cash for each Scheme Share;
 - (ii) subject to and forthwith upon such reduction of capital by the cancellation and extinguishment of the Scheme Shares taking effect, the share capital of the Company be increased to its former amount by allotting and issuing to Offeror (as defined in the Scheme), credited as fully paid, the same number of shares as the number of Scheme Shares cancelled and extinguished; and
 - (iii) the credit arising in the books of account of the Company, as a result of the reduction of its issued share capital resulting from the cancellation and extinguishment of the Scheme Shares referred to in paragraph B(i) above, being applied in paying up in full at par the new shares issued to Offeror (credited as fully paid) pursuant to paragraph B(ii) above,

NOTICE OF THE EGM

(collectively, the “**Capital Reduction**”); and

- (C) the directors of the Company be authorised to do all such acts and things as may be considered by them to be necessary or desirable in connection with the implementation of the Scheme and the Capital Reduction (including, without limitation, giving consent to any modification of or addition to the Scheme and the Capital Reduction, which the Grand Court of the Cayman Islands may see fit to impose).”

By order of the board of
Delta Networks, Inc.
LIANG Ker-Uon, Sam
Chairman

Dated 15 May 2009

Registered Office:

PO Box 2804
Scotia Centre
4th Floor
George Town
Grand Cayman
Cayman Islands

Head Office and Principal Place of Business in Hong Kong:

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

Notes:

1. A member entitled to attend and vote at the Meeting is entitled to appoint one or more than one proxy to attend and to vote instead of him. A proxy need not be a member of the Company, but must attend the Meeting in person to represent him.
2. A white form of proxy for use at the Meeting is enclosed with the composite document containing the Scheme which was despatched to members of the Company on 15 May 2009.

NOTICE OF THE EGM

3. In order to be valid, the white form of proxy (together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such authority) should be lodged with the Company's branch share registrar in Hong Kong (being Tricor Investor Services Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong) as soon as possible, but in any event not less than 48 hours before the time for holding the Meeting (or any adjournment of the Meeting). Completion and delivery of the form of proxy will not preclude a member from attending the Meeting (or any adjournment of the Meeting) and voting in person if he so wishes. In the event that a member attends and votes at the Meeting after having lodged his form of proxy, his form of proxy will be deemed to have been revoked.
4. In the case of joint holders of a share, the vote of the senior who tenders a vote (whether in person or by proxy) will be accepted to the exclusion of the vote of the other joint holder(s) and, for this purpose, seniority will be determined by the order in which their names stand in the register of members of the Company in respect of the relevant joint holding.
5. At the Meeting, the chairman of the Meeting will exercise his power under article 90 of the articles of association of the Company to put the above resolution to vote by way of a poll.
6. The register of members of the Company will be closed from 9 June 2009 to 11 June 2009 (both days inclusive) during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong (being Tricor Investor Services Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong) not later than 4:30 pm on 8 June 2009.

* *For identification purpose only*