



**MANUFACTURING SOLUTIONS**  
**PRECISION ENGINEERING**  
**DISTRIBUTION & SERVICES**



## Contents

- 1** About Dragon Group International Limited
- 2** A Letter to Shareholders
- 6** CEO's Operations Review
- 9** Value Creation
- 10** Board of Directors
- 12** Executive Officers
- 15** Financial Highlights
- 17** Corporate Information
- A1** Appendix 1  
Corporate Governance
- A2** Appendix 2  
Directors' Report and Audited Financial Statements
- A3** Appendix 3  
Statistics of Shareholdings
- A4** Appendix 4  
Notice of Annual General Meeting
- A5** Appendix 5  
Proxy Form

## Significant Events

- Acquisition of Dragon Tech;
- Placement of 73.7 million ASTI shares
- US\$6m Investment in Dragon Treasure Boat approved by shareholders on 5 Oct 07

金龙



The Dragon Group International Limited (“Dragon Group” or “DGI”), previously known as Flextech Holdings Limited, was founded in 1990. The Dragon Group provides distribution and services collaborating with a number of best-in-class suppliers to provide in-depth product and solutions expertise to its customers in key regional markets.

The shares of the Dragon Group are quoted on the mainboard of the Singapore Exchange. In June 2006, the Dragon Group became a subsidiary of mainboard listed ASTI Holdings Limited (“ASTI”), an integrated group of companies manufacturing equipment and providing services to the semiconductor and healthcare industries. The ASTI group provides an integrated range of services comprising Backend Equipment Solutions & Technologies (“BEST”), Precision Engineering and Distribution & Services.

Headquartered in Singapore, the Dragon Group is the distribution and services arm of the ASTI group of companies. It has subsidiaries and representative offices across Hong Kong, China, India, Indonesia, Korea, Malaysia, Philippines, Taiwan and Thailand.

*For more information please visit our website at [www.dragongp.com](http://www.dragongp.com)*

# 策略

Dear Shareholders,

I am pleased to present our first annual report under the name of "Dragon Group International Limited". After more than one year of restructuring and reorganisation, we have transformed Flextech Holdings Limited into a different organisation. It now has a clear vision, a new identity and an expanded presence having acquired two new businesses with strong presence in Hong Kong and China.

The branding exercise that began in FY2006 brought in its wake, a name change. In October 2007, Flextech Holding Limited changed its name to "Dragon Group International Limited". When completed, this exercise will culminate in an identity change for the Dragon Group. The new identity will better reflect our business and the future thrust of our organisation. Our metamorphosis has begun.

Led by ASTI Holdings Limited, our reorganisation efforts over the last few years have breathed new life into our group of companies. Today, under the umbrella of the ASTI group are ASTI Holdings Limited - our manufacturing solutions arm, Dragon International Limited - our distribution and services arm and Advanced Systems Automation Limited - our precision engineering specialist. Nonetheless, we have not deviated from our core businesses. Rather, we have redefined our approach and the focus of each individual business segment. Going forward, we aim to improve the fit among the three companies so that they can add value to each other, jointly serve a broader spectrum of customers and create value for their shareholders.

FY2007 saw the entry of Dragon Technology Distribution Co., Ltd ("Dragon Tech") and Dragon Trading (Shanghai) Company Limited ("Dragon Shanghai") into Dragon Group International Limited. Opening new gateways to China, these new business units effectively enlarged, expanded and broadened our reach. With their entry, the Dragon Group now has eleven offices in Hong Kong and China with a staff force of more than two hundred and fifty employees.

China, a country yet to release its potentials, will become increasingly important for Dragon Group. Over the last two decades, businesses have sprung up randomly in China as investors rushed to tap first entry benefits. This in turn propelled and hastened

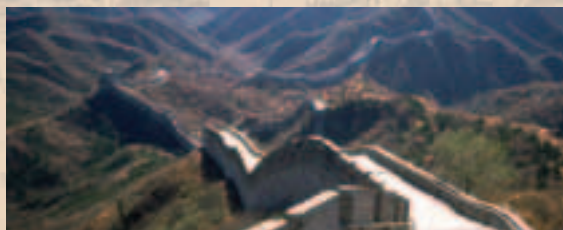
China's economic development. In recent years, faced with increasingly competitive pressure, businesses in China find themselves grappling with aggressive price competitions and narrowing margins. These issues are poised to ignite consolidation as the market becomes increasingly congested. To prepare ourselves for the challenges ahead, we speeded our integration efforts across the entire DGI group. Through this exercise, we will review and rationalise our resources, identify non-core assets for divestment and redeploy resources to strengthen our key business areas.

On the business front, affecting our performance this year were the weak sentiments in the IT industry, the slowdown in our independent trading division and the impact of our exit from the consumer electronics business in the final quarter of the year. Consequently, in FY2007, our revenues contracted from \$542.9 million to \$460.8 million despite the consolidation of the eight-months accounts of the two newly acquired businesses. Gross profitability on the other hand, improved, rising from 7.7% to 9.6% due to the higher contribution from our distribution business and the removal of lower margin businesses from our portfolio. Included in our performance this year is a \$6.8 million exceptional gain from the disposal of quoted investments. Together, these events gave rise to a \$2.6 million net profit after tax, which is an improvement over the \$12.8 million loss reported in FY2006. Another significant improvement was the \$16.1 million increase in our cash and bank balances, which rose from \$22.6 million to \$38.7 million at the close of FY2007.

Into the new financial year, we will continue to review our business and augment our organic growth with acquisitions of businesses that are complementary, synergistic and meet our internal criteria. To support our acquisition efforts, we will be looking for opportunities to further increase our cash balance and strengthen our balance sheet. Geographically, we will continue to expand our presence in China. To tap into the potentials in the Chinese market, we have to align ourselves closely with the culture and business practices in China. Facilitating these efforts are our re-branding exercise and our joint venture with the Nanjing government to reproduce the treasure boat. This boat is similar to the 63 vessels that Admiral Zheng He used in 1405 during his seven great naval expeditions to the West.

# Strategy

CHARTING



NEW

# DIRECTIONS



# 演变



The treasure boat is not only a vessel. It demonstrates China's maritime capabilities. Since the 11th century, Chinese ships and charts had surpassed all others but hitherto they had remained in eastern waters. At the height of the Ming expansion, they lead the world in maritime exploration. Over the next three decades, Chinese ships sailed round Southeast Asia, crossing the Indian Ocean to East Africa, the Red Sea and Persian Gulf. Wherever they went, Zheng He and his ambassadors established diplomatic contacts, extending China's tributary network. Their efforts brought China to the world. Through their cultural exchanges, trade flourished. Together they brought China to the height of its prosperity under the rule of emperor Yongle (1403 – 1424)\*.

Like the treasure boat, there are many intrinsic values within the Dragon Group. Our distribution network is a strong conduit that enables us to reach out to different parts of China. Growing affluence and the rise of consumerism in China will bring other numerous opportunities. While electronics will remain as one of our core businesses, we will look to better utilise our distribution competencies. The Dragon Group will increasingly become a China-centric Asian business. Having invested in the construction of this conduit, we are ready to help connect the world with China, assuming the role of an envoy and a proponent of economic prosperity amid universal cultural diversities.

The new financial year is fraught with uncertainties due to issues created by rising energy prices, the weak US dollar, adverse impact of the US sub-prime mortgage crisis and the risks of a recession in the US. We expect the slowdown in the final quarter of FY2007 to continue into the first six months of the new financial year. Nevertheless, we will continue with our efforts to rationalise our product lines and reorganise our business to achieve better efficiency and enhance our competitiveness. In view of the prevailing uncertainties around the world, we will be vigilant in the management of our business and are cautious about our prospects in the new financial year.

In closing, I would like to thank all our customers, bankers, principals and business associates for your support during the year. To all our employees, we appreciate your commitment and hard work that have help weathered us through the challenging business environment. Last but not least, to our shareholders, thank you for your trust and confidence in our board and management. Together, I am confident that we will set an exciting new paradigm for the Dragon Group in the not too distant future.

**DATO' MICHAEL LOH SOON GNEE**  
*Executive Chairman*

\* Source: Chronicle of the Chinese Emperors by Ann Paludan, 1998 Thames & Hudson Ltd, London

# Transformation



The Chinese invented the compass in the 11th century and at the height of the Ming expansion, the Chinese led the world in maritime exploration.



An artistic calligraphy of the word "Dragon" in gold.

We are replicating the Dragon Treasure Boat that Admiral Zheng He used during his seven great naval expeditions to the West in 1405.



# 回顧

## OPERATIONS REVIEW

Following our acquisition by ASTI Holdings Limited on 1st July 2006, we embarked on our organisational restructuring. This exercise, which commenced in FY2006, continued into FY2007. In May 2007, the Company has completed the acquisition of the business and goodwill of Dragon Tech including the business name "Dragon" and certain assets related thereto; and the entire issued and paid up share capital in Dragon Shanghai. With the addition of these two new business units, we now have 11 offices and a total staff strength of more than 250 employees in Hong Kong and China. Following these acquisitions, we also consolidated the eight months financial contributions from our two subsidiaries into our accounts in FY2007.

The acquisition of Dragon Tech is a strategic move. Dragon Tech is not only well established in the communication market, its design development and demand creation capabilities also command better margins relative to our existing distribution business. By integrating the new competencies from Dragon Tech, we are able to enhance the future

growth of the Dragon Group with our entry into the wireless infrastructure, optical networking and mobile internet devices industries.

Another significant highlight this year was our name change. In October 2007, we changed our name from Flextech Holdings Limited to Dragon Group International Limited. At the same time, we adopted a new logo – the symbol of a dragon – to complement our new name, and subsequently, our new identity. This re-branding exercise will bring us closer to our vision to develop the Dragon Group into a major distribution and services provider, further expanding our reach into the China market.

**"This re-branding exercise will bring us closer to our vision to develop the Dragon Group into a major distribution and services provider for the China market."**



# Reflections



In line with our re-branding exercise, the Group also undertook a US\$6.0 million investment in a joint venture with the Nanjing government to construct the ZhengHe Treasure Boat. Held under the umbrella of a joint venture company Nanjing Dragon Treasure Boat Development Co., Ltd, this investment was approved by our shareholders at our Extraordinary General Meeting held on 5th October 2007.

## REVIEWING OUR BUSINESS DIVISIONS

### Electronics Components Distribution

The performance of our electronics components distribution division, FE Global Electronics ("FEG") was weaker in FY2007 due to sluggish market conditions. Revenue contribution from FEG was lower this year, declining by 15% from \$531 million in FY 2006 to \$450 million .

On the other hand, we saw an improvement in our gross profit from our distribution due to the shift in our strategy to focus on profitable businesses and our exit from businesses yielding lower profit margins. At the close of FY2007, FEG's gross profit margin rose from 7.2% in FY2006 to 9.3% this year.

FEG reported a net loss of \$0.2 million in FY2007. This is a significant improvement when compared to the net loss of \$11.6 million reported in the previous financial year.

### Semiconductor Test and Consumable

Spire Technologies Group ("STG") reported a net loss of \$0.6 million in FY2007 compared to the net profit of \$0.7 million last financial year. Affecting the performance of STG this year was the one time write-off of a licensing fee of \$0.3 million and the start up costs incurred for the establishment of a probe card facility in the Philippines at the end of 2006. While the new facility brings us closer to customers operating from the Philippines, the start up costs for this facility affected our performance this year. The one time write-off of the \$0.3 million licensing fee is due to our exit from the NuSignal service business, in view of its slow acceptance rate by the market .

## OUR FINANCIAL PERFORMANCE

The volatility and low visibility in the technology sector brought with them many challenges. We saw lower contribution from our independent trading division and in anticipation of the weakening consumer electronics demand, we took a decision in the final quarter of FY2007 to exit from the consumer electronics business. Together, these factors gave rise to resulted a 15% decrease in our revenues, which declined from \$542.9 million in FY2006 to \$460.8 million in FY2007.

# 增值

Our gross profit margin was higher this year due to the shift in our business strategy to focus on driving our profitability as opposed to revenue generation. Other factors include the reasonably good gross profit margins generated by our two new business units, the existing business of subsidiaries and the elimination of lower profit margin businesses during the year. As a result, our gross profit margin rose from 7.7% (FY2006) to 9.6% in FY2007.

Operating expenses were higher this year due to the consolidation of the operating expenses of our two new business units. Selling and marketing expenses rose 25% from \$16.5 million in FY2006 to \$20.7 million and general and administrative expenses rose from \$17.6 million in FY2006 to \$20.3 million. Financing costs increased from \$5.4 million to \$6.7 million due to the higher financing needs of our subsidiary companies.

We closed FY2007 with a net profit after tax of \$2.6 million, which is an improvement when compared to the net loss of \$12.8 million reported in the previous financial year. During the year, disposal of quoted investments in ordinary shares of ASTI Holdings Limited contributed a gain of \$6.8 million.

At the close of FY2007, the total assets in our balance sheet rose from \$187.6 million to \$199.8 million. One of the key balance sheet items was the increase in our intangible asset balance, which rose from \$2.2 million in FY2006 to \$11.8 million in FY2007. This is the goodwill relating to the acquisition of the business of Dragon Technology in the second quarter.

Other significant changes in the Group's balance sheet this year include the \$13.2 million increase in inventory due to the additional stocks from our newly acquired businesses, and the \$22.9 million reduction in quoted investments as a result of 30.5 million ASTI shares used to acquire Dragon Tech and the placement of 73.7 million ASTI shares. Trade

debtors' balance was also lower this year due to the lower turnover from the electronics division.

Operating activities generated \$16.1 million cash flow due primarily to the cash inflow from the disposal of quoted investments during the year. Cash and bank balances amounted to \$38.7 million, which is higher than the balance of \$22.6 million reported in the previous financial year.

Trade creditors' balance rose from \$85.8 million to \$94.9 million due the additional purchases from our newly acquired businesses in the second quarter of the year. To fund the increased working capital needs of our new subsidiaries, our bank borrowings rose from \$39.5 million to \$42.1 million in FY2007.

## LOOKING AHEAD

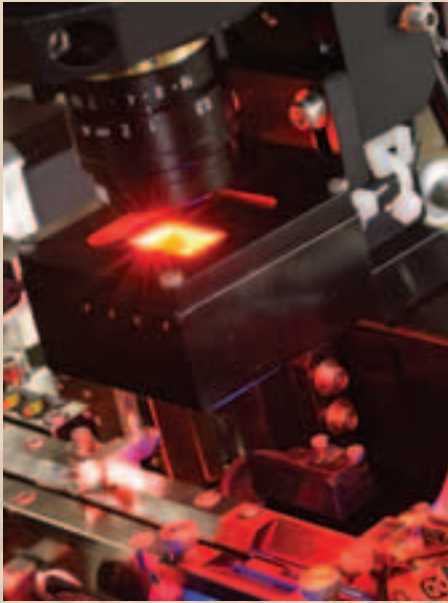
Into the new financial year, we will continue to integrate the businesses of our two newly acquired business units with our current operations in Singapore and the region. In view of the uncertainties in global economic outlook, the weakening of the US Dollar and the potential impact of the US sub-prime mortgage crisis, we will adopt a cautious approach to our business management.

To improve efficiency and reduce resource duplication, we will be reviewing and rationalising our resources. Assets that are non-core will be set aside for divestment and the proceeds redeployed to strengthen our core business areas.

We plan to augment our business growth with acquisitions. Corresponding to this strategy, we will continue with our search for businesses that will add value and support the future growth of the Dragon Group.

**ALEX ONN SIN CHING**  
Chief Executive Officer

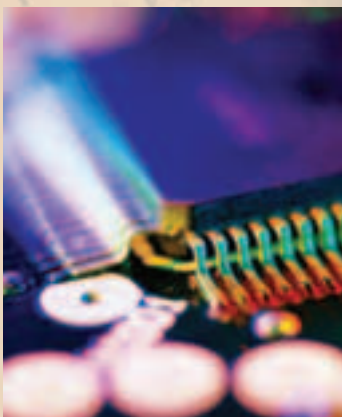
# Value Creation



**ASTI** leads our thrust into the semiconductor industry. Our vision solutions are internationally renowned. Over the years, ASTI has invested in research and development, continually upgrading our vision technology, maintaining our lead in this specialised niche area in the semiconductor industry.

**ASA** is our precision engineering arm. At ASA, we provide equipment ("Equipment") and equipment contract manufacturing services ("ECMS") to customers from the semiconductor, healthcare and scientific industries. With our precision engineering capabilities, ASA is able to support the requirements of the ASTI Group.

**Dragon Group** is the distribution arm. Headquartered in Singapore, we have an extensive reach into the surrounding Asian countries and Greater China. Our distribution capabilities within the Dragon Group pave the way for the ASTI Group to firm its footing in the China market, where there are abundant potentials for the growth of the semiconductor industry.



The Dragon Group is a distributor of electronic components providing "design-in" and research and development capabilities to customers in the electronic industry.



# 领导

## **Dato' Michael Loh Soon Gnee, 52**

*Executive Chairman*

*Bachelor of Arts*

*Double major in Business Administration & Chemical Engineering*

*State University of New York, Buffalo, USA*

Dato' Loh has a distinguished career in the semiconductor industry. He brings with him more than 28 years of knowledge and experience in wafer fabrication, research and development and the assembly, testing and distribution of semiconductor products. Having spent 20 years in the Silicon Valley, USA, Dato' Loh has abundant practical business experience and a vast network of contacts in the semiconductor industry.

Dato' Loh is the Executive Chairman of the SGX-Mainboard-listed ASTI Holdings Limited and SGX-Catalist listed Advanced Systems Automation Limited.

## **Mr Alex Onn Sin Ching, 53**

*Executive Director & Chief Executive Officer*

*Advanced Diploma in Polymer Technology*

*South Bank Polytechnic of London*

*Diploma in Marketing*

*Marketing Institute of Singapore*

A seasoned IT electronics industry executive with over 25 years of experience in sales, marketing and management honed from stints with Texchem, Corning Asia, Dynamar and Norplex Oak, Mr Onn has been integral to the development of the Group.

Mr Onn is CEO and one of the founders of FE Global Electronics Pte Ltd, a wholly owned electronics distribution division of Dragon Group International Limited. He currently holds directorships in 33 companies under the FE Group, an active operating unit of the Dragon Group.

## **Mr Haji Zubir Bin Haji Harun, 56**

*Independent & Non-Executive Director  
Chairman of Audit Committee*

*Diploma in Management*

*MIM*

Mr Haji Zubir was Vice President of Maybank Berhad, a position he has held for over a decade. He began his career with Maybank in 1972 and had held various management positions over a span of 35 years there, including Vice President of the Maybank Group and Chief Representative of Maybank in the Republic of Uzbekistan. Mr Haji Zubir was also appointed as the first CEO of Uzbek Leasing International, a Joint Venture between International Finance Corporation, European Bank Reconstruction and Development, National Bank of Uzbekistan and Maybank. Mr Haji Zubir is currently a Director of Dynamic Home Pro. Sdn Bhd, Simple Creation Sdn Bhd, Unggul Hormat Sdn Bhd, Triumphant Network Sdn Bhd, DHP Resources Sdn Bhd and EC Partners Sdn Bhd.

*From left to right: Dato' Michael Loh Soon Gnee, Mr Alex Onn Sin Ching, Mr Haji Zubir Bin Haji Harun, Mr Derek Loh Eu-Tse, Mr Teh Kim Seng and Mr Steven Shen Hing.*



# Leadership

**Mr Derek Loh Eu-Tse, 41**

*Independent & Non-Executive Director  
Chairman of Remuneration Committee*

*MA with Honours  
Cambridge University*

An Advocate & Solicitor for the past 14 years, Mr Loh currently practices law at TSMP Law Corporation, where he is an Executive Director. He presently holds directorships in several companies, including Equation Corp Limited and Freight Links Express Holdings Ltd. Mr Loh chairs the Remuneration Committee in the latter.

**Mr Teh Kim Seng, 41**

*Independent & Non-Executive Director.  
Chairman of Nomination Committee  
Chairman of Investment Committee*

*LLB (Leeds University, England)  
LLM (Cambridge University, England)*

With over 19 years of experience in the legal, mergers and acquisition, corporate finance, venture capital and financial

services arenas, Mr Teh runs Netrove Ventures, a regional boutique venture capital and investment advisory firm headquartered in Hong Kong and with offices in Kuala Lumpur, Hanoi, Guangzhou and Beijing. Residing in Hong Kong, Mr Teh initially worked as an attorney in London and then in Hong Kong, specialising in Corporate Finance and Mergers & Acquisitions. He then served as the Chief Operating Officer of a regional investment and advisory firm headquartered in Hong Kong for a number of years before founding Netrove Ventures in 1999. Mr Teh is currently Chairman of Netrove Ventures and all its affiliated companies and his present directorship portfolio includes Netrove Ventures Corporation and V2 Technology Inc. He is also the non-executive Chairman of FoaMasters International Limited and a non-executive director of Pixel Interactive Media Limited, both listed on the London Stock Exchange. He is also the Chairman of the Remuneration Committee of both these companies and sits on their Audit and Nomination Committees.

**Mr Steven Shen Hing, 47**

*Executive Director*

*Bachelor of Science, Electrical Engineering  
National Taiwan University*

Mr Shen boasts over 20 years of experience in the electronics industry and was the General Manager of a distributor in Hong Kong for Advanced Micro Devices prior to joining the Group. Mr Shen is the President and co-founder of the FE Global (North Asia) Group of companies, and was instrumental in the establishment of FE Global (China) Ltd.



# 精英



**Dato' Michael Loh Soon Gnee**  
*Executive Chairman*



**Mr Alex Onn Sin Ching**  
*Executive Director & Chief Executive Officer*



**Mr Chow Kek Tong**  
*Group Chief Financial Officer,  
Dragon Group International Limited*

Mr Chow joined the Group in 2002. As Group CFO, he oversees the finance function. Mr Chow began his career at Black & Decker, where he has held various senior positions in finance, purchasing management and business development. Prior to joining the Group, he worked in various public-listed companies based in Singapore, Malaysia and Hong Kong, holding senior finance positions. Mr Chow is an Associate Member of the Institute of Chartered Accountants (England & Wales).

**Mr Anthony Ma**  
*Managing Director,  
FE Global Hong Kong Ltd*

Mr Ma joined the Group in 1999 after it acquired Marvic International Limited (now known as FE Global Hong Kong Ltd), a distributor of electronic components in Hong Kong which he founded in 1993. A semiconductor industry veteran, Mr Ma began his 40-year career as a technician at Otis Elevator in 1965, after earning an Electrical Engineering certificate from a Hong Kong technical college. From 1968 to 1975 he worked at Carter SemiConductor, where he held various positions in production and sales and marketing. During that time, he also helped the company set up manufacturing plants in Malaysia and the Philippines. He co-founded Hi-rel Hong Kong Ltd, a distributor of electronic components in Hong Kong, in 1975, and was a partner there until 1993.

**Mr B S Chakravarthy**  
*Managing Director,  
FE Global Electronics (India) Pvt Ltd*

Mr Chakravarthy joined the Group in 1998, and brings with him 20 years of experience in the electronics industry. Mr Chakravarthy worked for a private company for two-and-a-half years after graduating with a Diploma in Electronics in 1988. In 1990, he founded his own electronic components trading business in India. This was followed by the establishment of Decibels Electronics Pvt Ltd in 1995, through which he invested into FE-Decibels Electronics Pte Ltd, which is 70% owned by FE Global Electronics Pte Ltd.

# Management

## **Mr Chia Swee Tong**

*General Manager,  
FE Global Electronics Pte Ltd*

Mr Chia has over 22 years of diverse experience in the electronics industry, having held key positions in R&D, supply base management, procurement and sales and marketing. Prior to joining FE Global, he worked for blue-chip companies including Hewlett-Packard, Apple Inc, NatSteel Electronics and Venture Manufacturing. Mr Chia holds a Bachelor of Engineering with First-Class Honours from the University of Newcastle, Australia.

## **Mr Henry Liao**

*Vice General Manager,  
FE Global Taiwan Co., Ltd*

Mr Liao brings with him over 20 years of experience in the sales of passive electronic components. He served as the General Manager of Taiwan-based AFC since its establishment in 1992, and joined the Group following the acquisition of AFC (now known as FE Global Taiwan Co., Ltd) in 2000.

## **Mr Lee Chian Chyang**

*Managing Director,  
FE Global Malaysia Sdn. Bhd.*

Mr Lee joined the Group in 1990 and was instrumental in establishing its Malaysia operations. His previous experience includes managerial and engineering positions in sales and production at Dynamar Malaysia and Siemens. Mr Lee holds a Bachelor of Science in Industrial Engineering and a Diploma in Business Management from the State University of New York at Buffalo, USA.

## **Mr Prasit Tangchutongchai**

*Managing Director,  
FE Global (Thailand) Co., Ltd*

Mr Prasit joined the Group in 1999. He brings with him 28 years of engineering, marketing and management experience in the semiconductor industry. Prior to joining the Group, Mr Prasit was the General Manager of SII Co., Ltd, a company which he co-founded in 1997. Mr Prasit worked for Philips Semiconductor Ltd from 1979 to 1991 and last held the position of process engineering manager. From 1991 to 1997, he served as an Engineering Director of Alphatech Co., Ltd and as a Senior Marketing Manager of Hana Microelectronics. Mr Prasit holds a Bachelor of Science in Electrical Engineering from the Mapua Institute of Technology, the Philippines.

## **Mr Robert Sawhill**

*Chief Executive Officer & Executive Director,  
Spire Technologies Pte Ltd*

Mr Sawhill joined the Group in 1996. He founded Spire Technologies in 1993, after spending 8 years at Reliability Inc, where he last held the position of Technical Advisor of the company's Singapore subsidiary. His previous experience at Reliability Inc includes managerial and technical roles in system design, quality assurance, production and customer service. Mr Sawhill holds Bachelor of Science degrees in Electronics Technology and Computer Architecture Design from the University of Houston, USA, as well as an Associate's Degree in Communication (RF) Technology from the Tarrant County Junior College, USA.

## **Mr Michael Yoong Sin Yen**

*Managing Director,  
Sooner Technology Pte Ltd*

Mr Yoong joined the Group in 1999. A co-founder of Sooner Technology, Mr Yoong brings with him over 13 years of experience in the electronic components industry. Prior to establishing Sooner Technology in 1994, he worked as a Defence Technical Officer in the Defence Science Organisation for 4 years and as an Engineering Manager in Seagate Technology International for 3 years. Mr Yoong holds a Diploma in Electronics & Communications Engineering from the Singapore Polytechnic, and a Bachelor of Science in Electrical Engineering from the University of Oklahoma, USA.

## **Mr Gary Su**

*Group Financial Controller,  
Dragon Group International Limited*

Mr Su joined the Group in 2003. He began his career as an auditor in London, and was the Regional Financial Controller for Europe at Asia Pulp & Paper Co. Ltd before joining the Group. His previous experience includes corporate finance roles at SIA Engineering Co. and Seagate Technology. Mr Su holds a Bachelor of Science in Accounting with Second-Class Honours from the University of Hull, England. He is a member of the Institute of Certified Public Accountants of Singapore and the Association of Certified Chartered Accountants, UK. He is also an associate member of the Association of Corporate Treasurers, UK.

# Management



## **Mr Zhao Zhigang**

*Deputy Chairman & Executive Director,  
Nanjing Dragon Treasure Boat Development  
Co., Ltd. (DTB)*

Mr Zhao joined DTB since it was established two years ago as a shareholder representative for the Nanjing Gulou District Government. Mr Zhao has more than 18 years experiences in various government posts and 20 years in business management. He has held various senior positions in different fields in his career as deputy factory director, factory GM, head of librarian, culture bureau director, general manager and chairman, etc. He has a BA degree and a title of Senior Economist. Now he is holding a position of Standing Member of Political Consultative Conference in Gulou District.

He has also held several key positions as Chairman and GM for Zhenghe Shipyard Relics Culture Management Company, Co-chair for Jiangsu Province Zhenghe Study Society and Deputy Director for Jiangsu Zhenghe Navigation Culture Fund. Mr Zhao is one of the founders for reconstruction of Zhenghe Treasure Boat in Nanjing.

## **Mr Joe Yau**

*General Manager,  
Dragon Technology Distribution (HK) Limited*

Mr Yau joined Dragon Technology Distribution Co., Ltd. in 1999. He brings with him 10 years of experience in component distribution. He is a graduate from the University of California, Irvine with B.A. in Business Administration.

## **Mr Yeo See Chye**

*Financial Controller,  
FE Global (North Asia)*

Mr Yeo joined the Dragon Group in 2000. He is the Financial Controller for Dragon Technology Distribution (HK) Limited. Mr Yeo previously worked with BDO Binder Public Accounts, Penang and Deloitte Touche Tohmatsu International Public Accountants, Kuala Lumpur. Mr Yeo is a graduate from the Northern University of Malaysia with a Bachelor of Business Administration degree. He also has an ACCA degree from the Association of Chartered Certified Accountants.

## **Mr Lenus Kho**

*General Manager,  
FE Global Singapore Pte Ltd*

Mr Lenus Kho joined FE Global Singapore Pte Ltd in 2007 as its General Manager. He brings with him 18 years of experience from the regional semiconductor industry. He has a Diploma in Electronics Engineering from Ngee Ann Polytechnic and a Diploma in Sales and Marketing from the Marketing Institute of Singapore.

## **Mr Choi Young Ju**

*Representative Director,  
FE Global Korea*

Mr Choi has more than 20 years of experience in the electronics industry. Prior to joining the group in 1998, he was in charge of the sales department in Woo Young Tech Ltd. Mr Choi holds a B.S. degree in Electronic Engineering from the University of Incheon.

## **Mr Steve Ahn Sang Ho**

*Head of Distribution,  
FE Global Electronics*

Mr Ahn has been with the organisation for more than 6 years as the head of the Dragon Technology Distribution Co., Ltd. He has been in the electronic industry for more than 25 years. After graduating with a Degree in Electronic Engineering from Yonsei University of Korea, he joined Samsung as an electronic engineer. Thereafter, he progressed on and joined various semicon companies like AMD, Motorola, Lattice. Mr Ahn was the Vice President of sales at a Korean Distribution company before joining Dragon Technology Distribution Co., Ltd.

## **Mr Jia Tiejia**

*Director & Deputy General Manager for  
Nanjing Dragon Treasure Boat Development  
Co., Ltd. (DTB)*

Mr Jia joined the Group in 2001 as General Manager for Dragon Technology Distribution Co., Ltd. in HK and China. He has many years experience in Chinese government and telecommunication industry. His previous experience includes diplomat for the Chinese embassy in Africa, division head for Ministry of Foreign Trade in Beijing, managing director for Lucent Technology Microelectronics Group in Greater China. He has held MBA degree from Thunderbird, USA. Mr Jia started his new management career for reconstruction of Zhenghe Treasure Boat in Nanjing on behalf of Dragon Group since 2006.



# Financial Highlights

<b>RESULT OF OPERATIONS</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000
<b>STATEMENT OF THE GROUP RESULTS</b>					
Revenue	371,983	785,904	639,904	542,908	460,830
EBITDA	11,297	16,433	15,205	11,002	8,393
Profit / (loss) before taxation	6,694	17,304	7,398	(11,788)	3,662
Taxation	(1,643)	(2,681)	(424)	(1,007)	(1,094)
Profit / (loss) for the year	5,051	14,623	6,974	(12,795)	2,568
<b>Attributable to:</b>					
Equity holders of the Company	3,002	13,006	6,161	(13,164)	3,135
Minority interests	2,049	1,617	813	369	(567)
	5,051	14,623	6,974	(12,795)	2,568
Earning / (loss) per share (cents)	1.9	6.4	2.8	(5.9)	1.4
<b>FINANCIAL POSITION OF THE GROUP</b>					
Intangible assets	246	15,721	15,869	1,988	11,752
Property, plant and equipment	9,071	13,590	15,487	13,617	14,899
Investments	15,409	20,975	17,458	1,763	2,294
Long term receivables	1,001	-	-	-	-
Current assets	93,627	156,764	159,326	170,234	170,879
Total Assets	119,354	207,050	208,140	187,602	199,824
Equity attributable to equity holders of the Company	16,763	54,524	61,691	51,184	44,996
Minority Interests	10,787	4,290	5,031	2,537	7,877
	27,550	58,814	66,722	53,721	52,873
Other long term & deferred liabilities	40,306	15,066	19,429	7,028	7,010
Current liabilities	51,498	133,170	121,989	126,853	139,941
Total Equity and Liabilities	119,354	207,050	208,140	187,602	199,824
NAV per share (cents)	16.06	26.43	29.78	23.97	23.60
Weighted average number of shares in the year	171,558,984	222,491,456	224,081,456	224,081,456	224,081,456
<b>TURNOVER AND PROFITABILITY</b>					
Analysis by Activities					
<b>Turnover</b>					
Electronics Distribution & Manufacturing	351,893	767,475	629,604	531,186	450,316
Semiconductor Test & Consumables	20,090	18,429	10,300	11,201	10,331
Technology Investments & Others	-	-	-	521	183
Semiconductor Equipment & Services	-	-	-	-	-
	371,983	785,904	639,904	542,908	460,830
<b>Group profit / (loss) before tax</b>					
Electronics Distribution & Manufacturing	2,926	11,743	11,763	(10,294)	1,174
Semiconductor Test & Consumables	2,801	2,195	(732)	776	(465)
Technology Investments & Others	(1,537)	(4,287)	(4,408)	(4,117)	2,953
Semiconductor Equipment & Services	2,504	7,653	775	1,847	-
	6,694	17,304	7,398	(11,788)	3,662



# Corporate Information

资料

## Board of Directors

### Executive:

Michael Loh Soon Gnee  
*Executive Chairman*

Alex Onn Sin Ching  
*Chief Executive Officer*

Steven Shen Hing  
*Executive Director*

### Non-Executive:

Derek Loh Eu-Tse  
*Lead Independent*

Haji Zubir Bin Haji Harun  
*Independent*

Teh Kim Seng  
*Independent*

## Audit Committee

Haji Zubir Bin Haji Harun  
*Chairman*

Teh Kim Seng

Derek Loh Eu-Tse

## Nominating Committee

Teh Kim Seng  
*Chairman*

Derek Loh Eu-Tse

Haji Zubir Bin Haji Harun

## Remuneration Committee

Derek Loh Eu-Tse  
*Chairman*

Teh Kim Seng

Haji Zubir Bin Haji Harun

## Company Secretary

Ng Lai Ying

## Executive Officers

Anthony Ma  
*Managing Director of FE Global Hong Kong Ltd*

B S Chakravarthy  
*Managing Director of  
FE Global Electronics (India) Pvt Ltd*

Chia Swee Tong  
*General Manager of FE Global Electronics Pte Ltd*

Choi Young Ju  
*Representative Director of FE Global Korea*

Chow Kek Tong  
*Group Chief Financial Officer of DGI*

Gary Su  
*Group Financial Controller of DGI*

Henry Liao  
*Vice General Manager of  
FE Global Taiwan Co., Ltd*

Jia Tiejia  
*Director & Deputy General Manager of  
Nanjing Dragon Treasure Boat Development Co.,  
Ltd. (DTB)*

Joe Yau  
*General Manager of Dragon Technology  
Distribution (HK) Limited*

Lee Chian Chyang  
*Managing Director of  
FE Global Malaysia Sdn. Bhd.*

Lenus Kho  
*General Manager of FE Global Singapore Pte Ltd*

Michael Yoong Sin Yen  
*Managing Director of Sooner Technology Pte Ltd*

Prasit Tangchutongchai  
*Managing Director of  
FE Global (Thailand) Co., Ltd*

Robert Sawhill  
*Chief Executive Officer & Executive Director of  
Spire Technologies Pte Ltd*

Steve Ahn Sang Ho  
*Head of Distribution of FE Global Electronics*

Yeo See Chye  
*Financial Controller of FE Global (North Asia)*

Zhao Zhigang  
*Deputy Chairman & Executive Director of  
Nanjing Dragon Treasure Boat Development Co.,  
Ltd. (DTB)*

## Registered Office

3 Church Street, #08-01  
Samsung Hub  
Singapore 049483  
Tel: (65) 6536 5355  
Fax: (65) 6536 1360

## Business Office

Blk 1 Kallang Sector, #06-03  
Kolam Ayer Industrial Estate  
Singapore 349276  
Tel: (65) 6212 9629  
Fax: (65) 6212 9630

## Share Registrars/ Share Transfer Agent

Boardroom Corporate & Advisory  
Services Pte. Ltd.  
3 Church Street, #08-01  
Samsung Hub  
Singapore 049483  
Tel: (65) 6536 5355  
Fax: (65) 6536 1360

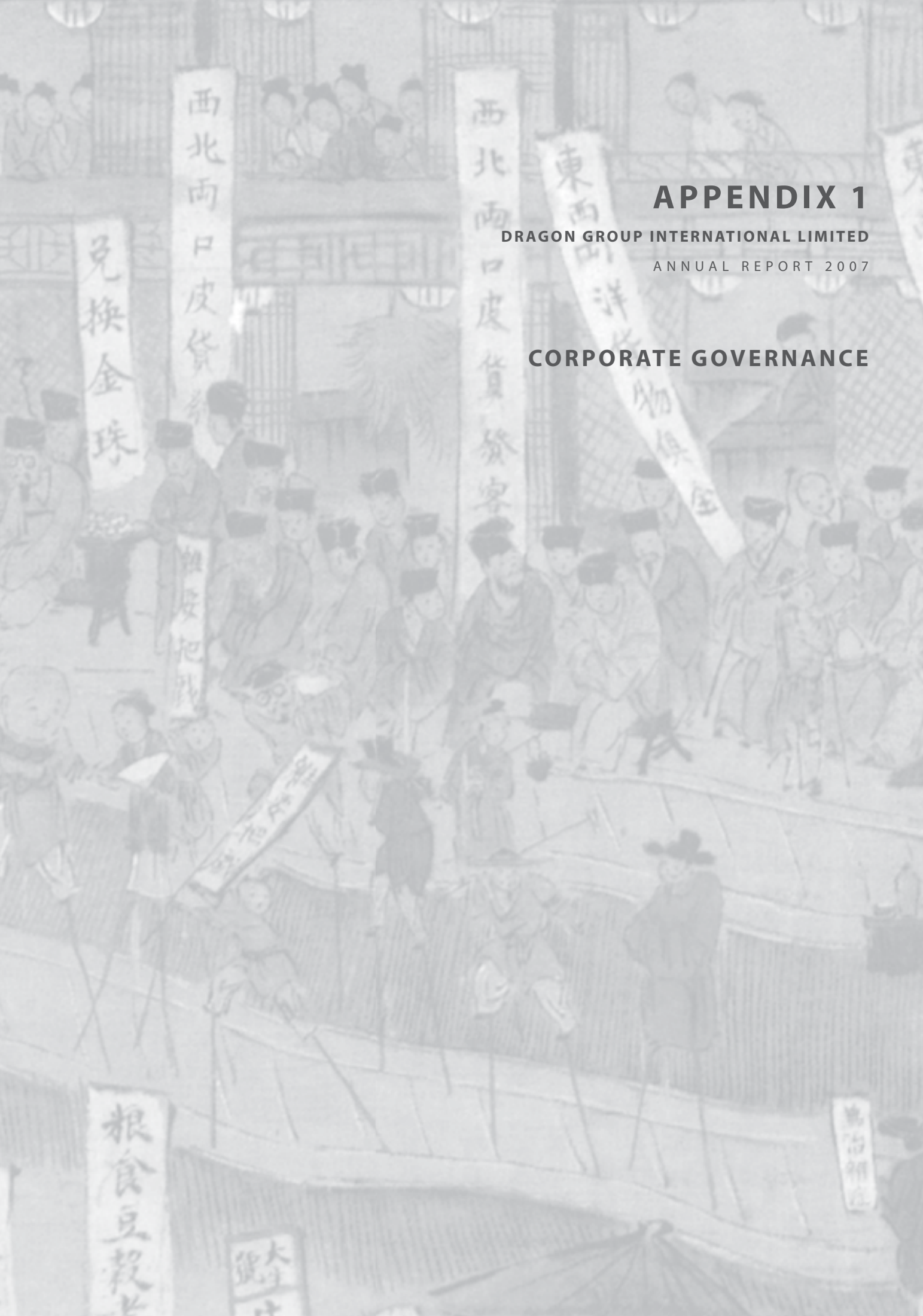
## Independent Auditors

Ernst & Young  
Certified Public Accountants  
One Raffles Quay  
North Tower, Level 18  
Singapore 048583

Audit Partner-in-charge: Liew Choon Wei  
(since the FY ended 31 December 2005)

## Principal Bankers

Malayan Banking Berhad  
Oversea-Chinese Banking Corporation Limited  
Standard Chartered Bank  
United Overseas Bank Limited



# APPENDIX 1

DRAGON GROUP INTERNATIONAL LIMITED

ANNUAL REPORT 2007

## CORPORATE GOVERNANCE

西北兩口皮貨發客

西北兩口皮貨發客

東西洋貨物換金

兌換金珠

雜貨把戲

雜貨把戲

糧食豆穀

大生

嘉治

# CORPORATE GOVERNANCE REPORT

Year ended 31<sup>st</sup> December 2007

---

The Board of Directors (the “**Board**”) of Dragon Group International Limited (the “**Dragon Group**” or “the **Company**”) is committed to maintaining the highest standards of corporate governance and transparency within and throughout the Company and its subsidiaries (collectively, the “**Group**”) even as it expands its business sizably and regionally. The Board views the adherence of such corporate governance practices as key to discharging its duties to protect and enhance shareholder value and the financial performance of the Group.

This report describes the corporate governance practices of the Group with specific references to the principles and guidelines set out in the Code of Corporate Governance 2005 (“**CCG**” or “the **Code**”). In areas where the Company deviates from the Code, the rationale is provided.

## BOARD MATTERS

### Principle 1: The Board's Conduct of Affairs

Dragon Group has an effective Board to lead and control the Company. The Board is responsible for the success of the Company and is accountable to the shareholders while the Management is accountable to the Board.

The Board endeavours to provide shareholders with balanced and understandable assessments of the Company's performance, financial position and prospects on a quarterly basis. This responsibility extends to the provision of interim and other price sensitive public reports including those to regulators (if and whenever required).

The principal functions of the Board are to:

- set values and standards of the Company and ensure that obligations to shareholders are understood;
- provide entrepreneurial leadership, approve the strategic and financial objectives of the Company;
- oversee the processes for risk management, financial reporting and compliance and evaluate the adequacy of internal controls;
- review the performance of Management, approve the nominations to the Board of Directors and the appointments of key personnel, as may be recommended by the Nominating Committee;
- approve annual budgets, major funding proposals, investment and divestment proposals of the Company;
- review and endorse the framework of remuneration for the Board and key executives as may be recommended by the Remuneration Committee; and
- assume responsibility for corporate governance framework of the Company.

The Company has adopted internal guidelines setting forth matters which are specifically reserved for Board decisions. Examples of such matters include: -

- approval of interim financial results announcements;
- approval of annual financial results and accounts;
- issue of shares,
- declaration of interim or final dividends and other distributions to shareholders
- convening of shareholders' meetings;
- approval of corporate strategies;
- approval of interested persons transactions (including, inter alia, conflict of interest issues relating to substantial shareholders of Dragon Group and/or Directors),
- corporate or financial restructuring;
- authorisation or approval of merger and acquisition transactions; and
- authorisation or approval of major or substantial acquisition or disposal of assets

Typically, any transactions that are significantly relative to the financial position of the Group would require Board approval.

Regular meetings of the Board and of the other committees established by the Board are convened, and the number of meetings and attendance by the respective members are set out in the table on page 3 of this report.

# CORPORATE GOVERNANCE REPORT

The Company will put all new Directors through an orientation programme to update them with all information necessary or desirable for the Directors to understand The Company's businesses and governance practices. Depending on the need, new Directors may be put through house sessions to acquaint them on Directors' duties and compliance with the relevant bodies of law in the performance of their duties. On an on-going basis, the Company will provide further information and updates on the Group and its business to the Board members, including any changes in legislation or regulations that may impact the Company's conduct of its business or affect the Directors in discharging their duties to the Company. Additional training will be provided, as and when necessary, to the Directors.

## **Principle 2: Board Composition and Balance**

The Dragon Group has an effective Board to lead, steer and control the Company. The Board presently comprises six Directors, three of whom are executive Directors. There is a strong independent element on the Board as more than one-third of the Board comprises of independent Directors.

The Dragon Group takes great pride in the composition of its Board of Directors, which as a group, provides core competencies including that of legal, accounting, finance, business accounting, finance, business development and management, relevant industry knowledge, strategic planning and customer-based experience and knowledge. The profiles of each of our Directors are set out on pages 10 and 11 of the annual report. The Board is therefore well placed to lead providing entrepreneurial and strategic leadership, and ensuring that the necessary financial and human resources are in place for the Group to meet its objectives.

Non-executive Directors are encouraged to constructively challenge and help to develop business proposals tabled by Management. They also monitor and review the performance of Management in meeting agreed goals and objectives. To facilitate a more effective check on Management, non-executive Directors are encouraged to meet regularly without the presence of management executives.

The Board is of the view that its current size and composition are appropriate, after taking into account the nature and scope of the Company's operations, and its near-term business plans.

## **Principle 3: Chairman and Chief Executive Officer ("CEO")**

The Board applies the principle of clear division of responsibilities at the top of the Company. The workings of the Board and the executive responsibility of the Company's business are separated to ensure a balance of power and authority. No one individual Director represents a considerable concentration of power.

The roles of the Chairman and CEO in the Company are vested in different persons to ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision making even amongst executive Directors. The division of responsibilities is distinct even as both are executive Directors of the Company. The Chairman provides input on broad strategic directions for the Company but leaves the daily running of the business to the CEO although he bears responsibility for the workings of the Board ensuring its effectiveness in all aspects of its role. The Chairman and the CEO are not related.

The Chairman manages the business of the Board and the Board committees and ensures that procedures are introduced from time to time in accordance with the Code. He ensures that Board meetings are held as and when it is necessary and sets the Board meeting agenda in consultation with the CEO. The Chairman reviews the Board papers before they are presented at Board meetings and ensures that Board members are provided with complete, adequate and timely information from Management including access to quality legal advisory. As a general rule, Board papers are sent to Directors well in advance for Directors to review and be adequately prepared for the meeting. Management staffs who have prepared the papers, or who can provide additional insight into the matters to be discussed, are invited to carry out presentations or attend the Board meeting as appropriate at the relevant time.

The Board has a Lead Independent Director, in accordance with recommendations under the Code, to provide a channel for shareholders to raise any issue of concern for which communication through the Chairman and CEO may not be appropriate in some circumstances.

## **Principle 4: Board Membership**

### **Board and Committee Appointments**

The Nominating Committee (the "NC") makes recommendations to the Board on all Board appointments. All of the members of the NC are independent. The NC Chairman is not a substantial shareholder nor is he directly associated with any substantial shareholder of the Company.

# CORPORATE GOVERNANCE REPORT

The nature of the Directors' appointments on the Board and details of their membership on the Board Committees are set out below:

## Board and Committee Membership:

Directors	Board	Committee Membership			
	Membership	Audit	Investment	Remuneration	Nominating
Dato' Michael Loh Soon Gnee	Executive	N.A.	N.A.	N.A.	N.A.
Alex Onn Sin Ching	Executive	N.A.	Member	N.A.	N.A.
Steven Shen Hing	Executive	N.A.	Member	N.A.	N.A.
Derek Loh Eu-Tse	Lead Independent	Member	N.A.	Chairman	Member
Haji Zubir Bin Haji Harun	Independent	Chairman	N.A.	Member	Member
Teh Kim Seng	Independent	Member	Chairman	Member	Chairman

The Board meets at least 4 times each year and as when warranted by particular circumstances, as deemed appropriate by the Board. The Company's Articles of Association provide for telephonic and videoconference meetings. As a general rule, materials for Board meetings are sent to the Directors in advance in order for the Directors to be adequately prepared for the meetings.

The frequency of the meetings of the Board and its various Committees and the attendance by the Directors for FY2007 are set out as follows below:

## Attendance at Board and Committee Meetings

Directors	Board		Audit		Investment	
	No. of Meetings	Meetings Attended	No. of Meetings	Meetings Attended	No. of Meetings	Meetings Attended
Dato' Michael Loh Soon Gnee	7	4	N.A.	N.A.	N.A.	N.A.
Alex Onn Sin Ching	7	7	N.A.	4*	4	4
Steven Shen Hing	7	7	N.A.	1*	4	4
Derek Loh Eu-Tse	7	7	6	6	N.A.	N.A.
Haji Zubir Bin Haji Harun	7	7	6	6	N.A.	N.A.
Teh Kim Seng	7	7	6	6	4	4

\* By Invitation

## Retirement and Re-election of Directors

As a principle of good corporate governance, the Company's Articles of Association provides that at least one-third of the Directors for the time being retire from office by rotation and submit themselves for re-election by the shareholders at each AGM. Directors to retire shall be those who have been in office longest or have been in office for the last three years since their last election. In the Dragon Group, even the Chief Executive Officer retires by rotation and submits himself for re-election on a regular basis.

The functions of the NC include making recommendations to the Board on all Board appointments and the re-nomination of retiring Directors. In recommending to the Board any re-nomination and re-election of existing Directors, the NC takes into consideration the Directors' contribution and performance at Board and Committee meetings, including attendance, commitment of time, preparedness, participation and candour.

The shareholding of each Director is set out in the Directors' Report under the Section "Directors of the Company" on page 1 of the Directors' Report in Appendix 2 of this annual report.

# CORPORATE GOVERNANCE REPORT

The dates of initial appointments and last re-election of the Directors are set out below:

Directors	Designation	Date of	Date of
		Initial Appointment	Last Re-election
Dato' Michael Loh Soon Gnee	Executive Chairman	23 October 2003	28 April 2005
Alex Onn Sin Ching	Chief Executive Officer	4 August 2003	24 April 2007
Steven Shen Hing	Executive Director	6 August 2004	24 April 2007
Derek Loh Eu-Tse	Lead Independent Director	15 January 2004	28 April 2006
Haji Zubir Bin Haji Harun	Independent Director	15 January 2004	28 April 2005
Teh Kim Seng	Independent Director	15 January 2004	28 April 2006

Having considered the effectiveness and contributions of each Director, the NC nominates and recommends the following Directors to retire by rotation and to stand for re-election at the forthcoming AGM of the Company:

Dato' Michael Loh Soon Gnee	Executive Chairman
Haji Zubir Bin Haji Harun	Independent Director

## Confirmation of Independence of Directors

The NC is also responsible for determining annually the independence of Directors. In its annual review for FY 2007, the NC, having considered the guidelines set out in the Code, has confirmed the status of the following Non-executive Directors.

Derek Loh Eu-Tse	Independent
Teh Kim Seng	Independent
Haji Zubir Bin Haji Harun	Independent

Although some of the Directors have multiple Board representation, the NC is satisfied that each Director is able to and has been adequately carrying out his duties as a Director of the Company.

If ever required, the search and nomination process for new Directors, if any, will be through search companies, contacts and recommendations that go through the normal selection process, to cast the net as wide as possible for the right candidate.

Each member of the NC abstains from making any recommendations and/or participating in any deliberation of the NC and from voting on any resolution, in respect of the assessment of his performance or re-nomination as Director.

## Principle 5: Board Performance

The Nominating Committee uses objective performance criteria to assess the effectiveness of the Board as a whole. Benchmarks on the effectiveness of the Board include financial indicators such as return on assets, return on equity, return on investment, economic value added, operating margins, the Company's share price, and the Company's general performance vis-à-vis its competitors and industry peers.

These performance criteria allow for comparison with industry peers are approved by the Board and addresses how the Board has enhanced long term shareholders' value. These performance criteria are only changed where circumstances require.

## Principle 6: Access to Information

The Board oversees the management of the business affairs and operations of the Group and establishes from time to time, strategies and financial initiatives implemented by Management. Management has provided the Board with complete and adequate information in a timely manner for the Board to discharge their obligations. Such information includes background or explanatory information relating to matters brought before the Board, copies of disclosure documents, budgets, forecasts and internal financial statements. The Board also duly monitors Management's performance.

The appointment of Company Secretary and any change thereof is a matter for the Board's decision. The Directors have separate and independent access to the Company Secretary. Duties of the Company Secretary include ensuring that Board procedures are followed and compliance with applicable rules and regulations including the Companies Act, Cap. 50 and the Singapore Exchange Listing Manual. The Company Secretary under the direction of the Chairman also ensures good information flows within the Board and its Committees and between senior management and non-executive. The Company Secretary is also invited to attend Board and Audit Committee meetings.

# CORPORATE GOVERNANCE REPORT

In carrying out their obligations as Directors of the Company, access to independent professional advice is, if necessary, available to all Directors, either individually or as a group, at the expense of the Company.

## REMUNERATION MATTERS

### Principle 7: Procedures for Developing Remuneration Policies

The Board has set up a Remuneration Committee (the “**RC**”) comprising three members, all of whom are Independent Directors (See Board Membership at page 3 of this report). No Director is involved in deciding his own remuneration.

The RC’s principal responsibilities are to:

- recommend to the Board base salary levels, benefits and incentive programs, and identify components of salary which can best be used to focus management staff on achieving corporate objectives;
- approve the structure of the compensation programme (including but not limited to Directors’ fees, salaries, allowances, bonuses, options and benefits in kind) for Directors and senior management to ensure that the programme is competitive and sufficient to attract, retain and motivate senior management of the required quality to run the Company successfully;
- review, on an annual basis, the specific compensation packages of the Company’s Directors, CEO and senior management personnel and determine appropriate adjustments; and
- administer the Company’s Share Option Scheme (“**ESOS**”) and responsible for approving and administering the ESOS according to its Rules.

The RC reviews subsequent awards of share options under the ESOS to all Executive Directors. There are appropriate and meaningful measures in place for the purpose of assessing the performance of Executive Directors and senior management personnel.

### Principle 8: Level and Mix of Remuneration

In setting remuneration packages, the Remuneration Committee (“**RC**”) considers the level and mix of remuneration to attract, retain and motivate Executive Directors, and to align their interests with those of shareholders, linking rewards to corporate and individual performance.

In this regard, the RC

- takes into account the pay and employment conditions within the same industry and in comparable companies, as well as the group’s relative performance and the performance of individual Directors;
- considers whether Directors should be eligible for benefits under long-term incentive schemes (including weighing the use of share schemes against the other types of long-term incentive schemes);
- reviews the terms, conditions and remuneration of Executive Directors, and ensures that their total remuneration package have a significant portion of performance-related elements.

Non-executive Directors have no service contracts with the Company and their terms are specified in the Articles of Association. Non-executive Directors are paid a basic fee and an additional fee for serving on any of the committees. The fee payment takes into account factors such as effort and time spent, and responsibilities undertaken and their contributions to the Board. The fees paid to the Company’s Non-executive Directors are also benchmarked against Non-executive Directors’ fees paid by companies in the same industry and with similar scale of operation. The RC is of the view that the Company’s Non-executive Directors are not over-compensated to the extent that their independence may be compromised. Such fees are subject to the approval of the shareholders as a lump sum at the AGM.

Executive Directors (except those who are also substantial shareholders) are eligible to participate in the Company’s Share Options Scheme (“**ESOS**”). The RC will review and approve the quantity of share options to be granted based on pre-determined performance criteria. The options are exercisable up to a ten-year period including a vesting period of least 1 year. Executive Directors are encouraged to hold their shares beyond the vesting period, subject to the individual’s need to finance the costs of acquisition and associated tax liability.

The remuneration policy for staff adopted by the Company, where appropriate, comprises a fixed component and a variable component. The fixed component is in the form of a base salary.

## CORPORATE GOVERNANCE REPORT

The ESOS, administered by the RC, may when appropriate, form another element in the variable component of the pay packages of all employees. Subject to such adjustment as may be made pursuant to the ESOS, the total number of shares in respect of which the Company may grant options shall not exceed fifteen per cent (15%) of the total issued share capital of the Company for the time being. The amount of share options, which may be granted to each employee, depends on the grade of the employee. This is subject to the approval of the Remuneration Committee.

Typically, the subscription price payable upon the exercise of a share option shall be equal to the average of the last transacted prices of the shares for the three consecutive market days on which dealings in the shares took place on the SGX-ST immediately preceding the date of grant. The Company's policy is to account for the fair value of share options for financial reporting purposes. However in deserving cases, the Company may grant the share option at a discount to Directors or executives or staff of the Company who had made significant contributions based on a predetermined performance criteria approved by the RC.

The RC and the Board have collectively endorsed the Company's remuneration policy.

### Principle 9: Disclosure on Remuneration

#### Remuneration of Directors for the year ended 31 December 2007

Directors	Fees (%)	Salary (%)	Bonus (%)	Other Benefits (%)	Contribution From Employer (%)	Total (%)
<b>Above \$500,000</b>						
Dato' Michael Loh Soon Gnee	2%	49%	39%	11%	0%	100%
<b>\$250,000 to below \$500,000</b>						
Alex Onn Sin Ching	35%	53%	5%	6%	2%	100%
Steven Shen Hing	3%	49%	24%	23%	1%	100%
<b>Below \$250,000</b>						
Haji Zubir Bin Haji Harun	100%	0%	0%	0%	0%	100%
Derek Loh Eu-Tse	100%	0%	0%	0%	0%	100%
Teh Kim Seng	100%	0%	0%	0%	0%	100%

#### Remuneration of Directors for the year ended 31 December 2007

The breakdown of the remuneration of the top 5 key executives (who are not Directors) of the Group are not disclosed in this Annual Report to avoid possible poaching of the Group's executives.

There are no employees who are immediate family members of a Director or the CEO, and whose remuneration exceeds S\$150,000 during the financial year ended 31 December 2007.

Directors' fees are approved by shareholders at every Annual General Meeting of the Company. The remuneration of the Executive Directors are approved by the Remuneration Committee and endorsed by the Board.

# CORPORATE GOVERNANCE REPORT

## ACCOUNTABILITY AND AUDIT

### Principle 10: Accountability and Audit

The Board is responsible for providing a balanced and understandable assessment of the Company's performance, position and prospects. Management provides members of the Board, monthly management accounts which present a balanced and understandable assessment of the Company's performance, position and prospects.

### Principle 11: Audit Committee

The Audit Committee (the "AC") comprises three members, namely Haji Zubir Bin Haji Harun (Chairman), Teh Kim Seng and Derek Loh Eu-Tse. All members of the AC are Non-executive and Independent Directors.

The members of the AC have experience in managerial positions across the legal, sale, banking, audit and finance industries. (See Directors' profile at pages 10 and 11 of the annual report). The Board is of the view that the members of the AC have sufficient financial management expertise and experience to discharge the AC's functions.

The AC has the express power to conduct or authorise investigations into any matters within its terms of reference, has full access to and co-operation by Management. It has full discretion and prerogative to invite any Director or executive officer to attend its meetings. All resources that would enable the AC to discharge its duties effectively and expeditiously are made available to the AC.

The AC performs the following functions in accordance with Section 201B(5) of the Companies Act, Cap. 50:

1. reviews with the external auditors, their audit plan, evaluation of the accounting controls, audit reports and any matters which the external auditors wish to discuss;
2. reviews with the internal auditors at least annually, the adequacy of the internal audit procedures and their evaluation of the effectiveness of the overall internal control systems, including financial, operational and compliance controls and risk management;
3. reviews the internal audit function to ensure that it is adequately resourced and has appropriate standing within the Group.
4. reviews significant financial reporting issues and judgements to ensure the integrity of financial statements of the Company and that of any formal announcement made quarterly or annually relating to the Company's financial performance including, including announcements to shareholders and the SGX-ST prior to the submission to the Board.
5. reviews any significant findings of internal investigations;
6. makes recommendations to the Board on the appointment of external auditors, the audit fee and any questions of their resignation or dismissal;
7. reviews and approves the appointment, replacement, reassignment or the dismissal of the internal auditor;
8. reviews the assistance given by the Company's officers to the external auditors and internal auditors;
9. reviews and monitors interested person transactions, if any, arising and to ensure that internal control procedures approved by shareholders are adhered to in relation to such transactions;
10. reports actions and minutes of the AC meetings to the Board of Directors with such recommendations as the AC considers appropriate;
11. conducts an annual review of the independence and objectivity of the Company's external auditors, including the volume of non-audit services supplied by the external auditors, to satisfy itself that the nature and extent of such services have not prejudiced the independence and objectivity of the external auditors before confirming their re-nomination; and
12. nominate external auditors.

The AC held 6 meetings during the year, attendance of which is detailed on page 3 of this report.

The AC met with the Company's external auditors, Ernst & Young ("E&Y") 4 times in FY2007. Parts of the meetings were conducted without the presence of Management. Reports of the findings and recommendations by external auditors are done independently to ensure an effective environment of control and regulation within the Group.

# CORPORATE GOVERNANCE REPORT

Each member of the AC abstains from voting on any resolution and making any recommendations and/or participating in any deliberations in respect of matters in which he is interested.

E&Y carried out, in the course of their statutory audit, a review of the effectiveness of the Company's material internal controls focusing primarily on financial controls, to the extent set out in their audit plan. Material non-compliance and internal control weaknesses noted during their audit, and the external auditors' recommendations to address such non-compliance and weaknesses, are reported to the AC. Management, with the assistance of the Internal Auditor, follows up on E&Y's recommendations as part of its role in the review of the Company's internal control systems. The Board is satisfied that the Company's internal controls are at present adequate.

The AC has reviewed the independence of E&Y taking into account the volume of non-audit services supplied by them and is satisfied that the provision of such services did not affect their position as independent external auditor.

The Company is presently in the process of developing a whistle blowing policy which would be adopted within the next financial year. The whistle blowing policy will provide well-defined and accessible channels through which any employee may raise concerns they may have about improper conduct or malpractices within the Group.

## **Principle 12: Internal Controls**

The Company has put in place internal controls systems to manage its significant business risks, so as to safeguard shareholders' investments and the Company's assets.

A crucial function served by the Audit Committee (the "AC") is the regulation of risks undertaken or faced by the Group. The AC may examine whichever aspects it deems appropriate of the Group's financial affairs, audits and its exposure to risks of a regulatory or legal nature.

The AC keeps under review the efficacy of the Group's system of accounting and internal financial controls. Also kept under constant review is the Company's system of ensuring compliance with legal, operational and regulatory matters, including risk management, amongst others.

The AC, with the assistance of the internal auditors and external auditors, have reviewed, and the Board of Directors is satisfied with, the adequacy of the Dragon Group's material internal controls, including financial, operational and compliance controls, and risk management systems.

## **Risk Management and Interested Person Transactions**

An assessment of the significant risks areas relevant to the Company's businesses and operations and compliance requirements have been carried out and are identified as follows:

### **Dependence on Key Personnel**

The Group's success is attributable to the concerted contributions from our Directors and key executives as set out on page 10 to 13 of the annual report.

These key personnel are expected to be the vital contributors for the Group's success in order to adhere to its moving forward strategy. Whilst competitive remuneration packages are offered to retain and motivate these key personnel, the Group's operations and performance may be disrupted if there is any loss of employment services with them.

### **Reliance on Principals for Electronic Components**

The electronic components business has accounted for 97.7% of the Group's FY 2007 turnover. This business is arranged under distributorship and/or representative agreements with territorial rights. The Group will face adverse impact to the financial performance should the principal recall the agreements, our customers relocated where territories are not given, and/or customers transact directly with principals.

The Group manages the risk of loss of principals and customers through broadening our customer base by exploring into other geographical locations, offering more product lines and instil value-added activities like design-in programme to the customers.

# CORPORATE GOVERNANCE REPORT

## Change in Technologies

The global electronics industry is faced with technological changes which may result in price erosion and stock obsolescence in which the Group distribute.

The Group manages the risk by encouraging our employees to stay abreast with the technological/market developments through regular informal meetings exchange and product training sessions.

In addition to the above, the financial risk management are disclosed on Note 44 (on page 57 of the Financial Statements in Appendix 2 of this annual report).

## Foreign Exchange Risk

The Group is exposed to various common financial risks arising in the normal course of business. A significant portion of the Group's revenue is denominated in the United States dollar. Operating expenses and wages are made mainly in local currency. Hence, exchange rate movements in the United States dollar and the Singapore dollar (the Company's reporting currency), amongst others, expose the Company to foreign currency risk.

## Dealings in the Company's Securities

The Company has devised and adopted an internal compliance code (the "Internal Code") to provide guidance to its officers with regards to dealings in the Company's securities including reminders that the law on insider trading is applicable at all times. The Internal Code also adopts the best practices on dealings in securities as provided in Rule 1207(18) of the SGX Listing Manual.

## Interested Person Transactions ("IPT")

The risks associated with IPT relates not only to compliance issues but also the prevention of transactions being carried out on terms that are less than favourable and not at arms length.

Except as provided below, there are no interested person transactions between the Company and its subsidiaries (the "Group") of a recurring nature.

Name of Interested Person	Aggregate value of all IPTs for FY2007 under review (excluding transactions less than S\$100,000) S\$'000
Flexcomm Limited <sup>(1)</sup>	344
ASTI <sup>(2)</sup>	250

(1) The IPT refers to technical services fee and commission paid to Flexcomm Limited, a company controlled by a controlling shareholder of the Company.

(2) The IPT refers to the management fee charged by ASTI Holdings Limited, holding company of the Group.

The AC will continue to review and monitor any IPT that may arise and ensures that the Company seeks appropriate approvals, makes appropriate announcements or disclosures on these IPT in accordance with Chapter 9 of the SGX-ST Listing Manual.

## Principle 13: Internal Audit

The internal audit function was outsourced to Baker Tilly International (the "Internal Auditor") in FY 2004. The Internal Auditor (the "IA") is independent of the activities it audits.

The IA reports directly on internal audit matters to the Chairman of the AC. The IA assists the AC in monitoring and assessing the effectiveness of the Group's material internal controls. The IA also assists Management in identifying operational and business risks and provides recommendations to address those risks.

The AC ensures that the internal audit function is adequately resourced and has the capabilities to adequately perform its functions. In this regard, the AC reviews on a quarterly basis the effectiveness of the IA by examining the scope of the IA's work, quality of its reports, reporting structure within the Company, qualifications and training, relationship with the external auditor, and its independence of the areas reviewed. The AC is of the view that IA is adequately resourced and has appropriate standing within the Group.

# CORPORATE GOVERNANCE REPORT

## COMMUNICATIONS WITH SHAREHOLDERS

### **Principle 14: Regular, Effective and Fair Communication With Shareholders**

On a regular and timely basis, the Company disseminates material information simultaneously through news and press releases via SGXNET and electronic mail to securities analysts, shareholders, and the media. The Company also posts these press releases on its public website, <http://www.dragongp.com>, to ensure that all shareholders and the public gain fair access to information, updates and the archives of the Company. The website also provides a channel for shareholders to raise any concerns or issues, if any.

Information is always communicated to shareholders on a timely and fair basis. Where inadvertent disclosure has been made to a select group, the Company has made the same disclosure publicly to all others as soon as practicable.

### **Principle 15: Shareholders Participation at AGMs**

Shareholders are informed of shareholders' meetings through timely and formal notices published in the newspapers. All relevant reports and/or circulars are sent to all shareholders early so that they can familiarise themselves with the issues that will be raised at general meetings. Shareholders are also given opportunities to raise questions, and to communicate their views on issues which affect the Company, at general meetings and to vote in absentia. Every shareholder is entitled to appoint two proxies to attend general meetings and vote in his/her stead.

The Articles of Association of the Company do not impose a limit on the number of proxies a nominee companies can appoint so that shareholders who hold shares through nominees can attend general meetings as proxies if they so desire; provided the member name is certified by the Depository (Nominee Company) to the Company as appearing on the Depository Register not earlier than 48 hours before the general meeting as a Depositor on whose behalf the Depository holds shares in the Company.

The Company's external auditors, chairpersons of the Audit Committee and the Remuneration Committee are present at all General Meetings to assist the Board of Directors and Management to address any questions shareholders may have.

At general meetings, each substantially separate issue is dealt with in separate resolutions. The Company avoids bundling of resolutions unless the resolutions are interdependent and linked so as to form one significant proposal.

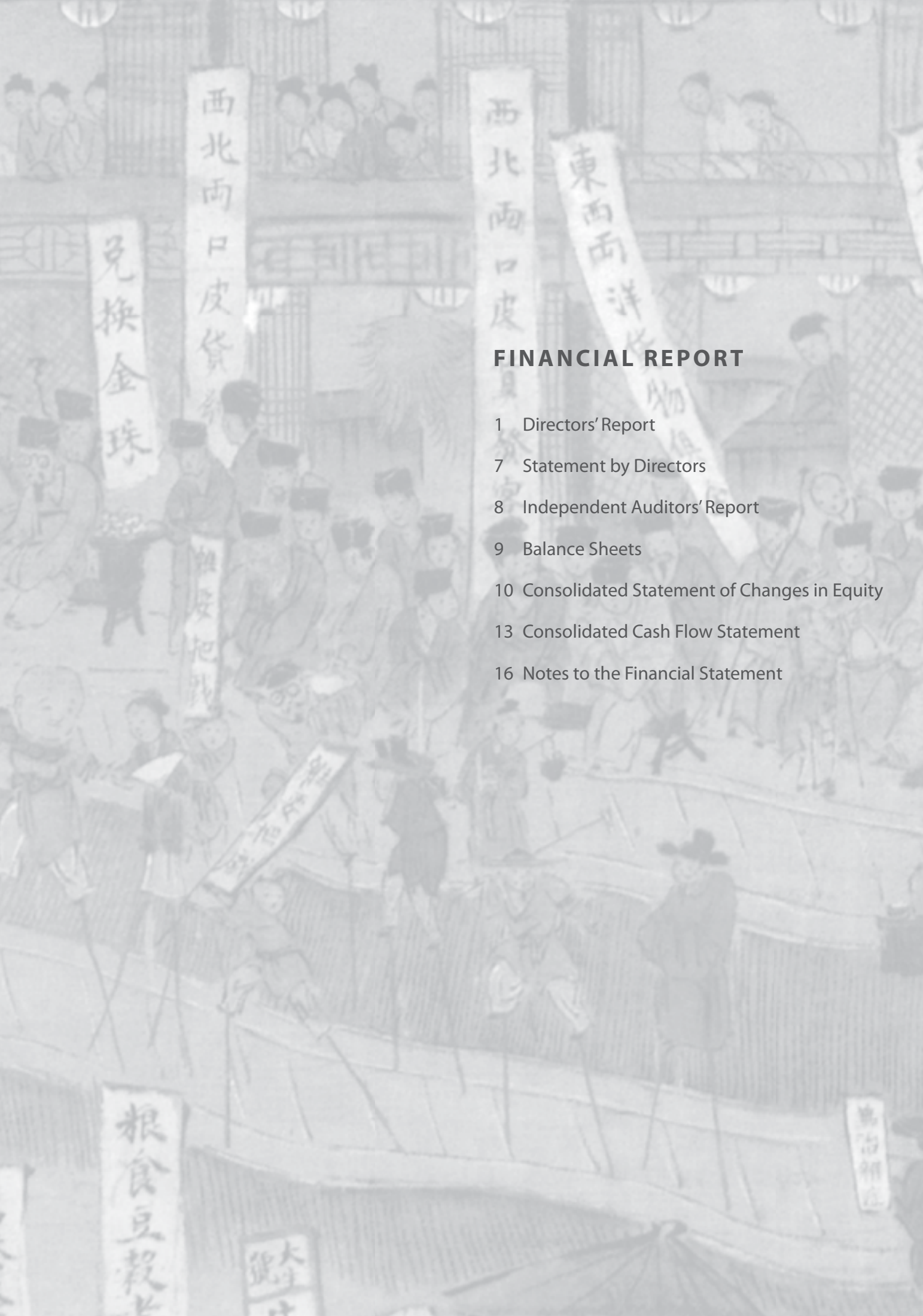


## APPENDIX 2

DRAGON GROUP INTERNATIONAL LIMITED

ANNUAL REPORT 2007

### DIRECTORS' REPORT AND AUDITED FINANCIAL STATEMENTS



## FINANCIAL REPORT

- 1 Directors' Report
- 7 Statement by Directors
- 8 Independent Auditors' Report
- 9 Balance Sheets
- 10 Consolidated Statement of Changes in Equity
- 13 Consolidated Cash Flow Statement
- 16 Notes to the Financial Statement

# DIRECTORS' REPORT

The Directors are pleased to present their report to the members together with the audited consolidated financial statements of Dragon Group International Limited (formerly known as "Flextech Holdings Limited") (the "Company") and subsidiary companies (the "Group") for the financial year ended 31 December 2007 and balance sheet and statement of changes in equity of the Company as at 31 December 2007.

## Directors of the Company

The Directors of the Company in office at the date of this report are :-

Dato' Michael Loh Soon Gnee  
 Alex Onn Sin Ching  
 Steven Shen Hing  
 Haji Zubir Bin Haji Harun  
 Teh Kim Seng  
 Loh Eu-Tse Derek

## Arrangements to enable Directors to acquire shares and debentures

Except as disclosed herein, neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object is to enable the Directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

## Directors' interests in shares and debentures

The following Directors who held office at the end of the financial year had, according to the register kept by the Company for the purposes of Section 164 of the Singapore Companies Act, Cap. 50 (the "Act"), interests in shares and options in the Company and its related corporations as stated below :-

Name of Directors	At the beginning of the year	At the end of the year	At 21 January 2008
<b><i>The holding company – ASTI Holdings Limited ("ASTI")</i></b>			
		<b>Ordinary shares</b>	
Dato' Michael Loh Soon Gnee			
- held in name of Director	67,008,000	71,108,000	71,108,000
- held by nominee	81,500,000	77,400,000	77,400,000
- deemed interest *	104,292,145	–	–
 Alex Onn Sin Ching			
- held in name of Director	4,313,627	4,313,627	4,313,627
 Steven Shen Hing			
- held in name of Director	12,323,525	8,215,684	8,215,684
- held by nominee	8,215,684	8,215,684	8,215,684
 Teh Kim Seng			
- held in name of Director	300,000	100,000	100,000

# DIRECTORS' REPORT

## Directors' interests in shares and debentures (cont'd)

Name of Directors	At the beginning of the year	At the end of the year	At 21 January 2008
<b>Subsidiary of ASTI Holdings Limited – Advanced Systems Automation Limited (“ASA”)</b>			
		<b>Ordinary shares</b>	
Dato' Michael Loh Soon Gnee - deemed interest **	634,100,000	634,100,000	634,100,000
<b>The Company</b>			
		<b>Ordinary shares</b>	
Dato' Michael Loh Soon Gnee - deemed interest ***	167,848,442	168,063,442	168,063,442
<b>Subsidiary company – SCM Solutions Pte Ltd</b>			
		<b>Options granted to subscribe for ordinary shares Held in the name of Directors</b>	
Alex Onn Sin Ching	50,000	50,000	50,000
<b>Subsidiary company – SCM Solutions Phils. Corporation</b>			
		<b>Ordinary shares of Pesos 10 each Held in the name of Directors</b>	
Alex Onn Sin Ching	1 @	1 @	1 @
<b>Subsidiary company – FE Global Hong Kong Limited</b>			
		<b>Ordinary shares of HKD 1 each Held in the name of Directors</b>	
Alex Onn Sin Ching	1 @	–	–

\* Dato' Michael Loh Soon Gnee was deemed to be interested in the ordinary shares of ASTI held by the Company by virtue of Section 7 of the Act.

\*\* Dato' Michael Loh Soon Gnee is deemed to be interested in the ordinary shares of ASA held by ASTI by virtue of Section 7 of the Act.

\*\*\* Dato' Michael Loh Soon Gnee is deemed to be interested in the ordinary shares of the Company held by ASTI by virtue of Section 7 of the Act.

@ Shares held in trust for the Group.

Dato' Michael Loh Soon Gnee is deemed to be interested in the ordinary shares of the holding company and all the subsidiary companies by virtue of Section 7 of the Act because he holds more than 20% equity interest in the holding company.

Except as disclosed in this report, no director who held office at the end of the financial year had interests in shares, share options, warrants or debentures of the Company or of related corporations, either at the beginning of the financial year, or at the end of the financial year.

## Directors' contractual benefits

Except as disclosed in the financial statements, since the end of the previous financial year, no Director of the Company has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the Director, or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

# DIRECTORS' REPORT

## Share options

### (a) *The Company*

- (i) Dragon Group Executives' Share Option Scheme (the "ESOS") was approved by the shareholders at the Extraordinary General Meeting held on 7 June 1996. At the Extraordinary General Meeting held on 16 July 2001, the shareholders approved certain modifications to the ESOS to bring the rules of the ESOS approved on 7 June 1996 in line with the amendments introduced by the Companies (Amendment) Act 1998 ("CAA") and the amendments to the Listing Manual issued by the Singapore Exchange Securities Trading Limited ("SGX-ST") on 6 April 1999.

The ESOS, as modified, caters to a larger pool of participants, namely, selected full-time executive employees, executive Directors and non-executive Directors of the Group and its associated companies. Grantees or participants of the ESOS will not be restricted from participating in any other share option or share incentive scheme, whether or not implemented by any of the other companies within the Group or any other company.

The options granted to executive employees and executive Directors of the Group will have a life span of ten (10) years from the relevant date of grant whilst options granted to non-executive Directors of the Group, executive employees and Directors of associated companies will have a life span of five (5) years from the relevant date of grant. However, existing options granted prior to 18 November 1998 (being the date that the CAA became operational) shall only have a maximum life span of five years.

The exercise or subscription price of the options will be the average of the closing prices of the Company's ordinary shares on the SGX-ST for the three market days immediately preceding the date of grant (the "Market Price") or at a price set at a discount not exceeding 20% of the Market Price.

The options granted at the Market Price may only be exercised one (1) year after the relevant date of grant whilst options granted at a discount to the Market Price may only be exercised two (2) years after the relevant date of grant.

- (ii) At the date of this report, the ESOS is administered by the Remuneration Committee comprising the following Directors:-
- Loh Eu-Tse Derek (Chairman)
  - Teh Kim Seng
  - Haji Zubir Bin Haji Harun
- (iii) From the commencement of the ESOS to 31 December 2007, no options have been granted under the ESOS to any controlling shareholder of the Company and/or its associates.
- (iv) The options granted by the Company do not entitle the holders of the options, by virtue of such holdings, to any right to participate in any share issue of any other company.
- (v) During the financial year, no ESOS was exercised.
- (vi) During the financial year, no options were granted under the ESOS.
- (vii) There were no outstanding options to subscribe for ordinary shares of the Company pursuant to the ESOS as at 31 December 2007.
- (viii) During the financial year, no Directors were granted options under the ESOS.
- (ix) There was no participant who received 5% or more of the total number of options available under the ESOS during the financial year.
- (x) No option was granted at a discount to the Market Price.

# DIRECTORS' REPORT

## Share options (cont'd)

### (b) *Subsidiary companies*

SCM Share Option Scheme (the "SCM ESOS") of SCM Solutions Pte Ltd ("SCM")

At the end of the financial year, 105,000 options to subscribe for ordinary shares in SCM at an exercise price of \$0.0151 were outstanding. The options under the SCM ESOS are exercisable within 14 days commencing 60 days before SCM files an application with relevant authorities for an initial public offering of its shares on a stock exchange, or such earlier date as may be determined by the committee of Directors of SCM administering the SCM ESOS.

During the financial year, no options were granted to take up unissued ordinary shares of the subsidiary company and no ordinary shares of the subsidiary company were issued by virtue of the exercise of an option to take up unissued ordinary shares.

At the end of the financial year, there were no other unissued ordinary shares of the Company and its subsidiary companies under option except as disclosed above.

## Audit Committee

The Audit Committee (AC) carried out its functions in accordance with Section 201B(5) of the Singapore Companies Act, Cap. 50, including the following:

1. Reviewed the audit plans of the internal and external auditors of the Company and review the internal auditors' evaluation of the adequacy of the Company's system of internal accounting controls and the assistance given by the Company's management to the external and internal auditors;
2. Reviewed the quarterly and annual financial statements and the auditors' report on the annual financial statements of the Company and the Group before their submission to the board of directors;
3. Reviewed effectiveness of the Company's material internal controls, including financial, operational and compliance controls and risk management via review carried out by the internal auditors;
4. Met with the external auditors, other committees, and management in separate executive sessions to discuss any matters that these groups believe should be discussed privately with the AC;
5. Reviewed legal and regulatory matters that may have a material impact on the financial statements, related compliance policies and programmes and any reports received from regulators;
6. Reviewed the cost effectiveness and the independence and objectivity of the external auditors;
7. Reviewed the nature and extent of non-audit services provided by the external auditors;
8. Recommended to the board of directors the external auditors to be nominated, approved the compensation of the external auditors, and reviews the scope and results of the audit;
9. Reported actions and minutes of the AC to the board of directors with such recommendations as the AC considered appropriate; and
10. Reviewed interested person transactions in accordance with the requirements of the Listing Manual.

The AC, having reviewed all non-audit services provided by the external auditors to the Group, is satisfied that the nature and extent of such services would not affect the independence of the external auditors. The AC has also conducted a review of interested person transactions.

# DIRECTORS' REPORT

## Auditors

Ernst & Young, Certified Public Accountants, have expressed their willingness to accept reappointment as auditors of the Company.

On behalf of the Board of Directors,

Dato' Michael Loh Soon Gnee  
Director

Alex Onn Sin Ching  
Director

Singapore  
17 March 2008

## STATEMENT BY THE DIRECTORS

We, Dato' Michael Loh Soon Gnee and Alex Onn Sin Ching, being two of the Directors of Dragon Group International Limited, do hereby state that, in the opinion of the Directors,

- (i) the accompanying balance sheets, consolidated profit and loss account, statements of changes in equity and consolidated cashflow statement together with the notes thereto are drawn up so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the results of the business, changes in equity and cashflow of the Group and changes in equity of the Company for the year then ended, and
- (ii) at the date of this statement there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the Board of Directors,

Dato' Michael Loh Soon Gnee  
Director

Alex Onn Sin Ching  
Director

Singapore  
17 March 2008

# INDEPENDENT AUDITORS' REPORT

to the Members of Dragon Group International Limited

We have audited the accompanying financial statements of Dragon Group International Limited (the "Company") and its subsidiary companies (the "Group") set out on pages 8 to 61, which comprise the balance sheets of the Group and the Company as at 31 December 2007, the statements of changes in equity of the Group and the Company, the profit and loss account and cashflow statement of the Group for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## ***Directors' Responsibility for the Financial Statements***

The Company's Directors are responsible for the preparation and fair presentation of these financial statements in accordance with the provisions of the Singapore Companies Act, Cap. 50 (the "Act") and Singapore Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## ***Auditors' Responsibility***

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

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

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

## ***Opinion***

In our opinion,

- (i) the consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2007 and the results, changes in equity and cash flow of the Group and the changes in equity of the Company for the year ended on that date; and
- (ii) the accounting and other records required by the Act to be kept by the Company and by those subsidiary companies incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

ERNST & YOUNG  
Certified Public Accountants

Singapore  
17 March 2008

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2007

	Note	2007 \$'000	Group 2006 \$'000
<b>Revenue</b>	5	460,830	542,908
Cost of sales		(416,378)	(501,140)
<b>Gross profit</b>		44,452	41,768
Other income	6	1,558	2,092
Selling and marketing costs		(20,714)	(16,460)
General and administrative costs		(20,254)	(17,581)
Development costs		(1,232)	(2,761)
Finance costs	7	(6,692)	(5,460)
Exceptional items	8	6,546	(15,240)
Share of results of associated companies		(2)	1,854
<b>Profit/(loss) before taxation</b>	9	3,662	(11,788)
Taxation	10	(1,094)	(1,007)
<b>Profit/(loss) for the year</b>		2,568	(12,795)
Attributable to:			
Equity holders of the Company		3,135	(13,164)
Minority interests		(567)	369
		2,568	(12,795)
Basic earnings/(loss) per share (cents)	11	1.40	(5.87)
Diluted earnings/(loss) per share (cents)	11	1.40	(5.87)

*The accompanying accounting policies and explanatory notes form an integral part of the financial statements.*

# BALANCE SHEETS

As at 31 December 2007

	Note	Group		Company	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>ASSETS</b>					
<b>Non-current assets</b>					
Intangible assets	12	11,752	2,203	140	45
Property, plant and equipment	13	14,899	13,617	14	18
Investments in subsidiary companies	14	–	–	36,838	36,838
Investments in associated companies	15	163	104	–	–
Other investments	16	2,131	1,444	2,067	1,276
Amounts due from subsidiary companies	17	–	–	911	854
		<b>28,945</b>	<b>17,368</b>	<b>39,970</b>	<b>39,031</b>
<b>Current assets</b>					
Trade debtors	18	75,087	77,427	–	–
Other debtors	19	3,969	5,446	307	861
Tax recoverable		1,060	791	226	–
Prepayments and advances	20	1,506	3,422	340	10
Stocks	21	46,456	33,264	–	–
Quoted investments	22	–	22,944	–	22,944
Amounts due from subsidiary companies	17	–	–	19,118	4,818
Fixed deposits	23	4,151	4,302	–	–
Cash and bank balances	24	38,650	22,638	1,835	415
		<b>170,879</b>	<b>170,234</b>	<b>21,826</b>	<b>29,048</b>
<b>TOTAL ASSETS</b>		<b>199,824</b>	<b>187,602</b>	<b>61,796</b>	<b>68,079</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Current liabilities</b>					
Trade creditors and accruals	25	51,521	50,891	876	651
Bills payable	26	43,410	34,903	–	–
Other creditors	27	6,481	5,171	344	328
Amounts due to bankers	28	36,972	33,466	2,935	7,120
Amount due to holding company	29	268	1,758	268	1,758
Amounts due to subsidiary companies	30	–	–	7,983	8,455
Provision for taxation		1,289	664	98	23
		<b>139,941</b>	<b>126,853</b>	<b>12,504</b>	<b>18,335</b>
<b>NET CURRENT ASSETS</b>		<b>30,938</b>	<b>43,381</b>	<b>9,322</b>	<b>10,713</b>
<b>Non-current liabilities</b>					
Amounts due to bankers	28	5,136	6,009	5,136	4,355
Lease creditors	31	234	389	–	–
Long-term payables		479	275	–	–
Deferred taxation	32	1,161	355	–	–
		<b>7,010</b>	<b>7,028</b>	<b>5,136</b>	<b>4,355</b>
<b>TOTAL LIABILITIES</b>		<b>146,951</b>	<b>133,881</b>	<b>17,640</b>	<b>22,690</b>
<b>NET ASSETS</b>		<b>52,873</b>	<b>53,721</b>	<b>44,156</b>	<b>45,389</b>

**BALANCE SHEETS (cont'd)**

As at 31 December 2007

		Group		Company	
	Note	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>Equity attributable to equity holders of the Company</b>					
Share capital	33	57,159	57,159	57,159	57,159
Capital reserve	34	2,924	2,924	–	–
Foreign currency translation reserve	35	(6,172)	(3,357)	–	–
Fair value reserve	36	–	4,267	–	8,048
Accumulated losses		(8,915)	(9,809)	(13,003)	(19,818)
		44,996	51,184	44,156	45,389
<b>Minority interests</b>		7,877	2,537	–	–
<b>TOTAL EQUITY</b>		<b>52,873</b>	<b>53,721</b>	<b>44,156</b>	<b>45,389</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>199,824</b>	<b>187,602</b>	<b>61,796</b>	<b>68,079</b>

*The accompanying accounting policies and explanatory notes form an integral part of the financial statements.*

## STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 December 2007

2007 Group	Attributable to equity holders of the Company								Minority Interests \$'000	Total Equity \$'000
	Share Capital (Note 33) \$'000	Capital Reserve (Note 34) \$'000	Fair value Reserve (Note 36) \$'000	Share Option Reserve (Note 37) \$'000	Foreign Currency Translation Reserve (Note 35) \$'000	Accumulated (Losses)/ Profits \$'000	Total Reserves \$'000			
At 1 January 2007, as previously reported	57,159	2,924	4,267	1,525	(3,357)	(11,334)	(5,975)	2,537	53,721	
Change in accounting policy (Note 2.1)	-	-	-	(1,525)	-	1,525	-	-	-	
At 1 January 2007, as restated	57,159	2,924	4,267	-	(3,357)	(9,809)	(5,975)	2,537	53,721	
Recognised in the profit and loss account on disposal of investment securities	-	-	(4,267)	-	-	-	(4,267)	-	(4,267)	
Net effect of exchange differences	-	-	-	-	(2,815)	-	(2,815)	127	(2,688)	
Net expenses recognised directly in equity	-	-	(4,267)	-	(2,815)	-	(7,082)	127	(6,955)	
Net profit/(loss) for the year	-	-	-	-	-	3,135	3,135	(567)	2,568	
Total recognised expenses and income for the year	-	-	(4,267)	-	(2,815)	3,135	(3,947)	(440)	(4,387)	
Equity contribution by minority shareholder	-	-	-	-	-	-	-	5,780	5,780	
Dividend (Note 45)	-	-	-	-	-	(2,241)	(2,241)	-	(2,241)	
<b>At 31 December 2007</b>	<b>57,159</b>	<b>2,924</b>	<b>-</b>	<b>-</b>	<b>(6,172)</b>	<b>(8,915)</b>	<b>(12,163)</b>	<b>7,877</b>	<b>52,873</b>	

## STATEMENTS OF CHANGES IN EQUITY (cont'd)

for the year ended 31 December 2007

2006 Group	Attributable to equity holders of the Company									
	Share Capital (Note 33) \$'000	Share Premium \$'000	Capital Reserve (Note 34) \$'000	Fair value Reserve (Note 36) \$'000	Share Option Reserve (Note 37) \$'000	Foreign Currency Translation Reserve (Note 35) \$'000	Accumulated (Losses)/ Profits \$'000	Total Reserves \$'000	Minority Interests \$'000	Total Equity \$'000
At 1 January 2006	33,612	23,547	2,924	–	716	(357)	1,830	5,113	5,176	67,448
Fair value changes on available-for-sale financial assets	–	–	–	4,267	–	–	–	4,267	–	4,267
Net effect of exchange differences	–	–	–	–	–	(3,000)	–	(3,000)	(270)	(3,270)
Net income recognised directly in equity	–	–	–	4,267	–	(3,000)	–	1,267	(270)	997
Net (loss)/profit for the year	–	–	–	–	–	–	(13,164)	(13,164)	369	(12,795)
Total recognised expenses and income for the year	–	–	–	4,267	–	(3,000)	(13,164)	(11,897)	99	(11,798)
Acquisition of minority interest	–	–	–	–	–	–	–	–	(826)	(826)
Dividend paid to minority shareholders of subsidiary companies	–	–	–	–	–	–	–	–	(1,912)	(1,912)
Cost of equity-settled share options to employees	–	–	–	–	809	–	–	809	–	809
Transfer of share premium to share capital	23,547	(23,547)	–	–	–	–	–	–	–	–
Transfer of share option reserve to accumulated losses	–	–	–	–	(1,525)	–	1,525	–	–	–
<b>At 31 December 2006</b>	<b>57,159</b>	<b>–</b>	<b>2,924</b>	<b>4,267</b>	<b>–</b>	<b>(3,357)</b>	<b>(9,809)</b>	<b>(5,975)</b>	<b>2,537</b>	<b>53,721</b>

## STATEMENTS OF CHANGES IN EQUITY (cont'd)

for the year ended 31 December 2007

2007 Company	Attributable to equity holders of the Company						Total Equity \$'000
	Share Capital (Note 33) \$'000	Share Premium \$'000	Fair value Reserve (Note 36) \$'000	Share Option Reserve (Note 37) \$'000	Accumulated (Losses)/ Profits \$'000	Total Reserves \$'000	
At 1 January 2007, as previously reported	57,159	–	8,048	1,525	(21,343)	(11,770)	45,389
Change in accounting policy (Note 2.1)	–	–	–	(1,525)	1,525	–	–
At 1 January 2007, as restated	57,159	–	8,048	–	(19,818)	(11,770)	45,389
Recognised in profit and loss account on disposal of investment securities, representing total expense recognised directly in equity	–	–	(8,048)	–	–	(8,048)	(8,048)
Net profit for the year	–	–	–	–	9,056	9,056	9,056
Total recognised income and expenses for the year	–	–	(8,048)	–	9,056	1,008	1,008
Dividends (Note 45)	–	–	–	–	(2,241)	(2,241)	(2,241)
<b>At 31 December 2007</b>	57,159	–	–	–	(13,003)	(13,003)	44,156

### 2006

#### Company

At 1 January 2006	33,612	23,547	–	716	(15,034)	(14,318)	42,841
Fair value changes on available-for-sale financial assets, representing total income recognised directly in equity	–	–	8,048	–	–	8,048	8,048
Net loss for the year	–	–	–	–	(6,309)	(6,309)	(6,309)
Total recognised income and expenses for the year	–	–	8,048	–	(6,309)	1,739	1,739
Cost of equity-settled share options to employees	–	–	–	809	–	809	809
Transfer of share premium to share capital	23,547	(23,547)	–	–	–	–	–
Transfer of share option reserve to accumulated losses	–	–	–	(1,525)	1,525	–	–
<b>At 31 December 2006</b>	57,159	–	8,048	–	(19,818)	(11,770)	45,389

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2007

	2007 \$'000	2006 \$'000
<b>Cashflow from operating activities</b>		
Profit/(loss) before taxation	3,662	(11,788)
Adjustments for :-		
Amortisation of intangible assets	681	576
Depreciation of property, plant and equipment	4,202	4,422
Loss/(gain) on disposal of property, plant and equipment	25	(417)
Interest income	(612)	(1,343)
Interest expense	5,656	4,643
Property, plant and equipment written off	38	45
Impairment of intangible assets	300	–
Gain on disposal of quoted investments	(6,846)	–
Share of results of associated companies	2	(1,854)
Dividend income	(183)	(521)
Negative goodwill recognised in profit and loss account	–	(86)
Write off of goodwill	–	11,646
Cost of equity-settled share options	–	809
Gain on disposal of other investments	(483)	–
<b>Operating cashflow before reinvestment in working capital</b>	6,442	6,132
Decrease in debtors	5,525	3,190
Increase in stocks	(12,322)	(4,050)
Increase in creditors	7,733	2,549
Effects of exchange rates changes	(427)	–
<b>Cash generated from operations</b>	6,951	7,821
Interest paid	(5,656)	(4,643)
Interest received	612	579
Tax paid	(951)	(1,628)
<b>Net cash generated from operating activities</b>	956	2,129
<b>Cashflow from investing activities</b>		
Proceeds on disposal of property, plant and equipment	341	1,349
Purchase of property, plant and equipment	(5,946)	(3,683)
Increase/(decrease) in amount due to an associated company	86	(510)
Dividend received	183	521
Increase in club membership	(95)	(45)
Increase in other investments	–	(964)
Increase in investment in associated company	(60)	–
Proceeds from disposal of other investments	585	–
Proceeds from disposal of quoted investments	16,982	–
Purchase of shares in subsidiary companies from minority interest	–	(1,290)
Profit guarantee received (Note 39)	1,253	842
Equity contribution by minority shareholder	5,780	–
Net cash outflow on business combination (Note (ii))	(1,243)	(782)
<b>Net cash generated from/(used in) investing activities</b>	17,866	(4,562)

**CONSOLIDATED CASH FLOW STATEMENT (cont'd)**

for the year ended 31 December 2007

	<b>2007</b>	<b>2006</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Cashflow from financing activities</b>		
Dividends paid to minority shareholders of subsidiary companies	–	(1,912)
(Decrease)/increase in amount due to holding company	(1,491)	1,758
Repayment of lease creditors	(453)	(627)
Decrease in amounts due to bankers	(5,625)	(11,477)
Increase in bank borrowings	8,258	545
Decrease in fixed deposits pledged	–	2,619
Payment of dividends	(2,241)	–
<b>Net cash used in financing activities</b>	<b>(1,552)</b>	<b>(9,094)</b>
Net increase/(decrease) in cash and cash equivalents	17,270	(11,527)
Cash and cash equivalents at beginning of year	26,940	41,613
Effects of exchange rate changes on cash and cash equivalents	(1,409)	(3,146)
<b>Cash and cash equivalents at end of year (Note (i))</b>	<b>42,801</b>	<b>26,940</b>

**(i) Cash and cash equivalents**

Cash and cash equivalents included in the consolidated cashflow statement comprise the following balance sheet amounts:-

	<b>2007</b>	<b>2006</b>
	<b>\$'000</b>	<b>\$'000</b>
Fixed deposits	4,151	4,302
Cash at banks and on hand	38,650	22,638
	<b>42,801</b>	<b>26,940</b>

**(ii) Net cash outflow on business combination**

	<b>2007</b>	<b>2006</b>
	<b>\$'000</b>	<b>\$'000</b>
Total purchase consideration (Note 4(d)(ii))	(10,069)	(889)
Consideration settled in form of shares in ASTI (Note 22)	8,541	–
Purchase consideration settled in cash	(1,528)	(889)
Cash and bank balances acquired	285	107
<b>Net cash outflow on business combination</b>	<b>(1,243)</b>	<b>(782)</b>

# NOTES TO FINANCIAL STATEMENTS

31 December 2007

## 1. Corporate information

Dragon Group International Limited (the "Company") is a limited liability company which is domiciled and incorporated in Singapore and publicly traded on the Singapore Exchange Securities Trading Limited ("SGX-ST"). The immediate and ultimate holding company is ASTI Holdings Limited ("ASTI"), also incorporated in Singapore.

The registered office of the Company is located at 3 Church Street, #08-01, Samsung Hub, Singapore 049483.

The principal place of business is located at 1 Kallang Sector, #06-03, Kolam Ayer Industrial Park, Singapore 349276.

### Principal activities

The principal activities of the Company are those of investment holding and acting as corporate manager and advisor in connection with the administration and organisation of the businesses of its subsidiary companies.

The Group is primarily engaged in the following activities :-

- (a) Electronics Distribution
  - (i) Trading and distribution and acting as commission agents in electronic components and products.
  - (ii) Provision of freight and warehousing facilities, material and inventory management, delivery and invoicing using web-based solutions.
  - (iii) Provision of semiconductor application in consumer electronics, computer peripheral and communication solutions.
- (b) Semiconductor Equipment & Services
  - (i) Research, design, development, manufacture and marketing of semiconductor manufacturing equipment including customised inspection and conditioning systems.
  - (ii) Provision of tape and plastic reel services for surface mount components and repackaging of electronic components.
- (c) Semiconductor Test & Consumables
  - (i) Import/export, retailing and trading in electronic components and consumables used in testing of electronic components.
  - (ii) Repair of test boards used in semiconductor testing.
- (d) Technology Investments & Others
  - (i) Investment holding and acting as corporate manager and advisor in relation to the administration and organisation of the businesses of its subsidiary companies.

Details of the subsidiary companies and their principal activities are included in Note 4.

## 2. Summary of significant accounting policies

### 2.1 Basis of preparation

The consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company have been prepared in accordance with Singapore Financial Reporting Standards ("FRS") as required by the Singapore Companies Act.

The financial statements are presented in Singapore Dollars (\$). The financial statements have been prepared on a historical cost basis except for certain financial assets that have been measured at their fair values.

The accounting policies applied by the Group and the Company are consistent with those used in the previous financial year, except as discussed below :

# NOTES TO FINANCIAL STATEMENTS

31 December 2007

## 2. Summary of significant accounting policies (cont'd)

### 2.1 Basis of preparation (cont'd)

In accordance with FRS 102 Share Based Payments, any expense not yet recognised for cancellation of share options granted is recognised immediately, together with a corresponding increase in employee share option reserve. During the financial year, the Group adopted the accounting policy to transfer the resultant share option reserve arising from cancellation of share options to accumulated profits/losses.

The change in accounting policy has resulted in a decrease in share option reserve and accumulated losses as at 31 December 2006 and 1 January 2007 by \$1,525,000 (2006: Nil).

### 2.2 FRS and Interpretation of FRS ("INT FRS") not yet effective

The Group and the Company have not applied the following FRS and INT FRS that have been issued but not yet effective :

		Effective date (Annual period beginning on or after)
FRS 23	Amendment to FRS 23, Borrowing Costs	1 January 2009
FRS 108	Operating Segments	1 January 2009
INT FRS 111	Group and Treasury Transactions	1 March 2007
INT FRS 112	Service Concession Arrangements	1 January 2008

The Directors expect that the adoption of the above pronouncements will have no material impact to the financial statements in the period of initial application, except for FRS 108 as indicated below.

#### **FRS 108, Operating Segments**

FRS 108 requires entities to disclose segment information based on the information reviewed by the entity's chief operating decision maker. The impact of this standard on the other segment disclosures is still to be determined. As this is a disclosure standard, it will have no impact on the financial position or financial performance of the Group when implemented in 2009.

### 2.3 Significant accounting estimates and judgements

Estimates, assumptions concerning the future and judgements are made in the preparation of the financial statements. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

#### **(a) Impairment of goodwill**

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flow from the entities and also to choose a suitable discount rate in order to calculate the present value of those cash flow. The carrying amount of the Group's goodwill at 31 December 2007 is \$6,038,000 (2006: \$1,527,000). More information is included in Note 12.

#### **(b) Estimated useful life of customer relationship**

The cost of customer relationship is amortised on a straight-line basis over its estimated useful life of 7.62 years. The carrying amount of the Group's customer relationship at 31 December 2007 is \$5,423,000 (2006: Nil). Changes in the expected economic benefits associated with customer relationship could impact the economic useful life and therefore future amortisation charges could be revised.

#### **(c) Depreciation of plant and machinery**

Plant and machinery is mainly used for the manufacture of electronic components and is depreciated on a straight-line basis over the estimated useful lives. Management estimates the useful lives of plant and machinery to be within 3 to 10 years. These are common life expectancies applied in the electronics industry. The carrying amount of the Group's plant and machinery at 31 December 2007 is \$6,617,000 (2006: \$8,117,000).

# NOTES TO FINANCIAL STATEMENTS

31 December 2007

## 2. Summary of significant accounting policies (cont'd)

### 2.3 Significant accounting estimates and judgements (cont'd)

#### (c) Depreciation of plant and machinery (cont'd)

Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

#### (d) Income taxes

The Group has exposure to income taxes in several jurisdictions. Significant judgement is involved in determining the group-wide provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. The carrying amount of the Group's provision for tax and deferred tax liabilities at 31 December 2007 are \$1,289,000 (2006: \$664,000) and \$1,161,000 (2006: \$355,000) respectively.

#### (e) Impairment of loans and receivables

The Group assesses at each balance sheet date whether there is any objective that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant difficulties of the debtor and default or significant delay in payments. As at 31 December 2007, the carrying amount of the Group's loans and receivables amounted to \$124,423,000 (2006: \$114,026,000).

### 2.4 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiary companies as at the balance sheet date. The financial statements of the subsidiary companies are prepared for the same reporting date as the Company. Consistent accounting policies are applied for like transactions and events in similar circumstances.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognised in assets, are eliminated in full.

Subsidiary companies are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Acquisitions of subsidiary companies are accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Any excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recorded as goodwill on the balance sheet. The accounting policy for goodwill is set out in Note 2.8.

Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of business combination is recognised as income in the profit and loss account on the date of acquisition.

Minority interests represent the portion of profit or loss and net assets in subsidiary companies not held by the Group. They are presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity, and are separately disclosed in the consolidated profit and loss account.

### 2.5 Subsidiary companies

A subsidiary company is a company in which the Group has a long term equity interest of more than 50% or in whose financial and operating policy decisions the Group controls.

In the Company's separate financial statements, investments in subsidiary companies are accounted for at cost less impairment losses.

# NOTES TO FINANCIAL STATEMENTS

31 December 2007

## 2. Summary of significant accounting policies (cont'd)

### 2.6 Associated companies

An associated company is an entity, not being a subsidiary or a joint venture, in which the Group has significant influence. This generally coincides with the Group having 20% or more of the voting power, or has representation on the board of directors.

The Group's investment in associated companies is accounted for using the equity method. The associated companies are equity accounted for from the date the Group obtains significant influence, until the date the Group ceases to have significant influence.

Under the equity method, investment in associated companies is measured in the balance sheet at cost plus post acquisition changes in the Group's share of net assets of the associated companies. Goodwill relating to associated companies is included in the carrying amount of the investment. Any excess of the Group's share of the net fair value of the associated companies' identifiable assets, liabilities and contingent liabilities over the cost of investment is deducted from the carrying amount of the investment and is recognised as income as part of the Group's share of profit or loss of the associated companies in the period in which the investment is acquired. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, the Group does not recognise further losses, unless it has incurred obligation or made payments on behalf of the associated company. The financial statements of the associated companies are prepared as of the same reporting date as the Company. Where necessary, adjustments are made to bring the accounting policies into line with those of the Group.

In the Company's separate financial statements, investment in associated companies is accounted for at cost less impairment losses.

### 2.7 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

#### (a) Sale of goods

Revenue is recognised upon the transfer of significant risk and rewards of ownership of the goods to the customer, which generally coincides with the delivery and acceptance of the goods sold. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs of the possible return of goods.

#### (b) Rendering of services

Revenue from provision of services is recognised upon services rendered.

#### (c) Commission income

Commission income is recognised principally upon goods delivered and invoiced by the principals to customers on orders contracted by the Group on the principals' behalf.

#### (d) Dividend income

Dividend income is recognised when the Group's right to receive payment is established.

#### (e) Interest income

Interest income is recognised as interest accrues (using the effective interest method) unless collectibility is in doubt.

### 2.8 Intangible assets

#### (a) Goodwill

Goodwill acquired in a business combination is initially measured at cost. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination.

# NOTES TO FINANCIAL STATEMENTS

31 December 2007

## 2. Summary of significant accounting policies (cont'd)

### 2.8 Intangible assets (cont'd)

#### (a) Goodwill (cont'd)

The cash-generating unit to which goodwill has been allocated is tested for impairment annually and whenever there is an indication that the cash-generating unit may be impaired, by comparing the carrying amount of the cash-generating unit, including the goodwill, with the recoverable amount of the cash-generating unit. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in the profit and loss account. Impairment losses recognised for goodwill are not reversed in subsequent periods.

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

#### (b) Project development expenditure

Project development expenditure relates to raw materials, salaries and other fixed costs used in specific development projects that are clearly defined and measurable, where the Directors believe that the Group has adequate resources to make these development projects both technically feasible and commercially viable. Research expenditure is written off in the period expenditure is incurred. Development expenditure incurred is carried forward when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during development. Project development expenditure is amortised on a straight line basis over the period of expected benefits (ranging from 3 to 5 years) to the profit and loss account, and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

#### (c) Licence fee

Licence fee relates to fee incurred by a subsidiary company for an exclusive and royalty-bearing right and licence to use a certain technology within a specific territory. Licence fee is amortised on a straight line basis over useful life of 5 years.

#### (d) Customer relationships

Customer relationships relate to long-running smooth cooperation for sustained support from customers.

Customer relationships acquired are capitalised and amortised on a straight line basis over their useful lives of 7.62 years to profit and loss account.

#### (e) Club memberships

Club memberships are amortised on a straight line basis over its finite useful life of 30 years.

### 2.9 Property, plant and equipment

All items of property, plant and equipment are stated at cost less accumulated depreciation and any impairment loss. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure for additions, improvements and renewals are capitalised and expenditure for maintenance and repairs are charged to the profit and loss account. When items of property, plant and equipment are sold or retired, their cost and accumulated depreciation are removed from the financial statements and any gain or loss resulting from their disposal is included in the profit and loss account. Depreciation on the relevant items of property, plant and equipment are charged to the profit and loss account on the basis outlined in Note 2.18.

### 2.10 Financial assets

Financial assets are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. Financial assets are recognised on the balance sheet when, and only when, the Group becomes a party to the contractual provisions of the financial instrument.

# NOTES TO FINANCIAL STATEMENTS

31 December 2007

## 2. Summary of significant accounting policies (cont'd)

### 2.10 Financial assets (cont'd)

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. The Group determined the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

#### (a) Loans and receivables

Financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less impairment losses. Gains or losses are recognised in the profit and loss account when the loans and receivables are derecognised or impaired, and through the amortisation process.

#### (b) Available-for-sale financial assets

Available-for-sale financial assets are those financial assets that are not classified in any of the other three categories. After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses being recognised in the fair value reserve. The cumulative gain or loss previously recognised in equity is recognised in the profit and loss account when the financial asset is derecognised.

Investments in equity instruments whose fair value cannot be reliably measured are stated at cost less impairment loss.

### 2.11 Derecognition of financial assets

A financial asset is derecognised where the contractual rights to receive cashflow from the asset have expired.

On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that has been recognised directly in equity is recognised in the profit and loss account.

### 2.12 Stocks

Stocks are valued at the lower of cost and net realisable value. Cost of materials is determined on a first-in-first-out or weighted average basis according to the nature of the subsidiary companies' operations. Costs of work-in-progress and finished goods are determined on a specific identification basis and include direct materials, direct labour and attributable overheads. Net realisable value is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale.

### 2.13 Cash and cash equivalents

For the purpose of cashflow statement, cash and cash equivalents consist of cash on hand, current accounts with banks and short-term deposits after deducting fixed deposits pledged

### 2.14 Financial liabilities

Financial liabilities are recognised on the balance sheet when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. Financial liabilities are initially recognised at fair value of consideration received plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the profit and loss account when the liabilities are derecognised as well as through the amortisation process. The liabilities are derecognised when the obligation under the liability is discharged or cancelled or expired.

### 2.15 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive), as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

# NOTES TO FINANCIAL STATEMENTS

31 December 2007

## 2. Summary of significant accounting policies (cont'd)

### 2.16 Leases

#### (a) Finance lease

Finance leases, which effectively transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at amounts equal, at the inception of the lease, to the fair value of the leased item or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant periodic rate of interest on the remaining balance of the liability for each period. Finance charges are charged directly to the profit and loss account.

Capitalised leased assets are depreciated on the basis outlined in Note 2.18.

#### (b) Operating lease

Leases where the lessor effectively retains substantially all the risks and rewards of ownership of the leased item are classified as operating leases. Operating lease payments are recognised as an expense in the profit and loss account on a straight-line basis over the lease term.

### 2.17 Income taxes

#### (a) Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

#### (b) Deferred taxation

Deferred taxation is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax liabilities are recognised for all taxable temporary differences associated with investments in subsidiary and associated companies except :

- In respect of temporary differences associated with investments in subsidiary companies and associated companies,
- Where the deferred tax arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax losses and unabsorbed capital allowances, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry forward of unused tax losses and unused tax credits can be utilised.

At each balance sheet date, the Group re-assesses unrecognised deferred tax assets and the carrying amount of deferred tax assets. The Group recognises a previously unrecognised deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The Group conversely reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of the deferred tax asset to be utilised.

Deferred taxation is charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to equity.

# NOTES TO FINANCIAL STATEMENTS

31 December 2007

## 2. Summary of significant accounting policies (cont'd)

### 2.17 Income taxes (cont'd)

#### (c) Sales tax

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- Where the sales tax incurred in a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of the receivables or payables in the balance sheet.

### 2.18 Depreciation

Depreciation is calculated on the straight-line method to write off the cost of the property, plant and equipment over their estimated useful lives as follows :-

Building on freehold land	-	50 years
Leasehold land and buildings	-	3 - 4 years or shorter of lease term
Furniture and fittings	-	3 - 10 years
Plant and machinery	-	3 - 10 years
Office equipment	-	3 - 10 years
Motor vehicles	-	4 - 5 years

No depreciation is charged on construction-in-progress until the construction is completed and the plant and machinery is transferred to its appropriate category.

Fully depreciated assets are retained in the financial statements until they are no longer in use and no further charge for depreciation is made in respect of these assets.

The useful life and depreciation method are reviewed annually to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from the fixed assets.

### 2.19 Foreign currency

#### (a) Foreign currency transactions

Transactions in foreign currencies are measured in the respective functional currencies of the Company and its subsidiary companies and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Foreign currency monetary assets and liabilities are measured using the exchange rates ruling at the balance sheet date. Non-monetary assets and liabilities are measured using the exchange rates ruling at the transaction dates or, in the case of items carried at fair value, the exchange rates that existed when the values were determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the balance sheet date are recognised in the profit and loss account except for exchange differences arising on monetary items that form part of the Group's net investment in foreign subsidiaries, which are recognised initially in a separate component of equity as foreign currency translation reserve in the consolidated balance sheet and recognised in the consolidated profit and loss account on disposal of the subsidiary. In the Company's separate financial statements, such exchange differences are recognised in the profit and loss account.

#### (b) Foreign currency translation

On consolidation, assets and liabilities of foreign entities are translated into Singapore Dollars at exchange rates ruling at the balance sheet date. Revenue and expenses are translated at average exchange rates for the financial year, which approximate the exchange rates at the dates of the transactions. All resultant exchange differences are taken directly to foreign currency translation reserve.

Goodwill and fair value adjustments arising on the acquisition of foreign entities on or after 1 January 2005 are treated as assets and liabilities of the foreign entities and are recorded in the functional currencies of the foreign entities and are measured using the exchange rates ruling at the balance sheet date.

# NOTES TO FINANCIAL STATEMENTS

31 December 2007

## 2. Summary of significant accounting policies (cont'd)

### 2.19 Foreign currency (cont'd)

#### (b) Foreign currency translation (cont'd)

On disposal of a foreign entity, accumulated exchange differences are transferred from foreign currency translation reserve and are recognised in the profit and loss account as a component of the gain or loss on disposal.

### 2.20 Employee benefits

#### (a) Defined contribution plan

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations. In particular, the Singapore companies in the Group make contributions to the Central Provident Fund scheme in Singapore, a defined contribution pension scheme. Contributions to national pension schemes are recognised as an expense in the period in which the related services are performed.

#### (b) Employee leave entitlement

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. An accrual is made for the estimated liability for leave as a result of services rendered by employees up to the balance sheet date.

#### (c) Equity-related compensation benefits

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which the share options are granted. In valuing the share options, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ('market conditions'), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in the employee share option reserve, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vested irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. The resultant share option reserve is then transferred to accumulated profits and loss. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

### 2.21 Borrowing costs

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

### 2.22 Impairment of assets

#### (a) Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

# NOTES TO FINANCIAL STATEMENTS

31 December 2007

## 2. Summary of significant accounting policies (cont'd)

### 2.22 Impairment of assets (cont'd)

#### (a) Impairment of financial assets (cont'd)

##### (i) Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flow discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in the profit and loss account.

When the asset becomes uncollectible, the carrying amount of impaired financial assets is reduced directly or if an amount was charged to the allowance account, the amounts charged to the allowance account are written off against the carrying value of the financial asset.

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the profit and loss account, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

##### (ii) Assets carried at cost

If there is objective evidence that an impairment loss on financial assets carried at cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flow discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

##### (iii) Available-for-sale financial assets

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the profit and loss account, is transferred from equity to the profit and loss account. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the profit and loss account. Reversals of impairment losses on debt instruments are reversed through the profit and loss account, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the profit and loss account.

#### (b) Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflow that are largely independent of those from other assets or groups of assets. In assessing value in use, the estimated future cash flow are discounted to their present value. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount. Impairment losses are recognised in the profit and loss account.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Reversal of an impairment loss is recognised in the profit and loss account. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

The Group does not reverse in a subsequent period, any impairment loss recognised for goodwill.

# NOTES TO FINANCIAL STATEMENTS

31 December 2007

## 2. Summary of significant accounting policies (cont'd)

### 2.23 Government grants

Government grants are recognised when there is reasonable assurance that the conditions of the grants are complied with and the amount of the grant will be received. When the grant relates to an expense item, it is recognised in the profit and loss account over the period necessary to match them on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is recognised as deferred capital grant on the balance sheet and is amortised to the profit and loss account over the expected useful life of the relevant asset by equal annual instalments.

### 2.24 Segment reporting

A segment is a distinguishable component of the Group that is engaged in providing services/products (business segment), or in providing such services/products within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Segment information is presented in respect of the Group's business and geographical segments. The business segments, being the primary format are based on the Group's management and internal reporting structure.

Inter-segment pricing, if any, is determined on an arms' length basis.

### 2.25 Financial guarantee

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss if incurs because a specified debtor fails to make payment when due.

Financial guarantees are recognised initially at fair value. Subsequent to initial recognition, financial guarantees are recognised as income in the profit and loss account over the period of the guarantee. If it is probable that the liability will be higher than the amount initially recognised less amortization, the liability is recorded at the higher amount with the differences charged to the profit and loss account.

## NOTES TO FINANCIAL STATEMENTS

31 December 2007

### 3. Segment information

#### *Business segment*

The Group has four main business segments that are organised and managed separately according to their respective business activities. The four business segments are Electronics Distribution, Semiconductor Equipment & Services, Semiconductor Test & Consumables and Technology Investments & Others. The activities of these business segments are described in Note 1 of the financial statements herein. Segment accounting policies are the same as the policies described in Note 2. Any inter-segment sales and transfers are carried out on an arm's length basis. Segment assets consist primarily of intangible assets, fixed assets, current assets and exclude income tax assets. Segment liabilities comprise mainly operating liabilities and exclude taxation liabilities.

Prior to the completion of the voluntary conditional offer for the Company shares by ASTI on 30 June 2006, ASTI was an associated company and its financial results was equity accounted. These results are included in the Semiconductor Equipment & Services Division.

Financial information about business segments is presented as follows :-

	Electronics Distribution		Semiconductor Equipment & Services		Semiconductor Test & Consumables		Technology Investments & Others		Adjustments and Elimination		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Sales to external customers	450,316	531,186	-	-	10,331	11,201	183	521	-	-	460,830	542,908
Inter-segment sales	-	-	-	-	-	-	-	2,822	-	(2,822)	-	-
Total revenue	450,316	531,186	-	-	10,331	11,201	183	3,343	-	(2,822)	460,830	542,908
Segment results	6,079	(6,753)	-	-	(352)	900	3,593	(324)	-	(2,822)	9,320	(8,999)
Share of results of associated companies	(2)	7	-	1,847	-	-	-	-	-	-	(2)	1,854
Interest expense											(5,656)	(4,643)
Profit/(loss) before taxation											3,662	(11,788)
Taxation											(1,094)	(1,007)
Profit/(loss) for the year											2,568	(12,795)



## NOTES TO FINANCIAL STATEMENTS

31 December 2007

### 3. Segment information (cont'd)

#### Geographical segment

The Group's business segments operate globally in three main geographical areas. Segment revenue is based on geographical location of the Group's customers. Segment assets are based on geographical location of the Group's assets.

	North Asia			South Asia			USA & Europe			Adjustments and Elimination			Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Sales to external customers	248,772	284,747	178,958	183,783	33,100	74,378	–	–	–	–	460,830	542,908		
Inter-segment sales	12,849	27,794	6,593	8,776	13	–	(19,455)	(36,570)			–	–		
Total revenue	261,621	312,541	185,551	192,559	33,113	74,378	(19,455)	(36,570)	460,830	542,908				
<b>Other segment information</b>														
Segment assets	125,599	71,793	207,389	167,818	19,230	16,827	(153,454)	(69,627)	198,764	186,811				
Unallocated assets									1,060	791				
Total assets									199,824	187,602				
Capital expenditure	5,004	1,836	942	1,643	–	466	–	–	5,946	3,945				

# NOTES TO FINANCIAL STATEMENTS

31 December 2007

## 4. Group companies

(a) The subsidiary companies as at 31 December 2007 are as follows:-

Name of company (Country of incorporation)	Principal activities (Place of business)	Cost		Percentage of equity held by the Group	
		2007 \$'000	2006 \$'000	2007 %	2006 %
<b>Held by the Company</b>					
# eWeb Catalyst Inc. (British Virgin Islands)	Investment holding (British Virgin Islands)	+	+	100	100
* FE Global Electronics Pte Ltd (Singapore)	Sale, distribution and acting as commission agent in electronic components (Singapore)	34,289	34,289	100	100
# Instep International Inc. (United States of America)	Dormant (United States of America)	120	120	70	70
# Logicom Holdings Inc. (British Virgin Islands)	Investment holding (British Virgin Islands)	1,676	1,676	100	100
* Rockford Technology Pte Ltd (Singapore)	Dormant (Singapore)	317	317	100	100
* Spire Technologies Pte Ltd (Singapore)	Import/export, retailer and trader of all types of electronic components and test consumables (Singapore)	1,660	1,660	80	80
*** DTB Limited (Hong Kong)	Investment holding (Hong Kong)	889	889	100	100
* Asia Phoenix Angels Pte. Ltd. (Formerly known as Electec Management Services Pte Ltd) (Singapore)	Dormant (Singapore)	+	+	100	Note (d)(i)
		38,951	38,951		

# NOTES TO FINANCIAL STATEMENTS

31 December 2007

## 4. Group companies (cont'd)

Name of company (Country of incorporation)	Principal activities (Place of business)	Percentage of equity held by the Group	
		2007 %	2006 %
<b>Held by subsidiary companies :-</b>			
<b>Held by eWeb Catalyst Inc.</b>			
* Cybersource Pte Ltd (Singapore)	Dormant (Singapore)	56	56
<b>Held by FE Global Electronics Pte Ltd</b>			
# Advance Electronic Supply Co., Ltd (British Virgin Islands)	Sale and distribution of electronic components used in laptops and handphones (British Virgin Islands)	Note (d)(iv)	94
*** FE Global Taiwan Co., Ltd (Taiwan)	Sale and distribution of electronic components used in laptops and handphones (Taiwan)	94	94
* Circuit Sales International Pte Ltd (Singapore)	Dormant (Singapore)	100	100
*** FE Global Hong Kong Limited (Hong Kong)	Sale, distribution and acting as commission agent in electronic components (Hong Kong)	Note (d)(iii)	100
* SCM Solutions Pte Ltd (Singapore)	Sale of electronic components and provision of freight and warehousing facilities, material and inventory management, delivery and invoicing using web-based solutions (Singapore)	100	100
* Spartron FE Pte Ltd (Singapore)	Sale, distribution and acting as commission agent in electronic components (Singapore)	100	100
* Electec Pte Ltd (Singapore)	Sale, distribution and acting as commission agent in electronic components (Singapore)	100	100
** FE Global Malaysia Sdn Bhd (Malaysia)	Agent and dealer in electrical and electronic components and products (Malaysia)	100	100
* FE-Decibels Electronics Pte Ltd (Singapore)	Sale, distribution and acting as commission agent in electronic components (Singapore)	70	70
## FE Global Electronics Taiwan Ltd (Taiwan)	Dormant (Taiwan)	100	100

# NOTES TO FINANCIAL STATEMENTS

31 December 2007

## 4. Group companies (cont'd)

Name of company (Country of incorporation)	Principal activities (Place of business)	Percentage of equity held by the Group	
		2007 %	2006 %
<b>Held by subsidiary companies :- (cont'd)</b>			
<b>Held by FE Global Electronics Pte Ltd (cont'd)</b>			
* FE Global Holdings Pte Ltd (Singapore)	Investment holding (Singapore)	100	100
*** FE Global Electronics Korea Ltd (South Korea)	Trading in semiconductor components and electrical, electronic and electro-mechanical parts (South Korea)	100	100
* Sooner Technology Pte Ltd (Singapore)	Trading in electronic components, computer peripherals and acting as commission agent (Singapore)	100	100
*** FE Global Shanghai Ltd (formerly known as FE Global China Limited) (People's Republic of China)	Sale, distribution and acting as commission agent in electronic components (People's Republic of China)	100	100
*** American (Hong Kong) Ltd (Hong Kong)	Provision of handling services (Hong Kong)	94	94
*** FE Global (North Asia) Limited (Hong Kong)	Investment holding and trading in electronic components (Hong Kong)	100	100
## Flex-D Korea Inc. (South Korea)	Dormant (South Korea)	100	100
* FE Global Singapore Pte Ltd (Singapore)	Engineering, developing and designing of application systems, programming and distribution of semiconductor chips (Singapore)	100	100
<b>Held by DTB Limited</b>			
*** Nanjing DTB Development Co., Ltd (People's Republic of China)	Construction of antique wooden sea boat, communication of culture, exhibition and conference etc. (People's Republic of China)	60 Note (d)(v)	-
<b>Held by Sooner Technology Pte Ltd</b>			
*** Sooner Technology International Limited (Hong Kong)	Trading in electronic components and computer peripherals and acting as trans-shipment base (Hong Kong)	100	100
# Attuned Group Inc. (United States of America)	Dormant (United States of America)	70	70

# NOTES TO FINANCIAL STATEMENTS

31 December 2007

## 4. Group companies (cont'd)

Name of company (Country of incorporation)	Principal activities (Place of business)	Percentage of equity held by the Group	
		2007 %	2006 %
<b>Held by subsidiary companies :- (cont'd)</b>			
<b>Held by SCM Solutions Pte Ltd</b>			
# SCM Solutions (USA), Inc. (United States of America)	Dormant (United States of America)	100	100
## SCM Solutions Phils Corporation (Philippines)	Dormant (Philippines)	90	90
## SCM Solutions (M) Sdn Bhd (Malaysia)	Dormant (Malaysia)	-	100
<b>Held by Sparton FE Pte Ltd</b>			
*** FE Electronics (India) Private Limited (India)	Provision of technical and marketing support for electronic components business in India (India)	100	100
<b>Held by Electec Pte Ltd</b>			
*** Electec (China) Limited (Hong Kong)	Trading in electronic components and accessories (Hong Kong)	100	100
* Instep Microsolutions Pte Ltd (Singapore)	Trading in electronic components and acting as commission agent (Singapore)	100	100
** Tetramas Sdn Bhd (Malaysia)	Dormant (Malaysia)	100	100
<b>Held by FE-Decibels Electronics Pte Ltd</b>			
*** FE-Global Electronics (India) Private Limited (India)	Sale, distribution and acting as commission agent in electronic components (India)	70	70
<b>Held by FE Global Singapore Pte Ltd</b>			
* Asia Phoenix Angels Pte. Ltd. (Formerly known as Electec Management Services Pte Ltd) (Singapore)	Dormant (Singapore)	Note (d)(i)	100
<b>Held by FE Global Electronics Taiwan Ltd</b>			
## Suntec Technologies Limited (Hong Kong)	Dormant (Hong Kong)	-	100
<b>Held by FE Global Holdings Pte Ltd</b>			
*** FE Global (Shenzhen) Pte Co. Ltd (People's Republic of China)	Distribution of electronic components (People's Republic of China)	100	100

# NOTES TO FINANCIAL STATEMENTS

31 December 2007

## 4. Group companies (cont'd)

Name of company (Country of incorporation)	Principal activities (Place of business)	Percentage of equity held by the Group	
		2007 %	2006 %
<b>Held by subsidiary companies :- (cont'd)</b>			
<b>Held by Sooner Technology International Limited</b>			
# Sunfest International Limited (Hong Kong)	Trading in electronic components and computer peripherals base (Hong Kong)	100	100
<b>Held by Spire Technologies Pte Ltd</b>			
*** Spire Technologies (Taiwan) Ltd (Taiwan)	Trading, retailing and manufacturing of electronic components and test consumables (Taiwan)	48 Note (d)(vi)	48
*** Spire Technologies, Inc (Philippines)	Import/export, retailer and trader of all types of electronic components and test consumables (Philippines)	95	95
* Apogee Test Pte Ltd (Singapore)	Repairs of test boards for semiconductor systems (Singapore)	80	80
<b>Held by FE Global (North Asia) Limited</b>			
*** FE Global (China) Limited (Hong Kong)	Trading of electronic components (Hong Kong)	100	100
*** Dynax Tele-communication Products Limited (Hong Kong)	Trading of computer components (Hong Kong)	100	100
*** Changzhou Xingqiu Electronic Company Limited (Hong Kong)	Trading of DVD players (Hong Kong)	100	100
*** Dynax Logistics Limited (Hong Kong)	Dormant (Hong Kong)	100	100
*** FlexD Inc. (Cayman Islands)	Trading of integrated circuits chips and investment holding (Hong Kong)	100	100
*** Flex-In Electronics Limited (Hong Kong)	Trading of DVD players (Hong Kong)	100	100
*** M Three Technologies Limited (Hong Kong)	Providing research and development services (Hong Kong)	100	100
*** U-Core Team Technologies Limited (Hong Kong)	Providing research and development services (Hong Kong)	100	100

# NOTES TO FINANCIAL STATEMENTS

31 December 2007

## 4. Group companies (cont'd)

Name of company (Country of incorporation)	Principal activities (Place of business)	Percentage of equity held by the Group	
		2007 %	2006 %
<b>Held by subsidiary companies :- (cont'd)</b>			
<b>Held by FE Global (North Asia) Limited (cont'd)</b>			
*** Dragon Technology Distribution (HK) Limited (formerly known as Utech Technologies Limited) (Hong Kong)	Providing research and development services (Hong Kong)	100	100
*** Visiontek Technology Limited (Hong Kong)	Trading of electronic components (Hong Kong)	100	100
# Excelgood Holdings Limited (British Virgin Islands)	Investment holding (British Virgin Islands)	100	100
# Advance Electronic Supply Co., Ltd (British Virgin Islands)	Sale and distribution of electronic components used in laptops and handphones (British Virgin Islands)	94	Note (d)(iv)
*** FE Global Hong Kong Limited (Hong Kong)	Sale, distribution and acting as commission agent in electronic components (Hong Kong)	100	Note (d)(iii)
<b>Held by Excelgood Holdings Limited</b>			
*** Flex-In Electronics Macao Commercial Offshore Limited (Macao, SAR)	Trading and distribution of DVD and related components (Macao, SAR)	100	100
<b>Held by Dragon Technology Distribution (HK) Limited</b>			
*** Dragon Trading (Shanghai) Co., Ltd (Republic Of China)	Import Trading Business (Republic Of China)	100 Note (d)(ii)	-
(b) The associated companies as at 31 December 2007 are as follows :-			
<b>Held by the Sooner Technology Pte Ltd</b>			
# ITaccess Pte Ltd (Singapore)	IT service and distribution, computer security and data storage (Singapore)	30	-
<b>Held by FE Global Electronics Pte Ltd</b>			
*** FE Global (Thailand) Co., Ltd (Thailand)	Sale, distribution and acting as commission agent in electronic components (Thailand)	49	49

# NOTES TO FINANCIAL STATEMENTS

31 December 2007

## 4. Group companies (cont'd)

(c) The sole-proprietorships as at 31 December 2007 are as follows :-

Name of sole-proprietorship (Country of registration)	Principal activities (Place of business)	Percentage of equity held by the Group	
		2007 %	2006 %
<b><i>Held by Sooner Technology Pte Ltd</i></b>			
++ Blangah Technology (Singapore)	Trading in electronic components, computer hardware and peripheral equipment (Singapore)	100	100
++ Innerjet Technology (Singapore)	Trading in electronic components, computer hardware and peripheral equipment (Singapore)	100	100
++ Instep Microsolutions (Singapore)	Trading in electronic components, computer hardware and peripheral equipment (Singapore)	100	100
++ Valuetech Systems (Singapore)	Trading in electronic components, computer hardware and peripheral equipment (Singapore)	100	100

\* Audited by Ernst &amp; Young, Singapore.

\*\* Audited by a member firm of Ernst &amp; Young Global – Ernst &amp; Young, Malaysia.

\*\*\* Audited by other Certified Public Accounting firms :-

<u>Company</u>	<u>Certified Public Accounting firm</u>
FE Global Taiwan Co., Ltd	Link Chain & Co., Taiwan
FE Global Hong Kong Limited	Chan & Man, Hong Kong
FE Global Electronics Taiwan Ltd	Link Chain & Co., Taiwan
FE Global Shanghai Ltd	Shanghai Huzhong Certified Public Accountant Co., Ltd, People's Republic of China
American (Hong Kong) Ltd	James K.K. Chan & Co., Hong Kong
Sooner Technology International Limited	James K.K. Chan & Co., Hong Kong
FE Electronics (India) Private Limited	N. Madhu Sai Sankaram, India
Electec (China) Limited	Chan & Man, Hong Kong
FE-Global Electronics (India) Private Limited	N. Madhu Sai Sankaram, India

# NOTES TO FINANCIAL STATEMENTS

31 December 2007

## 4. Group companies (cont'd)

\*\*\* Audited by other Certified Public Accounting firms :- (cont'd)

<u>Company</u>	<u>Certified Public Accounting firm</u>
Spire Technologies (Taiwan) Ltd	Link Chain & Co., Taiwan
Spire Technologies, Inc	Manuel Oblena, CPA, Philippines
FE Global (Thailand) Co., Ltd	Dusanee Vanichvatana, Thailand
FE Global Electronics Korea Ltd	The 106 <sup>th</sup> Audit Team, Korea
Flex-D Korea Inc.	The 106 <sup>th</sup> Audit Team, Korea
FE Global (Shenzhen) Pte Co. Ltd	Shenzhen Zhong Zhou Certified Public Accountants Co.Ltd. People's Republic of China
FE Global (North Asia) Limited	Lak & Associates C.P.A. Limited, Hong Kong
FE Global (China) Limited	Lak & Associates C.P.A. Limited, Hong Kong
Changzhou Xingqiu Electronic Company Limited	Lak & Associates C.P.A. Limited, Hong Kong
Dynax Logistics Limited	Lak & Associates C.P.A. Limited, Hong Kong
Dynax Tele-communication Products Limited	Lak & Associates C.P.A. Limited, Hong Kong
FlexD Inc.	Lak & Associates C.P.A. Limited, Hong Kong
Flex-in Electronics Limited	Lak & Associates C.P.A. Limited, Hong Kong
M Three Technologies Limited	Lak & Associates C.P.A. Limited, Hong Kong
U-Core Team Technologies Limited	Lak & Associates C.P.A. Limited, Hong Kong
Dragon Technology Distribution (HK) Limited	Lak & Associates C.P.A. Limited Hong Kong
Visiontek Technology Limited	Lak & Associates C.P.A. Limited, Hong Kong
Flex-In Electronics Macao Commercial Offshore Limited	CSC & Associates, Macau, SAR
DTB Limited	Y.K Leung & Co., Hong Kong
Nanjing DTB Development Co., Ltd	Jiangsu Yonghe Certified Public Accountant Co., Ltd
Dragon Trading (Shanghai) Co., Ltd	Shanghai Hua Xia Certified Public Accountant Co.,Ltd.

# Unaudited because there is no statutory audit requirement in the country of incorporation.

## Unaudited because the companies are in voluntary liquidation and are not required to be audited.

+ Cost of investment is less than \$500.

++ The results and financial position of these sole-proprietorships are included in the financial statements of Sooner Technology Pte Ltd.

# NOTES TO FINANCIAL STATEMENTS

31 December 2007

## 4. Group companies (cont'd)

### (d) Acquisition of subsidiary companies :-

- (i) In March 2007, the Company acquired the entire issued and paid-up share capital of Asia Phoenix Angels Pte Ltd (formerly known as Electec Management Services Pte Ltd), a company incorporated in Singapore, from FE Global Singapore Pte Ltd, a wholly-owned subsidiary of its direct wholly-owned subsidiary, FE Global Electronics Pte Ltd ("FEG") at a consideration of S\$1.00 per share.
- (ii) In May 2007, the Company has completed the acquisition of the business and goodwill of Dragon Technology Distribution Company Limited including the business name "Dragon" and certain assets related thereto; and the entire issued and paid up share capital in Dragon Trading (Shanghai) Company Limited ("DTS").

The fair value of the identifiable assets and liabilities of the above business combination as at the date of acquisition were:

	<b>2007</b>
	<b>\$'000</b>
Intangible assets	6,226
Property, plant and equipment	176
Trade debtors	1,705
Other debtors	218
Stocks	870
Cash and bank balances	285
Trade creditors	(298)
Other creditors	(2,956)
Deferred tax liabilities	(1,030)
Net assets acquired	5,196
Goodwill arising from business combination	4,873
Total purchase consideration	10,069

The business combination above contributed revenue and net profit after tax of \$97,975,000 and \$3,632,000 to the Group from the date of the business combination.

The effect of the acquisition of the business combination above on the financial position of the Group and the financial impact on the results of the Group for the respective years as though the acquisition dates had been at the beginning of the respective years cannot be practicably determined.

- (iii) In July 2007, the Company through its subsidiary company, FE Global Electronics Pte Ltd transferred the entire shareholdings in FE Global Hong Kong Limited to its wholly-owned subsidiary, FE Global (North Asia) Limited for a consideration of HK\$23,325,292.
- (iv) In July 2007, the Company through its subsidiary company, FE Global Electronics Pte Ltd transferred the entire shareholdings in Advance Electronic Supply Co., Ltd to its wholly-owned subsidiary, FE Global (North Asia) Limited for a consideration of HK\$15,080,543.
- (v) In October 2007, the Company announced at the Extraordinary General Meeting ("EGM"), the proposed investment in Nanjing Dragon Treasure Boat Development Company Ltd ("DTB Nanjing") via its wholly owned subsidiary, DTB Limited ("DTB Hong Kong") which was duly passed.
- (vi) The Company owns 80% of Spire Technologies Pte Ltd which in turn owns 60% of Spire Technologies (Taiwan) Ltd. Hence, Spire Technologies (Taiwan) Ltd is a subsidiary of the Group despite effective shareholding of less than 50%.

# NOTES TO FINANCIAL STATEMENTS

31 December 2007

## 5. Revenue

	Group	
	2007 \$'000	2006 \$'000
Revenue is analysed as follows :-		
Sale of goods	452,850	534,569
Provision of services	4,678	6,040
Commission income	3,119	1,778
Dividend income from quoted investment, which is also the holding company of the Group	183	521
	460,830	542,908

## 6. Other income

	Group	
	2007 \$'000	2006 \$'000
The following items have been included in arriving at other income :-		
Interest income		
- Fixed deposits and current accounts	479	579
- Outstanding trade receivables from customers	133	764
Gain on disposal of other investments	483	-
Service and handling fee	201	-
Grant income	-	49
	-	49

## 7. Finance costs

	Group	
	2007 \$'000	2006 \$'000
Finance costs are analysed as follows :-		
Interest expense in respect of :-		
Lease creditors	54	75
Bank term loans	2,674	2,744
Trade finance	2,928	1,824
	5,656	4,643
Bank charges	991	814
Others	45	3
	6,692	5,460

# NOTES TO FINANCIAL STATEMENTS

31 December 2007

## 8. Exceptional items

	Group	
	2007 \$'000	2006 \$'000
Exceptional items are analysed as follows :-		
Gain on disposal of quoted investments (Note 22)	6,846	–
Write back of debtors	–	2
Write off of goodwill in a subsidiary company	–	(11,646)
Restructuring costs in relation to a subsidiary company [Note (i)]	–	(3,596)
Impairment of intangible assets	(300)	–
	6,546	(15,240)

(i) Included in restructuring costs in 2006 are termination benefits amounting to \$2,008,000.

## 9. Profit/(loss) before taxation

	Group	
	2007 \$'000	2006 \$'000
The following items have been included in arriving at profit/(loss) before taxation :-		
Amortisation of intangible assets	681	576
Depreciation of property, plant and equipment	4,202	4,422
Foreign exchange losses	256	1,628
Property, plant and equipment written off	38	45
Loss/(gain) on disposal of property, plant and equipment	25	(417)
Staff costs		
- Contributions to national pension schemes	1,459	1,141
- Salaries, wages, bonuses and other costs	19,003	14,855
- Cost of equity-settled share options	–	809
Trade bad debts written off	99	11
Provision for doubtful trade debts	2,148	800
Provision for doubtful trade debtors written back	(12)	(110)
	6,846	(15,240)

## 10. Taxation

Provision for taxation in respect of profit for the financial year :-

	Group	
	2007 \$'000	2006 \$'000
Current taxation		
- Singapore	987	1,005
- Other countries	622	399
Deferred taxation	(672)	116
	937	1,520
Adjustment due to change in tax rate	(38)	–
Under/(over) provision in respect of prior years		
- Current taxation	156	(330)
- Deferred taxation	39	(183)
	157	(513)
	1,094	1,007

# NOTES TO FINANCIAL STATEMENTS

31 December 2007

## 10. Taxation (cont'd)

A reconciliation of the domestic statutory tax rate to the effective tax rate applicable to profit before taxation for the financial years ended 31 December is as follows :-

	Group	
	2007 \$'000	2006 \$'000
Domestic statutory tax rate	18.0	(20.0)
Tax effect of :-		
Income not subject to taxation	(31.8)	(3.7)
Expenses not deductible for tax purposes	35.0	37.7
Under/(over) provision of taxation in respect of prior years	3.1	(4.4)
Utilisation of losses brought forward	-	(2.1)
Different tax rates of other countries	1.3	(1.9)
Deductible temporary differences not recognised	13.7	9.8
Others	(9.4)	(6.9)
Effective tax rate	<u>29.9</u>	<u>8.5</u>

The Group has unutilised tax losses and unabsorbed capital allowances amounting to approximately \$8,468,000 (2006: \$8,199,000) and \$429,000 (2006: \$349,000) respectively that are available for offset against future taxable profits of the companies in which the losses arose, for which no deferred tax asset is recognised due to uncertainty of its recoverability. The use of these tax losses is subject to the agreement of the tax authorities and compliance with certain provisions of the tax legislation of the respective countries in which the companies operate.

The amount of the benefit arising from a previously unrecognised tax losses of prior years that is used to reduce current year tax expense is amounted to nil (2006: \$253,000)

In addition, a subsidiary company was granted an Investment Allowance Certificate under The Economic Expansion Incentives (Relief from Income Tax) Act, Chapter 86. This subsidiary company has unutilised investment allowances of approximately \$1,949,000 (2006: \$2,081,000), subject to agreement with the tax authority, that are available for offset against future taxable profits of the subsidiary company for which no deferred tax asset is recognised due to uncertainty of its recoverability.

## 11. Earnings/(loss) per share

The basic earnings/(loss) per share is calculated by dividing the net profit/(loss) for the year and attributable to shareholders by the weighted average number of ordinary shares in issue during the financial year.

Diluted earnings/(loss) per share is calculated by dividing the net profit/(loss) for the year and attributable to shareholders by the weighted average number of ordinary shares in issue and adjusted for the effect of dilutive securities under options outstanding during the financial year.

The following reflects the net profit/(loss) and share data used in the basic and diluted earnings/(loss) per share computations for the financial years ended 31 December :-

	Group	
	2007 \$'000	2006 \$'000
Net profit/(loss) for the year and attributable to shareholders for basic and diluted earnings/(loss) per share	3,135	(13,164)
	<u>'000</u>	<u>'000</u>
Weighted average number of ordinary shares in issue applicable to basic earnings/(loss) per share	224,081	224,081
Effect of dilutive securities	-	41
Adjusted weighted average number of ordinary shares in issue applicable to diluted earnings/(loss) per share	<u>224,081</u>	<u>224,122</u>

## NOTES TO FINANCIAL STATEMENTS

31 December 2007

### 12. Intangible assets

Group	Project development expenditure \$'000	Licence Fee <sup>(a)</sup> \$'000	Goodwill <sup>(b)</sup> \$'000	Customer Relationship \$'000	Club Membership \$'000	Total \$'000
<b>Cost</b>						
At 1 January 2006	1,480	538	14,804	—	124	16,946
Increase during the year	—	—	464	—	176	640
Profit guarantee adjustment	—	—	(2,095)	—	—	(2,095)
Written off during the year	—	—	(11,646)	—	—	(11,646)
Currency realignment	(68)	—	—	—	—	(68)
At 31 December 2006 and 1 January 2007	1,412	538	1,527	—	300	3,777
Increase during the year	—	—	4,873	6,226	95	11,194
Write off during the year	(744)	—	—	—	—	(744)
Currency realignment	(53)	—	(362)	(309)	(25)	(749)
At 31 December 2007	615	538	6,038	5,917	370	13,478
<b>Accumulated amortisation and impairment losses</b>						
At 1 January 2006	930	23	—	—	73	1,026
Charge for the year	522	54	—	—	12	588
Currency realignment	(40)	—	—	—	—	(40)
At 31 December 2006 and 1 January 2007	1,412	77	—	—	85	1,574
Charge for the year	—	161	—	516	4	681
Written off during the year	(744)	—	—	—	—	(744)
Impairment	—	300	—	—	—	300
Currency realignment	(53)	—	—	(22)	(10)	(85)
At 31 December 2007	615	538	—	494	79	1,726
<b>Net book value</b>						
At 31 December 2007	—	—	6,038	5,423	291	11,752
At 31 December 2006	—	461	1,527	—	215	2,203

(a) Licence fee is stated at cost less accumulated amortisation and impairment losses. The licence fee was impaired in 2007 as a result of uncertainty in the future economic benefits receivable.

(b) The recoverable amount for goodwill was determined based on a value in use calculation using cash flow projections based on the financial budgets covering a five-year period. The first year of projections took into consideration higher sales performance arising from the positive effects of the Group's restructuring efforts on the businesses of certain cash-generating units. The pre-tax discount rates applied to the cash flow projections of 6.2% (2006: 9.7% to 10.1%) per annum, being the weighted average cost of capital of the respective cash generating units in which the goodwill relates to. The annual growth rate used to extrapolate the cash flow beyond the first year period was 1%.

(c) Amortisation of intangible assets is included in "general and administrative costs" on the profit and loss account.

# NOTES TO FINANCIAL STATEMENTS

31 December 2007

## 12. Intangible assets (cont'd)

Company	Club Membership \$'000
<b>Cost and net book value</b>	
At 1 January 2006	–
Additions	45
At 31 December 2006 and 1 January 2007	45
Additions	95
At 31 December 2007	140

## NOTES TO FINANCIAL STATEMENTS

31 December 2007

### 13. Property, plant and equipment

Group	Leasehold land and buildings \$'000	Furniture and fittings \$'000	Plant and machinery \$'000	Office equipment \$'000	Construction- in-progress \$'000	Motor vehicles \$'000	Total \$'000
<b>Cost</b>							
At 1 January 2006	818	5,212	19,923	10,922	43	1,478	38,396
Additions	32	598	2,037	786	176	316	3,945
Disposals/write offs	(323)	(96)	(1,260)	(423)	—	(289)	(2,391)
Transfer	48	258	879	(966)	(219)	—	—
Currency realignment	(65)	(288)	(13)	(712)	—	(73)	(1,151)
At 31 December 2006 and 1 January 2007	510	5,684	21,566	9,607	—	1,432	38,799
Additions	2,571	813	721	1,242	442	157	5,946
Disposals/write offs	(2)	(924)	(370)	(1,981)	—	(571)	(3,848)
Acquisition of a subsidiary company (Note 4(d)(ii))	—	—	—	134	—	42	176
Transfer	—	(29)	31	(2)	—	—	—
Currency realignment	(34)	(210)	(74)	(448)	—	(49)	(815)
At 31 December 2007	3,045	5,334	21,874	8,552	442	1,011	40,258
<b>Accumulated depreciation</b>							
At 1 January 2006	91	3,779	11,993	6,012	—	1,034	22,909
Charge for the year	24	919	2,004	1,304	—	171	4,422
Disposals/write offs	(41)	(40)	(762)	(332)	—	(239)	(1,414)
Transfer	34	227	245	(506)	—	—	—
Currency realignment	(8)	(226)	(31)	(410)	—	(60)	(735)
At 31 December 2006 and 1 January 2007	100	4,659	13,449	6,068	—	906	25,182
Charge for the year	19	633	1,941	1,410	—	199	4,202
Disposals/write offs	(2)	(888)	(67)	(1,916)	—	(571)	(3,444)
Transfer	—	(1)	—	1	—	—	—
Currency realignment	(3)	(198)	(66)	(289)	—	(25)	(581)
At 31 December 2007	114	4,205	15,257	5,274	—	509	25,359
<b>Net book value</b>							
At 31 December 2007	2,931	1,129	6,617	3,278	442	502	14,899
At 31 December 2006	410	1,025	8,117	3,539	—	526	13,617

# NOTES TO FINANCIAL STATEMENTS

31 December 2007

## 13. Property, plant and equipment (cont'd)

Company	Office equipment \$'000
<b>Cost</b>	
At 1 January 2006	44
Additions	13
At 31 December 2006 and 1 January 2007	57
Additions	7
Disposals/write offs	(2)
At 31 December 2007	62
<b>Accumulated depreciation</b>	
At 1 January 2006	30
Charge for the year	9
At 31 December 2006 and 1 January 2007	39
Charge for the year	10
Disposals/write offs	(1)
At 31 December 2007	48
<b>Net book value</b>	
At 31 December 2007	14
At 31 December 2006	18

During the year, there were no acquisitions of property, plant and equipment by means of finance leases (2006: \$262,000).

The net book values of assets acquired on finance lease agreements are as follows :-

	Group	
	2007 \$'000	2006 \$'000
Motor vehicles	335	429
Office equipment	556	879
	891	1,308

## 14. Investments in subsidiary companies

	Company	
	2007 \$'000	2006 \$'000
Unquoted shares, at cost	38,951	38,951
Impairment losses	(2,113)	(2,113)
Carrying amount of investments	36,838	36,838

Details of the subsidiary companies are set out in Note 4.

# NOTES TO FINANCIAL STATEMENTS

31 December 2007

## 15. Investments in associated companies

	Group		Company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Unquoted shares, at cost	184	124	–	–
Share of post-acquisition losses	(21)	(20)	–	–
	163	104	–	–

Details of the associated companies are set out in Note 4(b).

The summarised financial information of the associated companies are as follows:

	2007 \$'000	2006 \$'000
<b>Assets and liabilities :</b>		
Current assets	875	518
Non-current assets	71	83
<b>Total assets</b>	946	601
Current liabilities	475	121
Non-current liabilities	39	259
<b>Total liabilities</b>	514	380
<b>Results :</b>		
Revenue	879	981
Profit for the year	3	23

## 16. Other investments

	Group		Company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<i>Available-for-sale financial assets</i>				
- Unquoted equity shares, at cost	17,086	17,453	8,696	8,028
- Impairment losses	(15,019)	(16,076)	(6,629)	(6,752)
	2,067	1,377	2,067	1,276
- Quoted equity shares in corporations, at fair value	64	67	–	–
	2,131	1,444	2,067	1,276

# NOTES TO FINANCIAL STATEMENTS

31 December 2007

## 17. Amounts due from subsidiary companies

	Company	
	2007 \$'000	2006 \$'000
Current portion	19,118	4,818
Non-current portion	911	854
	20,029	5,672

Amounts due from subsidiary companies are stated after an allowance for uncollectible amounts of \$12,668,000 (2006: \$15,826,000).

The amounts due from subsidiary companies are non-trade in nature, unsecured and repayable in cash.

The current amounts due from subsidiary companies are non interest bearing and repayable upon demand. The non current amounts due from subsidiary companies are interest bearing at 6% (2006: 6%) per annum and repayable only when the cash flow of these companies permit.

Included in amounts due from subsidiary companies are \$3,276,000 (2006: \$3,282,000) and \$1,438,000 (2006: Nil) denominated in Malaysia Ringgit and US dollars respectively.

## 18. Trade debtors

Trade debtors for the Group are stated after an allowance for uncollectible amounts of \$3,349,000 (2006: \$1,420,000).

Included in trade debtors of the Group are \$68,654,000 (2006: \$69,779,000), \$2,836,000 (2006: \$30,000) and \$2,243,000 (2006: \$3,874,000) denominated in US dollars, Renminbi and New Taiwan dollars respectively.

Bad debts written off directly to profit and loss account amounted to \$99,000 (2006: \$11,000).

At the balance sheet date, trade receivables arising from export sales amounting to \$171,000 (2006: \$3,663,000) are arranged to be settled via letters of credit issued by reputable banks in countries where the customers are based.

### (a) Receivables that are past due but not impaired

The Group has trade receivables amounting to \$44,774,000 (2006: \$43,983,000) that were past due at the balance sheet date but not impaired. These receivables are unsecured and the analysis of their aging at the balance sheet date is as follows:

	Group	
	2007 \$'000	2006 \$'000
<u>Trade receivables past due but not impaired:</u>		
Less than 30 days	32,464	29,351
30 to 60 days	7,392	12,999
61-90 days	4,918	1,633
	44,774	43,983

# NOTES TO FINANCIAL STATEMENTS

31 December 2007

## 18. Trade debtors (cont'd)

### (b) Receivables that are impaired

The Group has trade receivables that are impaired at the balance sheet date and the movement of the allowance accounts used to record the impairment are as follows:

	Individually impaired	
	2007 \$'000	2006 \$'000
Trade receivables – nominal amounts	13,652	6,172
Less: Allowance for impairment	(3,349)	(1,420)
	<u>10,303</u>	<u>4,752</u>
Movement in allowance accounts:		
At 1 January	1,420	730
Charge for the year	2,148	800
Written off	(12)	(110)
Exchange differences	(207)	–
At 31 December	<u>3,349</u>	<u>1,420</u>

## 19. Other debtors

	Group		Company	
	2007 \$' 000	2006 \$'000	2007 \$'000	2006 \$'000
Deposits	1,678	705	7	1
Loans receivable	–	1,387	–	–
Interest receivable [Note (i)]	1,188	–	–	–
Convertible loan [Note (ii)]	–	792	–	792
Staff loans [Note (iv)]	61	5	–	–
Recoverable expenses	2	24	–	24
Due from an associated company [Note (iv)]	204	365	–	–
Profit guarantee receivable [Note (iii)]	–	1,253	–	–
Sundry debtors	836	915	300	44
	<u>3,969</u>	<u>5,446</u>	<u>307</u>	<u>861</u>

Included in other debtors of the Group are \$2,475,000 (2006: \$3,001,000) and \$1,408,000 (2006: \$673,000) denominated in Hong Kong dollars and US dollars respectively.

- (i) Interest receivable for the financial year ended 31 December 2007 were mainly interest on outstanding trade receivables from customers.
- (ii) In March 2007, the Company has exercised its conversion rights in Flexcomm Limited, a company controlled by a director/controlling shareholder of the Company in respect of the convertible loan pursuant to the convertible loan agreement.
- (iii) In December 2007, the Group received the profit guarantee due from the following:-
  - (a) \$397,000 received from a director of the Company;
  - (b) \$62,000 received from a director of a subsidiary company; and
  - (c) \$794,000 received from a company controlled by a director of the Company and a director of a subsidiary company as referred in (a) and (b) above.
- (iv) Amount due from associated company and staff loans are unsecured, non-interest bearing and are repayable upon demand.

# NOTES TO FINANCIAL STATEMENTS

31 December 2007

## 20. Prepayments and advances

	Group		Company	
	2007 \$' 000	2006 \$'000	2007 \$'000	2006 \$'000
Advance payments to suppliers	712	2,950	–	–
Prepayments	794	472	340	10
	<u>1,506</u>	<u>3,422</u>	<u>340</u>	<u>10</u>

## 21. Stocks

	Group	
	2007 \$'000	2006 \$'000
<b>Balance sheet:</b>		
Raw materials	211	257
Work-in-progress	233	2
Finished goods	46,012	33,005
Total stocks at lower of cost and net realisable value	<u>46,456</u>	<u>33,264</u>
<b>Profit and loss account:</b>		
Inventories recognised as an expense in cost of sales	407,224	492,733
Inclusive of the following charge/(credit):		
- Inventories written-down	670	1,105
- Reversal of write-down of inventories	(9)	(881)

## 22. Quoted investments

	Group		Company	
	2007 \$' 000	2006 \$'000	2007 \$'000	2006 \$'000
Available-for-sale financial asset				
- Quoted equity shares, at fair value	–	22,944	–	22,944
Market value of quoted investments at 31 December	<u>–</u>	<u>22,944</u>	<u>–</u>	<u>22,944</u>

Following the completion of the voluntary conditional offer of the Company's shares by ASTI, ASTI became the holding company of the Company. Section 21 of the Companies Act of Singapore requires the Company, as a subsidiary of ASTI to dispose of its ASTI shares within 12 months of becoming a subsidiary of ASTI.

On 2 April 2007, the Company successfully placed out 73,792,145 shares in ASTI at \$0.24 per placement share, which represented discount of 3.6% from the weighted average price of ASTI shares on the SGX-ST in the 30 market days prior to 2 April 2007 and a discount of 9.1% from the weighted average price of ASTI shares on the SGX-ST on 2 April 2007. This represented proceeds of \$16.98 million to the Company, after applicable expenses. The resultant gain of \$6,846,000 (2006: Nil) was recognised as exceptional gain in the profit and loss account. In May 2007, the Company acquired the business of Dragon Technology Distribution Company Limited and the entire issued share capital of Dragon Trading (Shanghai) Company Limited (collectively the "DTS Acquisition"). Part of the consideration for the DTS Acquisition was satisfied by the transfer of the remaining 30,500,000 ASTI shares.

# NOTES TO FINANCIAL STATEMENTS

31 December 2007

## 23. Fixed deposits

Fixed deposits of the Group and the Company with financial institutions mature over varying periods within 12 months (2006: 12 months) and 1 month (2006: 1 month) from the financial year-end respectively. Interest rates for the Group and the Company ranged from 2.1% to 4.7% (2006: 4.5% to 4.8%) per annum respectively, which were also the effective interest rates.

Included in fixed deposits of the Group are \$4,151,000 (2006: \$4,302,000) denominated in US dollars.

## 24. Cash and bank balances

Included in cash and bank balances of the Group are \$31,650,000 (2006: \$19,678,000), \$1,156,000 (2006: \$2,225,000) and \$2,465,000 (2006: \$43,000) denominated in US dollars, Hong Kong dollars and Renminbi respectively.

## 25. Trade creditors and accruals

	Group		Company	
	2007 \$' 000	2006 \$'000	2007 \$'000	2006 \$'000
Trade creditors	49,433	47,312	–	–
Accruals	2,088	3,579	876	651
	51,521	50,891	876	651

Included in trade creditors of the Group are \$45,942,000 (2006: \$46,290,000), \$1,290,000 (2006: \$1,306,000) and \$1,508,000 (2006: \$477,000) denominated in US dollars, Hong Kong dollars and Renminbi respectively.

## 26. Bills payable

The bills payable are covered by corporate guarantee from the Company, have maturity periods ranging from 2 months to 4 months (2006: 4 days to 4 months) and bear interest at approximately 6.0% to 7.9% (2006: 5.8% to 7.4%), which are also the effective interest rates. Included in bills payable of the Group are \$39,734,000 (2006: \$34,903,000) denominated in US dollars.

## 27. Other creditors

	Group		Company	
	2007 \$' 000	2006 \$'000	2007 \$'000	2006 \$'000
Lease creditors (Note 31)	107	442	–	–
Proposed Directors' fees	189	136	189	136
Deposit received [Note (i)]	1,090	–	–	–
Amounts due to directors of subsidiary companies	108	1,164	–	–
Sundry creditors	3,026	2,451	155	192
Amount due to an associated company - non-trade	150	–	–	–
Prepayments by customers	560	494	–	–
Amount due to a related company	12	484	–	–
Creditor for purchase of property, plant and equipment	1,239	–	–	–
	6,481	5,171	344	328

Included in other creditors of the Group are \$1,377,000 (2006: \$2,520,000), \$2,331,000 (2006: \$542,000) and \$1,975,000 (2006: \$408,000) denominated in US dollars, Hong Kong dollars and Renminbi.

(i) Deposits received were mainly from customers for sales orders.

# NOTES TO FINANCIAL STATEMENTS

31 December 2007

## 28. Amounts due to bankers

	Group		Company	
	2007 \$' 000	2006 \$'000	2007 \$'000	2006 \$'000
<u>Non-current</u>				
Term loans - secured	–	4,355	–	4,355
- unsecured	5,136	1,654	5,136	–
	<u>5,136</u>	<u>6,009</u>	<u>5,136</u>	<u>4,355</u>
<u>Current</u>				
Term loans - secured	–	7,120	–	7,120
- unsecured	36,972	26,346	2,935	–
	<u>36,972</u>	<u>33,466</u>	<u>2,935</u>	<u>7,120</u>
	<u>42,108</u>	<u>39,475</u>	<u>8,071</u>	<u>11,475</u>

### ***Term loans – secured***

As at 31 December 2006, the secured term loan comprised an amount of \$11,475,000 obtained by the Company from United Overseas Bank Limited (“UOB”). The term loan was secured on a fixed charge over the Company’s 18% shareholding in ASTI. This charge was subsequently released on 13 February 2007 and replaced by corporate guarantee from ASTI.

### ***Term loans – unsecured***

Term loans bear interest at 1.5% to 2.0% (2006: 0.5% to 2.5%) above the SWAP Offer Rate/SIBOR per annum. The term loans are secured by way of joint and several corporate guarantees from the Company and certain subsidiary companies of the Group. This comprises interest payable and term loan repayable on a quarterly basis ending in 2010 (2006: on a quarterly basis ending in 2008).

Included in term loans of the Group is an amount of \$29,236,000 (2006: \$20,778,000) denominated in US dollars.

## 29. Amount due to holding company

The amount due to holding company is non-trade in nature, unsecured, interest-free, repayable on demand and will be settled in cash.

## 30. Amounts due to subsidiary companies

The amounts due to subsidiary companies are non-trade in nature, unsecured, interest-free and are repayable on demand. These amounts are to be settled in cash.

Included in amounts due to subsidiary companies are \$7,776,000 (2006: \$6,067,000) denominated in US dollars.

# NOTES TO FINANCIAL STATEMENTS

31 December 2007

## 31. Lease creditors

Group	Minimum lease payments		Net present value of lease payments	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Future payments payable for finance leases				
Within one year	129	494	108	442
Within two to five years	214	367	174	312
More than five years	80	104	59	77
	423	965	341	831
Finance charges allocated to future periods	(82)	(134)	–	–
	341	831	341	831
Current portion (Note 27)	107	442	107	442
Non-current portion	234	389	234	389
	341	831	341	831

Finance leases bear interest ranging from 2.3% to 6.4% (2006: 2.3% to 7.0%) per annum, which are also the effective interest rates.

All assets acquired under finance leases are secured. The net book values of assets acquired under finance leases are disclosed in Note 13.

The finance leases do not contain any escalation clauses and do not provide for contingent rents. Lease terms do not contain restrictions on the Group's and the Company's activities concerning dividends, additional debts or entering into other leasing agreements.

## 32. Deferred taxation

	Group	
	2007 \$'000	2006 \$'000
Gross deferred tax (assets)/liabilities :-		
Differences in depreciation	130	878
Unutilised investment allowances	1,031	(726)
Other deferred tax liabilities	–	203
	1,161	355

## 33. Share capital

	Group and Company			
	2007		2006	
	No. of shares '000	\$'000	No. of shares '000	\$'000
<b>Issued and fully paid</b>				
Balance at beginning	224,081	57,159	224,081	33,612
Transfer of share premium reserve to share capital	–	–	–	23,547
Balance at end	224,081	57,159	224,081	57,159

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restriction.

In accordance with the Companies (Amendment) Act 2005, on 30 January 2006, the shares of the Company ceased to have a par value and the amount standing in the share premium reserve became part of the Company's share capital.

# NOTES TO FINANCIAL STATEMENTS

31 December 2007

## 34. Capital reserve

The capital reserve is relating to capitalisation of bonus issue in 2001.

## 35. Foreign currency translation reserve

The foreign currency translation reserve represents exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency.

	Group	
	2007 \$'000	2006 \$'000
Opening balance at 1 January	(3,357)	(357)
Net effect of exchange differences	(2,815)	(3,000)
Closing balance at 31 December	(6,172)	(3,357)

## 36. Fair value reserve

Fair value reserve records the cumulative fair value changes of available-for-sale financial assets until they are derecognised or impaired.

	Group		Company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Opening balance at 1 January	4,267	–	8,048	–
Net gain on fair value changes during the period	–	4,267	–	8,048
Recognised in the profit and loss account on disposal of investment securities	(4,267)	–	(8,048)	–
Closing balance at 31 December	–	4,267	–	8,048

## 37. Share option reserve

The share option reserve represents the equity-settled share options granted to employees. The reserve is made up of the cumulative value of services received from employees recorded over the vesting period commencing from the grant of equity-settled share options and is reduced by the expiry, cancellation or exercise of the share options.

	Group		Company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Opening balance at 1 January	–	716	–	716
Cost of equity-settled share options	–	809	–	809
Transfer to accumulated profits/losses	–	(1,525)	–	(1,525)
Closing balance at 31 December	–	–	–	–

# NOTES TO FINANCIAL STATEMENTS

31 December 2007

## 38. Contingent liabilities

	Company	
	2007 \$'000	2006 \$'000
Contingent liabilities not provided for in the financial statements :-		
- Corporate guarantees given to secure banking facilities for subsidiary companies	102,183	141,000
- Corporate guarantees given to secure supply of goods for subsidiary companies	1,725	14,208
	103,908	155,208

The Company has issued letters of financial support to certain subsidiary companies.

## 39. Profit guarantee

On 15 March 2004, the Company announced that the Group has entered into a binding Term Sheet to acquire the entire issued and paid-up capital of FE Global (North Asia) Limited, a company incorporated in Hong Kong. The consideration for the purchase of the shares was satisfied by way of issuance of the Company's shares at an issue price of \$0.53 per Company share. Under the terms of agreement, the Company's shares issued to the Vendors will be subjected to a staggered 3-year moratorium from the completion date of the transaction.

On its part, FE Global (North Asia) Limited shall provide an annual (after tax) profit guarantee ("Net Profits") of US\$4 million in respect of the financial years ending 31 March 2005 and 2006 respectively. The profit guarantee will be secured by the Vendors depositing the Company's shares that were issued as payment for the acquisition with a trustee as security.

Based on the Company's assessment, the Net Profits in respect of the financial year ended 31 March 2006 has been met. However, the Net Profits for the financial year ended 31 March 2006 is less than the agreed amount of US\$4 million by US\$1,320,280 or approximately S\$2,095,000 (the "shortfall amount"). The Vendors have agreed to top-up the shortfall amount to FE Global (North Asia) Limited. The Group has accounted for the shortfall amount amounting to approximately \$2,095,000 as adjustment to the cost of acquisition of FE Global (North Asia) Limited and reduced the goodwill on acquisition by \$2,095,000. The profit guarantee received amounted to \$1,253,000 and \$842,000 for the year ended 31 December 2007 and 31 December 2006 respectively [Note 19(iii)].

## 40. Litigation claim

On 6 December 2007, SanDisk Corporation and Trek 2000 International Ltd announced that both companies have mutually agreed to settle their existing disputed by entering into cross licensing agreements.

In light of the settlement, the High Court of Singapore ruled that all pending litigation in Singapore between Trek and M-Systems and the other defendants had been settled and that the assessment of damages proceedings and all other legal costs proceedings as well as other legal proceedings between the parties in Singapore have been brought to an end immediately. FE Global Electronics Pte Ltd and Electec Pte Ltd, subsidiaries of the Company, were defendants in the legal proceedings as they were distributors of M-Systems' DiskOnKey product in Singapore.

# NOTES TO FINANCIAL STATEMENTS

31 December 2007

## 41. Operating lease commitments

The Group leases premises, machinery and equipment under non-cancellable lease arrangements. Future minimum rentals under non-cancellable leases as at 31 December are as follows :-

	Group	
	2007 \$'000	2006 \$'000
Within one year	1,052	1,194
Within two to five years	525	812
	<u>1,577</u>	<u>2,006</u>

Rental expenses (principally for premises, machinery and equipment) were \$2,928,000 and \$1,880,000 for the financial years ended 31 December 2007 and 2006 respectively.

The above operating leases do not contain any escalation clauses and do not provide for contingent rents. Lease terms do not contain restrictions on the Group's activities concerning dividends, additional debts or entering into other leasing agreements.

Certain leases include renewal options for additional lease periods ranging from 1 to 3 years and at rental rates based on negotiations and prevailing market rates.

## 42. Related party disclosures

An entity or individual is considered a related party of the Group for the purposes of the financial statements if : 1) it possesses the ability (directly or indirectly) to control or exercise significant influence over the operating and financial decisions of the Group or vice versa; or 2) it is subject to common control or common significant influence.

Related companies refer to the ASTI group of companies.

In addition to those related party information disclosed elsewhere in the financial statements, the following significant transactions between the Group and related parties who are not members of the Group took place during the year at terms agreed between the parties:

	Group		Company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>Holding company</b>				
Dividend income	183	521	183	521
Management fee expense	250	–	250	–
Interest expense	45	–	45	–
<b>Related companies</b>				
Sales	824	405	–	–
<b>Subsidiary companies</b>				
Management fee income	–	–	735	431
Dividend income	–	–	–	2,327
Interest income	–	–	294	64
Interest expense	–	–	49	–
<b>Associated companies</b>				
Commission expense	561	597	–	–
Management fee income	63	108	–	–
<b>Other related parties</b>				
Technical services fee <sup>(1)</sup>	337	891	–	–
Commission expenses <sup>(2)</sup>	7	–	–	–
Convertible loan <sup>(3)</sup>	–	792	–	792

# NOTES TO FINANCIAL STATEMENTS

31 December 2007

## 42. Related party disclosures (cont'd)

	Group		Company	
	2007 \$' 000	2006 \$'000	2007 \$'000	2006 \$'000
Other investment <sup>(3)</sup>	792	–	792	–
Acquisition of a subsidiary, DTB Limited <sup>(4)</sup>	–	889	–	889
Profit guarantee <sup>(5)</sup>	–	2,095	–	–

### Other related parties

- (1) The technical services fee was paid to Flexcomm Limited, a company controlled by a director/controlling shareholder of the Company for the provision of technical services to a subsidiary company.
- (2) The commission expenses was paid in 2007 to Flexcomm Limited, a company controlled by a director/controlling shareholder of the Company for the provision of services to a subsidiary company.
- (3) On 12 March 2007, the Company exercised the Company's conversion rights in respect of the convertible loan with Flexcomm Limited, a company controlled by a director/controlling shareholder of the Company.
- (4) In 2006, the Company acquired 7,800,000 ordinary shares of HK\$1.00 each in the share capital of DTB Limited for a total cash consideration of HK\$4.2 million (approximately \$0.9 million) from FlexServe Corporation, a company wholly-owned by a director/controlling shareholder of the Company.
- (5) Profit guarantee received/receivable comprises the following :-
- \$664,000 received/receivable from a director of the Company;
  - \$103,000 received/receivable from a director of a subsidiary company; and
  - \$1,328,000 received/receivable from a company controlled by a director of the Company and a director of a subsidiary company as referred in (a) and (b) above.

### Compensation of key management personnel

The total compensation of key management personnel includes short-term employee benefits and share-based payments to the Company's Directors and key Executive Officers. Short-term employee benefits of the Company's Directors and key Executive Officers amounted to \$1,292,000 (2006: \$1,185,000) and \$1,395,000 (2006: \$1,322,000) respectively. Share-based payments related to the Company's Directors and key Executive Officers for the financial year ended 31 December 2007 amounted to Nil (2006: \$432,000) and Nil (2006: \$168,000) respectively. Included in short-term employee benefits to the Company's Directors and key Executive Officers are defined contribution benefits amounting to \$10,000 (2006: \$14,000) and \$28,000 (2006: \$26,000) respectively.

Equity compensation benefits are calculated based on the value of the employment/director services recognised in the current year profit and loss account in return of granting employees share options to these Directors and key Executive Officers.

At 1 January and 31 December 2007, none of the Company's Directors and key Executive Officers held options to purchase ordinary shares of the Company under ESOS.

During the financial year ended 31 December 2007, no share options have been granted to the Company's Directors.

# NOTES TO FINANCIAL STATEMENTS

31 December 2007

## 43. Financial risk management objectives and policies

### (a) Financial risk management

The main risks arising from the Group's and Company's financial instruments are interest rate risk, liquidity risk, credit risk, market risk and foreign currency risk. The policies for managing each of these risks are summarised below.

#### (i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's and the Company's financial instruments will fluctuate because of changes in market interest rates. The Group's and the Company's exposure to interest rate risk arises primarily from bills payable, amounts due to bankers, lease creditors and amounts due from subsidiary companies.

##### Sensitivity analysis for interest rate risk

At the balance sheet date, if SGD interest rates had been 75 (2006: 75) basis points lower/higher with all other variables held constant, the Group's profit net of tax would have been \$707,000 (2006: \$499,000) higher/lower, arising mainly as a result of lower/higher interest expense on floating rate loans and borrowings and higher/lower interest income from floating rate loans to related parties.

Other information on interest rate risk is disclosed in various notes to the financial statements.

#### (ii) Liquidity risk

Liquidity risk is the risk that the Group or the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's and the Company's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group's and the Company's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities.

The Group's and the Company's liquidity risk management policy is to maintain sufficient liquid financial assets and stand-by credit facilities with three different banks. At the balance sheet date, approximately 88% (2006: 85%) and 36% (2006: 62%) of the Group's and Company's loans and borrowings will mature in less than one year based on the carrying amount reflected in the financial statements respectively.

Group	2007			2006		
	1 year or less	1 to 5 years	Total	1 year or less	1 to 5 years	Total
Trade and other creditors	58,002	-	58,002	56,020	42	56,062
Bills payable	43,410	-	43,410	34,903	-	34,903
Amounts due to bankers	36,972	5,136	42,108	33,466	6,009	39,475
	<u>138,384</u>	<u>5,136</u>	<u>143,520</u>	<u>124,389</u>	<u>6,051</u>	<u>130,440</u>
<b>Company</b>						
Trade and other creditors	1,220	-	1,220	979	-	979
Amounts due to bankers	2,935	5,136	8,071	7,120	4,355	11,475
	<u>4,155</u>	<u>5,136</u>	<u>9,291</u>	<u>8,099</u>	<u>4,355</u>	<u>12,454</u>

#### (iii) Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's and the Company's exposure to credit risk arises primarily from trade and other debtors. For other financial assets (including investment securities and cash and cash equivalents), the Group and the Company minimise credit risk by dealing exclusively with high credit rating counterparties.

The Group's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure. The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis. Other information on credit enhancements is disclosed in Note 18.

# NOTES TO FINANCIAL STATEMENTS

31 December 2007

## 43. Financial risk management objectives and policies (cont'd)

### (a) Financial risk management (cont'd)

#### (iii) Credit risk (cont'd)

##### Credit risk concentration profile

The Group determines concentrations of credit risk by monitoring the country profile of its trade debtors on an on-going basis. The credit risk concentration profile of the Group's trade debtors at the balance sheet date is as follows:

By Country:	Group			
	2007		2006	
	\$'000	% of total	\$'000	% of total
People's Republic of China	40,224	54%	33,694	44%
Malaysia	8,264	11%	7,553	10%
Singapore	6,662	9%	8,920	12%
Taiwan	4,141	6%	5,257	7%
Thailand	3,146	4%	2,248	3%
Korea	2,598	3%	7,794	10%
India	2,124	3%	5,495	7%
Others	7,928	10%	6,466	7%
	75,087	100%	77,427	100%

##### At the balance sheet date, approximately:

- 17% (2006: 22%) of the Group's trade debtors are due from 5 major customers in the Group and;
- 6% (2006: 1%) of the Group's trade and other debtors were due from related parties whilst almost all of the Company's receivables were balances with related parties.

##### Financial assets that are neither past due or impaired

Trade and other receivables that are neither past due or impaired are creditworthy debtors with good payment record with the Group.

##### Financial assets that are either past due or impaired

Information regarding financial assets that are either past due or impaired is disclosed in Note 18.

#### (iv) Market risk

Market risk is the risk that the fair value or future cash flow of the Group's financial instruments will fluctuate because of changes in market prices (other than interest or exchange rates). The Group is exposed to equity price risk arising from its investment in quoted equity instruments which are classified as available-for-sale financial assets. The Group's exposure to market risk is not significant.

The Group's objective is to manage investment returns and equity price risk by monitoring the fluctuations in the price of the quoted investment and the dividend yield. It is not the Group's policy to derive investment returns and dividend yield by engaging in investing activities.

##### Sensitivity analysis

At the balance sheet date, if the share price of the quoted equity instruments had been 6% (2006: 6%) higher/lower with all other variables held constant, there will be no significant impact to the Group's fair value adjustment reserve arising as a result of an increase/decrease in the fair value of the equity instrument.

# NOTES TO FINANCIAL STATEMENTS

31 December 2007

## 43. Financial risk management objectives and policies (cont'd)

### (a) Financial risk management (cont'd)

#### (v) Foreign currency risk

The Group has transactional currency exposures arising from sales or purchases that are denominated in a currency other than the respective functional currencies of Group entities. No companies in the Group enter into any derivatives to manage foreign currency risk. Monetary assets and liabilities are disclosed in various notes to the financial statements.

#### Sensitivity analysis

The following table demonstrated the sensitivity to a reasonably possible change in the United States Dollar (USD) and Singapore Dollar (SGD) exchange rates, with all other variables held constant, on the Group's net profit.

		Net Profit	
		2007	2006
		\$'000	\$'000
USD	Strengthened by 5% (2006: 5%)	-251	-298
	Weakened by 5% (2006: 5%)	+251	+298
SGD	Strengthened by 5% (2006: 5%)	-428	-424
	Weakened by 5% (2006: 5%)	+428	+424

### (b) Fair values of financial instruments

The following methods and assumptions are used to estimate the fair value of each class of financial instruments :-

#### (i) Cash and cash equivalents, amounts due to bankers (current), trade and other debtors, trade and other creditors, bills payable and amounts due to/from subsidiary companies (current) and holding company

The fair values of these financial instruments approximate their carrying amounts at the balance sheet date because of their short-term maturity.

#### (ii) Other investments (unquoted)

It is not practicable to estimate the fair value of the long-term unquoted investments because of the lack of quoted market prices.

#### (iii) Other investments (quoted) and quoted investments

The fair values of the quoted investments were determined by quoted market prices.

#### (iv) Amounts due from subsidiary companies (non current)

It is not practicable to estimate the fair values of non current amounts due from subsidiary companies as there are no repayment terms and hence, the timing of cash flows cannot be estimated reliably.

#### (v) Lease creditors

The fair value of the lease creditors is determined by discounting the relevant cashflow using current interest rates for similar instruments at balance sheet date.

There is no significant difference between the fair value and the carrying amount of the lease creditors as at 31 December 2007.

# NOTES TO FINANCIAL STATEMENTS

31 December 2007

## 43. Financial risk management objectives and policies (cont'd)

### (b) Fair values of financial instruments (cont'd)

#### (vi) Amounts due to bankers (non current)

The carrying amounts of long-term bank borrowings approximates their fair values at the balance sheet date as these loans are floating rate instruments that are repriced periodically to market interest rates.

## 44. Financial Instruments

### Disclosures relating to balance sheet

FRS 107 introduces a new requirement to disclose the carrying amounts of financial instruments under each of the classification in FRS 39, either on the face of the balance sheet or in the notes. The categories of financial instruments include financial assets and financial liabilities that are classified as held for trading, those that are designated upon initial recognition as financial assets or financial liabilities at fair value through profit or loss, held-to-maturity investments, loans and receivables, available-for-sale financial assets, and financial liabilities measured at amortised cost.

	Note	Group		Company	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>Loans and receivables</b>					
Trade debtors	18	75,087	77,427	-	-
Other debtors	19	3,969	5,446	307	861
Fixed deposits	23	4,151	4,302	-	-
Cash and bank balances	24	38,650	22,638	1,835	415
Amounts due from subsidiary companies	17	-	-	20,029	5,672
		<u>121,857</u>	<u>109,813</u>	<u>22,171</u>	<u>6,948</u>
<b>Financial liabilities measured at amortised cost</b>					
Trade creditors and accruals	25	51,521	50,891	876	651
Other creditors	27	6,481	5,171	344	328
Bills payable	26	43,410	34,903	-	-
Amounts due to bankers	28	42,108	39,475	8,071	11,475
Amounts due to subsidiary companies	30	-	-	7,983	8,455
Amount due to holding company	29	268	1,758	268	1,758
Long term payables		479	275	-	-
		<u>144,267</u>	<u>132,473</u>	<u>17,542</u>	<u>22,667</u>
<b>Available-for-sale financial assets</b>					
Quoted investments	22	-	22,944	-	22,944
Other investments	16	2,131	1,444	2,067	1,276
		<u>2,131</u>	<u>24,388</u>	<u>2,067</u>	<u>24,220</u>

## 45. Dividend

	Group and Company	
	2007 \$'000	2006 \$'000

### Declared and paid during the financial year:

Dividend on ordinary shares:

- Special dividend for 2007: 1.0 cent (2006: Nil)

2,241

-

# NOTES TO FINANCIAL STATEMENTS

31 December 2007

## 46. Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the year ended 31 December 2007 and 31 December 2006.

The Group monitors capital using the net tangible asset value of the Group, which is total tangible assets less total liabilities of the Group. The Group's policy is to keep the net tangible asset value at not less than \$20 million, which is consistent with the financial covenant to be complied with in the banking facility agreement with the Group's principle banker. The net tangible assets value of the Group as at 31 December 2007 was \$41.1 million (2006: \$51.5 million).

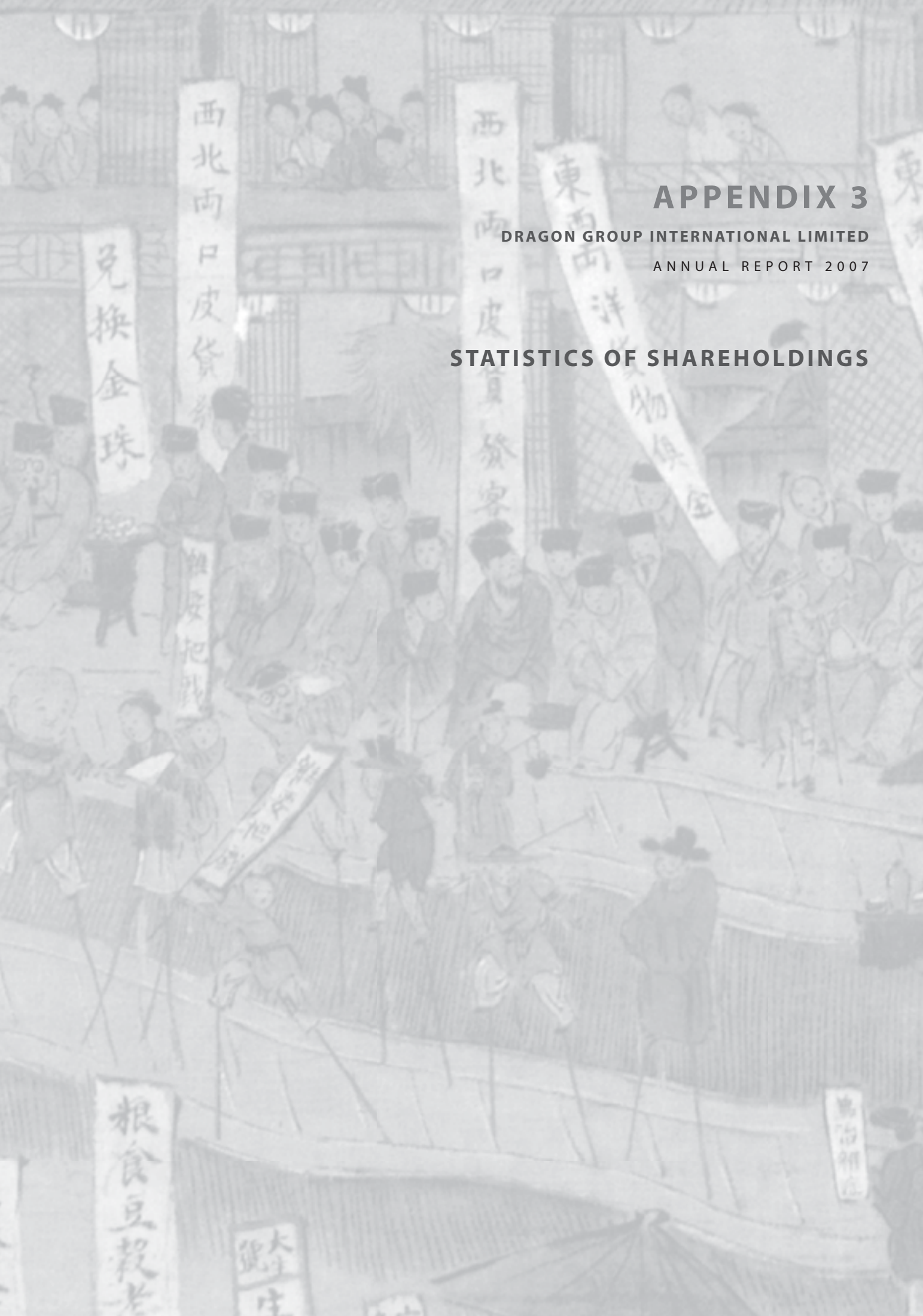
## 47. Comparative figures

Other than the change in accounting policy in Note 2.1, the following comparatives have been reclassified to better reflect the nature of the balances:

	Group		Company	
	As reclassified 2006 \$'000	As previously reported 2006 \$'000	As reclassified 2006 \$'000	As previously reported 2006 \$'000
<b>Balance sheet</b>				
Tax recoverable	791	-	-	-
Other debtors	5,446	6,237	861	861
Intangible assets	2,203	1,988	45	-
Other investments	1,444	1,659	1,276	1,321

## 48. Authorisation of financial statements

The financial statements for the financial year ended 31 December 2007 were authorised for issue in accordance with a resolution of the Directors on 17 March 2008.



# APPENDIX 3

DRAGON GROUP INTERNATIONAL LIMITED

ANNUAL REPORT 2007

## STATISTICS OF SHAREHOLDINGS

西北兩口皮貨發客  
兌換金珠

西北兩口皮貨發客

東西洋貨物俱全

糧食豆穀老

大生號

萬源號

# STATISTICS OF SHAREHOLDINGS

As at 17 March 2008

<b>Class of Equity Securities</b>	:	Ordinary Shares
<b>Number of Treasury Shares</b>	:	Nil
<b>Number of Equity Securities</b>	:	224,081,456
<b>Voting Rights</b>	:	One vote per share

## DISTRIBUTION OF SHAREHOLDINGS

SIZE OF SHAREHOLDING	NUMBER OF SHAREHOLDERS	%	NUMBER OF SHARES	%
1 - 999	160	4.61	47,396	0.02
1,000 - 10,000	1,717	78.30	9,493,863	4.24
10,001 - 1,000,000	586	16.89	28,585,115	12.76
1,000,001 and above	7	0.20	185,955,082	82.98
	<b>3,470</b>	<b>100.00</b>	<b>224,081,456</b>	<b>100.00</b>

## TWENTY LARGEST SHAREHOLDERS

NO.	NAME OF SHAREHOLDERS	NUMBER OF SHARES	%
1.	ASTI Holdings Limited	168,063,442	75.00
2.	Lim & Tan Securities Pte Ltd	4,966,000	2.22
3.	Tan Citi Time Pte Ltd	4,667,000	2.08
4.	DBS Nominees Pte Ltd	3,151,400	1.41
5.	B.G. Tan Investments Pte Ltd	2,163,000	0.97
6.	United Overseas Bank Nominees Pte Ltd	1,810,240	0.81
7.	Sunshine Bay Limited	1,134,000	0.51
8.	Espoir Investments Pte Ltd	851,000	0.38
9.	OCBC Nominees Singapore Pte Ltd	837,600	0.37
10.	CIMB-GK Securities Pte. Ltd.	706,000	0.32
11.	Phillip Securities Pte Ltd	571,800	0.26
12.	Kua Chee Keong	520,000	0.23
13.	Manifold Investments Pte Ltd	500,000	0.22
14.	Yeo Yee Ter	500,000	0.22
15.	Tang Houi Miang	489,000	0.22
16.	DB Nominees (S) Pte Ltd	436,000	0.19
17.	Kim Eng Securities Pte. Ltd.	430,000	0.19
18.	Wong Peng Weng	348,000	0.16
19.	UOB Kay Hian Pte Ltd	338,200	0.15
20.	HSBC (Singapore) Nominees Pte Ltd	300,000	0.13
	<b>Total:</b>	<b>192,782,682</b>	<b>86.04</b>

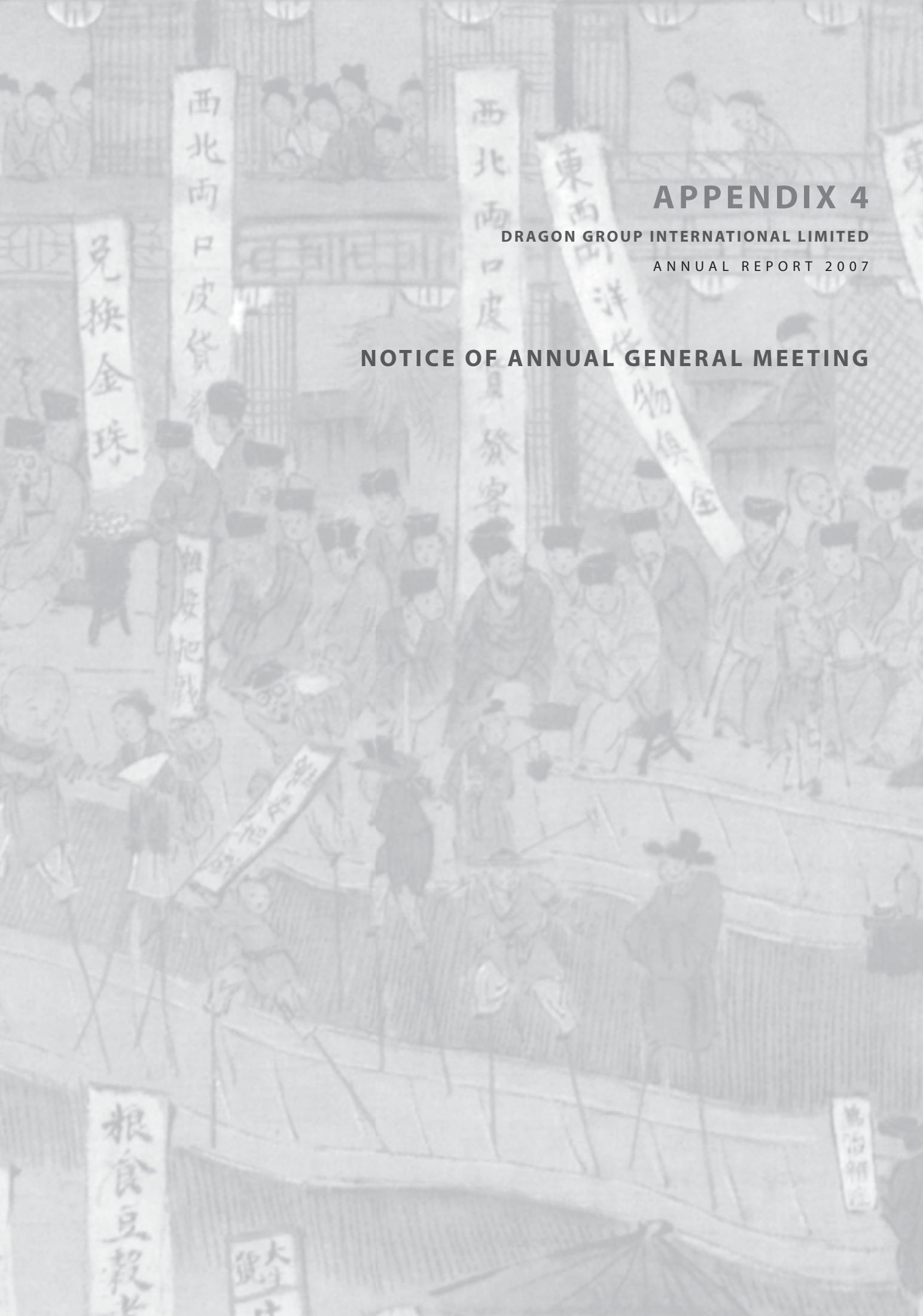
## SUBSTANTIAL SHAREHOLDERS (As recorded in the Register of Substantial shareholders)

	DIRECT INTEREST	%	DEEMED INTEREST	%
ASTI Holdings Limited	168,063,442	75.00		
Dato' Michael Loh Soon Gnee <sup>(1)</sup>			168,063,442	75.00

**Note:** <sup>(1)</sup> Dato' Michael Loh Soon Gnee is deemed to be interested in the 168,063,442 shares held by ASTI Holdings Limited by virtue of Section 7 of the Companies Act, Cap. 50.

## PERCENTAGE SHAREHOLDING IN PUBLIC'S HAND (RULE 723)

24% of the Company's shares are held in the hands of the public. Accordingly, the Company has complied with Rule 723 of the Listing Manual of the SGX-ST.



# APPENDIX 4

DRAGON GROUP INTERNATIONAL LIMITED

ANNUAL REPORT 2007

## NOTICE OF ANNUAL GENERAL MEETING

兌換金珠

西北兩口皮貨

西北兩口皮貨發客

東西洋貨物

雜貨把戲

大生

糧食豆穀

大生

嘉治

# NOTICE OF ANNUAL GENERAL MEETING

## DRAGON GROUP INTERNATIONAL LIMITED

(Company Registration No.199306761C)  
(Incorporated in Singapore with limited liability)

---

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of Dragon Group International Limited (“the **Company**”) will be held at Blk 25 Kallang Avenue, #06-01 Kallang Basin Industrial Estate, Singapore 339416 on Thursday, 24 April 2008 at 10.30 a.m. for the following purposes:

### AS ORDINARY BUSINESS

1. To receive and adopt the Directors’ Report and the Audited Accounts of the Company for the year ended 31 December 2007 together with the Auditors’ Report thereon. **(Resolution 1)**
2. To re-elect the following Directors retiring pursuant to Article 103 of the Company’s Articles of Association:  
  
Dato’ Michael Loh Soon Gnee **(Resolution 2)**  
Haji Zubir Bin Haji Harun **(Resolution 3)**  
  
*Haji Zubir Bin Haji Harun will, upon re-election as a Director of the Company, remain as Chairman of the Audit Committee and a member of the Nominating and Remuneration Committees and will be considered independent.*
3. To approve the payment of Directors’ fees of S\$189,300 for the year ended 31 December 2007 (2006: S\$136,150). **(Resolution 4)**
4. To re-appoint Messrs Ernst & Young as the Company’s Auditors and to authorise the Directors to fix their remuneration. **(Resolution 5)**
5. To transact any other ordinary business which may properly be transacted at an Annual General Meeting.

### AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following resolutions as Ordinary Resolutions, with or without any modifications:

#### 6. **Authority to issue shares up to 50 per centum (50%) of the issued shares in the capital of the Company**

That pursuant to Section 161 of the Companies Act, Chapter 50 and the rules of the Listing Manual of the Singapore Exchange Securities Trading Limited (“SGX-ST”) authority be and is hereby given to the Directors of the Company to:

- (a) (i) issue shares in the capital of the Company (“shares”) (whether by way of rights, bonus or otherwise); and/or
- (ii) make or grant offers, agreements or options (collectively, “Instruments”) that might or would require shares to be issued, including but not limited to the creation and issue of warrants, debentures or other instruments convertible or exchangeable into shares, at any time and upon such terms and conditions and for such purposes and to such persons as the Directors of the Company may in their absolute discretion deem fit; and
- (b) (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue shares in pursuance of any Instrument made or granted by the Directors of the Company while this Resolution was in force, provided that :
  - (1) the aggregate number of shares to be issued pursuant to this Resolution (including shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution but excluding shares which may be issued pursuant to any adjustments effected under any relevant Instrument), does not exceed 50 per cent. of the total number of issued share in the capital of the Company (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of shares to be issued other than on a pro rata basis to shareholders of the Company (including shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution but excluding shares which may be issued pursuant to any adjustments effected under any relevant Instrument) does not exceed 20 per cent. of the total number of issued shares in the capital of the Company (as calculated in accordance with sub-paragraph (2) below);

## NOTICE OF ANNUAL GENERAL MEETING

- (2) (subject to such manner of calculation as may be prescribed by the SGX-ST) for the purpose of determining the aggregate number of shares that may be issued under subparagraph (1) above, the percentage of issued share capital shall be calculated based on the total number of issued shares in the capital of the Company as at the date of the passing of this Resolution after adjusting for:
- (aa) new shares arising from the conversion or exercise of any convertible securities and share options that have been issued pursuant to any previous shareholder approval and which are outstanding as at the date of the passing of this Resolution; and
  - (bb) any subsequent consolidation or subdivision of shares; and
- (3) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST) and the Articles of Association for the time being of the Company; and
- (4) (unless revoked or varied by the Company in general meeting) the authority conferred by this Resolution shall continue in force (i) until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier or (ii) in the case of shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution, until the issuance of such shares in accordance with the terms of the Instruments.  
[See Explanatory Note (i)] **(Resolution 6)**

### 7. Authority to issue shares under the Dragon Group Executives' Share Option Scheme

That pursuant to Section 161 of the Companies Act, Cap. 50, the Directors of the Company be authorised and empowered to offer and grant options under the Dragon Group Executives' Share Option Scheme ("the Scheme") and to issue from time to time such number of shares in the capital of the Company as may be required to be issued pursuant to the exercise of options granted by the Company under the Scheme, whether granted during the subsistence of this authority or otherwise, provided always that the aggregate number of additional ordinary shares to be allotted and issued pursuant to the Scheme shall not exceed fifteen per centum (15%) of the total number of issued shares in the capital of the Company from time to time and that such authority shall, unless revoked or varied by the Company in a general meeting, continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier.  
[See Explanatory Note (ii)] **(Resolution 7)**

By Order of the Board

Ng Lai Ying  
Secretary

Singapore, 9 April 2008

# NOTICE OF ANNUAL GENERAL MEETING

## Explanatory Notes:

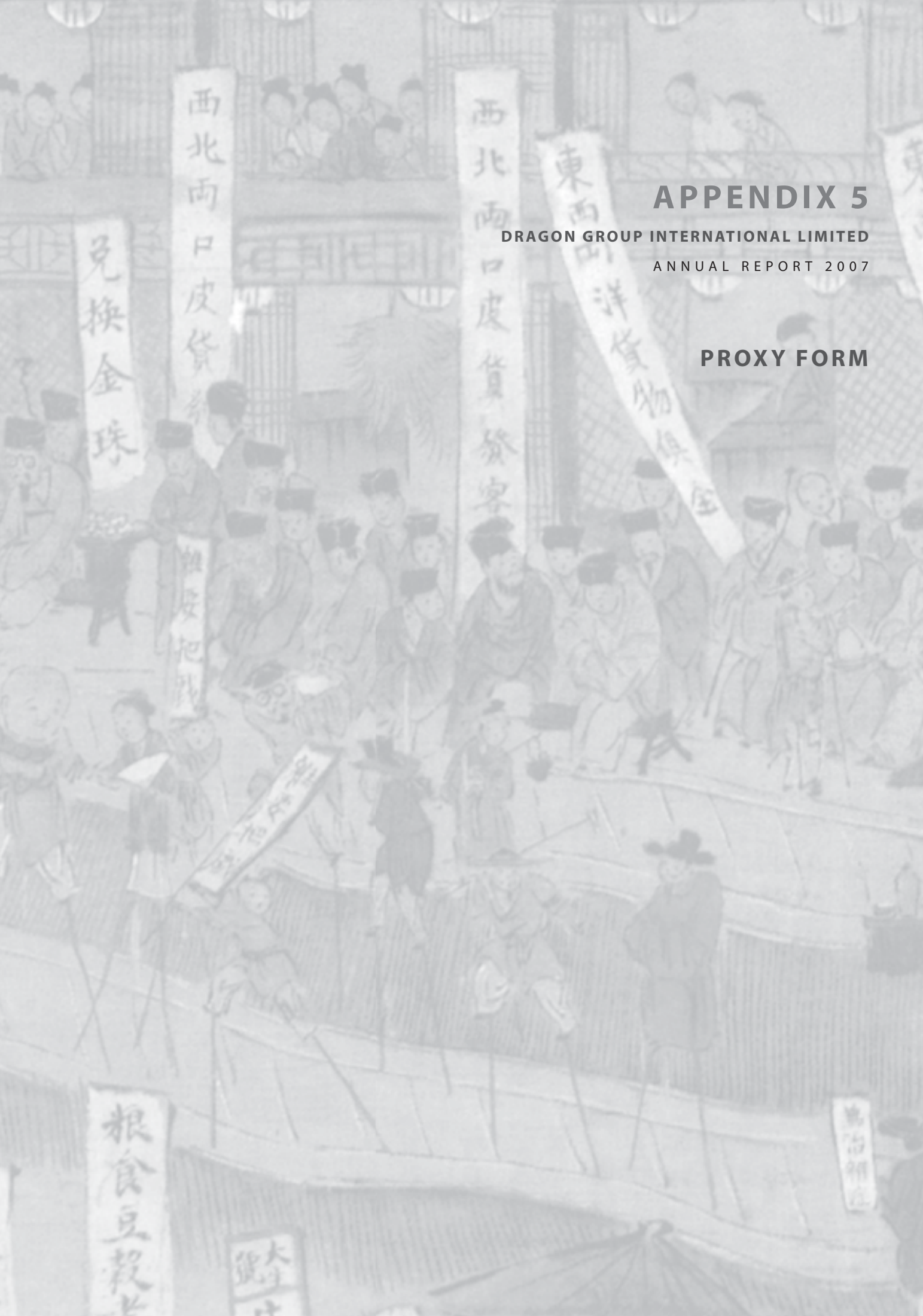
- (i) The Ordinary Resolution 6 in item 6 above, if passed, will empower the Directors of the Company from the date of this Meeting until the date of the next Annual General Meeting of the Company, or the date by which the next Annual General Meeting of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to issue shares, make or grant instruments convertible into shares and to issue shares pursuant to such instruments, up to a number not exceeding, in total, 50% of the total number of issued shares in the capital of the Company, of which up to 20% may be issued other than on a pro-rata basis to existing shareholders of the Company.

For determining the aggregate number of shares that may be issued, the percentage of issued shares in the capital of the Company will be calculated based on the total number of issued shares in the capital of the Company at the time this Ordinary Resolution is passed after adjusting for new shares arising from the conversion or exercise of the Instruments or any convertible securities, the exercise of share options or the vesting of share awards outstanding or subsisting at the time when this Ordinary Resolution is passed and any subsequent consolidation or subdivision of shares.

- (ii) The Ordinary Resolution 7 in item 7 above, if passed, will empower the Directors of the Company, from the date of this Meeting until the next Annual General Meeting, or the date by which the next Annual General Meeting is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to issue shares in the Company pursuant to the exercise of options granted or to be granted under the Scheme up to a number not exceeding in total (for the entire duration of the Scheme) fifteen per centum (15%) of the total number of issued shares in the capital of the Company from time to time.

## Notes:

1. A Member entitled to attend and vote at the Annual General Meeting (the "Meeting") is entitled to appoint one or two proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.
2. The instrument appointing a proxy must be deposited at the registered office of the Company at 3 Church Street, #08-01 Samsung Hub, Singapore 049483 not less than forty-eight (48) hours before the time appointed for holding the Meeting.



# APPENDIX 5

DRAGON GROUP INTERNATIONAL LIMITED

ANNUAL REPORT 2007

## PROXY FORM



# DRAGON GROUP INTERNATIONAL LIMITED

(Company Registration No. 199306761C)  
(Incorporated in Singapore with limited liability)

## IMPORTANT:

1. For investors who have used their CPF monies to buy Dragon Group International Limited's shares, this Report is forwarded to them at the request of the CPF Approved Nominees and is sent solely FOR INFORMATION ONLY.
2. This Proxy Form is not valid for use by CPF investors and shall be ineffective for all intents and purposes if used or purported to be used by them.
3. CPF investors who wish to attend the Meeting as an observer must submit their requests through their CPF Approved Nominees within the time frame specified. If they also wish to vote, they must submit their voting instructions to the CPF Approved Nominees within the time frame specified to enable them to vote on their behalf.

## PROXY FORM

(Please see notes overleaf before completing this Form)

I/We, \_\_\_\_\_ (Name)  
of \_\_\_\_\_ (Address)  
being a member/members of **DRAGON GROUP INTERNATIONAL LIMITED** (the "Company"), hereby appoint:

Name	NRIC/Passport No.	Proportion of Shareholdings	
		No. of Shares	(%)
Address			

and/or (delete as appropriate)

Name	NRIC/Passport No.	Proportion of Shareholdings	
		No. of Shares	(%)
Address			

or failing the person, or either or both of the persons, referred to above, the Chairman of the Meeting as my/our\* proxy/proxies\* to vote for me/us\* on my/our\* behalf at the Annual General Meeting (the "Meeting") of the Company to be held at Blk 25 Kallang Avenue #06-01, Kallang Basin Industrial Estate, Singapore 339416 on Thursday, 24 April 2008 at 10.30 a.m. and at any adjournment thereof. I/We\* direct my/our\* proxy/proxies\* to vote for or against the Resolutions proposed at the Meeting as indicated hereunder. If no specific direction as to voting is given or in the event of any other matter arising at the Meeting and at any adjournment thereof, the proxy/proxies\* will vote or abstain from voting at his/her discretion. The authority herein includes the right to demand or to join in demanding a poll and to vote on a poll.

(\*Delete where inapplicable)

(Please indicate your vote "For" or "Against" with a tick [✓] within the box provided.)

No.	Resolutions relating to:	For	Against
1.	Directors' Report and Audited Accounts for the year ended 31 December 2007		
2.	Re-election of Dato' Michael Loh Soon Gnee as a Director		
3.	Re-election of Haji Zubir Bin Haji Harun as a Director		
4.	Approval of Directors' fees amounting to S\$189,300		
5.	Re-appointment of Messrs Ernst & Young as Auditors		
6.	Authority to issue new shares		
7.	Authority to issue shares under the Dragon Group Executives' Share Option Scheme		

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2008

Shares in:	No. of Shares
(a) CDP Register	
(b) Register of Members	

\_\_\_\_\_  
Signature of Member(s)/ or  
Common Seal of Corporate Shareholder

**Notes:**

1. Please insert the total number of shares held by you. If you have shares entered against your name in the Depository Register (as defined in Section 130A of the Companies Act, Chapter 50 of Singapore), you should insert that number of shares. If you have shares registered in your name in the Register of Members, you should insert that number of shares. If you have shares entered against your name in the Depository Register and shares registered in your name in the Register of Members, you should insert the aggregate number of shares entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate to all the shares held by you.
2. A member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint one or two proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.
3. Where a member appoints two proxies, the appointments shall be invalid unless he/she specifies the proportion of his/her shareholding (expressed as a percentage of the whole) to be represented by each proxy.
4. Completion and return of this instrument appointing a proxy shall not preclude a member from attending and voting at the Meeting. Any appointment of a proxy or proxies shall be deemed to be revoked if a member attends the meeting in person, and in such event, the Company reserves the right to refuse to admit any person or persons appointed under the instrument of proxy to the Meeting.
5. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at 3 Church Street, #08-01 Samsung Hub, Singapore 049483 not less than forty-eight (48) hours before the time appointed for the Meeting.
6. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its seal or under the hand of an officer or attorney duly authorised. Where the instrument appointing a proxy or proxies is executed by an attorney on behalf of the appointor, the letter or power of attorney or a duly certified copy thereof must be lodged with the instrument.
7. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Meeting, in accordance with Section 179 of the Companies Act, Chapter 50 of Singapore.

**General:**

The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies. In addition, in the case of shares entered in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if the member, being the appointor, is not shown to have shares entered against his name in the Depository Register as at forty-eight (48) hours before the time appointed for holding the Meeting, as certified by The Central Depository (Pte) Limited to the Company.





**Dragon Group International Limited**

(Co. Reg. No. 199306761C)

Blk1 Kallang Sector  
#06-03, Kolam Ayer Industrial Estate,  
Singapore 349276  
Tel : (65) 6212 9629  
Fax : (65) 6212 9630  
Website : [www.dragongp.com](http://www.dragongp.com)