

GLOBAL SOURCES LTD /BERMUDA

Form 20-F

June 28, 2007

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 20-F

(Mark One)

Registration Statement Pursuant To Section 12(b) or (g) of the Securities Exchange Act of 1934

OR

Annual Report Pursuant To Section 13 or 15 (d) of the Securities Exchange Act of 1934  
For the fiscal year ended December 31, 2006.

OR

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

OR

Shell Company Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 Date of event  
requiring this shell company report.....For the transition period  
from ..... to .....

Commission file number 000-30678  
GLOBAL SOURCES LTD.  
(Exact Name of Registrant as Specified in its Charter)

Global Sources Ltd.  
(Translation of Registrant's Name into English)

Bermuda  
(Jurisdiction of incorporation or organization)

Canon's Court  
22 Victoria Street  
Hamilton, HM 12 Bermuda  
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Shares, \$0.01 Par Value	NASDAQ National Market

Securities registered or to be registered pursuant to Section 12(g) of the Act: NONE

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: NONE

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

42,337,568 common shares, \$0.01 par value, outstanding as of April 30, 2007.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities act

Yes    No \_  
\_\_\_\_\_ x

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Yes \_No \_\_\_  
x    -

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Note-Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes  No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes  No

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## FORWARD-LOOKING STATEMENTS

Except for any historical information contained herein, the matters discussed in this Annual Report on Form 20-F contain certain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to our financial condition, results of operations and business. These statements relate to analyses and other information which are based on forecasts of future results and estimates of amounts not yet determinable. These statements also relate to our future prospects, developments and business strategies. These forward-looking statements are identified by their use of terms and phrases such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “predict,” “will” and similar terms and phrases, including references to assumptions. These forward-looking statements involve risks and uncertainties, including current trend information, projections for deliveries, backlog and other trend projections, that may cause our actual future activities and results of operations to be materially different from those suggested or described in this Annual Report on Form 20-F.

These risks include:

- customer satisfaction and quality issues;
- competition;
- our ability to achieve and execute internal business plans;
- worldwide political instability and economic downturns and inflation, including any weakness in the economic and political conditions of countries in the Asia-Pacific region, including China; and
- other factors described herein under “Risk Factors.”

If one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect, our actual results may vary materially from those expected, estimated or projected. Given these uncertainties, users of the information included in this Annual Report on Form 20-F, including investors and prospective investors, are cautioned not to place undue reliance on such forward-looking statements. We do not intend to update the forward-looking statements included in this Annual Report on Form 20-F.

In this Annual Report on Form 20-F, except as specified otherwise or unless the context requires otherwise, “we,” “our,” “us,” the “Company,” and “Global Sources” refer to Global Sources Ltd. and its subsidiaries. All references to “fiscal” in connection with a year shall mean the year ended December 31.

All financial information contained herein is expressed in United States dollars, unless otherwise stated.

## PART I

**ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS – (Not applicable)**

**ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE – (Not applicable)**

**ITEM 3. KEY INFORMATION**

### Selected Financial Data

The following historical financial information should be read in conjunction with the section entitled “Operating and Financial Review and Prospects” and our audited consolidated financial statements and related notes, which are

included elsewhere in this document. The consolidated statements of income data for each of the three years ended December 31, 2004, 2005 and 2006 and selected consolidated balance sheet data as of December 31, 2005 and 2006 are derived from, and qualified by reference to, our audited consolidated financial statements included elsewhere in this document. The consolidated statements of income data for each of the years ended December 31, 2002 and 2003 and selected consolidated balance sheet data as of December 31, 2002, 2003 and 2004 are derived from our audited financial statements not included in this document.

**Year Ended December 31,**  
**2002            2003            2004            2005            2006**  
(In Thousands, Except Per Share Data)

**Income Statement Data:**

## Revenue:

Online and other media services	\$ 84,400	\$ 87,685	\$ 92,325	\$ 97,062	\$ 113,097
Exhibitions	2,455	3,327	13,010	14,300	42,122
Miscellaneous	631	657	511	832	1,262
Total revenue	87,486	91,669	105,846	112,194	156,481
Operating expenses:					
Sales (Note 1)	29,282	30,436	30,582	34,415	50,380
Event production	933	930	3,774	3,920	18,414
Community (Note 1)	13,337	13,251	17,983	20,726	24,885
General and administrative (Note 1)	29,446	28,549	31,395	34,666	38,945
Online services development (Note1)	5,902	5,269	4,564	4,235	4,499
Amortization of software costs	3,740	4,453	1,480	1,335	1,250
Total operating expenses	82,640	82,888	89,778	99,297	138,373
Income from operations	\$ 4,846	\$ 8,781	\$ 16,068	\$ 12,897	\$ 18,108
Interest and dividend income	439	122	219	1,624	5,571
Gain (loss) on sale of available-for-sale Securities	—	(40)	1,120	977	309
Gain on sale of shares to minority shareholder and interest income thereon	—	—	—	—	7,906
Loss on investment, net	—	—	—	—	(743)
Foreign exchange gains (losses), net	50	—	240	(80)	(714)
Income before income taxes	5,335	8,863	17,647	15,418	30,437
Income tax expense	(720)	(668)	(651)	(759)	(899)
Net income before minority interest	\$ 4,615	\$ 8,195	\$ 16,996	\$ 14,659	\$ 29,538
Minority interest	(308)	(861)	(1,227)	(1,281)	(1,909)
Net income before cumulative effect of change in accounting principle	\$ 4,307	\$ 7,334	\$ 15,769	\$ 13,378	\$ 27,629
Cumulative effect of change in accounting principle	—	—	—	—	251
Net income	\$ 4,307	\$ 7,334	\$ 15,769	\$ 13,378	\$ 27,880
Basic net income per common share before cumulative effect of change in accounting principle	\$ 0.11	\$ 0.19	\$ 0.41	\$ 0.32	\$ 0.65
Cumulative effect of change in accounting principle	—	—	—	—	\$ 0.01



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Basic net income per common share	\$	0.11	\$	0.19	\$	0.41	\$	0.32	\$	0.66
Diluted net income per common share before cumulative effect of change in accounting principle	\$	0.11	\$	0.19	\$	0.41	\$	0.32	\$	0.65
Cumulative effect of change in accounting principle		—		—		—		—		0.01

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Diluted net income per common share	\$ 0.11	\$ 0.19	\$ 0.41	\$ 0.32	\$ 0.66
Cash dividends declared per share	—	—	—	—	—
Shares used in basic net income per common share calculations (Note2)	37,327	37,407	37,053	39,736	40,629
Shares used in diluted net income per common share calculations(Note2)	37,327	37,418	37,120	39,803	40,699
Basic net income per non-vested restricted before cumulative effect of change in accounting principle	\$ 0.11	\$ 0.19	\$ 0.41	\$ 0.32	\$ 0.65
Cumulative effect of change in accounting principle	—	—	—	—\$	0.01
Basic net income per non-vested restricted share	\$ 0.11	\$ 0.19	\$ 0.41	\$ 0.32	\$ 0.66
Diluted net income per non-vested restricted share before cumulative effect of change in accounting principle	\$ 0.11	\$ 0.19	\$ 0.41	\$ 0.32	\$ 0.65
Cumulative effect of change in accounting principle	—	—	—	—\$	0.01
Diluted net income per non-vested restricted share	\$ 0.11	\$ 0.19	\$ 0.41	\$ 0.32	\$ 0.66
Cash dividends declared per share	—	—	—	—	—
Shares used in basic net income per non vested restricted share calculations (Note2)	1,195	1,123	1,484	1,622	1,627
Shares used in diluted net income per non-vested restricted share calculations (Note2)	1,195	1,123	1,484	1,622	1,627

	2002	2003	December 31, 2004	2005	2006
	(In U.S. Dollars Thousands)				
<b>Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 11,009	\$ 26,227	\$ 41,195	\$ 94,321	\$ 25,192
Available-for-sales securities	26,199	35,140	10,172	23,982	130,603
Total assets	62,650	82,541	92,525	171,680	220,889
Net assets	21,345	31,664	50,433	105,432	136,564
Long-term debt, less current portion.....	13,033	12,384	2,214	1,091	2,307
Total shareholders' equity	18,522	27,980	45,523	99,241	133,651

(1)

(Note Non-cash compensation expenses associated with the employee equity compensation plans and Directors

- 1) Purchase Plan included under various categories of expenses are approximately as follows: sales expenses: \$1,790 (2005: \$505, 2004: \$626, 2003: \$323, 2002: \$623), community: \$145 (2005: \$103, 2004: \$93, 2003: \$96, 2002: \$238), general and administrative: \$1,950 (2005: \$1,025, 2004: \$1,066, 2003: \$691, 2002: \$1,179), and online services development expenses: \$181 (2005: \$315, 2004: \$332, 2003: \$309, 2002: \$524)

(Note On March 6, 2006, we announced a one for ten bonus share issue on our outstanding common shares. For a

- 2) further discussion on the bonus shares, please see Note 27 of our consolidated financial statements appearing elsewhere in this annual report. Fractional shares were rounded up resulting in an additional 1,531 common shares upon distribution of the bonus shares on April 17, 2006. On March 5, 2007, we once again announced a one for ten bonus shares issue on our outstanding common shares. All common shares and per-share amounts have been retroactively adjusted to reflect the one for ten bonus share issue for all periods presented. For a further discussion on the bonus shares, please see Note 30 of our consolidated financial statements appearing elsewhere in this annual report. Fractional shares were rounded up resulting in an additional 424 common shares upon distribution of the bonus shares on April 16, 2007.

## **Risk Factors**

In addition to other information in this annual report, the following risk factors should be carefully considered in evaluating us and our business because such factors may have a significant impact on our business, operating results and financial condition. As a result of the risk factors set forth below and elsewhere in this annual report, and the risks discussed in our other Securities and Exchange Commission filings, actual results could differ materially from those projected in any forward-looking statements.

*The China market is key to our current and future revenue growth and political instability or uncompetitive cost conditions in this market could reduce our revenue and seriously harm our business.*

Our customers in China provided approximately 50% of our total revenues in fiscal 2005, and approximately 53% of our total revenues in fiscal 2006, and we believe our operations in China will continue to grow for the next several years. Our dependence on the China market and its revenues is significant, and adverse political, legal or economic changes or uncompetitive cost conditions in China may harm our business and cause our revenues to decline.

The Chinese government has instituted a policy of economic reform which has included encouraging foreign trade and investment, and greater economic decentralization. However, the Chinese government may discontinue or change these policies, or these policies may not be successful. Moreover, despite progress in developing its legal system, China does not have a comprehensive and highly developed system of laws, particularly as it relates to foreign investment activities and foreign trade. Enforcement of existing and future laws, regulations and contracts is uncertain, and implementation and interpretation of these laws and regulations may be inconsistent. As the Chinese legal system develops, new laws and regulations, changes to existing laws and regulations, and the interpretation or enforcement of laws and regulations may adversely affect business operations in China. While Hong Kong has had a long history of promoting foreign investment, its incorporation into China means that the uncertainty related to China and its policies may now also affect Hong Kong .

China is the largest supplier of consumer products to the world. Our actual and potential customers are mainly suppliers who are based in China. Should China manufacturers' production costs go up substantially (for example, due to limited skilled labor availability) and such costs are passed on to the buyers, products from China may become less competitive on price. Also, the Chinese Renminbi ("RMB") has appreciated versus the United States Dollar ("U.S. Dollar") and is expected to continue appreciating against the U.S. Dollar. Depending on the business structure, the nature of costs and the currencies of expenses and revenues, some suppliers in China may be negatively impacted. If products from China become less competitive on price, or some suppliers in China are negatively impacted by the appreciation of the RMB, as described above, it would likely have a negative impact on the demand in China for our various media and marketing services.

*The international markets, and in particular the Greater China region, in which we do business are subject to political, legal and economic instability, which may interfere with our ability to do business, increase our costs and decrease our revenues.*

The international markets in which we operate are subject to risks, including:

- *fluctuations in regional economic conditions;*
  - *political instability;*
  - *the threat of terrorist attacks;*
- *conflicting and/or changing legal and regulatory requirements;*
- *restrictions placed on the operations of companies with a foreign status;*
- *significant changes in tax rates and reporting requirements;*
- *governments could increase trade protection measures including tariffs, quotas, import duties or taxes, thereby significantly reducing demand for imported goods;*
- *the loss of revenues, property and equipment from expropriation, nationalization, war, insurrection, terrorism and other political risks;*
  - *adverse governmental actions, such as restrictions on transfers of funds;*
  - *oil embargoes or significant increases in oil prices; and*

- *fluctuations in currency exchange rates.*

In 2006, we derived approximately 89% of our revenues from customers in the Greater China region. We expect that a majority of our future revenues will continue to be generated from customers in this region. At the time of the Asian economic crisis of 1997 and 1998, our revenues and operating results were adversely affected, and both our sales and revenues declined. If there is future political, legal or economic instability in the Greater China region, our business may be harmed and our revenues may decrease.

Because we operate internationally, foreign exchange rate fluctuations may have a material impact on our results of operations. To the extent significant currency fluctuations occur in Asian currencies, our revenues and profits may be affected, relative to the U.S. Dollar. At the time of the Asian economic crisis of 1997 and 1998, certain of our contracts were denominated and priced in foreign currencies. The conversion of these contract proceeds into U.S. Dollars resulted in losses and is indicative of the foreign exchange risk assumed by us.

At present, the RMB has been appreciating versus the U.S. Dollar and is expected to continue appreciating. Although we bill in RMB and have expenses in RMB in China, the continuing appreciation of the RMB could have an adverse effect on our financial condition. If RMB continues to appreciate, our current and potential supplier customers may become less competitive with suppliers from other regions, leading to less demand for our advertising services.

Currently, we do not hedge our exposure to foreign currency fluctuations.

*General economic uncertainty, slowdowns, or recessions may reduce spending for business-to-business marketing services.*

The revenue growth and profitability of our business depends significantly on the overall demand for business-to-business media services and especially online marketplace services, trade publications and trade shows. We believe that the demand for these services is subject to the potentially negative impact by a number of factors, including the overall weakening of the global economy. Such situations and events may give rise to a number of trends that adversely affect our business and revenues.

*Future outbreaks of Avian influenza, Severe Acute Respiratory Syndrome (“SARS”) or other widespread public health problems could adversely affect our business.*

In the event of future outbreaks of Avian influenza, SARS or other widespread public health problems, some ways in which our business might be adversely affected could include the following:

- *quarantine or travel restrictions (whether required by government or public health authorities, or self-imposed) could result in the closure of some of our offices and other disruptions to our operations;*
  - *sickness or death of our key officers and employees;*
  - *a general slowdown in international trade and the global economy;*
  - *our trade shows may have to be cancelled; and*
- *exhibitor and visitor participation at our trade shows, could be significantly curtailed or otherwise adversely affected.*

*We may not innovate at a successful pace, which could harm our operating results.*

Our industry is rapidly adopting new technologies and standards to create and satisfy the demands of users and advertisers. It is critical that we continue to innovate by anticipating and adapting to these changes to ensure that our content-delivery platforms and services remain effective and interesting to our users, advertisers and partners. In addition, we may discover that we must make significant expenditures to achieve these goals. If we fail to accomplish these goals, we may lose users and the advertisers that seek to reach those users, which could harm our operating results.



*Our inability to sustain our historic pricing levels for our print, online and trade show services could adversely affect our operating results.*

The market for print, online and trade show services has fluctuated over the past few years. If we are unable to maintain historic pricing levels for advertising on our websites and in our trade journals and for booths at our trade shows, our revenues could be adversely affected.

*We depend upon Internet search engines and other online marketing channels (such as “pay per click” marketing) to attract a significant portion of the users who visit our websites, and if we were listed less prominently in Internet search result listings, or if we are unable to rely on our other online marketing channels as a cost-effective means of driving visitors to our websites, our business and operating results could be harmed.*

We derive a significant portion of our website traffic from users who search for content through Internet search engines, such as Google, MSN and Yahoo! A critical factor in attracting users to our websites is whether we are prominently displayed in such Internet search results.

Search result listings are determined and displayed in accordance with a set of formulas or algorithms developed by the particular Internet search engine. The algorithms determine the order of the listing of results in response to the user's Internet search. From time to time, search engines revise these algorithms. In some instances, these modifications may cause our websites to be listed less prominently in unpaid search results, which will result in decreased traffic from search engine users to our websites. Our websites may also become listed less prominently in unpaid search results for other reasons, such as search engine technical difficulties, search engine technical changes and changes we make to our websites. In addition, search engines have deemed the practices of some companies to be inconsistent with search engine guidelines and have decided not to list their websites in search result listings at all. If we are listed less prominently or not at all in search result listings for any reason, the traffic to our websites will likely decline, which could harm our operating results. If we decide to attempt to replace this traffic, we may be required to increase our marketing expenditures, which also could harm our operating results.

We also rely on other cost-effective online marketing channels (such as “pay per click” marketing) as an increasingly important means of driving visitors to our websites. However, the cost of such online marketing channels can change very frequently (often daily), and it is unclear whether such online marketing channels will remain cost-effective for us. If we are unable to rely on such online marketing channels as a cost-effective means of driving visitors to our websites, our business and operating results could be harmed; or if we continue to rely on such marketing channels despite their increased costs, our marketing expenditures will increase, which also could harm our operating results.

*If our current and potential customers are not willing to adopt and renew our services, we may not attract and retain a critical mass of customers.*

Our services will be attractive to suppliers only if buyers use our services to identify suppliers and purchase their products. The content, products and suppliers currently available through our various media, or made available by suppliers, may not be sufficient to attract and retain buyers as users of our services. If buyers and suppliers do not accept our media and services, or if we are unable to attract and retain a critical mass of buyers and suppliers for our media and services, our business will suffer and our revenues may decrease.

None of the buyers or suppliers that currently pay to use our services are under any long-term contractual obligation to continue using our services. Generally, their contracts with us are for no longer than 2 years. A significant percentage of our customers do not renew their contracts and we experience high customer turnover from year to year. If we cannot replace non-renewing customers with new customers, our business could be adversely affected.



*Because of low barrier to entry, we are unable to compete effectively, we will lose current customers and fail to attract new customers.*

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Our industry is intensely competitive, evolving and subject to rapid change. Barriers to entry are minimal, and competitors are able to launch new websites and other media at a low cost. We constantly face threats from competition, including from non-traditional competitors and new forms of media. Competition is likely to result in price reductions, reduced margins and loss of market share, any one of which may harm our business. We compete for our share of customers' marketing and advertising budgets with other online marketplaces, trade publications and trade shows. Competitors vary in size, geographic scope, industries served and breadth of the products and services offered. We may encounter competition from companies which offer more comprehensive content, services, functionality and/or lower prices. The marketing and pricing decisions of our competitors strongly influence our business. Increased competition in the industry has caused significant downward pricing pressure. To the extent that potential and existing customers make decisions solely or primarily on price, we may be unable to retain existing customers or attract new customers, or we may be forced to reduce prices to keep existing customers or to attract new customers.

Many of our current and potential competitors may have greater financial, technical, marketing and/or other resources and experience and greater name recognition than we have. In addition, many of our competitors may have established relationships with one another and with our current and potential suppliers and buyers and may have extensive knowledge of our industry. Current and potential competitors have established or may establish cooperative relationships with third parties to increase the ability of their products to address customer needs. Accordingly, our competitors may develop and rapidly acquire significant market share.

*We may not be successful in identifying, consummating and/or effectively integrating acquisitions, joint ventures and alliances to expand our business*

We are regularly evaluating potential strategic acquisitions, joint ventures and alliances and we believe that establishing such third-party relationships is a key component of our business strategy. However, we may not be successful in identifying acquisitions, joint ventures and alliances, or we may not be able to negotiate satisfactory terms or consummate the transactions successfully. In these circumstances, our growth potential may be harmed.

If we do identify and consummate an acquisition, joint venture or alliance, there is still a risk that we may not be able to integrate any new businesses, products or technologies into our existing business and operations. Alternatively, even if we are successful in integrating any new businesses, products or technologies into our existing business, we may not achieve expected results, or we may not realize other expected benefits.

*The costs associated with potential acquisitions or strategic partnerships could dilute your investment or adversely affect our operating results.*

In order to finance acquisitions, investments or strategic partnerships, we may use equity securities, debt, cash, or a combination of the foregoing. Any issuance of equity securities or securities convertible into equity may result in substantial dilution to our existing stockholders, reduce the market price of our common stock, or both. Any debt financing is likely to have financial and other covenants based on our performance or results, and there could be an adverse impact on us if we do not achieve the covenanted performance or results. In addition, the related increases in expenses could adversely affect our results of operations.

*We may not have sufficient access to capital to enter into acquisitions, joint ventures and alliances, or to expand our business, or to take advantage of organic or inorganic growth opportunities.*

We may not have sufficient access to capital to enter into strategic acquisitions, joint ventures and alliances, or to expand our business, or to take advantage of organic or inorganic growth opportunities. In such circumstances, our growth potential may be harmed.

*Our limited history in operating the China Sourcing Fair business as well as several factors outlined below could adversely affect our ability to operate our trade show business successfully and we can give no assurances that this business will be instrumental to our success.*

Our first China Sourcing Fair was held in Shanghai in 2003, the first of our series of China Sourcing Fairs in Hong Kong was launched in April 2006, the first of our series of China Sourcing Fairs in Dubai is scheduled for launch in June 2007, and a new series of China Sourcing Fairs in Shanghai focusing on serving China's domestic market is scheduled for launch in December 2007. Our China Sourcing Fairs in Dubai and our domestic China Sourcing Fairs in Shanghai are new business initiatives for us and we are uncertain as to our ability to attract the quality and quantity of exhibitors and buyers that would enable us to be successful.

In addition, there are substantial and long-established competing trade shows in Hong Kong and southern China. Because of these alternative venues, we may not be able to attract the desired quantity and quality of exhibitors and buyers. Accordingly, because of the uncertainty of a new business launch and the competition, we may not achieve our desired sales objectives. Furthermore, in an effort to rapidly grow our trade show business, additional personnel were hired and additional capital expended. In addition, we may be unable to effectively execute the operations, which would jeopardize our ability to be successful in the trade show business.

Our various trade show businesses also require us to make substantial non-refundable deposits and progress payments to secure venue dates far in advance of our conducting the trade show. In addition, the date and location can greatly impact the profitability. The market for desirable dates and locations is highly competitive. If we cannot secure desirable dates and locations for our trade shows, their profitability and future prospects would suffer, and our financial condition and results of operations would be materially and adversely affected.

In addition, while we expect that a significant portion of our future revenues will be derived from our trade show business (in particular, our China Sourcing Fair business), several other factors could negatively affect our financial performance in this business, including:

- *the spread of SARS, Avian influenza and other similar epidemics;*
  - *political instability and the threat of terrorist attacks;*
  - *conflicting and/or changing legal and regulatory requirements;*
  - *natural catastrophes, labor strikes and transportation shutdowns;*
    - *decrease in demand for booth space;*
- *particularly in China, we may not always be able to obtain the required trade show licenses, which may limit the number of trade shows we are able to hold;*
  - *competing trade shows; and*
- *our or our sales representative companies' inability to effectively expand our or their staff and infrastructure.*

In view of the various risks outlined above, we can give no assurances that our operation of the trade show business will be instrumental to our success.

*Our limited experience in direct online sales business as well as other factors could adversely affect our ability to operate our business successfully.*

Our direct online sales business, primarily referred to by us as “Global Sources Direct”, is a relatively new business, having started in 2006, both for us and for most of the suppliers we are targeting as potential customers. The lack of an established history and track record for this new sales channel, both on our part and in the industry, may make it difficult for us to successfully market this service to, and attract and maintain, a sufficient number of customers that we would need in order to grow the direct online sales business to a scale that would be profitable for us.

Other factors that could adversely impair the success of our direct online sales business include the following:



- *Most of the goods sold are air-shipped. The costs of air shipments are dependent to a large degree on oil prices. A substantial increase in oil prices may therefore result in air shipment becoming a cost prohibitive means of delivery.*
- *We rely on a variety of logistic service providers for executing and fulfilling our services. However, there are only a limited number of appropriate logistic service providers. If any one or more of them cease to operate, our ability to carry on the direct online sales service could be severely curtailed or impaired.*
- *We utilize payment processes provided by third parties. Many of these payment processors are from jurisdictions other than those of our relevant subsidiaries which operate our direct online sales business. These payment processors may therefore be reluctant to offer their payment process services to us, may charge us high rates, or may stop providing their payment process services to us.*
- *We utilize credit card payment processes. Under the terms of our arrangements with the credit card payment processors, they are entitled to charge back amounts to us in the event of any fraudulent or disputed transaction. They may also decide to withhold or delay fund payments to us for an indefinite period, or even discontinue their arrangements with us, if the charge back rate is too high or frequent.*
- *We use various third parties' online services (for example, for hosting and payment processing), and any disruptions to their services may adversely affect our own ability to complete transactions or may cause other disruptions to our own service.*
- *Online fraud and fraudulent orders are potential risks. We may not have detected or been aware of, or be able to detect in the future, such fraudulent circumstances, and if we act pursuant thereto (for example, by shipping products under a fraudulent order), we may subsequently be unable to collect payment, be required to refund payments, or be liable for the costs or losses related thereto.*
- *We rely on the quality of our suppliers' products being acceptable to buyers, and therefore conduct (or engage third parties to conduct) inspections of those products. It is possible, however, that we will pay a supplier for its product before the buyer receives delivery of the product. Hence, if despite our (or the third parties') inspection efforts, or if we (or the third parties) fail to conduct inspections properly or at all and, any defects or inferior quality of the products are not spotted, the buyer may return such products. In such cases, we may have difficulty recovering our funds from the supplier and incur a loss.*
  - *We have a growing number of competitors who may be able to source and/or sell more effectively than us.*

*The loss of one or more of our executive officers or key employees, either to a competitor or otherwise, could harm our business.*

Our executive officers and key employees are critical to our business. Our executive officers and key personnel may not remain with us and their loss may negatively impact our operations, and may reduce our revenues and cash flows. In particular, the services of our chief executive officer, chief financial officer, chief operating officer and chief information officer are important to our operations. If competitors hire our key personnel, it could allow them to compete more effectively by diverting customers from us and facilitating more rapid development of their competitive offerings. We do not maintain key man insurance on any of our executive officers.

*We may not be able to attract, hire and retain qualified personnel cost-effectively, which could impact the quality of our content and services and the effectiveness and efficiency of our management, resulting in increased costs and*

*losses in revenues.*

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Our success depends on our ability to attract, hire and retain at commercially reasonable rates qualified technical, sales support management, marketing, customer support, financial and accounting, legal and other managerial personnel. The competition for personnel in the industries in which we operate is intense. Our personnel may terminate their employment at any time for any reason. Loss of personnel may also result in increased costs for replacement hiring and training. If we fail to attract and hire new personnel or retain and motivate our current personnel, we may not be able to operate our businesses effectively or efficiently, serve our customers properly or maintain the quality of our content and services.

*We rely on independent sales representative companies for the sales and marketing of our products and services and the loss of any significant sales representative company or employees of a sales representative company would harm our business and revenues.*

We have agreements with various sales representative companies that employ sales representatives. Seven sales representative companies in China are responsible for approximately 53% of our total revenues for the year ended December 31, 2006. Generally, either we or the sales representative company may terminate the service agreement between them and us upon short notice. It is possible that we may not retain some of our sales representative companies, or they may not retain some of their sales personnel (due to competition from other companies in hiring and retaining sales personnel) or be able to replace them with equally qualified personnel. Furthermore, if a sales representative company terminates its agreement with us, some of our customers with a direct relationship with that sales representative company or its personnel may terminate their relationship with us. Although these sales representative companies and their employees are independent from us, there can be no assurance that our reputation and our business will not be harmed by their acts or omissions. If sufficient numbers of employees are not recruited, properly trained, integrated, motivated, retained and managed by these sales representative companies, or if they perform poorly, or if our relationship with these sales representative companies fail or deteriorate, our business may be harmed.

*Our growth could strain our resources, and if we are unable to implement appropriate controls and procedures to manage our growth, we may not be able to achieve our business objectives.*

We plan to increase substantially the number of independent sales representative team members in China in order to pursue our business objectives. Our success will depend in part upon the ability of our senior management to implement and manage this growth effectively. To do this, additional new sales representative team members must be recruited and trained. If our new sales representative team members perform poorly, or if their training and management is unsuccessful, or if our relationships with our existing sales representative team members fail, our business may be harmed. To manage the expected growth of our operations, we will need to continue to improve our operational, financial and management controls and our reporting systems and procedures. If we fail to manage our growth successfully, we will be unable to achieve our business objectives.

*We may be subject to legal liability for publishing or distributing content over the Internet or in our trade publications or at our trade shows.*

We may be subject to legal claims relating to the content on *Global Sources Online* or our other websites, or the downloading and distribution of such content, as well as legal claims arising out of the products or companies featured in our trade publications and at our tradeshow. Claims could involve matters such as libel and defamation, negligent mis-statements, patent, trademark, copyright and design infringement, fraud, invasion of privacy or other legal theories based on the nature, creation or distribution of our content (for example, the use of hypertext links to other websites operated by third parties). Media companies have been sued in the past, sometimes successfully, based on



the content published or made available by them. Like many companies in our industry, we have received notices of claims based on content made available on our website. In addition, some of the content provided on *Global Sources Online* is manually entered from data compiled by other parties, including governmental and commercial sources, and this data may have errors, or we may introduce errors when entering such data. If our content is improperly used or if we supply incorrect information, our users or third parties may take legal action against us. In addition, we may violate usage restrictions placed on text or data that is supplied to us by third parties. Regardless of the merit of such claims or legal actions, they could divert management time and attention away from our business, result in significant costs to investigate and defend, and damage our reputation (which could result in client cancellations or overall decreased demand for our products and services), thereby harming our business, financial condition and operating results. In addition, if we are not successful in defending against such claims or legal actions, we may be liable to pay substantial damages. Our insurance may not cover claims or legal actions of this type, or may not provide sufficient coverage.

*Our intellectual property protection is limited, and others may infringe upon it, which may reduce our ability to compete and may divert our resources.*

Our success and ability to compete are dependent in part upon our proprietary technology, content and information databases, the goodwill associated with our trade marks, and other intellectual property rights. We have relied on a combination of copyright, trade secret and trademark laws and non-disclosure and other contractual restrictions to protect ourselves. However, our efforts to protect our intellectual property rights may not be adequate. Although we have filed (and continue to file) applications for and have obtained registration of many of our key trade marks in various jurisdictions, we may not always be able to obtain successful registrations. Our competitors may independently develop similar technology or duplicate our software and services. If others are able to develop or use technology and/or content we have developed, our competitive position may be negatively affected.

We have in the past co-developed, and may in the future co-develop, some of our intellectual property with independent third parties. In these instances, we take all action that we believe is necessary and advisable to protect and to gain ownership of all co-developed intellectual property. However, if such third parties were to introduce similar or competing online products and services that achieve market acceptance, the success of our online services and our business, financial condition, prospects and operating results may be harmed.

We cannot determine whether future patent, copyright, service mark or trademark applications, if any, will be granted. No certainty exists as to whether our current intellectual property or any future intellectual property that we may develop will be challenged, invalidated or circumvented or will provide us with any competitive advantages.

Litigation may be necessary to enforce our intellectual property rights, protect trade secrets, determine the validity and scope of the proprietary rights of others, or defend against claims of infringement or invalidity. Intellectual property laws provide limited protection. Moreover, the laws of some foreign countries do not offer the same level of protection for intellectual property as the laws of the United States. Such laws may not always be sufficient to prevent others from copying or otherwise obtaining and using our content, technologies, or trade marks. In addition, policing our intellectual property rights worldwide is a difficult task, and we may be unable to detect unauthorized use of our intellectual property or to identify infringers. Litigation may result in substantial costs and diversion of resources, regardless of its outcome, which may limit our ability to develop new services and compete for customers.

*If third parties claim that we are infringing upon their intellectual property rights, our ability to use technologies and products may be limited, and we may incur substantial costs to resolve these claims.*

Litigation regarding intellectual property rights is common in the Internet and software industries. Defending against these claims could be expensive and divert our attention from operating our business. We expect third-party infringement claims involving Internet technologies and software products and services to increase. If we become liable to third parties for infringing their intellectual property rights, we could be required to pay substantial damage awards and be forced to develop non-infringing technology, obtain a license with costly royalties or cease using the products and services that contain the infringing technology or content. We may be unable to develop non-infringing technology or content or to obtain a license on commercially reasonable terms, or at all. All of this could therefore have a material adverse effect on our business, results of operations and financial condition.

We may not have, in all cases, conducted formal or comprehensive investigations or evaluations to confirm that our content and trade marks do not or will not infringe upon the intellectual property rights of third parties. As a result, we cannot be certain that we do not or will not infringe upon the intellectual property rights of third parties. If we are found to have infringed a third party's intellectual property rights, the value of our brands and our business reputation could be impaired, and our business could suffer.



*Evolving regulation of the Internet and commercial e-mail may affect us adversely.*

As Internet commerce continues to evolve, increasing regulation by federal, state or foreign agencies becomes more likely. We use e-mail as a significant means of communicating with our existing and potential customers and users. We also provide “@globalsources.com” e-mail addresses to our clients, for their use. The laws and regulations governing the use of e-mail for marketing purposes continue to evolve, and the growth and development of the market for commerce over the Internet may lead to the adoption of additional legislation and/or changes to existing laws. Existing, new or additional legal prohibitions on the transmission of unsolicited commercial e-mail (commonly known as “spam”), coupled with aggressive enforcement, could reduce our ability to promote our services in a cost-efficient manner and our ability to facilitate communications between suppliers and buyers and, as a result, adversely affect our business.

In addition to legal restrictions on the use of e-mail, Internet service providers, anti-spam organizations and others typically attempt to block the transmission of unsolicited e-mail. If an Internet or other service provider or software program identifies e-mail from us (or from our clients to whom we have provided “@globalsources.com” e-mail addresses) as “spam”, we could be placed on a restricted list that would block our e-mails to our actual or potential customers or users who maintain e-mail accounts with these Internet service or other providers or who use these software programs. If we are unable to communicate by e-mail with our actual or potential customers or users as a result of legislation, blockage or otherwise, our business, operating results and financial condition could be harmed.

In addition, taxation of products and services provided over the Internet or other charges imposed by government agencies or by private organizations for accessing the Internet may also be imposed. Any regulation imposing greater fees for Internet use or restricting information exchange over the Internet could result in a decline in the use of the Internet and the viability of Internet-based services, which could harm our business and operating results.

The laws governing Internet transactions and market access over the Internet are evolving and remain largely unsettled. The adoption or modification of laws or regulations relating to the Internet may harm our business by increasing our costs and administrative burdens. It may take years to determine whether and how existing laws apply to the Internet.

*Changes in regulations could adversely affect our business and results of operations.*

It is possible that new laws and regulations or new interpretations of existing laws and regulations in the United States, the European Union, China and elsewhere will be adopted covering issues affecting our business, including:

- *privacy, data security and use of personally identifiable information;*
  - *copyrights, trademarks and domain names; and*
- *marketing practices, such as e-mail or direct marketing.*

Increased government regulation, or the application of existing laws to online activities, could:

- *decrease the growth rate of our business;*
  - *reduce our revenues;*

- *increase our operating expenses; or*
- *expose us to significant liabilities.*

Furthermore, the relationship between regulations governing domain names and laws protecting trademarks and similar proprietary rights is still evolving. Therefore, we might be unable to prevent third parties from acquiring domain names that infringe or otherwise decrease the value of our trademarks and other proprietary rights. Any impairment in the value of these important assets could cause our stock price to decline. We cannot be sure what effect any future material non-compliance by us with these laws and regulations or any material changes in these laws and regulations could have on our business, operating results and financial condition.

*Changes in laws and standards relating to data collection and use practices and the privacy of Internet users and other individuals could impair our efforts to maintain and grow our audience and thereby decrease our advertising revenue.*

We collect information from our users who register for services or respond to surveys. Subject to each user's permission (or right to decline), we may use this information to inform our users of products and services that may be of interest to them. We may also share this information with our advertising clients for those who have granted us permission to share their information with third parties. Governments in various jurisdictions, including the United States, the European Union and Canada, have adopted or proposed limitations on the collection, distribution and use of personal information of Internet users. In addition, growing public concern about privacy, data security and the collection, distribution and use of personal information has led to self-regulation of these practices by the Internet advertising and direct marketing industry, and to increased governmental regulation. Because many of the proposed laws or regulations are in their early stages, we cannot yet determine the impact these regulations may have on our business over time. Although, to date, our efforts to comply with applicable laws and regulations have not hurt our business, additional or more burdensome laws or regulations, including consumer privacy and data security laws, could be enacted or applied to us or our customers. Such laws or regulations could impair our ability to collect user information that helps us to provide more targeted advertising to our users, thereby impairing our ability to maintain and grow our audience and maximize advertising revenue from our advertising clients.

*Our quarterly operating results may have seasonal fluctuations, and we may fail to meet analyst, investor and shareholder expectations.*

We have experienced seasonal quarter-to-quarter fluctuations. Buyer's usage of our media and services is typically relatively slower during the summer and year-end vacation and holiday periods. Additionally, our online and trade publication advertising revenue is seasonal and tends to be highest in the fourth quarter of each calendar year. Virtually all of our largest trade shows are expected to be held in April and October of each year. The net result of the above seasonality is that second and fourth quarter revenues are likely to be substantially higher than the first and third quarter revenues. In 2006, approximately 29% of our revenue was generated during the second quarter and approximately 33% during the fourth quarter. The first quarter accounted for approximately 19% of revenue in 2006 and the third quarter accounted for approximately 19% of revenue in 2006. In addition, certain expenses associated with future revenues are likely to be incurred in the preceding quarters, which may cause profitability to be lower in those preceding quarters. Also, because event revenue is recognized when a particular event is held, we may also experience fluctuations in quarterly revenue based on the movement of annual trade show dates from one quarter to another.

*Our share prices may fluctuate in response to a number of events and factors.*

Our share price may fluctuate in response to a number of events and factors such as quarterly variations in operating results; announcements of new services or pricing options by us or our competitors; changes in financial estimates and recommendations by securities analysts; failure to meet our financial guidance and/or the financial forecasts of analysts; the operating and share price performance of other companies that investors may deem comparable; news reports relating to trends in the Internet and information technology industry; announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments; or changes in laws in the countries in which we operate.

*There is a limited public market for our shares and the trading volume for our shares is low which may limit your ability to sell your shares or purchase more shares.*

Our common shares have been traded in the public market for a limited time and this market may not be sustained. As a result of the April 2000 share exchange, 1,189,949 of our common shares were listed on the Nasdaq National Market. As of April 30, 2007 we had approximately 975 shareholders, and approximately 13,154,160 shares that were tradable on the Nasdaq National Market.

However, because of the small number of shareholders and the small number of publicly tradable shares, we cannot be sure that an active trading market will develop or be sustained or that you will be able to sell or buy common shares when you want to. As a result, it may be difficult to make purchases or sales of our common shares in the market at any particular time or in any significant quantity. If our shareholders sell our common shares in the public market, the market price of our common shares may fall. In addition, such sales may create the perception by the public of difficulties or problems with our products and services or management. As a result, these sales may make it more difficult for us to sell equity or equity related securities in the future at a time or price that is appropriate.

*Future sales of our common shares could depress the price of the common shares.*

Future sales of common shares by us or our existing shareholders could adversely affect the prevailing market price of the common shares. As of April 30, 2007, we had 42,337,568 common shares outstanding, out of which at least 26,447,775 common shares outstanding are beneficially owned by people who may be deemed “affiliates”, as defined by Rule 405 of the Act, and are “restricted securities” which can be resold in the public market only if registered with the Securities and Exchange Commission or pursuant to an exemption from registration.

We cannot predict what effect, if any, that future sales of such restricted shares or the availability of shares for future sale, will have on the market price of the common shares from time to time. Sales of substantial amounts of common shares in the public market, or the perception that such sales could occur, could adversely affect prevailing market prices for the common shares and could impair our ability to raise additional capital through an offering of our equity securities.

*It may be difficult for a third party to acquire us, and this may depress our share price.*

Our bye-laws contain provisions that may have the effect of delaying, deferring or preventing a change in control or the displacement of our management. These provisions may discourage proxy contests and make it more difficult for the shareholders to elect directors and take other corporate actions. These provisions may also limit the price that investors might be willing to pay in the future for our common shares. These provisions include:

- *providing for a staggered board of directors, so that it would take three successive annual general meetings to replace all directors;*
  - *requiring the approval of 100% of shareholders for shareholder action by written consent;*
- *establishing advance notice requirements for submitting nominations for election to the board of directors and for proposing matters that may be acted upon by shareholders at a general meeting; and*
- *restricting business combinations with interested shareholders that have not been approved by at least two-thirds of the holders of our voting shares (other than the interested shareholder) or by a majority of the continuing directors or if certain prescribed conditions are met assuming that we will receive fair market value in exchange for such business combination. In this context, a “business combination” includes mergers, asset sales and other material transactions resulting in a benefit to the interested shareholder or the adoption of a plan for our liquidation or dissolution; a “continuing director” is a member of our board of directors that is not an affiliate or associate of an interested shareholder and was a member of our board prior to such person becoming an interested shareholder; and an “interested shareholder” is any person (other than us or any of our subsidiaries, any employee benefit or other similar plan or any of our shareholders who owned shares prior to the listing of our shares on the Nasdaq National Market) that owns or has announced its intention to own, or with respect to any of our affiliates or associates, within the prior two years did own, at least 15% of our voting shares.*





*Merle A. Hinrichs, our Chairman and Chief Executive Officer, is also our controlling shareholder and he may take actions that conflict with your interest.*

As of April 30, 2007, Merle A. Hinrichs beneficially owned 61.3% of our common shares. Accordingly, Mr. Hinrichs controls the power to elect our directors, to appoint new management and to oppose actions requiring shareholder approval, such as adopting amendments to our articles of incorporation and approving mergers or sales of all or substantially all of our assets. Such concentration of ownership may have the effect of delaying or preventing a change of control even if a change of control is in the best interest of all shareholders. In addition, Mr. Hinrichs may still effectively control our company even if his share holdings are significantly reduced. There may be instances in which the interest of our controlling shareholder may conflict with the interest of a holder of our securities.

*Current weakness of the telecommunications and Internet infrastructure in the Asia-Pacific region could harm our business.*

We are likely to continue to derive the majority of our Internet-based online marketplace revenues from the Asia-Pacific region. The quality of some of the telecommunications and Internet infrastructure and telephone line availability in China and in some Asia-Pacific countries is unreliable. This may contribute to lower than expected adoption of many of our services and may cause usage growth and revenues to fall below expectations. In addition, access fees in some Asia-Pacific countries may contribute to low usage and may adversely affect our growth and revenues potential.

*The failure of our computer systems, network and communications hardware and software could materially and adversely affect our business and results of operation.*

Our business depends on the high availability, good performance and strong security of our computer systems, network, and associated hardware and software. Any system interruptions, poor performance or security breaches impacting on *Global Sources Online* or any of our online sites may drive buyers and other registered users away and reduce the attractiveness of these sites to advertisers, and therefore adversely affect our business, financial condition and operating results.

We host our key customer-facing computer systems with major Internet Service Providers (ISPs) in Hong Kong. Interruptions to these ISPs' and/or their partners' hosting services could result from natural disasters as well as catastrophic hardware failures, software problems, extended power loss, telecommunications failure and similar events. While these ISPs may be able to provide disaster recovery facilities on request in such circumstances, nevertheless, if there is any failure, inability or delay on their part in providing such disaster recovery facilities as committed, serious and prolonged disruptions to our systems and services could result.

Although we support the integrity of our security with IDS (Intrusion Detection Systems), anti-virus and other tools as a precaution against hackings, denial-of-service and other cyber intrusions, such security systems and programs are not completely foolproof or error-free, and new updates to deal with the latest viruses or security threats may not yet be available or may not yet have been implemented. Hence, security breaches could still occur, and we cannot give any assurances that we will always be able to prevent individuals from gaining unauthorized access to our servers. Any such unauthorized access to our database servers, including abuse by our employees, could result in the theft of confidential customer or user information contained in our database servers. If such confidential information is compromised, we could lose customers or become subject to liability or litigation and our reputation could be harmed, any of which could materially and adversely affect our business and results of operations.

*The failure of outside parties to meet committed service levels and information accuracy expectations may make our services less attractive to customers and harm our business.*

We rely on outside parties for some information, licenses, product delivery, telecommunications and technology products and services. We rely on relationships and/or contractual agreements with software developers and providers, systems integrators and other technology or telecommunications firms to support, enhance and develop our products and services.

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Although we have contracts with technology providers to enhance, expand, manage and maintain our computer and communications equipment and software, these service providers may not provide acceptable services. Services provided by third parties include hosting our *Global Sources Online* servers and database, maintaining our communications and managing the network and data centers which we rely on for the provision of our services. These relationships may not continue or may not be available on the same commercial terms in the future, which could cause customer dissatisfaction and/or a delay in the launch of new software or services.

We license some components of our technology from third parties. These licenses may not be available to us on the same commercial terms in the future. The loss of these licenses could delay the release or enhancement of our services until equivalent technology could be licensed, developed or otherwise obtained. Any such delay could have a material adverse effect on our business. These factors may deter customers from using our services, damage our business reputation, cause us to lose current customers, and harm our ability to attract new customers.

We have no direct control over the accuracy, timeliness or effectiveness of the information, products and services or performances of these outside parties. As a result of outside party actions, we may fail to provide accurate, complete and current information about customers and their products in a timely manner and to deliver information to buyers and/or other registered users in a satisfactory manner.

*If we release new services, catalog tools or software that contain defects, we may need to suspend further sales and services until we fix the defects, and our reputation could be harmed.*

Our services depend on software that is complex and that may contain unknown and undetected defects, errors or performance problems. We may not discover defects, errors or performance problems that affect our new or current services or enhancements until after they are deployed. These defects, errors or performance problems could force us to suspend sales and services or cause service interruptions which could damage our reputation or increase our service costs, cause us to lose revenues, delay market acceptance or divert our development resources, any of which could severely harm our business.

*Customer concerns regarding Internet security may deter use of our online products and services.*

Widely publicized security breaches involving the Internet or in online services generally, or our failure to prevent security breaches, may cause our current and potential customers not to use our products and services and adversely affect our revenues. We may be required to incur additional costs to protect against security breaches or to alleviate problems caused by these breaches. Our potential for growth depends on our customers' confidence in the security of our products and services.

*Our inability to maintain effective Internet domain names could create confusion and direct traffic away from our online services.*

If we are not able to prevent third parties from acquiring Internet domain names that are similar to the various Internet domain names that we own, third parties could create confusion that diverts traffic to other websites away from our online services, thereby adversely affecting our business. The acquisition and maintenance of Internet domain names generally are regulated by governmental agencies. The regulation of Internet domain names in the United States and in foreign countries is subject to change. As a result, we may not be able to acquire or maintain relevant Internet domain names. Furthermore, the relationship between regulations governing such addresses and laws protecting proprietary rights is unclear.

*Our lengthy sales and implementation cycle could cause delays in revenue growth.*

The period between our initial contact with a potential customer and the purchase of our products and services is often long and unpredictable and may have delays associated with the lengthy budgeting and approval processes of our customers. This lengthy sales and implementation cycle may affect our ability to estimate our revenue in future quarters and could cause delays in revenue growth.

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*Because we are governed by Bermuda law rather than the laws of the United States and our assets are outside the U.S., our shareholders may have more difficulty protecting their rights because of differences in the laws of the jurisdictions.*

We are organized under the laws of Bermuda. In addition, certain of our directors and officers reside outside the United States and a substantial portion of our assets are located outside the United States. As a result, it may be difficult for investors to effect service of process within the United States upon such persons or to realize against them judgments of courts of the United States predicated upon civil liabilities under the United States federal securities laws. We have been advised by our legal counsel in Bermuda, Appleby, that there is doubt as to the enforcement in Bermuda, in original actions or in actions for enforcement of judgments of United States courts, of liabilities predicated upon U.S. federal securities laws, although Bermuda courts will enforce foreign judgments for liquidated amounts in civil matters subject to certain conditions and exceptions.

*We may not pay cash dividends in the foreseeable future.*

We may not pay cash dividends in the foreseeable future. This may reduce the demand for our shares.

#### **ITEM 4. INFORMATION ON THE COMPANY**

##### **History and Development of the Company**

We are a leading facilitator of global merchandise trade. Our business began in 1971 in Hong Kong when we launched *Asian Sources*, a trade magazine to serve global buyers importing products in volume from Asia. Today, we are one of Asia's leading providers of trade information in print media, online media and face-to-face events, meeting the marketing and sourcing needs of our supplier and buyer communities.

While our core business facilitates exports from Asia (with a particular focus on Greater China, which includes mainland China, Hong Kong and Taiwan) to the world, we also facilitate trade from the world to Asia (with a particular focus on Greater China). In 1985, we launched *Electronics News for China* for this purpose. Today we have several publications, their associated websites plus events and conferences that provide information to electronic engineers and executives at manufacturing companies in Greater China and throughout Asia.

Realizing the importance of the Internet, we became one of the first providers of business-to-business online services by launching *Asian Sources Online* in 1995. In 1999, we changed the name of *Asian Sources Online* to *Global Sources Online*.

We originally were incorporated under the laws of Hong Kong in 1970. In April 2000, we completed a share exchange with a publicly traded company based in Bermuda, and our shareholders became the majority shareholders of the Bermuda corporation. As a result of the share exchange, we became incorporated under the laws of Bermuda and changed our name to Global Sources Ltd.

Our capital expenditures during the year ended December 31, 2006 amounted to \$4.9 million, incurred mainly for computers, software, leasehold improvements, office furniture and software development. Our capital expenditures were financed using cash generated from our operations. The net book value of capital assets disposed during the year ended December 31, 2006, amounted to \$2,000.

Our primary operating offices are located in Shenzhen, China; Hong Kong, China; and Singapore. Our registered office is located at Canon's Court, 22 Victoria Street, Hamilton, HM 12, Bermuda, and our telephone number at that

address is (441) 295-2244. Our website address is <http://www.globalsources.com>. Information contained on our website or available through our website is not incorporated by reference into this document and should not be considered a part of this document.

### **Business Overview**

We are a leading business-to-business (B2B) media company that provides information and integrated marketing services, with a particular focus on the Greater China market. Our mission is to facilitate global trade between buyers and suppliers by providing export marketing services and sourcing information. Although our range of media has grown, for more than 36 years we have been in the same primary business of helping buyers worldwide find products and suppliers in Asia (with a particular focus on Greater China).

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Buyers rely on our media to stay current with available purchasing opportunities. Suppliers use our media to find new buyers and markets for their products. We believe we offer the most extensive range of media and export marketing services in the industries we serve. Suppliers using our four primary channels – online marketplaces, print magazines, trade shows and direct online sales – are supported by our advertising creative services, education programs and online content management applications.

We have a significant presence across a number of industry sectors including electronics, fashion accessories, hardware and gifts. We are particularly strong in facilitating China's two-way trade of electronics, China's largest import and export sector. Our revenue from China in Year 2006 has grown by 236% as compared to our revenue from China in Year 2000.

We serve an independently certified community of over 560,000 active members (as of the end of 2006) in some 230 countries and territories. This buyer community has more than doubled in size from 209,000 at the end of 2000. During 2006, buyers sent more than 10 million sales leads, or requests for information (RFIs) to the 150,000 suppliers listed on *Global Sources Online*, up from 2.4 million for the year 2000.

We are diversified in terms of products and services offered, industries served and our customer base. We have powerful and valuable assets including: the Global Sources brand; leading products and market positions; a long history and extensive presence in Greater China; and substantial online leadership and expertise. We believe that all of these provide a strong platform for success and that we are well-positioned to grow along with Greater China's exports and imports in the industry segments within which we operate.

The following table sets forth our revenue by category for the last three fiscal years:

	<b>Year Ended December 31,</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
<b>Revenue:</b>			
Online and other media services	\$ 92,325	\$ 97,062	\$ 113,097
Exhibitions - trade shows and seminars	13,010	14,300	42,122
Miscellaneous	511	832	1,262
	<b>\$ 105,846</b>	<b>\$ 112,194</b>	<b>\$ 156,481</b>

The following table represents our revenue by geographical area for the last three fiscal years:

	<b>Year Ended December 31,</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
<b>Revenue:</b>			
Asia	\$ 97,876	\$ 104,746	\$ 146,315
United States	6,573	6,175	7,610
Europe	597	679	1,571
Others	800	594	985
Consolidated	<b>\$ 105,846</b>	<b>\$ 112,194</b>	<b>\$ 156,481</b>



We currently generate the majority of our revenue from suppliers in Asia, with China being our largest market at 58% of total revenue during fourth Quarter of 2006. Our revenue is derived from three primary sources:

- **Online Services** - *Our primary service is creating and hosting marketing websites that present suppliers' product and company information in a consistent and easily searchable manner on Global Sources Online. We also derive revenue from banner advertising fees.*
- **Other Media Services** - *We publish trade magazines, which consist primarily of advertisements from suppliers and our independent editorial reports and product surveys. We publish our core trade magazines monthly, and a host of specialized magazines seasonally. We also derive revenue from buyers that subscribe to our trade publications.*
- **Exhibitions - Trade Shows and Seminars** - *We launched a new line of trade shows called the China Sourcing Fairs. They offer international buyers direct access to manufacturers in China and other Asian countries. The first fair was held during the fourth quarter of 2003. Future fairs will be held mainly in the second quarter and fourth quarter of each financial year.*

## Industry Background

### *Global Trade and the Role of Greater China*

Over the past few decades, as communications and logistics technologies have improved and as more free trade agreements have been signed, international trade has grown at a pace far exceeding the growth of overall global production. Asia, including Greater China in particular, has been a significant contributor to the growth of global trade.

Greater China is the world's largest merchandise exporter. China, especially, is rapidly expanding as both an exporter and an importer of goods and services. Also, China has overtaken the United States as the world's largest exporter of information and communications technology goods.

China has become a major manufacturer and exporter of a wide range of products, due to its significant labor cost advantages, large population, improving quality controls and increasing amounts of foreign investment. Being admitted to the World Trade Organization in 2001 was a very important turning point for China. Membership led to a dramatic shift in global trade, with more orders flowing to China and away from traditional supply markets.

With a population that is more than 15 times as large as Hong Kong, Taiwan and South Korea combined, and with comparably more manufacturing facilities, the potential scale of China as an exporter is very substantial. China's exporters include state-owned enterprises, joint ventures and a rapidly growing number of entrepreneurial companies.

With thousands of manufacturers spread across vast regions, and given the large distances between them and their customers, it is difficult for buyers and suppliers to identify and communicate with one another. Accordingly, buyers' search and evaluation costs, and suppliers' advertising and marketing expenses can be substantial.

### *The Role of Media in Global Trade*

In global trade, media play a key role in helping suppliers and buyers find, connect and transact with each other. To facilitate this, media companies provide three major offerings—online marketplaces, trade publications and trade shows. Many media companies, however, offer just one or two of these types of media.

For media companies doing business in Asia, the fragmentation existing in many markets presents significant challenges. They need to find, qualify and visit tens of thousands of suppliers and then assist them to promote their products to the global marketplace. Building a sales force to contact these suppliers is a significant undertaking and typically requires substantial financial and manpower commitments and resources. In particular, there is a huge

challenge to effectively and efficiently hire, train and manage a network of sales representatives across such an immense area, where multiple jurisdictions have varying legal requirements, languages, currencies and customs.

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Buyers rely on media to stay current with all available purchasing opportunities. They use the media to identify and pursue new suppliers with which they can compare both pricing and product quality with their existing suppliers. They also seek to purchase new product lines appropriate to their distribution channels. Buyers choose media based on the quality and quantity of information relevant to their interests, and on the range and flexibility of the formats and delivery methods.

Most suppliers frequently introduce new products and actively seek new buyers and markets through the use of media. Their objective is to make sure their products are seen by as many potential buyers as possible, and sold to buyers that will provide them the best price and the right order size. Suppliers select media based on the number and quality of buyers reached, and on the reputation of the medium and its cost. Also, particularly in Greater China, creative services for advertising design and English language copywriting play a significant role in media selection. Suppliers measure the return on their promotional investments by the quantity and quality of sales leads, or RFIs, that they receive, and where possible, by the actual orders generated.

Operators of online marketplaces generate most of their business from selling marketing services to suppliers, such as hosting and publishing a supplier's website or catalog, and from advertising. Online marketplaces have the advantages of content depth and timeliness and provide a venue where suppliers can make detailed product and company information accessible to buyers.

Trade magazine publishers garner the vast majority of their revenue from the sale of advertising. Magazines offer buyers the convenience of portability while offering suppliers a proven medium that delivers a targeted audience. Magazine advertising formats are effective since they enable suppliers to do high-impact, display advertising that can strongly position their company and their products. Advertising in trade magazines contributes greatly to making buyers aware that a company is a potential supplier, and if the buyer is in an active sourcing mode, these advertisements often stimulate the buyer to make an inquiry, visit the supplier's website and/or visit the supplier's booth at a trade show.

Trade show organizers generate most of their business from selling booth space to suppliers. Trade shows play a unique role in the sales process since they allow sellers to make face-to-face presentations to buyers and to negotiate and take orders at the booth. In international trade, this is something that cannot be accomplished by online or print media.

Many suppliers want to reach their customers and prospects in multiple ways: online, in print and in person at trade shows. Suppliers need this full range of media to make sure they reach their entire target market, because of the benefits of different exposures to buyers, and because each of the media plays a different role in the sales cycle.

### **Our Offerings**

Our primary business relates to connecting buyers worldwide with suppliers in Asia (with a particular focus on Greater China) and other emerging markets. However, we also enable trade in the other direction with a range of media that facilitate selling to Asia (with a particular focus on Greater China).

We provide a broad set of business-to-business (B2B) media products and services to stimulate and streamline the marketing and sourcing processes of global trade. In particular, we believe that we are the largest company offering such an integrated solution to suppliers and buyers engaged in international trade with Greater China.

Buyers request information and purchase goods from suppliers who market themselves through our online services, trade magazines and trade shows. We provide information to help buyers evaluate numerous sourcing options so they can place orders with suppliers that offer them the best terms. We help suppliers market their products and their

capabilities to our community of buyers worldwide. By receiving inquiries from a wide selection of buyers, suppliers have more opportunities to achieve the best possible terms, and to learn about the demand and specific requirements in different markets.

With the combination of our online, print and trade show offerings, supported by our creative and production services, we offer suppliers a virtual one-stop shop for most of their export marketing communications needs. Moreover, we believe that we are uniquely capable of helping suppliers create and deliver integrated marketing programs that impact all stages of the buying process – from awareness and lead generation – right through to purchase orders.

### *Media for Buyers Worldwide*

#### Online Services

Through *Global Sources Online*, our online marketplace, buyers are able to identify and make inquiries to suppliers. Our primary source of revenue is from suppliers who pay for marketing websites. Each marketing website is comprised of a home page, a company profile and a virtual showroom containing product profile pages on the supplier's products. Each product profile page contains detailed product information, specifications and full color images. Many suppliers choose to supplement their marketing websites with additional online marketing services. For example, suppliers can sponsor a particular product or other search category and when a buyer searches that category, the supplier's banner advertisement is displayed promoting its products or services, with a link to that supplier's marketing website.

Buyers can reach a large potential supply base on *Global Sources Online* by searching among, and/or making inquiries to, approximately 150,000 suppliers who are categorized according to the products they can supply. In listing suppliers for a specific product, we give prominence to those who maintain marketing websites with us.

A key feature of *Global Sources Online* for buyers is the standard format for suppliers' information, making it unnecessary for buyers to leave our website to visit numerous individual supplier websites, each with a different data structure and design. Another important feature is our "Product Alert" to buyers. Buyers register their profiles and are then notified by e-mail whenever there is new advertising or editorial content in the product categories they specified.

#### Trade Publications

We publish twelve monthly publications that are circulated to buyers worldwide. Our trade publications contain paid advertisements from suppliers, as well as our independent editorial features, which include market reports and product surveys. In addition to our paid subscription base, we distribute samples of our trade magazines free-of-charge to qualified buyers worldwide at a variety of trade shows and events.

#### Trade Shows

We have eight *China Sourcing Fairs* scheduled for 2007 in Hong Kong. The shows bring buyers from around the world to meet face-to-face with suppliers. The first *China Sourcing Fair* was held in Shanghai in October 2003. Our series of *China Sourcing Fairs* in Hong Kong was first launched in 2006, comprising *Electronics & Components*, *Fashion Accessories* and *Gifts & Home Products*, which were each held twice – once in the spring and once in the fall. We also held a *China Sourcing Fair: Underwear & Swimwear* in Hong Kong for the first time in the spring of 2007 and it is scheduled to be held again in the fall of 2007.

#### Direct Online Sales

In 2006, we launched *Global Sources Direct*. This new initiative enables suppliers to sell their products online – globally through multiple online channels, including eBay International sites and our *Global Sources Direct* website at: <http://www.globalsourcesdirect.com>. The service facilitates the sale of wholesale lots, or what some call LCL or 'less than container load' orders, and enables buyers to import without having to understand or deal with most of the intricacies involved.

#### Advertising Creative Services

We offer our customers advertising and marketing creative services, which assist them in communicating their unique selling propositions and in executing integrated marketing campaigns across our online services, trade magazines and trade shows. Account managers and copywriters in our customer service centers assist suppliers with creative services including digital photography of products, translation, copywriting, ad layout and quality control. Basic media and creative services are included in our media charges.

## China Sourcing Reports

We currently have more than 100 different *China Sourcing Reports* for sale and published more than 50 of these reports in 2006. Each *China Sourcing Report* provides extremely detailed, product-specific information on suppliers and supply market conditions throughout Greater China that is based on our factory visits, face-to-face interviews, and detailed questionnaires. Revenue is derived from sales to buyers.

## Private Supplier Catalogs

Our *Private Supplier Catalogs* enable suppliers to enter, manage, update and distribute their product and company data for a variety of online marketing and cataloging applications. We provide tools within the catalog to assist suppliers with creating, updating and posting content. Also the catalogs are maintained in a private, password-protected environment where the catalog user has the sole right of access and data entry. We currently derive little revenue from these services.

## *Media for Engineers and Executives in Asia*

In addition to our primary media, which connect export suppliers in Asia with buyers worldwide, we are a leading provider of information to electronics engineers and executives within Asia. For this segment of our business, we have eight websites, eight magazines and host several conferences and events each year.

## **Business and Growth Strategy**

### ***Mission***

Global Sources' mission is to connect global buyers and suppliers by providing the right information, at the right time, in the right format.

Our key business objective is to be the preferred provider of content, services, and integrated marketing solutions that enable our customers to achieve a competitive advantage. It is also our goal to be the largest B2B media company serving the two-way supply chain between Greater China and the world – as well as within Greater China.

### ***Business Strategy***

Our business strategy to achieve our objectives is to serve our markets with online, print and trade show media that address our customers' needs at all stages of the buying process.

### ***Growth Strategy***

The Global Sources growth strategy is built around the following four key foundations.

#### **1. Market Penetration**

Global Sources is well-placed in its existing markets which offer significant opportunities for further growth.

We have a large number of prospects within the 150,000 suppliers listed on globalsources.com. Our market penetration plans include continued growth of our *China Sourcing Fairs*, cross selling to clients not using online, print or trade shows, and achieving continued strong growth in Greater China.



- a. **Growing *China Sourcing Fairs* revenue.** We plan to grow revenue by increasing both the amount of space we rent and the average revenue per booth.
- b. **Cross-selling to clients not using online, print *or* shows.** Our objective is to maximize our share of our customers' marketing budgets. A particular opportunity is the large number of new, trade show-only customers we have added over the past few years who are primary prospects to use our print and online services.

**c. Continued high growth in Greater China.** As Greater China is steadily enhancing its position as the world's primary supply market for a wide range of consumer products, we expect revenue from Greater China to continue to grow faster than our overall revenue.

## **2. New Product Development**

Our product development plans include increasingly specialized online marketplaces, magazines and trade shows – as well as entirely new media formats.

For example, we recently launched online marketplaces and magazines titled *Gifts & Premiums* -- and *Home Products*. Another example is the spring 2007 launch of a new monthly magazine titled *Security Products* to accompany a pre-existing online vertical. Also a new *China Sourcing Fair: Underwear & Swimwear* is scheduled to be held in spring and fall 2007 in Hong Kong. "New media" initiatives include application websites for engineers, e-newsletters, and webcasts.

## **3. Expansion into China's Domestic B2B Market**

A primary objective is to become increasingly involved in serving China's domestic B2B market, something we consider to be an attractive growth market and a synergistic complement to our existing businesses that serve China's export and import sectors.

We intend to launch new online, print and/or trade show products in existing or related industry sectors. These initiatives are expected to also leverage our brands, content, skills and community, and to build on our existing successes with Chinese language media including *Chief Executive China*, the leading management magazine and website for China, and *EE Times-China*, the leading website and magazine for China's electronics engineers.

We already have more than one million "readers" in China built up over decades of on-the-ground work. This demographically rich database is comprised primarily of audited magazine subscribers and registered online users. Our Chinese language websites now attract more than 12 million page views every month.

We may also extend some of our existing English-language verticals into the China domestic market. For example, we plan to launch two domestic *China Sourcing Fair* trade shows in Shanghai in December 2007, titled *Fashion Accessories* and *Baby & Children's Products*.

## **4. Acquisitions and/or Alliances**

We intend to support our growth strategy through acquisitions and/or alliances designed to drive growth and accelerate achievement of strategic goals.

We plan to seek complementary businesses, technologies or products that we believe would help us maintain and achieve market leading positions in particular niche markets.

As of April 30, 2007, we own approximately 12.84% of HC International, Inc. ("HC International"), a B2B media company which is listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and which is focused on China's domestic market. We had an option deadline of June 20, 2007 to buy an additional approximate 34.38% of HC International (as of April 30, 2007). However, we have announced, via a press release dated June 17, 2007, that we will not be exercising this option.

We have a joint venture with CMP Media and an alliance with Penton Media, and intend to continue seeking similar opportunities where we can create significant operating synergies with an overseas partner by applying our resources, expertise and experience in Greater China.

We believe that success with our objectives and growth strategy should enable Global Sources to achieve its financial targets. Our objective is to deliver superior shareholder returns.

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## Products & Services

### *Media for Buyers Worldwide*

#### Online Services

*Global Sources Online*, our primary online service, is comprised of the following industry sector marketplaces:

<i>Auto Parts &amp; Accessories</i>	<i>Garments &amp; Textiles</i>
<i>Baby &amp; Children's Products</i>	<i>Gifts &amp; Premiums</i>
<i>Computer Products</i>	<i>Hardware &amp; DIY</i>
<i>Electronic Components</i>	<i>Home Products</i>
<i>Electronics</i>	<i>Machinery</i>
<i>Fashion Accessories</i>	<i>Security Products</i>
	<i>Telecom Products</i>

#### Trade Publications

We publish the following industry-specific trade magazines monthly:

<i>Global Sources Auto Parts &amp; Accessories</i>	<i>Global Sources Garments &amp; Textiles</i>
<i>Global Sources Baby &amp; Children's Products</i>	<i>Global Sources Gifts &amp; Premiums</i>
<i>Global Sources Computer Products</i>	<i>Global Sources Hardware &amp; DIY</i>
<i>Global Sources Electronic Components</i>	<i>Global Sources Home Products</i>
<i>Global Sources Electronics</i>	<i>Global Sources Security Products</i>
<i>Global Sources Fashion Accessories</i>	<i>Global Sources Telecom Products</i>

#### Trade Shows & Exhibitions

##### **Trade Show / Exhibition**

*China Sourcing Fair: Gifts & Home Products*

##### **Description**

·Primary product categories include: gifts, premiums & toys; sporting goods; Christmas & holiday products; stationery; health & beauty products; kitchen & household appliances; DIY & home center; furniture & furnishings; garden & outdoor products; and lighting & electrical.  
·Spring and fall 2007 events in Hong Kong.

*China Sourcing Fair: Electronics & Components*

·Primary product categories include: personal & mobile electronics; computers & networking products; electronic components; security & safety products; telecom products & accessories; and home & office electronics.  
·Spring and fall 2007 events in Hong Kong.

*China Sourcing Fair: Fashion  
Accessories*

·Primary product categories include: handbags, special purpose bags, footwear, hats and caps, umbrellas, belts, sunglasses, gloves, ties, socks, watches, luggage, swimwear, bridal products, lingerie and sleepwear.  
·Spring and fall 2007 events in Hong Kong.

*China Sourcing Fair: Underwear  
and Swimwear*

·Primary product categories include: underwear, swimwear and related accessories, sleepwear and fabrics, lace and trimmings.  
·Spring and fall 2007 events in Hong Kong.

<b>Trade Show / Exhibition</b>	<b>Description</b>
<i>China Sourcing Fair: Baby &amp; Children's Products</i>	<ul style="list-style-type: none"> <li>·The first exhibition for the Chinese domestic market dedicated to baby and children's products. Target attendees are volume buyers for China's retail industry.</li> <li>·December 2007 in Shanghai.</li> </ul>
<i>China Sourcing Fair: Fashion Accessories</i>	<ul style="list-style-type: none"> <li>·A new and convenient sourcing channel for volume buyers of fashion accessories in China to find products and suppliers.</li> <li>·December 2007 in Shanghai.</li> </ul>
<i>The 12th Annual International IC - China Conference &amp; Exhibition</i>	<ul style="list-style-type: none"> <li>·China's premiere showcase of integrated circuits (IC) application technologies and high-end components.</li> <li>·Spring 2007 events in China's key technology hubs Shenzhen, Beijing and Shanghai.</li> </ul>
<i>The 6th Annual Embedded Systems Conference - Taiwan</i>	<ul style="list-style-type: none"> <li>·Taiwan's largest showcase of embedded systems design, skills training and technologies.</li> <li>·August 2007 event in Taipei.</li> </ul>
<i>The 14th EDA-&amp;-Test - Taiwan Conference &amp; Exhibition</i>	<ul style="list-style-type: none"> <li>·Asia-Pacific's largest, longest-running showcase of electronic design automation and test technologies.</li> <li>·August 2007 in Taipei.</li> </ul>

*Media for Asian Engineers and Executives*

Magazines

<b>Magazine</b>	<b>Description</b>
<i>EE Times - Asia</i>	<ul style="list-style-type: none"> <li>·Editions published bi-weekly in simplified and traditional Chinese, Korean and English; provides engineering managers and design engineers in China, Taiwan, South Korea, Singapore and Malaysia with innovative design ideas and in-depth technology analysis.</li> </ul>
<i>Electronic Design - China</i>	<ul style="list-style-type: none"> <li>·Published monthly in simplified Chinese; provides electronics design &amp; development engineers and engineering managers in China with the latest in emerging technology and 'how-to' methodologies.</li> </ul>
<i>Electronics Supply &amp; Manufacturing - China</i>	<ul style="list-style-type: none"> <li>·Published monthly in simplified Chinese; provides corporate, engineering, procurement and manufacturing management in China with</li> </ul>

strategic business and technology information.

*Global Sources Chief Executive  
China*

·Published monthly in simplified Chinese; serves  
China's senior management with case studies and  
information on management techniques and  
strategies.

## Websites

### **Website**

### **Description**

*EE Times - Asia Online Network*

·Provides industry news, new product information and technical features covering new technology and its application to engineers in China, Taiwan, South Korea, India and countries in the Association of Southeast Asian Nations; websites in traditional and simplified Chinese, English and Korean; and several application specific websites for Chinese engineers.

*Electronic Design – China Online*

·Provides China's design engineers with access to detailed solutions, methodologies and white papers.

*Electronic Supply & Manufacturing China Online*

·Provides corporate, engineering, procurement and manufacturing management with access to new manufacturing strategies, technology and supplier news.

*Chief Executive China Online*

·A resource focusing on excellent management practices for China's business leaders in simplified Chinese.

*Career Sources China Online*

·Provides resources and information regarding career opportunities.

## **Customers**

We provide services to a broad range of international buyers and suppliers in various industry sectors.

### *Suppliers*

During 2006, 11,695 suppliers paid us for marketing or advertising services. Approximately 90% of these suppliers were located in Greater China. No individual supplier customer represented more than 1% of our revenue during 2006.

### *Buyers*

For our primary group of media, which connect export suppliers in Asia with buyers worldwide, we serve an independently certified community of more than 560,000 active members in more than 230 countries and territories. This figure is based on procedures to ensure that only buyers who have received a magazine or who have made an inquiry through the *Global Sources Online* website within the 12 month period ended December 31, 2006 are extracted from the databases. This community is up from approximately 209,000 at the end of 2000.

We have developed our services primarily for retailers, distributors and manufacturers who import in volume for resale. We serve a specialized group of senior executives with large import buying power. We believe a significant portion of these executives are owners, partners, presidents, vice presidents, general managers or directors of their respective companies.



We derive a relatively small proportion of our total revenue from these buyers for subscriptions to our magazines and for *China Sourcing Reports*.

## **Sales and Marketing**

Our team member sales organization consists of approximately 1,406 independent representatives in approximately 67 cities worldwide, with 48 of these locations in Greater China. We have a staff of 40 full-time employees that oversee and monitor the independent sales representative organizations that employ these representatives. These organizations operate pursuant to service agreements with us that generally are terminable by either party on short notice. These representatives focus on developing and maintaining relationships with suppliers that are current customers and they seek to increase the number of new suppliers using our services. Substantially all of our contracts with suppliers are entered into directly between the supplier and us. Online services and print advertising revenue is seasonal and tends to be highest in the fourth quarter of each calendar year. Revenue for trade shows is highly seasonal as it is recognized in the month in which each show is held. Our sales representatives collectively make an average of 50,000 supplier visits per month. The largest representative sales offices are located in Beijing, Guangzhou, Shanghai, Shenzhen, Hong Kong and Taipei. Our six sales representative organizations in China accounted for approximately 53% of our total revenue in 2006.

Our marketing strategy leverages our database of approximately 130,000 suppliers currently listed on *Global Sources Online*. Sophisticated analyses of buyer and supplier profile data enable us to target our sales and marketing programs to new geographic areas and to specific product categories within industry sectors.

Our sales representative organizations are generally structured to offer an integrated marketing solution of our media to customers. Most of the sales representative organizations have the primary responsibility of selling our online and print media while other sales representative organizations are focused on selling trade show booth space. Our community development group is responsible for marketing our services to the global buyer community through online advertisements and promotions, search engine marketing, trade shows and direct mail campaigns.

## **Content Development**

Our content development group, comprised of 466 team members as at December 31, 2006, is responsible for compiling, editing, integrating and processing the content that appears in our online services and print media. Within content development, the advertisement operations and editorial groups compile materials from suppliers and freelance writers, respectively, and transform these materials into the advertising and editorial content. Research teams analyze customer content usage to direct content development and they work with sales representatives and marketing staff to develop appropriate content for new industry sectors. Our site team is responsible for evaluating and integrating content into our online services, as well as maintaining the overall integrity of such services. In addition, members of the content development group manage the pre-press production work and print production processes associated with the creation of our trade magazines. They also maintain the back-end supplier database, which is the foundation for our online supplier and product information.

## **Strategic Relationships**

We own 60.1% of a joint venture with CMP Media LLC, through UBM Asia B.V., a subsidiary of United News & Media plc. We entered into the joint venture in September 2000, to provide new technology content, media and online services for the Asian electronics market, focusing on new opportunities in the Greater China market.

In November 2001, we formed a strategic alliance with the WorldWide Retail Exchange, LLC (WWRE), to offer a supplier sourcing program for WWRE members and Asian suppliers. This evolved in 2005 to a new and expanded agreement with Agentrics LLC, which was recently formed by the merger of WWRE and GlobalNetXchange LLC. Agentrics LLC is an organization representing 50 global retailers with \$1 trillion in annual sales, including some of the world's largest retailers.

We formed a license-based partnership with a third party to operate a regional online marketing service in South Africa. This enables suppliers within South Africa to promote their products and services to buyers located primarily outside of South Africa.

In August 2005, one of the Company's subsidiaries, eMedia Asia Limited ("eMedia"), formed a strategic alliance with Penton Media Inc. ("Penton") to launch *Electronic Design - China*, a simplified Chinese edition of Penton's electronics magazine, *Electronic Design*. This new *Electronic Design - China* publication aims to provide the latest technology and application methodologies to design engineers and engineering managers in China. The online website was launched in January 2006, and the first print monthly issue was launched in March 2006. eMedia is also entitled to draw content from Penton's electronics publications, including *Electronic Design*, *EE Product News* and *Microwaves & RF*. A description of the agreements between eMedia and Penton is set out in the "Material Contracts" section.

HC International, Inc. (“HC International”) is a company listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. On May 24, 2006, we entered into an agreement for the acquisition of a certain amount of shares of HC International. We have also entered into a call option deed for a certain amount of shares of HC International, and another call option deed for a certain amount of shares of an indirect subsidiary of HC International. We have announced, via a press release dated June 17, 2007, that we will not be exercising these options. Details of these arrangements are set out in the “Material Contracts” section. This was a strategic investment by us, with the intention of establishing a strategic relationship with HC International.

## **Technology and Systems**

We use a combination of commercial software and internally developed systems to operate our websites and services.

We have invested \$8.7 million for years 2005 and 2006 combined in online services development.

As of December 31, 2006, we had 148 team members engaged in technology development, maintenance, software customization and data center operations.

As of December 31, 2006, our online marketplace services are run on the Oracle DBMS release 9i. The catalog application that supports *Global Sources Online*’s core functions uses a Java platform.

Our servers are hosted by Singapore Telecommunications (“SingTel”). We have dual redundant 100Mbps link connection directly to SingTel’s IX backbone, while SingTel maintains a 2,015 Mbps link to the United States and direct links to most countries in Asia. In the interest of further improving our systems’ performance, we migrated this infrastructure to AT&T Global Network Services Hong Kong Ltd’s data center in Hong Kong in early 2007.

We use StorageTek Enterprise tape back-up systems as well as servers located at our Singapore facility for back-up. We have deployed EMC SAN Enterprise disk storage systems for mission critical data and load balancers and application accelerators for traffic workload balancing, redundancy and response time management respectively.

For the year ended December 31, 2006 our external network had approximately 99.99% uptime availability.

Our platform applications deploy standard industry database protocols. We can, therefore, integrate our systems with products from third-party vendors. Our offerings are also based on industry standard Web technologies and we are able to deploy with the aid of most common industry browser solutions.

Where appropriate, our systems use secure socket layer, (SSL), to encrypt sensitive communications between browsers and Web servers. We also use Extensible Markup Language, (XML), as an open communication protocol for information delivery to various applications and/or partners.

## **Competition**

For our online marketplaces, trade magazines and trade show services, the market is highly fragmented and potential competition and competitors vary by the range of services provided, geographic focus and the industry sector served. Some competitors only offer trade shows and other competitors only offer online services.

We may compete to some extent with a variety of organizations that have announced their intention to launch, or have already launched, products and services that compete to a certain degree with ours. These businesses include business media companies, trade show organizers, government trade promotion bodies, domestic retail marketplaces, international trade marketplaces, transaction software and services providers, and electronic sourcing application and/or service providers. We may be at a competitive disadvantage to companies that have greater financial resources, that have more advanced technology, that have greater experience or that offer lower cost solutions than ours. In addition, some buyers and suppliers may have developed in-house solutions for the online sourcing and marketing of goods and may be unwilling to use ours.

### **Intellectual Property**

Our primary product and supplier content, in addition to our in-house produced editorial content, is held under common law copyright. We actively protect this intellectual property by several means, including the use of digital watermark technology on the images on our website, which enables us to identify unauthorized use on other websites.

We have also developed several proprietary technology applications. In the future, we may apply for patents for these technology applications, where appropriate. However, we may not be successful in obtaining the patents for which we applied. Even if we are issued a patent, it is possible that others may be able to challenge such a patent or that no competitive advantage will be gained from such patent.

Our intellectual property is very important to our business. We rely on a combination of contractual provisions, employee and third-party nondisclosure agreements, and copyright, trademark, service mark, trade secret and patent laws to establish and protect the proprietary rights of our software and services.

We have registered trademarks for “Asian Sources”, “Global Sources”, “China Sourcing Fairs” and/or “Global Sources Direct” in Australia, the European Union, Germany, Hong Kong, India, Indonesia, Israel, Malaysia, Mexico, Japan, the Philippines, China, Singapore, South Africa, South Korea, Switzerland, Taiwan, Thailand, Turkey and the USA, and we have applications for these trademarks pending registration in various countries, including Egypt, the European Union, India, Indonesia, Malaysia, China, Taiwan, Thailand, the United Arab Emirates and the USA.

We have in the past, and may in the future, co-develop some of our intellectual property with independent third parties. In these instances, we take all action that we believe is necessary or advisable to protect and to gain ownership of all co-developed intellectual property. However, if such third parties were to introduce similar or competing online services that achieve market acceptance, the success of our online services and our business, financial condition, prospects and operating results may be harmed.

### **Government Regulation**

Our services are subject to government regulation.

#### *Internet Regulation*

There are an increasing number of laws and regulations pertaining to the Internet. In addition, a number of legislative and regulatory proposals are under consideration by federal, state and local and foreign governments and agencies. Laws or regulations may be adopted with respect to the Internet relating to the liability for information retrieved from or transmitted over the Internet, online content regulation, the transmission of unsolicited commercial e-mails, user privacy, taxation and the quality of products and services. Moreover, it may take years to determine whether and how existing laws, such as those governing issues relating to intellectual property ownership and infringement, privacy, libel, copyright, trademark, trade secret, design rights, taxation, and the regulation of, or any unanticipated application or interpretation of existing laws, may decrease the use of the Internet, which could in turn

decrease the demand for our services, increase our cost of doing business or otherwise have a material adverse effect on our business, financial condition, prospects and operating results.

*Regulation of Communications Facilities*

To some extent, the rapid growth of the Internet in the United States has been due to the relative lack of government intervention in the marketplace for Internet access. For example, several telecommunications carriers are seeking to have telecommunications over the Internet regulated in the same manner as are certain other telecommunications services. Additionally, local telephone carriers have petitioned the Federal Communications Commission to regulate Internet service providers in a manner similar to long distance telephone carriers and to impose access fees on such providers. Some Internet service providers are seeking to have broadband Internet access over cable systems regulated in much the same manner as telephone services, which could slow the deployment of broadband Internet access services. Because of these proceedings or others, new laws or regulations could be enacted, which could burden the companies that provide the infrastructure on which the Internet is based, thereby slowing the rapid expansion of the medium and its availability to new users.

## Properties

During 2004, we entered into a contract for the purchase of approximately 9,000 square meters of office space in the Shenzhen International Chamber of Commerce Tower in Shenzhen, Guangdong province, China, at a purchase price of approximately \$19.0 million. Full payment of the purchase price was made during 2004, the physical handover of the premises occurred on or around March 30, 2005 and we have received the title certificates. Our usage right in respect of this property is for a period of 50 years, expiring on 7 January 2052, after which the land could revert to the China government. In addition, we generally lease our office space under cancelable and non-cancelable arrangements with terms of two to five years, generally with an option to renew upon expiry of the lease term. We lease in the aggregate approximately 97,645 square feet of executive and administrative offices in China, Hong Kong, the Philippines, Singapore and Taiwan. Our aggregate base rental and building management fee payments for the year ended December 31, 2006 were approximately \$1.2 million.

During the first quarter of 2007, we entered into a letter of intent, followed by a purchase agreement, to purchase approximately 1,939.38 square meters of office space in a commercial building known as “Excellence Times Square” in Shenzhen, China, at a purchase price of approximately \$7.0 million, out of which a down-payment of approximately \$0.09 million has been made, with the total remaining balance of approximately \$6.91 million paid in April 2007. Delivery of the office space to us was completed in April 2007.

## Legal Proceedings

We are a party to litigation from time to time in the ordinary course of our business. We do not expect the outcome of any pending litigation to have a material adverse effect on our business.

### ITEM 4A.

### UNRESOLVED STAFF COMMENTS

None.

## ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

*The following discussion of our financial condition and results of operations should be read in conjunction with the “Selected Financial Data” and the accompanying financial statements and the notes to those statements appearing elsewhere in this annual report. The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to those discussed below and elsewhere in this annual report, particularly under the caption “Risk Factors.”*

### Overview

We are a leading business-to-business (B2B) media company and a primary facilitator of two-way trade with Greater China. The core business is facilitating trade from Greater China to the world, using a wide range of English-language media. The other key business segment facilitates trade from the world to Greater China using Chinese-language media. We provide sourcing information to volume buyers and integrated marketing services to suppliers. Our mission is to facilitate global trade between buyers and suppliers by providing the right information, at the right time, in the right format. Although our range of media has grown, for more than 35 years we have been in the same basic business of helping buyers worldwide find products and suppliers in Asia.

We believe we offer the most extensive range of media and export marketing services in the industries we serve through our three primary channels – online marketplaces, magazines and trade shows.

We were originally incorporated under the laws of Hong Kong in 1970. In 1971, we launched *Asian Sources*, a trade magazine to serve global buyers importing products in volume from Asia. Realizing the importance of the Internet, we became one of the first providers of business to business online services by launching *Asian Sources Online* in 1995. In 1999, we changed the name of *Asian Sources Online* to *Global Sources Online*.

In April 2000, we completed a share exchange with a publicly traded company based in Bermuda, and our shareholders became the majority shareholders of the Bermuda corporation. As a result of the share exchange, we became incorporated under the laws of Bermuda and changed our name to Global Sources Ltd.

## Revenue

We derive revenue from three principal sources.

*Online Services* — Our primary service is creating and hosting marketing websites that present suppliers' product and company information in a consistent and easily searchable manner on *Global Sources Online*. We also derive revenue from banner advertising fees.

*Other Media Services* — We publish trade magazines, which consist primarily of product advertisements from suppliers and our independent editorial reports and product surveys. Suppliers pay for advertising in our trade magazines to promote their products and companies. We also derive revenue from buyers that subscribe to our trade publications and sourcing research reports.

We recognize revenue from our Online and Other Media Services ratably over the period in which the marketing website is hosted and/or the advertisement is displayed. Our advertising contracts do not exceed one year.

*Exhibitions – trade shows and seminars* - Our China Sourcing Fairs offer international buyers direct access to manufacturers from China and elsewhere in Asia. The first China Sourcing Fair was held during the fourth quarter of 2003. We held two series of three China Sourcing Fairs each in the second quarter and fourth quarter of 2004 and two series of two China Sourcing Fairs each in the second quarter and fourth quarter of 2005. We held two series of three China Sourcing Fairs each in the second quarter and fourth quarter of 2006. Future China Sourcing Fairs are scheduled to be held mainly in the second quarter and fourth quarter of each financial year, including a new China Sourcing Fair in Dubai which is scheduled to be launched in June 2007. International IC China Conferences and Exhibitions were held in March 2006 in the current year and these same exhibitions were held in April 2005 last year. We derive revenue primarily from exhibit space rental, but also from advertising and sponsorship fees in show guides and other locations in and around our event venues. We also receive fees from attendees to attend our technical conferences held during the events. We recognize exhibitor services revenue at the conclusion of the related events. As a result, second quarter and fourth quarter revenue is expected to be higher than the first and third quarter revenue. Revenue from exhibitions are likely to grow as a percentage of total revenue in future years as we hold more China Sourcing Fairs.

## Critical Accounting Policies

Our significant accounting policies are described in Note 2 to the consolidated financial statements included in Item 8 of this document. The following is a discussion of our critical accounting policies:





### *Revenue Recognition*

We derive our revenue primarily from receipt of advertising fees in our published trade magazines and websites, sale of trade magazines and reports, receipt of fees from licensing our trade and service marks, organizing exhibitions and business seminars and commission income from consignment sales.

Revenue from advertising in trade magazines and websites is recognized ratably over the period in which the advertisement is displayed. Advertising contracts do not exceed one year. Revenue from sales of trade magazines and reports is recognized upon delivery of the magazine / report. Magazine subscriptions received in advance are deferred and recognized as revenue upon delivery of the magazine. Revenue from organizing exhibitions and business seminars is recognized at the conclusion of the event and the related direct event production costs are deferred and recognized as expenses upon conclusion of the event. When multiple deliverables are contracted under a single arrangement, we allocate the total consideration to each unit of accounting on a pro-rata method based on its relative percentage of the total fair value of all units of accounting included in the arrangement.

We received license fees and currently receive royalties from licensing our trade and service marks. Revenue from license fees was recognized ratably over the term of the license. Royalties from license arrangements are earned ratably over the period in which the advertisement is displayed by the licensee.

We derive commission income on the re-sale of our customers' products on a consignment basis. The commission income which is the sales proceeds, net of the cost of the purchased products payable to the consigner is recognized upon conclusion of the sale to the buyer.

The correct measurement of timing and the duration of the contracts with our customers are essential to the recognition of our revenue. Any delays in recognizing the revenue could cause our operating results to vary significantly from period to period. In addition our revenue recognition determines the timing of certain expenses such as commissions, circulation expenses, and direct event production costs.

### *Capitalization of Development Costs of Software for Internal Use*

We adopted Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." Costs incurred in the preliminary project stage with respect to the development of software for internal use are expensed as incurred; costs incurred during the application development stage are capitalized and are amortized over the estimated useful life of three years upon the commissioning of service of the software. Training and maintenance costs are expensed as incurred.

To account for the development costs related to the products to be sold, leased or otherwise marketed, we adopted SFAS No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed." Development costs incurred subsequent to the establishment of the technological feasibility of the product are capitalized. The capitalization ends when the product is available for general release to customers.

Our policies on capitalized software development costs determine the timing and our recognition of certain development costs. In addition, these policies determine whether the costs are capitalized or recorded as expenses.

### *Estimation of Allowance for Doubtful Debts*

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities in our financial statements.

We estimate the collectibility of our accounts receivable based on our analysis of the accounts receivable, historical bad debts, customer creditworthiness and current economic trends. We continuously monitor collections from our customers and maintain adequate allowance for doubtful accounts. While credit losses have historically been within our expectations and the allowances we established, if the bad debts significantly exceed our provisions, our operating results and liquidity would be adversely affected.

*Impairment of Long-Lived Assets*

Property and equipment are amortized over their estimated useful lives. Useful lives are based on our estimates of the period that the assets will generate revenue and can be productively employed.

We periodically review the carrying values of our long-lived assets and recognize an impairment loss whenever events or changes in circumstances indicate the carrying amount of the assets may not be fully recoverable. The recoverability of an asset is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment loss, measured based on the difference between the carrying amount of the asset and its fair value, is recognized.

While we believe our estimation of the useful lives and future cash flows are reasonable, different assumptions regarding such useful lives and cash flows could materially affect our valuations.

*Exhibition events promotion costs*

The event specific promotion costs for our exhibition events are recognized as an expense during the event months in the year in which the expenses are incurred.

Proper identification of the promotion expenses to the particular events is essential to recognize the costs correctly to the respective events and in the respective interim periods.

**Results of Operations**

The following table sets forth our results of operations as a percentage of total revenue:

	<b>Year Ended December 31,</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
<b>Income statement data:</b>			
<b>Revenue:</b>			
Online and other media services	87%	86%	72%
Exhibitions	12	13	27
Miscellaneous	1	1	1
Total revenue	100	100	100
<b>Operating expenses:</b>			
Sales	29	31	32
Event production	4	3	11
Community	17	18	16
General and administrative	30	31	25
Online services development	4	4	3
Amortization of software costs	1	1	1
Total operating expenses	85%	88%	88
Income from operations	15%	12%	12%
Net income	15%	12%	18%

The following table represents our revenue by geographical areas as a percentage of total revenue:

**Year Ended December 31,**

	<b>2004</b>	<b>2005</b>	<b>2006</b>
Asia	92%	93%	93%
United States	6	6	5
Europe	1	1	1
Others	1	0	1
Total revenue	100%	100%	100%

## **Fiscal Year 2006 Compared to Fiscal Year 2005**

### **Revenue**

Total revenue grew to \$156.5 million during the year ended December 31, 2006 from \$112.2 million during year ended December 31, 2005, a growth of 39% driven primarily by the growth in our China Sourcing Fairs exhibitions revenue. Our Online and Other Media Services revenue grew by \$16 million or 16% to \$113.1 million during the year ended December 31, 2006, as compared with \$97.1 million during the year ended December 31, 2005 due to a 29% growth in our China market and the growth in our Hong Kong, South Korea and USA markets, off-set by a decline in some of our other markets during the year ended December 31, 2006. China represented 53% of Online and Other Media Services revenue during the year ended December 31, 2006 compared to 48% during the year ended December 31, 2005. Our Exhibitions revenue grew from \$14.3 million during the year ended December 31, 2005 to \$42.1 million during the year ended December 31, 2006, a growth of 194%, due mainly to growth in revenue of our China Sourcing Fairs during the year 2006.

We have made substantial progress in developing our customer base in China, our largest market. Total revenue from China grew by 50% during the year ended December 31, 2006 compared to year ended December 31, 2005 due to growth in our China Sourcing Fairs revenue and Online and Other Media Services revenue. China accounted for 53% of total revenue during the year ended December 31, 2006 compared to 50% of total revenue during the year ended December 31, 2005. We expect revenue from China as a percentage of total revenue to continue to grow and China overall revenue to continue to grow.

### **Operating expenses**

#### *Sales*

We utilize independent sales representatives employed by independent sales representative organizations in various countries and territories to promote our products and services. Under these arrangements, the sales representative organizations are entitled to commissions as well as marketing fees. Commission expense is recorded when the associated revenue is recognized or when the associated accounts receivable are paid, whichever is earlier, and is included in sales expenses.

Sales costs consist of the commissions and marketing fees paid and incentives provided to our independent sales representative organizations, as well as sales support fees for processing sales contracts. These representative organizations sell online services, advertisements in our trade magazines and exhibitor services and earn a commission as a percentage of revenue generated.

Sales costs increased from \$34.4 million during the year ended December 31, 2005 to \$50.4 million during the year ended December 31, 2006, due to increase in sales commissions as a result of increase in revenue and increases in sales marketing costs and sales promotions for exhibitions.

#### *Event Production*

Event production costs consist of the costs incurred for hosting the exhibition or trade show and seminar events. The event production costs include venue rental charges, booth construction costs, travel costs incurred for the event hosting and other event organizing costs. The event production costs are deferred and recognized as an expense when the related event occurs.



Event production costs increased from \$3.9 million during the year ended December 31, 2005 to \$18.4 million during the year ended December 31, 2006, as our China Sourcing Fairs events held in year 2006 in Hong Kong were much larger events compared to our last year's China Sourcing Fairs events held in Shanghai, resulting in a substantial increase in venue rental, booth construction and other event organizing costs. In addition, the exhibition venue in Hong Kong was more expensive compared to venues in Shanghai.

#### *Community*

Community costs consist of the costs incurred for servicing our buyer community and for marketing our products and services to the global buyer community. Community costs also include costs relating to our trade magazine publishing business and marketing inserts business, specifically printing, paper, bulk circulation, magazine subscription promotions, promotions for our on-line services, customer services costs and the event specific promotions costs incurred for promoting the China Sourcing Fairs events and the technical conferences, exhibitions and seminars to the buyer community. The event specific promotion costs incurred for events are expensed during the event months in the year in which the expenses are incurred.

Community costs increased from \$20.7 million during the year ended December 31, 2005 to \$24.9 million during the year ended December 31, 2006, an increase of 20% due mainly to increase in paper costs, printing charges and promotion costs for our exhibition events. We also incurred promotions for our online services and magazine subscriptions and these are expensed as incurred. As a result of increase in these activities we recorded an increase in payroll costs and travel costs.

#### *General and Administrative*

General and administrative costs consist mainly of corporate staff compensation, information technology support services, content management services, marketing costs, office rental, depreciation, communication and travel costs.

General and administrative costs increased by 12% from \$34.7 million during the year ended December 31, 2005 to \$38.9 million during the year ended December 31, 2006, due mainly to increases in fees paid to consultants, content management services costs, marketing costs, information technology support services costs, depreciation on office furniture, depreciation on new office premises that we purchased during the year 2005 and depreciation on leasehold improvements there on and payroll costs.

#### *Online Services Development*

Online services development costs consist mainly of payroll, office rental and depreciation costs relating to the updating and maintenance of *Global Sources Online*.

Online services development costs to fund the updating and maintenance of our online services increased from \$4.2 million during the year ended December 31, 2005 to \$4.5 million during the year ended December 31, 2006 due mainly to increases in depreciation costs and internet communications costs.

#### *Non-Cash Compensation Expense*

We have issued share awards under several equity compensation plans (ECP) to both employees and team members. We also recognize non-cash compensation expenses relating to the shares purchased by our directors under Directors Purchase Plan.



Effective January 1, 2006, the Company adopted the provisions of SFAS No. 123(R), "Share-Based Payment" using the modified prospective application transition method, which requires application of SFAS No. 123(R) for new awards granted after the adoption of SFAS No. 123(R) and for any portion of awards granted prior to the date of adoption but have not vested as of the date of adoption of SFAS No. 123(R).

Prior to the adoption of SFAS No. 123(R), the Company accounted for stock-based compensation using the intrinsic value method prescribed in APB No. 25, "Accounting for Stock Issued to Employees" and related interpretations. Accordingly, compensation cost of stock options was measured as the excess, if any, of the fair value of the Company's stock at the date of the grant over the option exercise price and is charged to operations over the vesting period. Under the SFAS No. 123(R), the compensation cost associated with the stock options is measured at fair value on the grant date and portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods.

The Company's employee stock compensation plans are share grants without any exercise price or exercise period. Therefore, the fair value of the share grants at the date of grant approximates the intrinsic value. As a result, the impact of fair value based accounting under SFAS No. 123(R) is not significantly different from the intrinsic value method under APB No. 25.

Prior to the adoption of SFAS No. 123(R), the Company accounted for equity instruments issued to non-employees in accordance with the provisions of SFAS No. 123 and EITF Issue No. 96-18, "Accounting for Equity Instruments that are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling Goods and Services." All transactions in which services are received for the issuance of equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable. The measurement date of the fair value of the equity instrument issued is the earlier of the date on which the counterparty's performance is complete or the date on which it is probable that performance will occur. The equity instruments issued to non-employees are within the scope of SFAS No. 123(R), except that such equity instruments should continue to be measured using the measurement guidance of EITF Issue No. 96-18. Thus there are no significant changes required in the accounting treatment of equity instruments issued to non-employees upon the adoption of SFAS No. 123(R).

The Company recognizes the compensation costs associated with share awards with graded vesting to employees on a straight-line basis over the requisite service period for the entire award.

The Company recognizes the compensation costs associated with share awards to non-employees on an accelerated attribution basis over the requisite service period.

Under SFAS No. 123(R) the Company is required to adjust its compensation cost for pre-vesting forfeitures i.e. an award that is forfeited prior to vesting. As the share grants to the employees include service conditions, the fair value of the awards is not adjusted subsequent to the grant date. At each reporting date, the Company would estimate the quantity of share grants expected to vest and record the compensation cost for the share grants that are expected to vest.

Prior to the adoption of SFAS No. 123(R), the Company accounted for the shares purchased by the directors under Directors Purchase Plan using the intrinsic value method prescribed in APB No. 25, "Accounting for Stock Issued to Employees" and related interpretations. Accordingly, compensation cost relating to the shares purchased by the directors was measured as the difference between the quoted market price of the stock at the grant date and the price paid by the directors (exercise price) on the measurement date. Upon adoption of SFAS No. 123(R), the Company has utilized the Black-Scholes option-pricing model ("Black-Scholes model") for determination of the grant date fair value and the recording of compensation cost associated with the shares purchased by the Directors under the plan.

The total non-cash compensation expense, resulting from the ECP and the Directors Purchase Plan, recorded by us and included in the respective categories of expenses increased from \$1.9 million during the year ended December 31, 2005 to \$4.1 million during the year ended December 31, 2006. The increase was a result of the re-measurement of equity compensation expense based on our prevailing share price and new share awards during the first half of year 2006.

The corresponding amounts for the non-cash compensation expenses are credited to shareholders' equity.

As of December 31, 2006 there was \$6,956 of unrecognized non-cash compensation cost associated with the awards under the above ECP plans, which is expected to be recognized over the next six years.

#### *Amortization of Software Cost*

Amortization of software cost was \$1.3 million during the year ended December 31, 2006 and during the year ended December 31, 2005.

*Income From Operations*

The total income from operations during the year ended December 31, 2006 was \$18.1 million compared to \$12.9 million during the year ended December 31, 2005. The growth in total income from operations was mainly due to increase in revenue and a decline in amortization of software costs off-set partially by increases in sales costs, event production costs, community costs, general and administrative costs, online services development costs. Income from operations for online and other media services grew from \$13.5 million during the year ended December 31, 2005 to \$21.9 million during the year ended December 31, 2006, a growth of 62%. The growth resulted mainly from growth in online and other media services revenue and decline in amortization of software costs, off-set partially by increases in sales costs, community costs, general and administrative costs and online services development costs.

*Interest and Dividend Income and Gain on Sale of Available-for-sale Securities*

We recorded a gain of \$0.3 million arising from sale of available-for-sale securities and interest and dividend income of \$4.8 million arising mainly from available-for-sale securities during the year ended December 31, 2006 compared to a gain of \$1.0 million and interest and dividend income of \$1.3 million during the year ended December 31, 2005.

*Gain on Sale of Shares to Minority Shareholder and Interest Income Thereon.*

During the year ended December 31, 2006, we recorded a gain on sale of shares to minority shareholder and related interest income amounting to \$6.0 million and \$1.9 million respectively as the loan and interest contingencies were resolved in the current year. (Please see "Liquidity and Capital Resources" section.)

*Income Taxes*

We and certain other subsidiaries of the group operate in the Cayman Islands and other jurisdictions where there are no taxes imposed on companies. Certain of our subsidiaries operate in Hong Kong SAR, Singapore and China and are subject to income taxes in their respective jurisdictions.

We reported a tax provision of \$0.9 million during the year ended December 31, 2006 and \$0.8 million during the year ended December 31, 2005.

*Cumulative Effect of Change in Accounting Principle*

During the year ended December 31, 2006, we have recorded a credit to expenses of \$0.3 million resulted from the cumulative effect of change in accounting principle upon adoption of SFAS No.123(R) effective from January 1, 2006. For a further discussion on change in accounting principle, please see Note 2(x) of our consolidated financial statements appearing elsewhere in this annual report.

*Net Income*

Net income was \$27.9 million during the year ended December 31, 2006, compared to a net income of \$13.4 million during the year ended December 31, 2005. The growth in net income was mainly due to growth in revenue, increase in interest and dividend income, gain on sale of shares to minority shareholder and interest income thereon and decline in amortization of software costs, off-set partially by increases in sales costs, event production costs, community costs, general and administrative costs, online services development costs, foreign exchange losses, tax provision, share of profits attributable to a minority shareholder, a decline in gain on sale of available-for-sale securities and loss on investment.



## **Fiscal Year 2005 Compared to Fiscal Year 2004**

### **Revenue**

Total revenue grew to \$112.2 million during the year ended December 31, 2005 from \$105.8 million during year ended December 31, 2004, a growth of 6%. Our online and other media services revenue grew by \$4.8 million or 5% to \$97.1 million during the year ended December 31, 2005, as compared with \$92.3 million during the year ended December 31, 2004 due to a 13% growth in our China market and the growth in our Hong Kong and Taiwan markets off-set by drop in some of our other markets during the year ended December 31, 2005. China represented 48% of Online and other media services revenue during the year ended December 31, 2005 compared to 45% during the year ended December 31, 2004. Our exhibitions revenue grew from \$13.0 million during the year ended December 31, 2004 to \$14.3 million during the year ended December 31, 2005, a growth of 10%, due mainly to growth in revenue of our International IC China Conferences and Exhibitions for the year 2005.

We have made substantial progress in developing our customer base in China, our largest market. Total revenue from China grew by 12% during the year ended December 31, 2005 compared to the year ended December 31, 2004. China accounted for 50% of total revenue during the year ended December 31, 2005 compared to 47% of total revenue during the year ended December 31, 2004. We expect China as a percent of total revenue to continue to grow and China revenue overall to continue to grow.

### **Operating expenses**

#### *Sales*

Sales costs consist of the commissions and marketing fees paid and incentives provided to our independent sales representative organizations, as well as sales support fees for processing sales contracts. These representative organizations sell online services, advertisements in our trade magazines and exhibitor services and earn a commission as a percentage of revenue generated.

Sales costs increased from \$30.6 million for the year ended December 31, 2004 to \$34.4 million for the year ended December 31, 2005, due to an increase in sales commissions as a result of increase in revenue and increase in sales marketing costs and sales promotions for exhibitions.

#### *Event Production*

Event production costs consist of the costs incurred for hosting the exhibition or trade show and seminar events. The event production costs include venue rental charges, booth construction costs, travel costs incurred for the event hosting and other event organizing costs. The event production costs are deferred and recognized as an expense when the related event occurs.

Event production costs increased from \$3.8 million during the year ended December 31, 2004 to \$3.9 million during the year ended December 31, 2005, an increase of 3% due to increase in venue rental charges.

#### *Community*

Community costs consist of the costs incurred for servicing our buyer community and for marketing our products and services to the global buyer community. Community costs also include costs relating to our trade magazine publishing business and marketing inserts business, specifically printing, paper, bulk circulation, magazine subscription promotions, promotions for our on-line services, customer services costs, payroll costs relating to staff working on

these activities and the event specific promotions costs incurred for promoting the China Sourcing Fairs events and the technical conferences, exhibitions and seminars to the buyer community. The event specific promotion costs incurred for the events are expensed during the event months in the year in which the expenses are incurred.

Community costs increased from \$18.0 million during the year ended December 31, 2004 to \$20.7 million during the year ended December 31, 2005, an increase of 15% due mainly to increase in bulk mailing costs, printing charges, paper costs, fees paid to consultants and promotion costs for our exhibition events. In addition, we increased our participation in third party trade shows to promote our products and services to buyer community. We also incurred promotions for our online services and these are expensed as incurred. As a result of the increase in these activities, we recorded an increase in payroll costs.

### *General and Administrative*

General and administrative costs consist mainly of corporate staff compensation, information technology support services, content management services, marketing costs, office rental, depreciation, communication and travel costs.

General and administrative costs increased by 11% from \$31.4 million during the year ended December 31, 2004 to \$34.7 million during the year ended December 31, 2005, due mainly to increases in information technology support services costs, content management services costs, marketing costs, depreciation and building management fees on new office premises that we purchased, administration support costs for our exhibitions and trade shows activity, travel costs and payroll costs.

### *Online Services Development*

Online services development costs consist mainly of payroll, office rental and depreciation costs relating to the updating and maintenance of *Global Sources Online*.

Online services development costs to fund the updating and maintenance of our online services declined from \$4.6 million during the year ended December 31, 2004 to \$4.2 million during the year ended December 31, 2005, a decline of 9%. This decline resulted mainly from a decline in depreciation costs and equipment and software maintenance costs.

### *Non-Cash Compensation Expense*

We have issued share awards under several equity compensation plans (ECP) to both employees and team members. We also recognize non-cash compensation expenses relating to the shares purchased by our directors under Directors Purchase Plan.

The total non-cash compensation expense, resulting from the ECP and the Directors Purchase Plan, recorded by us and included under the respective categories of expenses declined by 10% from \$2.1 million during the year ended December 31, 2004 to \$1.9 million during the year ended December 31, 2005. The decline was a result of the re-measurement of equity compensation expense based on our prevailing share price and forfeiture of the unvested awards to the resigned staff.

The corresponding amounts for the non-cash compensation expenses are credited to shareholders' equity.

### *Amortization of Software Costs*

Amortization of software cost during the year ended December 31, 2005 was \$1.3 million compared to \$1.5 million during the year ended December 31, 2004.

### *Income From Operations*

The total income from operations during the year ended December 31, 2005 was \$12.9 million compared to \$16.1 million during the year ended December 31, 2004. The decline was mainly due to increases in sales costs, event production costs, community costs and general and administrative costs, off-set partially by growth in revenue and declines in online services development costs and amortization of software costs. Income from operations for online and other media services declined from \$17.7 million during the year ended December 31, 2004 to \$13.5 million during the year ended December 31, 2005, a decline of 24%. The decline resulted mainly from increases in sales costs, community costs and general and administrative costs, off-set partially by growth in online and other media services revenue and declines in online services development costs and amortization of software costs.





*Interest and Dividend Income and Gain (loss) on Sale of Available-for-sale Securities*

We recorded a gain of \$1.0 million arising from the sale of available-for-sale securities and interest and dividend income of \$1.3 million arising from available-for-sale securities during the year ended December 31, 2005 compared to \$1.1 million gain and interest and dividend income of \$0.09 million during the year ended December 31, 2004.

*Income Taxes*

We and certain of our subsidiaries operate in the Cayman Islands and other jurisdictions where there are no taxes imposed on companies. Certain of our subsidiaries operate in Hong Kong, Singapore and China and are subject to income taxes in their respective jurisdictions.

We reported a tax provision of \$0.8 million during the year ended December 31, 2005 and \$0.7 million during the year ended December 31, 2004.

*Net Income*

Net income was \$13.4 million during the year ended December 31, 2005, compared to a net income of \$15.8 million during the year ended December 31, 2004. The decline was mainly due to increases in sales costs, event production costs, community costs, general and administrative costs, foreign exchange losses, tax provision, share of profits attributable to a minority shareholder and decline in gain on sale of available-for-sale securities, off-set partially by increases in revenue, interest and dividend income and declines in online services development costs and amortization of software costs.

**Liquidity and Capital Resources**

We financed our activities for the year ended December 31, 2006 using cash generated from our operations.

Net cash generated from operating activities was \$35.7 million during the year ended December 31, 2006, compared to \$35.6 million cash generated from operating activities during the year ended December 31, 2005. The primary source of cash from operating activities was collections from our customers received through our independent sales representative organizations.

Advance payments received from customers were \$63.8 million as of December 31, 2006, compared to \$53.0 million as of December 31, 2005, improving our liquidity. A majority of our customers in China pay us in advance for our Online and other media services business. Our Exhibitions business collections generally are all advance payments. We expect the growth in our revenues from China to continue and we plan to launch more Exhibition events in the future. As a result, we expect that the advance payments received from customers to continue to increase in the future as our revenue increases.

Receivables from sales representatives increased from \$5.7 million as of December 31, 2005 to \$13.2 million as of December 31, 2006 due to the growth in our China business and our exhibitions business. Though receivables from sales representatives may decline in near future as the collections are transferred to our bank account, we expect the receivables from sales representatives to slightly increase in the long term due to expected growth in our China business and our Exhibitions business.

We continuously monitor collections from our customers and maintain an adequate allowance for doubtful accounts. While credit losses have historically been within our expectations and the allowances established, if the bad debts significantly exceed our provisions, additional allowances may be required in future.

Net cash used in investing activities was \$105.2 million during the year ended December 31, 2006, resulting from the net purchases of available-for-sale securities of \$103.2 million and \$4.9 million cash used for capital expenditures mainly for computers, software, office furniture, leasehold improvements and software development off-set partially by \$2.7 million net proceeds from sale of shares to minority shareholder, interest received thereon and repurchase of share dividends from minority shareholder and \$0.2 million proceeds from matured bonds. Net cash used in investing activities during the year ended December 31, 2005 was \$20.9 million, resulting from net purchase of available-for-sale securities of \$13.8 million and \$7.3 million cash used for capital expenditures mainly on office premises, for computers, softwares, leasehold improvements, office furniture and software development off-set partially by \$0.2 million proceeds from matured bonds.

Capital expenditures during the three months period ended March 31, 2007 amounted to \$0.6 million and were incurred mainly for computers, software, office furniture, leasehold improvements and software development. Our capital expenditures were financed using cash generated from our operations. The net book value of capital assets disposed during the year ended December 31, 2006 and the three months ended March 31, 2007 amounted to \$0.002 million and \$0.004 million, respectively.

We invest our excess cash in available-for-sale securities to generate income from interest received as well as capital gains, while the funds are held to support our business. The majority of the available-for-sale securities have maturities of less than six months.

Generally, we hold the securities with specified maturity dates such as Treasury Bills until their maturity but the securities managed by high quality institutions that do not have fixed maturity dates are generally sold at the end of each quarter and proceeds reinvested in similar securities at the beginning of the following quarter. As a result, during the year ended December 31, 2006 we bought available-for-sale securities of \$532.0 million and sold available-for-sale securities of \$428.8 million so as to realize the gain of \$0.3 million. The net purchase of available-for-sales securities of \$103.2 million was mainly from the cash on hand at the beginning of the year and the cash we generated from our operations during the year.

We do not engage in buying and selling of securities with the objective of generating profits on short-term differences in price.

Net cash generated from financing activities was \$0.4 million during the year ended December 31, 2006, which represents the amount received from directors for the shares subscribed by them in the Directors Purchase Plan. Net cash generated from financing activities was \$38.4 million during the year ended December 31, 2005, resulting from \$38.3 million proceeds from the issue of common shares, net of share issue expenses and \$0.1 million received from directors for the shares subscribed by them in the Directors Purchase Plan.

On March 23, 2005 we issued 3,000,000 common shares of par value \$0.01 at US\$13.50 per share. The total proceeds received from this issue was approximately \$38.3 million, net of the offering expenses of \$2.2 million. Out of the total proceeds, \$0.03 million was included in the common share capital and the balance approximately \$38.27 million was included in additional paid in capital.

We are using the net proceeds from the sale of the common shares of approximately \$38.3 million after deducting placement agency fees and expenses, for working capital, general corporate purposes and strategic acquisitions.

We hold a Documentary Credit facility with the Hongkong and Shanghai Banking Corporation Limited, for providing documentary credits to our suppliers. This facility has a maximum limit of approximately \$0.6 million. As of December 31, 2006, the unutilized amount under this facility was approximately \$0.5 million. Hongkong and Shanghai Banking Corporation Limited has also provided a guarantee on our behalf to our suppliers. As of December 31, 2006, such guarantee amounted to \$0.003 million.

We recorded a full valuation allowance for the deferred tax assets of \$6.0 million as at December 31, 2006 as it was more likely than not that they would not be realized. These deferred tax assets resulted primarily from the net operating losses in some of our subsidiaries.

During the first quarter of 2004, we entered into a number of license agreements for our exhibition events amounting to \$29.7 million in payments over five years. The agreements are cancelable under Force Majeure conditions, and with the consent of the other party but may be subject to a payment penalty. As of December 31, 2006, we paid \$13.9 million under these agreements. The amounts paid will be expensed when the related events are held.



We also entered into several agreements for the event specific promotion of our exhibition events amounting to \$4.0 million, in payments over five years. As of December 31, 2006, we paid \$2.7 million under these agreements.

In August 2005, one of our subsidiaries, eMedia Asia Limited (“eMedia”) entered into an agreement with Penton Media Inc, (“Penton”) to publish and distribute, in certain Asian territories, local language editions of Penton’s “Electronic Design” publication, relating to the electronic design industry. The first such edition to be launched is a simplified Chinese edition in mainland China entitled “Electronic Design-China”, the online website of which was launched in January 2006, and the first monthly issue of which was launched in March 2006. Under the agreement eMedia pays Penton forty per cent of the net after-tax profits of the business and also an annual content license fee for usage of Penton’s editorial material.

On March 6, 2006, we announced a one for ten bonus share issue on our outstanding common shares. Shareholders of record on March 15, 2006 received one additional common share for every ten common shares held, of face value of \$0.01 each. The bonus share issue was distributed on April 17, 2006. In addition, we have reclassified \$0.035 million and \$0.035 million from additional paid in capital to common share capital as of December 31, 2005 and 2006, respectively in connection with the bonus share issue.

HC International, Inc. (“HC International”) is a company listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. On May 24, 2006, Trade Media Holdings Limited (“TMH”), a wholly-owned subsidiary of the Company, IDG Technology Venture Investment, Inc. (“IDGVC”) and International Data Group, Inc. (“IDG”) entered into a conditional sale and purchase agreement (the “Sale and Purchase Agreement”) pursuant to which IDGVC conditionally agreed to transfer 47,858,000 shares of HC International (representing 9.81% of the issued share capital of HC International as of April 30, 2007), being part of its shareholding interests in HC International, to TMH at a consideration of approximately US\$9.9 million or approximately US\$0.2063 per share of HC International (the “HC Share(s)”), which is subject to adjustment to approximately US\$13.9 million or approximately US\$0.2896 per HC Share (the “HC Share Transfer”), if and when HC International achieves a certain benchmark with reference to the HC International group’s performance during the Option Period (as defined below) (“Performance Benchmark”) or upon completion of the sale and purchase of the Option HC Shares (as defined below). IDG, being the sole shareholder of IDGVC, agreed to guarantee the due and punctual discharge by IDGVC of its obligations under the Sale and Purchase Agreement.

On June 21, 2006, TMH completed the HC Share Transfer. We have announced, via a press release dated March 19, 2007, that the Performance Benchmark referred to above has not been met, and that accordingly TMH will not be required to make the price adjustment referred to above under the condition relating to the Performance Benchmark.

As of April 30, 2007, we own, together with 5,916,000 HC Shares owned by us prior to the Sale and Purchase Agreement (representing approximately 1.21% of the issued share capital of HC International) and 8,878,000 HC Shares purchased by TMH after the completion of the Sale and Purchase Agreement (representing approximately 1.82% of the issued share capital of HC International), a total of 62,652,000 HC Shares (representing an approximate 13% total equity interest in HC International).

On August 1, 2006, HC International appointed the Company’s Chief Operating Officer, John Craig Pepples, as a non-executive director on the board of directors of HC International. Subsequently, Beijing Huicong International Information Co., Ltd. (“Beijing Huicong”), an 82% indirect subsidiary of HC International, also appointed him as a non-executive director on the board of directors of Beijing Huicong.

TMH also entered into a call options deed (the “HC Options Deed”) with IDGVC, Guo Fansheng (“Guo”) and others which include certain members of the senior management of HC International (the “Option Grantors”), pursuant to which each of the aforesaid Option Grantors agreed to grant to TMH, (i) a right (the “HC Options”) exercisable during

the 12-month period from June 21, 2006, the date of the completion of the Sale and Purchase Agreement (the “Option Period”), to purchase all, but not in part only, of the 167,722,814 HC Shares owned by the respective parties (representing approximately 34.38% of the entire issued share capital of HC International as of April 30, 2007) and any HC Shares that may be issued by HC International to certain directors of HC International if the options granted in accordance with the share option schemes of HC International (amounting to an aggregate of 4,185,320 Option HC Shares) are exercised, which together represent a maximum of approximately 35.24% of the entire issued share capital of HC International as of April 30, 2007 (the “Option HC Share(s)”) at an exercise price of approximately US\$0.2896 per Option HC Share; and (ii) an undertaking to accept any offer for the Option HC Shares at a price not less than approximately US\$0.2896 per Option HC Share, during the Option Period.

Huicong Construction Co., Ltd. (“Huicong Construction”), in which Guo has an 80% equity interest, entered into a call option deed (the “Beijing Huicong Option Deed” and together with the HC Options Deed, the “Option Deeds”) with TMH, pursuant to which Huicong Construction agreed, subject to completion of the Sale and Purchase Agreement, to grant to TMH a right (the “Beijing Huicong Option” and together with the HC Options, the “Options”) exercisable during the Option Period, to purchase (or to nominate a subsidiary of TMH to purchase) from Huicong Construction its entire 18% equity interest (“Beijing Huicong Equity Interest”) in Beijing Huicong, at an aggregate exercise price of approximately US\$31.9 million.

The HC Options and the Beijing Huicong Option are inter-conditional. The sale and purchase of the Beijing Huicong Equity Interest is subject to confirmation from the Securities and Futures Commission of Hong Kong (“SFC”). If the SFC’s confirmation is not forthcoming, the sale and purchase of the Beijing Huicong Equity Interest will not be completed but TMH may proceed with the completion of the sale and purchase of the Option HC Shares.

Pursuant to the terms of the Beijing Huicong Option Deed and subject to the completion of the sale and purchase of the Beijing Huicong Equity Interest, Huicong Construction will also be required to transfer or assign its licenses and related contracts in relation to the provision of internet information and content services in China to a TMH-nominated company, but pending such transfer or assignment, Huicong Construction has agreed to continue to provide services in relation to the internet content provider license to Beijing Huicong in the same manner and on the same terms as currently agreed.

The exercise and completion of the HC Options by TMH, if materialized, will result in a change in control of HC International (as the aggregate percentage shareholding of TMH and the Company in HC International will increase to over 30%) and will trigger an obligation on the part of TMH to make a general offer in compliance with Rule 26 of the Hong Kong Code on Takeovers and Mergers to acquire all the issued HC Shares (other than those already owned by TMH or parties acting in concert with it).

We have recorded \$14.5 million (approximately 13% equity interest in HC International at fair value based on the closing share price of HCI, as of December 31, 2006, of \$0.23148 per share) as available-for-sale securities in our financial statements as of December 31, 2006. The unrealized market gain of \$2.3 million has been credited to accumulated other comprehensive income, shown under shareholders’ equity.

As a part of this transaction, we also acquired the following as mentioned in the above paragraphs:

- (i) The HC Options & the Beijing Huicong Option.
- (ii) The option to acquire the licences and related contracts in relation to the provision of internet information and content services held by Huicong Construction

In addition, as of December 31, 2006, we had a contingent payable, subject to HC International achieving a certain benchmark with reference to the HC International group’s performance during the option period as stated in the above paragraphs.

The options were recorded as a current asset in the Company’s balance sheet and the contingent payable was recorded as a liability as at acquisition date.

As the option was out of money and the likelihood of the payment of the contingent liability is remote due to the reported losses of the HCI subsequent to the date of transaction, we have recorded full impairment charge relating to the option assets and have written off the contingent payable in our financial statements as of December 31, 2006, the net of which was \$0.7 million.



On June 17, 2007, we announced via a press release that:

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- (i) TMH will not exercise its option to increase its equity stake in HC International, at an exercise price of \$0.2896 per share. This option expired after June 20, 2007.
- (ii) TMH will not exercise the Beijing Huicong Option under the Beijing Huicong Option Deed entered into with the Huicong Construction to purchase from Huicong Construction its 18% equity interest in Beijing Huicong, at an exercise price of approximately \$31.9 million.

As of the date of the above announcement, we still own approximately a 13% equity interest in HC International and our Chief Operating Officer, John Craig Pepples, remains a non-executive director on the board of directors of HC International and Beijing Huicong.

In 2000, our wholly-owned subsidiary, Trade Media Holdings Limited (“TMH”), entered into an agreement with United Business Media B.V. (which subsequently changed its name to United Professional Media B.V.) (“UPM”), to set-up a Barbados corporation (eMedia Asia Ltd.) to provide new technology content, media and e-commerce services to the electronics technology market in Asia.

TMH holds a 60.1% controlling equity interest in eMedia Asia Ltd., and we consolidate the results of eMedia Asia Ltd.’s operations.

The remaining 39.9% equity interest in eMedia Asia Ltd. was held by UPM, and as part of obtaining its 39.9% equity interest, UPM committed to pay \$6.0 million and interest thereon to TMH upon the payment of specified future dividends of eMedia Asia Ltd. (“Loan”). The Loan was secured by a charge in favor of TMH over 199 common shares of eMedia Asia Ltd. held by UPM (“Charge”).

Pursuant to an internal restructuring within UPM’s group, UPM’s 39.9% interest in eMedia Asia Ltd. and associated obligations (including those under the Loan and Charge) were novated and assigned first to UPM’s related company United Information Group B.V. (“UIG”) in September 2003, and then subsequently by UIG to another related company UBM Asia B.V. (“UBM Asia”) in October 2003.

Under the laws of Barbados, a company is not allowed to pay cash dividends as long as it has retained losses. No dividends have been declared by eMedia Asia Limited, and accordingly the Loan was not paid in prior years. Due to the contingent nature of the Loan payment, the Company did not record in its prior years’ balance sheet the Loan receivable of \$6.0 million due from UPM/UIG/UBM Asia and no interest income was accrued as of December 31, 2005.

eMedia Asia Ltd. had excess reserves of cash because it is not allowed to pay cash dividends. In October 2006, approval of the board of directors and the shareholders of eMedia Asia Ltd. were obtained for distribution of the excess cash in eMedia Asia Ltd. to shareholders of eMedia Asia Ltd., by way of a one-for-one issue of new shares (as share dividends) and then a purchase back by eMedia Asia Limited of those share dividends and a consequent reduction of its share capital.

Pursuant thereto, eMedia Asia Ltd. completed the issuance of 1,000 shares to its shareholders as share dividends, the subsequent purchase of those 1,000 shares (at a price of \$13,000 per share) and distribution of the total amount of \$13.0 million to its shareholders by way of a share purchase dividend, and the reduction of its share capital through the cancellation of those 1,000 purchased shares.

UBM Asia also fully re-paid the Loan principal of \$6.0 million and the \$1.9 million interest thereon to TMH. The Loan and Charge were consequently discharged. We recorded the \$1.9 million interest received and the \$6.0 million principal received as a gain on sale of shares to minority shareholder and interest income thereon during the quarter

ended December 31, 2006 as the contingency was resolved and the full payment has been received.

We have no bank debt as of December 31, 2006.

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The following table summarizes our contractual obligations as of December 31, 2006:

	Payments due by period (in U.S. Dollars Thousands)				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
<b>Contractual Obligations</b>					
Operating leases	\$ 967	\$ 500	\$ 467	-	-
Liabilities for incentive and bonus plans	307	205	102	-	-
Purchase obligations	4,443	3,998	445	-	-
<b>Total</b>	<b>\$ 5,717</b>	<b>\$ 4,703</b>	<b>\$ 1,014</b>	<b>-</b>	<b>-</b>

On March 5, 2007, we announced a one for ten bonus share issue on our outstanding common shares. Shareholders of record on March 16, 2007 will receive one additional common share for every ten common shares held, of face value of \$0.01 each. The bonus share issue was distributed on April 16, 2007. All common shares and per-share amounts in the consolidated financial statements have been retroactively adjusted to reflect the one for ten bonus share issue for all periods presented. In addition, we have reclassified \$0.038 million and \$0.038 million from additional paid in capital to common share capital as of December 31, 2005 and December 31, 2006 respectively, in connection with the bonus share issue.

In March 2007, one of our subsidiaries entered into a number of venue license agreements for its exhibition events amounting to \$44.4 million in payments over five and a half years. The agreements are cancelable under Force Majeure conditions, or upon notice and payment of cancellation charges to the other party.

During the first quarter of 2007, we entered into a letter of intent, followed by a purchase agreement, to purchase approximately 1,939.38 square meters of office space in a commercial building known as "Excellence Times Square" in Shenzhen, China, at a purchase price of approximately \$7.0 million, out of which a total down-payment of approximately \$0.09 million was made, with the total remaining balance of approximately \$6.91 million paid in April 2007. Delivery of the office space to us was completed in April 2007.

We anticipate that our cash and securities on hand and expected positive cash-flows from our operations will be adequate to satisfy our working capital, capital expenditure requirements and cash commitments based on the current levels of our operations.

### Recent Accounting Pronouncements

In March 2006, the Emerging Issues Task Force ("EITF") reached a consensus on Issue No. 06-3, How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation). EITF 06-3 provides guidance on presentation of any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer. As per EITF 06-3, the presentation of taxes on either a gross (included in revenues and costs) or a net (excluded from revenues) basis is an accounting policy decision that should be disclosed. In addition, for any such taxes that are reported on a gross basis, a company should disclose the amounts of taxes in interim and annual financial statements for each period for which income statement is presented if these amounts are significant. The EITF 06-3 guidance is applicable to financial reports for interim and annual reporting periods beginning after December 15, 2006. We adopted EITF 06-3 guidance with effect from January 1, 2007. We are presenting the taxes on gross basis, i.e. included in revenues and

costs.

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation ("FIN") No. 48, Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109. This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. This Interpretation prescribes a recognition threshold and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest and penalties, accounting in interim

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periods, disclosure and transition. This Interpretation is effective for fiscal years beginning after December 15, 2006. We adopted FIN No. 48 with effect from January 1, 2007 and the adoption this interpretation does not have any material impact on our consolidated financial statements. We will provide full disclosure pursuant to FIN No. 48 in our 2007 annual financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS No. 157"). This Standard defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. As required under SFAS No. 157, the statement shall be applied prospectively as of the beginning of the fiscal year in which this Statement is initially applied, except that the Statement shall be applied retrospectively to certain financial instruments as of the beginning of the fiscal year in which this Statement is initially applied (a limited form of retrospective application). We are currently evaluating whether the adoption of SFAS No. 157 has any impact on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment of FASB Statement No. 115." SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal year beginning after November 15, 2007. We are currently evaluating whether the adoption of SFAS No. 159 has any impact on its consolidated financial statements.

In September 2006, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements, ("SAB 108") which provides guidance on how uncorrected errors in previous years should be considered when quantifying errors in current-year financial statements. SAB 108 is effective for fiscal years ending after November 15, 2006. In the current year, we have corrected unadjusted differences (which are not material to each of the individual years in which they occurred) pertaining to the years 2000 to 2005 in the non-cash compensation expenses relating to share awards under its Employee Equity Compensation Plans. These differences arose from the incorrect application of attribution method and in the classification of share awards between employees and non-employees. Accordingly, we have recorded the prior years' cumulative non-cash compensation expenses of \$1.9 million against our opening retained earnings and the corresponding credit is taken to additional paid in capital in accordance with SAB 108. There is no income tax impact resulting from this adjustment.

### **Qualitative and Quantitative Disclosures about Market Risk**

We operate internationally and foreign exchange rate fluctuations may have a material impact on our results of operations. Historically, currency fluctuations have been minimal on a year to year basis in the currencies of the countries where we have operations. As a result, foreign exchange gains or losses in revenue and accounts receivable have been offset by corresponding foreign exchange losses or gains arising from expenses. However, during the Asian economic crisis of 1997 to 1998, both advertising sales and the value of Asian currencies declined, which caused a significant decline in revenue that was not fully offset by lower expense levels in Asian operations.

This decline in revenue occurred due to contracts being denominated and priced in foreign currencies prior to devaluations in Asian currencies. The conversion of these contract proceeds to U.S. dollars resulted in losses and reflects the foreign exchange risk assumed by us between contract signing and the conversion of cash into U.S. dollars. The following table summarizes our foreign currency Accounts Receivable and provides the information in U.S. Dollar equivalent:

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Currency	As of December 31, 2006 (in U.S. Dollars Thousands)				As of December 31, 2005 (in U.S. Dollars Thousands)			
	Expected maturity dates			Fair value	Expected maturity dates			Fair value
	2007	Thereafter	Total		2006	Thereafter	Total	
HKD	1,741	-	1,741	1,741	1,340	-	1,340	1,340
CNY	2,447	-	2,447	2,447	1,926	-	1,926	1,926
TWD	1,034	-	1,034	1,034	1,117	-	1,117	1,117
JPY	167	-	167	167	212	-	212	212
	5,389	-	5,389	5,389	4,595	-	4,595	4,595

We believe this risk is mitigated because historically a majority (ranging between 98% to 99%) of our revenue is denominated in U.S. dollars or is received in the Hong Kong currency which is currently pegged to the U.S. dollar, the Chinese currency, which historically remained relatively stable but slightly strengthened recently against the U.S. Dollar and the New Taiwan Dollar which is relatively stable against U.S.Dollar. Correspondingly, a majority (approximately 60% to 80%) of our expenses are denominated in Asian currencies. To the extent significant currency fluctuations occur in the New Taiwan dollar, the Chinese Renminbi or other Asian currencies, or if the Hong Kong dollar is no longer pegged to the U.S. dollar, our revenue and expenses fluctuate in tandem thus reducing the net impact on our profits.

During the year ended December 31, 2006 and the year ended December 31, 2005, we have not engaged in foreign currency hedging activities.

In the year ended December 31, 2006 and the year ended December 31, 2005, we derived more than 90% of our revenue from customers in the Asia-Pacific region. We expect that a majority of our future revenue will continue to be generated from customers in this region. Future political or economic instability in the Asia-Pacific region could negatively impact our business.

## ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

The following table sets forth information regarding the persons who are our executive officers and directors.

Name	Age	Position
Merle A. Hinrichs	65	Director, Chairman and Chief Executive Officer
Eddie Heng Teng Hua	56	Director and Chief Financial Officer
J. Craig Pepples	46	Chief Operating Officer
Bill Georgiou	62	Chief Information Officer
Sarah Benecke	50	Director
Roderick Chalmers	59	Director
David F. Jones	42	Director
Jeffrey J. Steiner	70	Director
James Watkins	61	Director

*Mr. Hinrichs* has been a director since April 2000 and is currently our Chairman and Chief Executive Officer. A co-founder of the business, he was the principal executive officer of our predecessor company, Trade Media Holdings Limited, a Cayman Islands corporation wholly owned by us ("Trade Media"), from 1971 through 1993 and resumed that position in September 1999. From 1994 to August 1999, Mr. Hinrichs was chairman of the ASM Group, which included Trade Media. Mr. Hinrichs is a director of Trade Media and has also been the Chairman of the Board of Trade Media. Mr. Hinrichs graduated from the University of Nebraska and Thunderbird, the American Graduate School of International Management ("Thunderbird"). Mr. Hinrichs is a co-founder and former chairman of the Society



of Hong Kong Publishers. He is a member of the board of trustees of Thunderbird and is a board member of the Economic Strategy Institute. His term as director expires in 2009.

*Mr. Heng* has been the Chief Financial Officer (previously entitled vice president of finance) since 1994 and has been a director since April 2000. He joined us in August 1993 as deputy to the vice president of finance. He received an MBA from Shiller International University in London in 1993, is a Singapore Certified Public Accountant, a member of the Institute of Certified Public Accountants, Singapore, and a Fellow Member of The Association of Chartered Certified Accountants in the United Kingdom. Prior to joining us, he was the regional financial controller of Hitachi Data Systems, a joint venture between Hitachi and General Motors. His term as director expires in 2007.

*Mr. Pepples* has been our Chief Operating Officer since June 1999 and is responsible for our worldwide operations, including interactive media, corporate marketing, community development, information services, human resources and finance. Mr. Pepples joined Trade Media in October 1986 in an editorial capacity, managed Trade Media's sales in China from 1989 to 1992, and served as country manager for China from 1992 to June 1999. Mr. Pepples graduated with a B.A. in Linguistics from Yale University.

*Mr. Georgiou* was appointed our Chief Information Officer in January 2001. Mr. Georgiou has had over 20 years' experience in information technology, most recently as a consultant with 3Com Technologies during 2000 and as IT Director with Park N' Shop (HK) Ltd., a subsidiary company of A.S. Watson, from 1999 to 2000. He received his B.Ec. (Honours degree) and M.B.A. from the University of Adelaide.

*Ms. Benecke* has been a director since April 2000, and, since 1993, has been a director of Trade Media. Ms. Benecke was our principal executive officer from January 1994 through August 1999. She joined us in May 1980 and served in numerous positions, including publisher from 1988 to December 1992 and chief operating officer in 1993. Since September 1999, Ms. Benecke has been a consultant to Publishers Representatives, Ltd. (Hong Kong), a subsidiary of our company. Ms. Benecke is also a director of Hintak Ltd. (Hong Kong). Since 2003, her consulting work has been focused on the launch, development and expansion of the "China Sourcing Fairs" in Shanghai, Hong Kong and Dubai. She graduated with a B.A. from the University of New South Wales, Australia. Her term as director expires in 2007.

*Mr. Chalmers* has been a director since October 2000. He has been the Chairman of the Board of Directors of the Bank of Valletta plc, Malta since 2004. He was chairman, Asia-Pacific, of PricewaterhouseCoopers LLP ("PwC") and a member of PwC's Global Management Board from 1998 until his retirement in July 2000. He is a 30-year veteran with PwC's merger partner Coopers & Lybrand with specialist experience in the securities industry. He has at various times been a non-executive director of the Hong Kong SAR Securities and Futures Commission, a member of the Takeovers and Mergers Panel, and chairman of the Working Group on Financial Disclosure. He is a director of Gasan Group Limited (Malta), Middlesea Valletta Life Assurance Co Limited (Malta) and of Middlesea Insurance plc (Malta). His term as director expires in 2009.

*Mr. Jones* has been a director since April 2000. Mr. Jones joined CHAMP Private Equity, a leading Australian buyout firm, in 2002 and is currently an executive director. He has spent the last thirteen years in the private equity industry, and was previously in management consulting, investment banking and general management. In 1999, he founded and until 2002 led the development of UBS Capital's Australian and New Zealand business. Prior to that, he spent four years with Macquarie Direct Investment, a venture capital firm in Sydney, Australia, and one year at BancBoston Capital in Boston, Massachusetts. Mr. Jones began his career as a consultant with McKinsey & Company in Australia and New Zealand. He left McKinsey to take the role of general manager of Butterfields Cheese Factors, of the King Island Dairies group. He is Chairman of the Australian Venture Capital Association Limited and a director of Australian Discount Retail and the Beacon Foundation. Previously he was a director of Austar United Communications Limited, a publicly-held company that trades on the Australian Stock Exchange, New Price Retail Pty Ltd, Penrice Soda Products Pty Ltd and Sheridan Australia Pty Limited. Mr. Jones holds a Bachelor of Engineering (First Class Hons.) from the University of Melbourne and a Master of Business Administration from Harvard Business School. His term as director expires in 2008.

*Mr. Steiner* has been a director since November 1999. Mr. Steiner also has been a director of The Fairchild Corporation ("Fairchild") since 1985. He has been the chairman of the board and chief executive officer of Fairchild since December 1985. Mr. Steiner was president of Fairchild from July 1991 to September 1998. His term as director expires in 2009.

In 2003, Mr. Jeffrey Steiner was convicted in France on a charge of unjustified use (in 1990) of the corporate funds of Elf Aquitaine, which is a criminal offense in France. Mr. Steiner was given a suspended sentence of one year and ordered to pay a fine of €500,000 by the French court. The French Court has since ordered that €259,000 of the €500,000 fine assessed against Mr Steiner be withdrawn from a part of the surety (caution) previously deposited by Fairchild in the Court.

In November 2004, Mr. Jeffrey Steiner was named in Noto v. Steiner, et al., and Barbonel v. Steiner, et al., in the Court of Chancery of the State of Delaware in and for New Castle County, Delaware. The plaintiffs in these actions

alleged, among other things, that Fairchild executive officers, including Mr. Steiner, received excessive pay and perquisites in violation of fiduciary duties to Fairchild. On November 23, 2005, the Court of Chancery approved a Derivative Settlement, which approval became final on December 23, 2005.

*Mr. Watkins* was appointed as a casual director on February 28, 2005, and was re-elected as a director at the Annual General Meeting on May 9, 2005. Mr. Watkins was a director and group general counsel of the Jardine Matheson Group in Hong Kong from 1997 until 2003. He was Group Legal Director of Schroeders plc in 1996 to 1997 and of Trafalgar House plc from 1994 to 1996. He was previously a partner and solicitor in the London and Hong Kong offices of Linklaters from 1975 to 1994. He currently is a non-executive Director of Mandarin Oriental International Ltd., Jardine Cycle & Carriage Ltd., MCL Land Ltd., Advanced Semiconductor Manufacturing Corporation Ltd. and Asia Satellite Telecommunications Holdings Ltd. and is a member of the Audit Committees of Jardine Cycle & Carriage Ltd., MCL Land Ltd. and Asia Satellite Telecommunications Holdings Ltd. and the Chairman of the Audit Committee of Advanced Semiconductor Manufacturing Corporation Ltd. and of the remuneration committee of Asia Satellite Telecommunications Holdings Ltd. Mr Watkins has a law degree from the University of Leeds (First Class Hons.). His term as director expires in 2008.

### **Compensation**

For the year ended December 31, 2006, we and our subsidiaries provided our nine directors and executive officers as a group aggregate remuneration, pension contributions, allowances and other benefits of approximately \$3,515,895 including the non-cash compensation of \$1,057,098 associated with the share award and ECP plans. Of that amount, \$105,000 was paid under a performance based, long-term discretionary bonus plan which we implemented in 1989 for members of our senior management. Under the plan, members of senior management may, at our discretion, receive a long-term discretionary bonus payment. The awards, which are payable in either five or ten years time, are paid to a member of senior management if his or her performance is satisfactory to us. There are three current members of senior management and two former members of senior management who may receive payments on maturity.

In 2006, we and our subsidiaries incurred \$26,438 in costs to provide pension, retirement or similar benefits to our respective officers and directors pursuant to our retirement plan and pension plan.

In addition to the above, during the year ended December 31, 2006, we recorded non-cash compensation expenses of \$65,384 associated with the Directors Purchase Plan.

### **Employment Agreements**

We have employment agreements with Merle A. Hinrichs under which he serves as our chairman and chief executive officer. The agreements contain covenants restricting Mr. Hinrichs' ability to compete with us during his term of employment and preventing him from disclosing any confidential information during the term of his employment agreement and for a period of three years after the termination of his employment agreement. In addition, we retain the rights to all trademarks and copyrights acquired and any inventions or discoveries made or discovered by Mr. Hinrichs in the course of his employment. Upon a change of control, if Mr. Hinrichs is placed in a position of lesser stature than that of a senior executive officer, a significant change in the nature or scope of his duties is effected, Mr. Hinrichs ceases to be a member of the board or there is a breach of those sections of his employment agreements relating to compensation, reimbursement, title and duties or termination, each of us and such subsidiary shall pay Mr. Hinrichs a lump sum cash payment equal to five times the sum of his base salary prior to the change of control and the bonus paid to him in the year preceding the change of control. The agreements may be terminated by either party by giving six months notice.

We have employment agreements with each of our executive officers. Each employment agreement contains a non-competition provision, preventing the employee from undertaking or becoming involved in any business activity or venture during the term of employment without notice to us and our approval. The employee must keep all of our proprietary and private information confidential during the term of employment and for a period of three years after the termination of the agreement. We can assign the employee to work for another company if the employee's duties remain similar. In addition, we retain the rights to all trademarks and copyrights acquired and any inventions or

discoveries made or discovered by the employee during the employee's term of employment. Each employment agreement contains a six months' notice provision for termination, and does not have a set term of employment. Bonus provisions are determined on an individual basis.

## Board Practices

Our board of directors consists of seven members divided into three classes, the terms of which expire at the general meeting of shareholders to be held in each year indicated above. Each director holds office until his or her term expires and his or her successor has been elected and qualified. At each general meeting of shareholders, directors nominated to a class with a term that expires in that year will be elected for a three-year term. Executive officers serve at the discretion of the board of directors. Officers are elected at the annual meeting of the directors held immediately after the annual general meeting of shareholders. Our executive officers have, on average, 19 years of service with us. Directors receive a cash fee of \$10,000 per year, plus an additional \$2,500 for each board meeting attended.

## Committees of the Board of Directors

We have established an audit committee and an executive committee of our board of directors. The audit committee recommends the appointment of auditors, oversees accounting and audit functions and other key financial matters of our company. The audit committee meets four times a year. David Jones, Roderick Chalmers and James Watkins are the members of the audit committee and the board of directors determined that Mr. Chalmers is an audit committee financial expert as defined under appropriate SEC guidelines. The executive committee acts for the entire board of directors between board meetings. Merle Hinrichs and Eddie Heng are the members of the executive committee.

We have a separately - designated standing compensation committee, consisting of the independent directors. The primary function of the compensation committee is to approve compensation packages for each of the Company's executive officers. The compensation committee held one meeting in the fiscal year ended December 31, 2006.

We have an executive sessions committee, consisting of the independent directors. The executive sessions committee held one meeting in the fiscal year ended December 31, 2006.

## Code of Ethics

We have adopted a Code of Ethics ("Code of Ethics") that applies to our chief executive officer, chief financial officer, chief accounting officer or controller and persons performing similar functions. Any amendments or waivers to our Code of Ethics that apply to the chief executive officer or senior financial officers will be promptly disclosed on our website as required by law or by the Securities and Exchange Commission or by the Nasdaq National Market.

## Employees

As of December 31, 2006, we had 721 employees worldwide, the majority of whom work in management, technical or administrative positions. We consider our employee relationships to be satisfactory. Our employees are not represented by labor unions and we are not aware of any attempts to organize our employees.

The following summarizes the approximate number of employees and independent contractors by function:

<b>Function</b>	<b>Employees</b>	<b>Independent Contractors</b>	<b>Total</b>
Content Development	226	240	466
Corporate Human Resources & Administration	43	38	81
Corporate Marketing	35	4	39
Community Development	114	19	133
Sales	36	1,406	1,442

Information System			
Department	128	20	148
Corporate Accounts	79	55	134
Office of the CEO, COO, CIO	10	0	10
Legal and Group Secretarial	6	2	8
Conference & Trade Show Services	44	58	102
<b>Total</b>	<b>721</b>	<b>1,842</b>	<b>2,563</b>

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## Share Ownership

Information on the ownership of our Common Shares is given under Item 7, Major Shareholders and Related Party Transactions.

## Equity Compensation Plans

We established The Global Sources Employee Equity Compensation Trust (the “Trust”) on December 30, 1999. The Trust is administered by Appleby Trust (Bermuda) Ltd (previously known as “Harrington Trust Limited”) (“Appleby Trust”), as trustee. The purpose of the Trust is to administer monies and other assets contributed to the trustee for the establishment of equity compensation and other benefit plans, including the Equity Compensation Plans Numbers I to VII described below. The number of shares that may be sold pursuant to these plans is limited to the number of our shares held by the Trust. Following our takeover of Trade Media on April 14, 2000, the Trade Media shares were exchanged for our common shares. These Trade Media shares currently represent our common shares. As of April 30, 2007, the Trust holds 2,141,865 of our common shares. Trust has informed us that it does not intend to acquire any additional shares. In exercising its powers, including the voting of securities held in the Trust, the trustee may be directed by a plan committee, selected by the board of directors of one of our wholly owned subsidiaries.

Pursuant to a Declaration of Trust dated November 28, 2006 by Appleby Trust, “The Global Sources Equity Compensation Trust 2007” (“2007 Trust”) was established. The 2007 Trust is administered by Appleby Trust as trustee. The purpose of the 2007 Trust is to administer shares contributed by us to the 2007 Trust from time to time in connection with providing equity compensation benefits under The Global Sources Equity Compensation (2007) Master Plan described below. As of April 30, 2007, no shares have been contributed by us to the 2007 Trust yet. In exercising its powers under the Trust, the Trustee may be directed by a plan committee to be constituted and appointed by us. The plan committee (“ECP 2007 Plan Committee”) was constituted and appointed by the Board of Directors on February 15, 2007.

### *Global Sources Equity Compensation Plans Numbers I, II and III*

In March 2000, we adopted the Global Sources Equity Compensation Plans (ECP) Numbers I, II and III. Employees, directors, consultants, advisors and independent contractors of ours, our subsidiaries or affiliates are eligible to receive option grants under ECP I. Employees, directors and consultants of ours, our subsidiaries or affiliates are eligible to receive grants under ECP II and III. Options granted under ECP I and II will be exercisable, and coupons granted under ECP III will be redeemable, for our shares held by the Trust.

ECPs I, II and III are administered by the trustee subject to the directions of the plan committee of one of our wholly-owned subsidiaries. The plan committee determines who will receive, and the terms of, the options under ECP I and II. The exercise price of these options may be below the fair market value of our shares. Under ECP I, payment for shares being purchased upon exercise of an option may be made in the manner determined by us at the time of grant. Under ECP II optionees may pay for common shares purchased upon exercise of options by check to the Trust. Under ECP II, the number of common shares that optionees may purchase is based on the number of years they have been employed by, or have been working with us, our subsidiaries or affiliates.

Under ECP III, outstanding coupons are redeemable for a defined amount of compensation payable in our common shares, which will be transferred from the Trust to the coupon holders. The number of shares will be determined by dividing the amount of compensation awarded by an amount determined by the plan committee. Under each of ECPs I and III, the maximum number of shares that may be issued to any individual in any calendar year may not exceed 25% of the total shares available under such plan.





On each of the first three annual anniversaries of the listing of our common shares on a securities exchange, the trustee will release one-third of the common shares purchased by an optionee, under ECP II, and one-third of the shares granted to each coupon holder, under ECP III, if such optionee or holder, as the case may be, is still employed with us on these dates. Under ECP II, the consideration paid for any common shares purchased by an optionee fired for cause or who becomes an employee of one of our competitors, but not yet released by the trustee, will be returned to the optionee by the Trust and the right to receive these shares will be forfeited and revert back to the trustee. Under ECP III, common shares allotted by, but not yet released by the trustee, to an employee who is subsequently fired for cause or who becomes an employee of one of our competitors, are forfeited and revert back to the trustee for future use. Options are not transferable under ECPs I and II and coupons are not transferable under ECP III.

Under ECPs I and II, all options held by an optionee terminate on the date of that optionee's termination for cause or resignation. Death, disability or retirement does not affect an optionee's right to exercise an option.

All outstanding options are adjusted to preserve the optionee's benefits under ECPs I and II and all outstanding common shares are adjusted to preserve the interests of the holders of these common shares under ECP III if there is a change in the number of our outstanding common shares or an exchange for securities of a successor entity as a result of our: (i) reorganization; (ii) recapitalization; (iii) stock dividend; or (iv) stock split.

If a person or group of persons acting together becomes the beneficial owner of at least 50% of our issued and outstanding common shares, by tender offer or otherwise, all unexercised options under ECPs I and II become immediately exercisable and all optionees will be entitled to sell to the trustee all unexercised options at a price equal to the greater of fair market value or the tender offer price.

If ECPs I, II and III terminate, all optionees will be entitled to sell to the trustee all unexercised options at a price equal to the difference between the fair market value of the common shares and the aggregate exercise price of the options under ECPs I and II and securities and any cash held by the trustee shall be distributed in equal shares to people who received coupons under ECP III, upon our: (i) dissolution or liquidation; (ii) reorganization, merger or consolidation; or (iii) sale of our business. If none of these events occurs, ECPs I, II and III terminate in February 2010.

The non-cash compensation expense associated with the awards under ECP II and ECP III of approximately \$2,904,000 and \$2,357,000, respectively, were recognized ratably over the three year vesting term of the respective awards.

#### *Global Sources Equity Compensation Plans Numbers IV and V*

Eligible employees, directors, consultants, advisors and independent contractors under ECP IV are awarded a defined amount of compensation payable in Global Sources Ltd. common shares the number of which are determined by the plan committee periodically.

Entitlement of the employees, directors, consultants, advisors and independent contractors to these common shares is subject to employment and vesting terms.

Eligible employees, directors, consultants, advisors and independent contractors under ECP V were awarded a one-time grant of shares the number of which were determined by the plan committee.

Entitlement of the employees, directors, consultants, advisors and independent contractors to these common shares is subject to employment and vesting terms.

The Equity Compensation Plan committee approved the awards of common shares under ECP IV and ECP V on January 23, 2001. The Equity Compensation Plan Committee approved additional awards of common shares under ECP IV on various dates during the year 2001 and under ECP V on various dates during the years 2001 and 2002 and on January 2, 2004, , on January 2, 2005, on December 31, 2005, on January 17, 2007 and on May 2, 2007.

The non-cash compensation expenses associated with the above awards under ECP IV and ECP V of approximately \$3,030,000 and \$2,748,000 respectively, are recognized over the five year vesting term of the respective awards.

*Global Sources Equity Compensation Plan VI*

Eligible employees, directors, consultants, advisors and independent contractors under ECP VI are awarded a one-time grant of our common shares the number of which are determined by the plan committee.

Entitlement of the employees, directors, consultants, advisors and independent contractors to these common shares is subject to non-compete and vesting terms.

The Equity Compensation Plan committee approved the ECP VI on March 13, 2001 and made awards of common shares under the plan on various dates during the years 2001 and 2002, on July 28, 2004 and on April 1, 2005.

The non-cash compensation expenses associated with the awards in accordance with ECP VI totaling approximately \$1,399,000 are recognized over the five year vesting term of the respective awards.

*Global Sources Equity Compensation Plan VII*

Eligible employees, directors, consultants, advisors and independent contractors under ECP VII are awarded a grant of a defined number of our common shares, the number of which are determined by the plan committee periodically.

Entitlement of the employees, directors, consultants, advisors and independent contractors to these common shares is subject to employment and vesting terms.

The Equity Compensation Plan committee approved the awards of common shares under ECP VII in January 2002 and made further awards on March 31, 2003, on June 19, 2003, on January 2, 2004 (as revised on May 7, 2004), on January 3, 2005, on February 13, 2006 and on May 19, 2006. The non-cash compensation expenses associated with the above awards under ECP VII of approximately \$13,026,000 are recognized over the six year vesting term of the respective awards.

*The Global Sources Equity Compensation (2007) Master Plan*

A new equity compensation plan, known as “The Global Sources Equity Compensation (2007) Master Plan” (“ECP 2007 Master Plan”) was approved by our shareholders on May 8, 2006. The ECP 2007 Master Plan commenced with effect on January 1, 2007 and, unless terminated earlier by our Board of Directors, will expire on December 31, 2012. Our, our subsidiaries’, and our and our subsidiary’s independent contractor’s employees, directors and consultants (“Team Members”), are eligible to be awarded grants of our common shares under the ECP 2007 Master Plan. The grantees and the number of shares to be awarded, and the vesting rules and other terms and conditions, are to be as determined by the ECP 2007 Plan Committee, who are authorized under the ECP 2007 Master Plan to issue supplementary or subsidiary documents to set out and evidence such vesting rules and other terms and conditions. The total number of shares to be issued under the ECP 2007 Master Plan is subject to a limit of 3,000,000 common shares.

On November 7, 2006, we filed a Form S-8 Registration Statement under the Securities Act of 1933, with the U.S. Securities and Exchange Commission, for up to 3,000,000 common shares to be issued under the ECP 2007 Master Plan.

On March 6, 2007, the Plan Committee approved and issued “The Global Sources Share Grant Award Plan” as a supplementary or subsidiary document to the ECP 2007 Master Plan. Under the plan, the ECP 2007 Plan Committee is to determine who amongst eligible Team Members will be granted awards of shares and the number of shares to be awarded to them, and to determine the vesting schedule for such awards. The plan commenced with effect on March 6, 2007, and will terminate upon the expiration or termination of the ECP 2007 Master Plan, or upon the liquidation of the Company, or upon termination by the ECP 2007 Plan Committee, whichever is the earliest to occur. The ECP

2007 Plan Committee approved awards of common shares under the plan on March 29, 2007 and April 16, 2007. The non-cash compensation expenses associated with the award of approximately \$3,837,000 are recognized over the six year vesting term of the award.

On March 6, 2007, the Plan Committee approved and issued “The Global Sources Retention Share Grant Plan” as a supplementary or subsidiary document to the ECP 2007 Master Plan. Persons eligible to receive grants under the plan are persons who have been Team Members for at least five years, who retire “in good standing” (as determined by the ECP 2007 Plan Committee), and who would otherwise have their unvested shares (under any applicable equity compensation plans) forfeited upon retirement. The ECP 2007 Plan Committee is to determine who amongst eligible persons will be granted awards of common shares. The number of common shares to be awarded to such grantees are calculated according to a formula defined in the plan, and will vest in equal installments over a period of five years after retirement, subject to certain non-compete terms and the grantees remaining “in good standing”. The plan commenced with effect on March 6, 2007, and will terminate upon the expiration or termination of the ECP 2007 Master Plan, or upon the liquidation of the Company, or upon termination by the ECP 2007 Plan Committee, whichever is the earliest to occur. As of April 30, 2007, no awards have been made under the plan.

### **Directors Purchase Plan**

A 2000 Non-Employee Directors Share Option Plan was approved on October 26, 2000 by the shareholders of the Company. Each eligible Director was entitled to an option to purchase up to 20,000 common shares at a price established at year-end.

Each option was exercisable before the end of each February following the year-end at which the option price was established. The non-employee Directors have the right to decline all or part of the award, which is non-transferable.

For grants attributable to the year 2001, the option price was 15% less than the average closing price of the shares for the last 5 trading days of the previous calendar year. The award vested over 4 years, with one-quarter of the shares vesting each year. Full payment was required upon exercising the option. Upon resignation of an eligible Director, all unvested shares would be forfeited and the option price received for the forfeited unvested shares would be refunded. Only one Director accepted the offer on February 10, 2001 for the 26,620 shares granted under the option. \$164,200 out of the proceeds received for this plan was included in additional paid-in capital. On February 28, 2002, 2003, 2004 and 2005, the Company issued to the Director the 7,321, 7,321, 7,321 and 6,655 common shares, respectively, that vested on those dates.

At the Board of Directors’ meeting on November 1 to 2, 2001, the Board of Directors approved amendments to the terms of the plan for prospective grants, to require only 15% of the exercise price to be paid upon the exercise date, and to provide that the resignation of a Director would no longer result in a forfeiture of the subscribed shares. The plan entitled the Directors to a grant of options at a price established at the prior year-end. The ownership of the awards would transfer after 4 years. Optionees must pay 15% of the option price, which was the average closing price of the shares for the last 5 trading days of the year 2001, at the time of exercising the option. The balance of 85% must be paid on or before the end of the holding period. The resignation of a Director following his or her exercise of the grant of options and payment of the option price would not cause a forfeiture of the subscribed shares. All the eligible non-employee Directors accepted the offer before February 28, 2002 and \$49,896 was received towards the 15% of the option price.

During the year 2006, the Company received before the end of the holding period, the balance 85% amounting to \$282,774 from the Directors and the shares were issued to the Directors on February 28, 2006. Out of the total proceeds, \$800 being the par value of the shares issued, was included in share capital and the balance of \$331,870 was included in additional paid in capital.

At the Board of Directors’ meeting on February 27, 2002, the Board of Directors approved amendments to the terms of the plan for prospective grants, to require only 10% of the exercise price to be paid upon the exercise date. The plan entitled the Directors to a grant of options at a price established at the prior year-end. The ownership of the awards would transfer after 4 years. Optionees must pay 10% of the option price, which was the average closing price of the

shares for the last 5 trading days of the year 2002, at the time of exercising the option. The balance of 90% must be paid on or before the end of the holding period. The resignation of a Director following his or her exercise of the grant of options and payment of the option price would not cause a forfeiture of the subscribed shares. Three eligible directors accepted the offer before February 28, 2003. The \$29,700 received towards the 10% of the option price was included in the additional paid-in capital in 2003.

On May 8, 2003, the shareholders of the Company approved amendments to the 2000 Non-Employee Directors Share Option Plan, to allow both employee and non-employee Directors to participate prospectively in the plan. The plan was renamed as the Directors Purchase Plan by the Board of Directors at their meeting on August 14, 2003.

Directors purchasing the shares under the plan must pay 10% of the purchase price, which is the average closing price of the shares for the last 5 trading days of the year 2003, on or before February 28, 2004. The balance of 90% must be paid by February 28, 2008 and the shares would be issued thereafter. The resignation of a Director following his or her purchase of the shares and payment of the 10% initial installment would not cause a forfeiture of the subscribed shares. Six Directors opted to purchase 29,282 shares each and one director opted to purchase part of the 29,282 shares. The amount of \$92,069 received towards the 10% of the purchase price was included in the additional paid-in capital in 2004.

As per the terms of the Directors Purchase Plan, Directors purchasing the shares under the plan in the year 2005 must pay 10% of the purchase price, which was the average closing price of the shares for the last 5 trading days of the year 2004, on or before February 28, 2005. The balance of 90% must be paid by February 28, 2009 and the shares would be issued thereafter. The resignation of a Director following his or her purchase of the shares and payment of the 10% initial installment would not cause a forfeiture of the subscribed shares. Five directors opted to purchase 26,620 shares each. The amount of \$118,156 received towards the 10% of the purchase price was included in the additional paid-in capital in 2005. At the Board of Directors' meeting on 4 and 5 November 2005, the Board of Directors adopted a definitive form of the Directors Purchase Plan, known as the "Directors Purchase Plan (as of 5 November 2005)", which consolidated and clarified matters in earlier forms of the Directors Purchase Plan and previous shareholders' and Board of Directors' approvals and resolutions pertaining thereto.

As per the terms of the Directors Purchase Plan (as of 5 November 2005), Directors purchasing the shares under the plan in the year 2006, must pay 10% of the purchase price which was the average closing price of the shares for the last 5 trading days of the year 2005, on or before February 28, 2006. The balance of 90% must be paid by February 28, 2010 and the shares will be issued thereafter. Failing to pay the 90% balance of the purchase price before the end of the holding period will result in the 10% deposit being forfeited and any and all rights under the purchase right and to the issuance of shares will automatically lapse and expire, and the shares will not be issued. The resignation of a Director following his or her purchase of the shares and payment of the 10% initial installment will not cause a forfeiture of the unissued shares, provided that the balance of the purchase price is paid in full on or before the due date thereof. Four directors opted to purchase 24,200 shares each. The amount of \$76,768 received towards the 10% of the purchase price will be included in the additional paid-in capital.

On November 7, 2006, we filed a Form S-8 Registration Statement under the Securities Act of 1933, with the U.S. Securities and Exchange Commission, for up to 530,000 common shares to be issued under the Directors Purchase Plan (as of November 5, 2005).

As per the terms of the Directors Purchase Plan (as of November 5, 2005), Directors purchasing the shares under the plan in the year 2007 must pay 10% of the purchase price which was the average closing price of the shares for the last 5 trading days of the year 2006, on or before February 28, 2007. The balance of 90% must be paid by February 28, 2011 and the shares will be issued thereafter. Failing to pay the 90% balance of the purchase price before the end of the holding period will result in the 10% deposit being forfeited and any and all rights under the purchase right and to the issuance of shares will automatically lapse and expire, and the shares will not be issued. The resignation of a Director following his or her purchase of the shares and payment of the 10% initial installment will not cause a forfeiture of the unissued shares, provided that the balance of the purchase price is paid in full on or before the due date thereof. Four directors opted to purchase 22,000 shares each and one director opted to purchase part of the 22,000 shares. The amount of \$154,782 received towards the 10% of the purchase price will be included in the additional paid-in capital in 2007.





**ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS****Major Shareholders**

The following table sets forth information about those persons who hold more than 5% of our common shares and the share ownership of our directors and officers as a group. The information is based upon our knowledge of the share ownership of such persons on April 30, 2007.

Prior to November 27, 2003, the Quan Gung 1986 Trust (through Hung Lay Si Co. Ltd., its wholly owned subsidiary) beneficially owned approximately 61% of our common shares. Hung Lay Si Co. Ltd. is a company organized under the laws of the Cayman Islands. The Quan Gung 1986 Trust was formed under the laws of the Island of Jersey. Counsel to the trustee has informed us that, by virtue of the terms of the Trust and the laws of the Island of Jersey, the trustee cannot make disclosure of the names of the beneficiaries and settlor of the Trust in breach of the obligations placed on it and in accordance with its duties of confidentiality.

On November 27, 2003, Merle A. Hinrichs acquired 20,010,051 of our common shares, after adjustment to reflect the share split resulting from our four bonus share distributions of one share for every ten shares held as of March 1, 2004, as of March 4, 2005, as of March 15, 2006 and as of March 16, 2007, representing 47.3% of the outstanding common shares, from Hung Lay Si Co. Ltd. As a result, Mr. Hinrichs owns approximately 61.3% of our outstanding common shares as of April 30, 2007. As consideration for the purchase of the common shares, Mr. Hinrichs agreed to pay Hung Lay Si Co. Ltd. the purchase price of \$109,337,056 payable on November 27, 2013. Mr. Hinrichs has granted to Hung Lay Si Co. Ltd. a security interest in all 18,190,955 common shares he purchased pending payment of the consideration. A copy of the purchase agreement and security agreement was filed by Mr. Hinrichs with the SEC on Schedule 13D on December 8, 2003, and jointly by the Trust and Hung Lay Si Co. Ltd. on Schedule 13D/A on the same day, and reference is made to those filings for the complete terms of the transaction. The agreements provide that in the event of cash dividends declared and paid by us, Mr. Hinrichs will pay to Hung Lay Si Co. Ltd. 50% of the dividends for any of the common shares purchased by Mr. Hinrichs that remain subject to Hung Lay Si Co. Ltd.'s security interest in the shares. If Mr. Hinrichs wishes to transfer or sell any shares subject to those agreements to someone other than Hung Lay Si Co. Ltd., Hung Lay Si Co. Ltd. has a right of first refusal to offer to purchase those shares. If Hung Lay Si Co. Ltd. waives its right to purchase the shares, upon consummation of a sale to the other person, at least 80% of the proceeds of the sale will be applied to the payment of the purchase price. Hung Lay Si Co. Ltd. may also be deemed, under Securities and Exchange Commission rules, to be a beneficial owner of the shares in which it has a right of first refusal and a security interest.

<b>Name of Beneficial Owner</b>	<b>Common Shares Beneficially Owned</b>	
	<b>Shares</b>	<b>Percentage</b>
Merle A. Hinrichs	25,955,612	61.3%
Hung Lay Si Co. Ltd	3,467,367	8.2%
Appleby Trust (Bermuda) Ltd. (previously know as "Harrington Trust Limited")	2,143,379	5.1%
Jeffrey J. Steiner (1)	492,163	1.2%
Eddie Heng Teng Hua	*	*
J. Craig Pepples	*	*
Bill Georgiou	*	*
Sarah Benecke	*	*
David F. Jones	*	*
Roderick Chalmers	*	*
James Watkins	*	*
All officers and directors as a group (9 persons)	26,764,039	63.2%

\* Indicates beneficial ownership of less than 1%.

(1) Mr. Jeffrey J. Steiner may be deemed to beneficially own the same common shares owned directly or beneficially by The Steiner Group LLC. Mr. Steiner disclaims beneficial ownership of shares

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owned by The Steiner Group LLC, the Jeffrey Steiner Family Trust and shares owned by him as custodian for his children. The Steiner Group LLC is a Delaware limited liability company.

At April 30, 2007, we believe that 10,222,412 of our shares or 24.15%, were beneficially owned by U.S. holders and there were 742 shareholders of record in the U.S. (excluding any U.S. holders who may be holding our shares through brokerage firms).

Mr. Merle A. Hinrichs, our Chairman and Chief Executive Officer, beneficially owns approximately 61.3% of our common shares and is deemed our controlling shareholder

Our major shareholders do not have different voting rights. We do not know of any arrangement which may at a subsequent date result in a change in control of our company.

### **Related Party Transactions**

We have extended loans to some of our employees for the sole purpose of financing the purchase or lease of a residence. The loans for the purchase of a residence are secured by that residence, bear interest at a rate of LIBOR plus 2 to 3%, generally have a term of ten years and become due and payable immediately upon the termination of the employee's employment. The loans for the lease of a residence are unsecured, interest free and are repayable in equal monthly installments over the period of the lease, which is typically less than or equal to 12 months. The maximum loan amounts are limited to the lower of the aggregate of two years' gross compensation of the borrower or \$500,000. The loans were made upon terms and subject to conditions that are more favorable to the borrowers than those that would customarily be applied by commercial lending institutions in the borrower's country of employment. Since the beginning of 2000, the largest aggregate amount of indebtedness of Mr. Pepples to us, outstanding at any time during such period, was approximately \$32,233. Mr. Pepples has repaid his loan in full in November 2002. Mr. Pepples' loan was interest free and unsecured. Except for the aforementioned loan, there were no other loans due from our directors and executive officers as at December 31, 2004, 2005 and 2006. We do not expect to extend loans to our directors or executive officers to the extent such loans would be prohibited by the Sarbanes-Oxley Act of 2002.

We lease approximately 82,122 square feet of our office facilities from companies controlled by a wholly-owned subsidiary of Hung Lay Si Co. Ltd. under cancelable and non-cancelable operating leases and incur building maintenance services fees to our former affiliated companies. We incurred rental, building services expenses and reimbursement of membership fees for use of club memberships of \$888,574 during the year ended December 31, 2006. We also receive investment consultancy services from wholly-owned subsidiaries of Hung Lay Si Co. Ltd. The expenses incurred for these services during the year ended December 31, 2006 was \$50,000.

We believe these transactions are commercially reasonable in the jurisdictions where we operate and for our employees where they reside or work.

## **ITEM 8. FINANCIAL INFORMATION**

### **GLOBAL SOURCES LTD. AND SUBSIDIARIES**

#### **Index to Consolidated Financial Statements**

**December 31, 2006**

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS

To the Board of Directors and Shareholders of

Global Sources Ltd.

We have audited the accompanying consolidated balance sheets of Global Sources Ltd. (a company incorporated under the laws of Bermuda) and its subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Global Sources Ltd. and its subsidiaries as of December 31, 2006 and 2005, and the consolidated results of their operations and cash flows for each of the three years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in Notes 2(v) and 2(x) to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 123(R) (revised 2004), Share-Based Payment, effective January 1, 2006, which requires the Company to recognize expense related to the fair value of share-based compensation awards. Also, as described in Note 2(z) to the consolidated financial statements, the Company adopted Securities and Exchange Commission Staff Accounting Bulletin ("SAB") No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in the Current Year Financial Statements, effective September 30, 2006. In accordance with the transition provisions of SAB No. 108, the Company recorded a cumulative decrease to retained earnings as of January 1, 2006 for correction of prior period errors in recording equity-based compensation charges.

/s/ ERNST & YOUNG

Singapore

April 17, 2007



**GLOBAL SOURCES LTD. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

(In U.S. Dollars Thousands, Except Number of Shares and Per Share Data)

	At December 31 2005	At December 31 2006
<b><u>ASSETS</u></b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 94,321	\$ 25,192
Available-for-sale securities	23,982	130,603
Accounts receivable, net	5,545	6,468
Receivables from sales representatives	5,659	13,238
Inventory of paper	866	889
Prepaid expenses and other current assets	10,585	14,174
<b>Total Current Assets</b>	<b>140,958</b>	<b>190,564</b>
Property and equipment, net	28,178	28,374
Long term investments	100	100
Bonds held to maturity, at amortized cost	463	289
Other assets	1,981	1,562
<b>Total Assets</b>	<b>\$ 171,680</b>	<b>\$ 220,889</b>
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 5,484	\$ 6,804
Deferred income and customers' prepayments	52,624	62,036
Accrued liabilities	6,644	12,427
Income taxes payable	405	751
<b>Total Current Liabilities</b>	<b>65,157</b>	<b>82,018</b>
Liabilities for incentive and bonus plans	307	102
Deferred income and customers' prepayments – long term	348	1,802
Deferred tax liability..	436	403
<b>Total Liabilities</b>	<b>66,248</b>	<b>84,325</b>
Minority interest	6,191	2,913
<b>Shareholders' Equity:</b>		
Common shares, US\$0.01 par value; 75,000,000 shares authorized; 42,271,144 (2005: 42,174,344) shares issued and outstanding	422	423
Additional paid in capital	127,708	125,832
Retained (deficit) earnings	(21,199)	4,830
Less: Unearned compensation	(7,900)	-
Accumulated other comprehensive income	210	2,566
<b>Total Shareholders' Equity</b>	<b>99,241</b>	<b>133,651</b>



**Total Liabilities and Shareholders'  
Equity**

**\$ 171,680 \$ 220,889**

The accompanying notes are an integral part of these financial statements.

**GLOBAL SOURCES LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**

(In U.S. Dollars Thousands, Except Number of Shares and Per Share Data)

	Year Ended December 31,		
	2004	2005	2006
<b>Revenue:</b>			
Online and other media services	\$ 92,325	\$ 97,062	\$ 113,097
Exhibitions	13,010	14,300	42,122
Miscellaneous	511	832	1,262
	<b>105,846</b>	<b>112,194</b>	<b>156,481</b>
<b>Operating Expenses:</b>			
Sales	30,582	34,415	50,380
Event production	3,774	3,920	18,414
Community	17,983	20,726	24,885
General and administrative	31,395	34,666	38,945
Online services development	4,564	4,235	4,499
Amortization of software costs	1,480	1,335	1,250
<b>Total Operating Expenses</b>	<b>89,778</b>	<b>99,297</b>	<b>138,373</b>
<b>Income from Operations</b>	<b>16,068</b>	<b>12,897</b>	<b>18,108</b>
Interest and dividend income	219	1,624	5,571
Gain on sale of available-for-sale securities	1,120	977	309
Gain on sale of shares to minority shareholder and interest income thereon	-	-	7,906
Loss on investment, net	-	-	(743)
Foreign exchange gains (losses), net	240	(80)	(714)
<b>Income before Income Taxes</b>	<b>17,647</b>	<b>15,418</b>	<b>30,437</b>
<b>Income Tax Expense</b>	<b>(651)</b>	<b>(759)</b>	<b>(899)</b>
<b>Net Income before Minority Interest</b>	<b>\$ 16,996</b>	<b>\$ 14,659</b>	<b>\$ 29,538</b>
Minority interest	(1,227)	(1,281)	(1,909)
<b>Net Income before cumulative effect of change in accounting principle</b>	<b>\$ 15,769</b>	<b>\$ 13,378</b>	<b>\$ 27,629</b>
Cumulative effect of change in accounting principle	-	-	251
<b>Net Income</b>	<b>\$ 15,769</b>	<b>\$ 13,378</b>	<b>\$ 27,880</b>
<b>Basic net income per common share before cumulative effect of change in accounting principle</b>	<b>\$ 0.41</b>	<b>\$ 0.32</b>	<b>\$ 0.65</b>
<b>Cumulative effect of change in accounting principle</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 0.01</b>
<b>Basic net income per common share</b>	<b>\$ 0.41</b>	<b>\$ 0.32</b>	<b>\$ 0.66</b>
<b>Diluted net income per common share before cumulative effect of change in accounting principle</b>	<b>\$ 0.41</b>	<b>\$ 0.32</b>	<b>\$ 0.65</b>
<b>Cumulative effect of change in accounting principle</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 0.01</b>
<b>Diluted net income per common share</b>	<b>\$ 0.41</b>	<b>\$ 0.32</b>	<b>\$ 0.66</b>

<b>Common shares used in basic net income per common share calculations (Note 2(u))</b>	<b>37,069,610</b>	<b>39,735,854</b>	<b>40,628,354</b>
<b>Common shares used in diluted net income per common share calculations (Note 2(u))</b>	<b>37,137,970</b>	<b>39,802,129</b>	<b>40,698,957</b>
<b>Basic net income per non-vested restricted share before cumulative effect of change in accounting principle</b>	<b>\$ 0.41</b>	<b>\$ 0.32</b>	<b>\$ 0.65</b>
<b>Cumulative effect of change in accounting principle</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 0.01</b>
<b>Basic net income per non-vested restricted share</b>	<b>\$ 0.41</b>	<b>\$ 0.32</b>	<b>\$ 0.66</b>
<b>Diluted net income per non-vested restricted share before cumulative effect of change in accounting principle</b>	<b>\$ 0.41</b>	<b>\$ 0.32</b>	<b>\$ 0.65</b>

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**GLOBAL SOURCES LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**

(In U.S. Dollars Thousands, Except Number of Shares and Per Share Data)

<b>Cumulative effect of change in accounting principle</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 0.01</b>
<b>Diluted net income per non-vested restricted share</b>	<b>\$ 0.41</b>	<b>\$ 0.32</b>	<b>\$ 0.66</b>
<b>Non-vested restricted shares used in basic net income per non-vested restricted share calculations (Note 2(u))</b>	<b>1,466,898</b>	<b>1,621,926</b>	<b>1,627,408</b>
<b>Non-vested restricted shares used in diluted net income per non-vested restricted share calculations (Note 2(u))</b>	<b>1,466,898</b>	<b>1,621,926</b>	<b>1,627,408</b>

Note: a. Non-cash compensation expenses associated with the employee equity compensation plans and Directors Purchase Plan included under various categories of expenses are approximately as follows: sales expenses: \$1,790 (2005: \$505, 2004: \$626), community: \$145 (2005: \$103, 2004: \$93), general and administrative: \$1,950 (2005: \$1,025, 2004: \$1,066), and online services development expenses: \$181 (2005: \$315, 2004: \$332).

The accompanying notes are an integral part of these financial statements.

**GLOBAL SOURCES LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In U.S. Dollars Thousands)

	Year Ended December 31,		
	2004	2005	2006
<b>Cash flows from operating activities:</b>			
Net income	\$ 15,769	\$ 13,378	\$ 27,880
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	4,052	3,975	4,678
Profit on sale of equipment	(1)	(12)	(30)
Accretion of U.S. Treasury strips zero % coupon	(57)	(37)	(26)
Unrealized dividend income on available-for-sale securities	(7)	(134)	-
Unrealized interest income on available-for-sale securities	-	-	(1,036)
Bad debts (written back) expense	(716)	18	216
Non-cash compensation expense	2,117	1,948	4,066
Gain on sale of shares to minority shareholder and interest income thereon	-	-	(7,906)
Cumulative effect of change in accounting principle	-	-	(251)
Income attributable to minority shareholder	1,227	1,281	1,909
Equipment written off	26	86	2
	22,410	20,503	29,502
<b>Changes in assets and liabilities:</b>			
Accounts receivables	76	(416)	(1,139)
Receivables from sales representatives	476	(2,252)	(7,579)
Inventory of paper	(47)	(116)	(23)
Prepaid expenses and other current assets	(1,036)	(7,525)	(3,589)
Long term assets	(2,024)	1,279	419
Accounts payable	366	686	1,320
Accrued liabilities and liabilities for incentive and bonus plans	(97)	563	5,578
Deferred income and customer prepayments	2,741	22,777	10,866
Tax liability	(391)	130	313
<b>Net cash provided by operating activities</b>	<b>22,474</b>	<b>35,629</b>	<b>35,668</b>
<b>Cash flows from investing activities:</b>			
Purchase of property and equipment	(21,111)	(7,338)	(4,876)
	2	13	30

Proceeds from sales of equipment			
Proceeds from matured bonds	383	240	200
Purchase of available-for-sale securities	(131,444)	(363,544)	(531,979)
Proceeds from sale of available-for-sale securities	155,976	349,705	428,750
Net proceeds from sale of shares to minority shareholder, interest received thereon and repurchase of share dividends from minority shareholder	-	-	2,719
<b>Net cash generated from (used in) investing activities</b>	<b>3,806</b>	<b>(20,924)</b>	<b>(105,156)</b>
<b>Cash flows from financing activities:</b>			
Repayment of amount due to a shareholder	(11,404)	-	-
Proceeds from issue of common shares, net of share issue expenses	-	38,303	-
Amount received towards directors purchase plan	92	118	359
<b>Net cash (used in) generated from financing activities</b>	<b>(11,312)</b>	<b>38,421</b>	<b>359</b>
Net increase (decrease) in cash and cash equivalents	14,968	53,126	(69,129)
Cash and cash equivalents, beginning of the year	26,227	41,195	94,321
<b>Cash and cash equivalents, end of the year</b>	<b>\$ 41,195</b>	<b>\$ 94,321</b>	<b>\$ 25,192</b>
<b>Supplemental cash flow disclosures:</b>			
Income tax paid	\$ 1,042	\$ 629	\$ 586

The accompanying notes are an integral part of these financial statements.

**GLOBAL SOURCES LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

(In U.S. Dollars Thousands, Except Number of Shares)  
Common shares

	Number of shares	Amounts	Additional paid in capital	Retained (deficit) earnings	Unearned compensation	Accumulated other comprehensive income	Total shareholders' equity
<b>Balance at December 31, 2003</b>	<b>38,530,368</b>	<b>\$ 385</b>	<b>\$ 81,829</b>	<b>\$ (50,346)</b>	<b>\$ (4,563)</b>	<b>\$ 675</b>	<b>\$ 27,980</b>
Net income	—	—	—	15,769	—	—	\$ 15,769
Non-cash compensation expense	—	—	4,386	—	—	—	\$ 4,386
Unearned compensation	—	—	—	—	(2,268)	—	\$ (2,268)
Amount received towards directors -purchase plan	—	—	92	—	—	—	\$ 92
Issuance of shares under directors -purchase plan	7,321	—	—	—	—	—	—
Reclassification adjustment for gains, net of losses included in net income, net of income tax of \$NIL	—	—	—	—	—	(1,212)	\$ (1,212)
Unrealized gain on available-for-sale securities, net of income tax of \$NIL	—	—	—	—	—	776	\$ 776
<b>Balance at December 31, 2004</b>	<b>38,537,689</b>	<b>\$ 385</b>	<b>\$ 86,307</b>	<b>\$ (34,577)</b>	<b>\$ (6,831)</b>	<b>\$ 239</b>	<b>\$ 45,523</b>
Net income	—	—	—	13,378	—	—	\$ 13,378
Non-cash compensation expense	—	—	3,017	—	—	—	\$ 3,017
Unearned compensation	—	—	—	—	(1,069)	—	\$ (1,069)
Amount received towards directors -purchase plan	—	—	118	—	—	—	\$ 118
Issuance of shares under directors -purchase plan	6,655	—	—	—	—	—	—
Issuance of common shares, net of share issue expenses	3,630,000	37	38,266	—	—	—	\$ 38,303
Reclassification adjustment for gains, net of losses included in net income, net of income tax of \$NIL	—	—	—	—	—	(977)	\$ (977)
Unrealized gain on available-for-sale securities, net of income tax of \$NIL	—	—	—	—	—	948	\$ 948
	<b>42,174,344</b>	<b>\$ 422</b>	<b>\$ 127,708</b>	<b>\$ (21,199)</b>	<b>\$ (7,900)</b>	<b>\$ 210</b>	<b>\$ 99,241</b>

**Balance at December 31,  
2005**

Transition adjustment on adoption of SAB108 (Note 2 (z))	—	—	1,851	(1,851)	—	—	—
<b>Balance at January 1, 2006 (adjusted)</b>	<b>42,174,344</b>	<b>\$ 422</b>	<b>\$ 129,559</b>	<b>\$ (23,050)</b>	<b>\$ (7,900)</b>	<b>\$ 210</b>	<b>\$ 99,241</b>
Net income before cumulative effect of change in accounting principle recorded upon adoption of SFAS No. 123(R)	—	—	—	27,629	—	—	—
Cumulative effect of change in accounting principle recorded upon adoption of SFAS No. 123(R) (Note 2 (x))	—	—	—	251	—	—	—
Net income	—	—	—	27,880	—	—	\$ 27,880
Non-cash compensation expense	—	—	4,066	—	—	—	\$ 4,066
Unearned compensation	—	—	(7,900)	—	7,900	—	—
Amount received towards directors - purchase plan and issuance of shares under the plan	96,800	1	358	—	—	—	\$ 359
Cumulative effect of change in accounting principle recorded upon adoption of SFAS No. 123(R)	—	—	(251)	—	—	—	\$ (251)
Reclassification adjustment for gains, net of losses included in net income, net of income tax of \$NIL	—	—	—	—	—	(309)	\$ (309)
Unrealized gain on available-for-sale securities, net of income tax of \$NIL	—	—	—	—	—	2,665	\$ 2,665
<b>Balance at December 31, 2006</b>	<b>42,271,144</b>	<b>\$ 423</b>	<b>\$ 125,832</b>	<b>\$ 4,830</b>	<b>—</b>	<b>\$ 2,566</b>	<b>\$ 133,651</b>

The accompanying notes are an integral part of these financial statements.



**GLOBAL SOURCES LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(In U.S. Dollars Thousands, Except Number of Shares and Per Share Data)**

**1) The Company**

The Company's principal business is to provide services that allow global buyers to identify suppliers and products, and enable suppliers to market their products to a large number of buyers. The Company's primary online service is creating and hosting marketing websites that present suppliers' product and company information in a consistent, easily searchable manner on Global Sources Online. Complementing this service are various trade magazines. The Company launched China Sourcing Fairs exhibitions in 2003. These offer international buyers direct access to China and other Asian manufacturers. The Company's businesses are conducted primarily through Trade Media Limited, its wholly owned subsidiary, which was incorporated in October 1984 under the laws of Cayman Islands. Through certain other wholly owned subsidiaries, the Company also organizes China Sourcing Fairs exhibitions, conferences and exhibitions on technology related issues, licenses Asian Sources / Global Sources Online and catalog services and re-sells products that are purchased on consignment basis.

**2) Summary of Significant Accounting Policies**

**(a) Basis of Consolidation and Presentation**

- (i) The accompanying consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles and comprise the financial statements of the Company and its subsidiaries. All significant inter-company transactions and balances have been eliminated on consolidation.
  - (ii) The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income from the effective dates of acquisition or up to the effective dates of disposal.
  - (iii) The functional currency of the Company and certain subsidiaries is the United States dollar. The functional currencies of other subsidiaries are their respective local currencies. United States dollars are used as the reporting currency as the Company's operations are global.

**(b) Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles ("U.S. GAAP") requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

**(c) Cash Equivalents**

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

**(d) Available-for-sale Securities**

The Company invests its excess cash in readily marketable securities managed by high quality institutions and in government-backed securities such as debt and equity securities. These are classified as available-for-sale

securities. Investments classified as available-for-sale securities are carried at market value with any unrealized holding gains and losses, net of related tax effect if any, presented under shareholders' equity as accumulated other comprehensive income.

**GLOBAL SOURCES LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(In U.S. Dollars Thousands, Except Number of Shares and Per Share Data)**

Generally the Company holds the securities with specific maturity dates until their maturity but the securities managed by high quality institutions are generally sold on a quarterly basis and proceeds reinvested in similar securities.

The Company records the sales of securities upon their maturity or sale.

As the Company's objective and intent is not to generate profit from short-term price fluctuations, the Company classified its investments as available-for-sales securities, in accordance with SFAS No. 115, "Accounting for Certain Investments in Debts and Equity Securities".

Realized gains and losses and declines in value judged to be other-than-temporary on available-for-sale securities are included in the statement of income. Other-than-temporary is determined through the assessment of the Company's ability and intent to hold the investment, extent and duration of the impairment, and the forecasted recovery of fair value. The cost of securities sold is based on the average cost method.

**(e) Inventory of Paper**

Inventory of paper is stated at the lower of cost or market value. Cost is determined on the first-in, first-out basis. Cost includes the purchase cost and the delivery costs incurred in bringing the paper inventory to the warehouse.

**(f) Property and Equipment**

(i) Property and equipment are stated at cost less accumulated depreciation. Cost represents the purchase price of the asset and other costs incurred to bring the asset into its existing use.

(ii) Depreciation on property and equipment is calculated to depreciate their cost on a straight-line basis over their estimated useful lives as follows:

Building	50 years
Fixtures, fittings and office equipment	5 years
Leasehold improvements	5 years
Motor vehicles	5 years
Computer equipment and software	3 years
Reusable trade show booths	2 years

Depreciation of assets acquired under capital leases is included in depreciation expense.

(iii) Effective January 1, 1999, the Company adopted Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," to account for the costs incurred to develop computer software for internal use. Costs incurred in the preliminary project stage with respect to the development of software for internal use are expensed as incurred; costs incurred during the application development stage are capitalized and are amortized over the estimated useful life of three years upon the commissioning of service of the software. Training and maintenance costs are expensed as incurred. To account

for the development costs related to the products to be sold, leased or otherwise marketed, the Company adopted SFAS No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed." Development costs incurred subsequent to the establishment of the technological feasibility of the product are capitalized. The capitalization ends when the product is available for general release to customers.

**GLOBAL SOURCES LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(In U.S. Dollars Thousands, Except Number of Shares and Per Share Data)**

The Company expensed \$241, \$66 and \$7 during the years ended December 31, 2004, 2005 and 2006, respectively, for the costs incurred prior to the establishment of the technological feasibility with respect to the development of products.

**(g) Intangible Assets**

The Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets", effective on January 1, 2002, to account for intangible assets. The net intangible assets as of December 31, 2005 and 2006 was \$NIL for both years.

**(h) Long Term Investments**

Long term investments for business and strategic purposes in privately-held companies where such investments are less than 20% of the equity capital of the investees, with no significant influence over the investees, are stated at cost.

Long term investments in companies where such investments are in the range of 20% to 50% of the equity capital of the investees and over whom the Company exercises significant influence, are accounted under the equity method.

Interests in subsidiaries with more than 50% ownership are consolidated and the ownership interests of minority investors are recorded as minority interest.

Long term investments in U.S. Treasury strips zero % coupon, held to maturity are stated at amortized cost. The interest income from investments in U.S. Treasury strips zero % coupon is recognized as it accrues, taking into account the effective yield on the asset.

**(i) Impairment of Long-lived Assets**

The Company reviews the carrying value of its long-lived assets and will recognize an impairment loss whenever events or changes in circumstances indicate the carrying amount of the assets may not be fully recoverable. The recoverability of an asset is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment loss, measured based on the difference between the carrying amount of the asset and its fair value, is recognized. There was no impairment of the Company's property and equipment as of December 31, 2006 and 2005.

**(j) Revenue Recognition**

The Company derives its revenues from advertising fees in its published trade magazines and websites, sales of trade magazines and reports, fees from licensing its trade and service marks, organizing exhibitions and business seminars, commission income from consignment sales.

Revenues from advertising in trade magazines and websites are recognized ratably over the period in which the advertisement is displayed. Advertising contracts do not exceed one year. Revenue from sales of trade magazines and

reports is recognized upon delivery of the magazine / report. Magazine subscriptions received in advance are deferred and recognized as revenue upon delivery of the magazine. Revenue from organizing exhibitions and business seminars is recognized at the conclusion of the event and the related direct event production costs are deferred and recognized as expenses upon conclusion of the event. When multiple deliverables are contracted under a single arrangement, the Company allocates the total considera-

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tion to each unit of accounting on a pro-rata method based on its relative percentage of the total fair value of all units of accounting included in the arrangement.

The Company received license fees and currently receives royalties from licensing its trade and service marks. Revenue from license fees was recognized ratably over the term of the license. Royalties from license arrangements are earned ratably over the period in which the advertisement is displayed by the licensee.

The Company derives commission income on the re-sale of its customers' products on a consignment basis. The commission income which is the sales proceeds, net of the cost of the purchased products payable to the consigner is recognized upon conclusion of the sale to the buyer.

**(k) Transactions with Sales Representatives**

The Company utilizes sales representatives in various territories to promote the Company's products and services. Under these arrangements, these sales representatives are entitled to commissions as well as marketing fees. Commissions expense is recorded when owed to these sales representatives and is included in sales expenses.

These sales representatives, which are mainly corporate entities, handle collections from clients on behalf of the Company. Included in receivables from these sales representatives are amounts collected on behalf of the Company.

**(l) Advertising Expenses and Magazine Mailing Costs**

The event specific advertising and promotion costs incurred for events to be held in future financial years are expensed by the year-end in which the expenses are incurred. Other advertising and promotion expenses are expensed as incurred. The Company recorded advertising and promotion expenses of \$2,679, \$3,612 and \$7,483 during the years ended December 31, 2004, 2005 and 2006, respectively.

The mailing costs incurred for sending the trade magazines and reports to the readers are included under community costs. The Company recorded such mailing costs of \$3,160, \$3,553 and \$3,535 during the years ended December 31, 2004, 2005 and 2006, respectively.

**(m) Operating Leases**

The Company leases certain office facilities under cancelable and non-cancelable operating leases, generally with an option to renew upon expiry of the lease term. Rentals under operating leases are expensed on a straight-line basis over the life of the leases.

**(n) Liabilities for Bonus Plan**

Before the commencement of the Equity Compensation Plans as described in Note 23, the Company rewarded its senior management staff based on their performance through long term discretionary bonus awards. These awards were payable in cash generally at the end of five or ten years from the date of the award, even in the event of termination of employment unless certain non-compete provisions had been violated. These awards were expensed in the period to which the performance bonus relates.

**(o) Retirement Contributions**

The Company operates a number of defined contribution retirement plans. Contributions are based on a percentage of each eligible employee's salary and are expensed as the related salaries are incurred.

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**(p) Income Taxes**

The Company accounts for deferred income taxes using the liability method, under which the expected future tax consequences of temporary differences between the financial reporting and tax basis of its assets and liabilities are recognized as deferred tax assets and liabilities. A valuation allowance is established for any deferred tax asset when it is more likely than not that the deferred tax asset will not be recovered.

**(q) Minority Interest**

In 2000, the Company's wholly-owned subsidiary, Trade Media Holdings Limited ("TMH"), entered into an agreement with United Business Media B.V. (which subsequently changed its name to United Professional Media B.V.) ("UPM"), to set-up a Barbados corporation (eMedia Asia Ltd.) to provide new technology content, media and e-commerce services to the electronics technology market in Asia.

TMH holds a 60.1% controlling equity interest in eMedia Asia Ltd., and the Company consolidates the results of eMedia Asia Ltd.'s operations.

The remaining 39.9% equity interest in eMedia Asia Ltd. was held by UPM, and as part of obtaining its 39.9% equity interest, UPM committed to pay \$6,000 and interest thereon to TMH upon the payment of specified future dividends of eMedia Asia Ltd. ("Loan"). The Loan was secured by a charge in favour of TMH over 199 common shares of eMedia Asia Ltd. held by UPM ("Charge").

Pursuant to an internal restructuring within UPM's group, UPM's 39.9% interest in eMedia Asia Ltd. and associated obligations (including those under the Loan and Charge) were novated and assigned first to UPM's related company United Information Group B.V. ("UIG") in September 2003, and then subsequently by UIG to another related company UBM Asia B.V. ("UBM Asia") in October 2003.

Under the laws of the country of incorporation of eMedia Asia Ltd, a company is not allowed to pay cash dividends as long as it has retained losses. No dividends have been declared by eMedia Asia Limited, and accordingly the Loan was not paid in prior years. Due to the contingent nature of the Loan payment, the Company did not record in its prior years' balance sheet the Loan receivable of \$6,000 due from UPM/UIG/UBM Asia and no interest income was accrued as at December 31, 2005 and 2004.

eMedia Asia Ltd. had excess reserves of cash as it is not allowed to pay cash dividends. In October 2006, approval of the board of directors and the shareholders of eMedia Asia Ltd. were obtained for distribution of the excess cash in eMedia Asia Ltd. to shareholders of eMedia Asia Ltd., by way of a one-for-one issue of new shares (as share dividends) and then a purchase back by eMedia Asia Limited of those share dividends and a consequent reduction of its share capital.

Pursuant thereto, eMedia Asia Ltd. completed the issuance of 1,000 shares to its shareholders as share dividends, the subsequent purchase of those 1,000 shares (at a price of \$13,000 per share) and distribution of the total amount of \$13,000 to its shareholders by way of a share purchase dividend, and the reduction of its share capital through the cancellation of those 1,000 purchased shares.

UBM Asia also fully re-paid the Loan principal of \$6,000 and the \$1,906 interest thereon to TMH. The Loan and Charge were consequently discharged. The Company recorded the \$1,906 interest received and the \$6,000 principal received as a gain on sale of shares to minority shareholder and interest income thereon during the year ended December 31, 2006 as the contingency was resolved and the full payment has been received.

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The minority interest liability of \$6,191 and \$2,913 as at December 31, 2005 and 2006, respectively, reflects UBM Asia's proportionate interest in the net book value of eMedia Asia Ltd.

**(r) Foreign Currencies**

Transactions in currencies other than the functional currency are measured and recorded in the functional currency using the exchange rate in effect on the date of the transaction. As of the balance sheet date, monetary assets and liabilities that are denominated in currencies other than the functional currency are remeasured using the exchange rate at the balance sheet date. All gains and losses arising from foreign currency transactions and remeasurement of foreign currency denominated accounts are included in the determination of net income in the year in which they occur.

The financial statements of the subsidiaries reported in their respective local currencies are translated into U.S. dollars for consolidation as follows: assets and liabilities at the exchange rate as of the balance sheet date, shareholders' equity at the historical rates of exchange, and income and expense amounts at the average monthly exchange rates. The cumulative translation differences were not material as of December 31, 2005 and 2006.

**(s) Segment Reporting**

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" requires that companies report separately, in the financial statements, certain financial and descriptive information about operating segment profit or loss, certain specific revenue and expense items, and segment assets. Additionally, companies are required to report information about the revenues derived from their products and services groups, about geographic areas in which the Company earns revenues and holds assets, and about major customers.

The Company identifies its operating segments based on business activities, management responsibility and geographic location. The Company has two reportable segments: online and other media services and exhibitions. The Company has determined these segments based on the business activities whose operating results are reviewed by the Company's chief operating decision maker which is the Company's board of directors to assess their performance and to make decisions about resources to be allocated to each segment.

**(t) Comprehensive Income**

SFAS No. 130, "Reporting Comprehensive Income," establishes standards for reporting comprehensive income and its components in financial statements. Comprehensive income is defined as the change in equity of a company during a period from transactions and other events and circumstances excluding transactions resulting from investment by owners and distribution to owners.

Comprehensive income consists of the following:

	<b>Year Ended December 31,</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
Unrealized gain on available-for-sale securities, net of income tax of \$NIL	\$ 776	\$ 948	\$ 2,665
Reclassification adjustment for gains, net of losses included in net income, net of income tax of \$NIL	\$ (1,212)	\$ (977)	\$ (309)

Net income	\$	15,769	\$	13,378	\$	27,880
	\$	15,333	\$	13,349	\$	30,236

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**(u) Basic and Diluted Net Income Per Share**

The Company disclosed the earnings per share under two-class method, prescribed by SFAS No. 128 and EITF Issue No. 03-6. The net income has been allocated to non-vested restricted shares under the Company's stock compensation plans and common shares outstanding during the period in the ratio of respective class of shares to the combined weighted average shares of both the classes.

Basic net income per share is computed by dividing net income allocated to each class of shares by the weighted average number of shares of the respective class of shares outstanding during the period. Diluted net income per share is calculated using the weighted average number of outstanding shares under each class of shares, plus other dilutive potential common shares.

The following table reconciles the number of shares utilized in the net income per share calculations:

	<b>Year Ended December 31,</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
Net income before cumulative effect of change in accounting principle	\$ 15,769	\$ 13,378	\$ 27,629
Cumulative effect of change in accounting principle	-	-	251
Net income	\$ 15,769	\$ 13,378	\$ 27,880
Basic net income per common share before cumulative effect of change in accounting principle	\$ 0.41	\$ 0.32	\$ 0.65
Cumulative effect of change in accounting principle	\$ -	\$ -	\$ 0.01
Basic net income per common share	\$ 0.41	\$ 0.32	\$ 0.66
Diluted net income per common share before cumulative effect of change in accounting principle	\$ 0.41	\$ 0.32	\$ 0.65
Cumulative effect of change in accounting principle	\$ -	\$ -	\$ 0.01
Diluted net income per common share	\$ 0.41	\$ 0.32	\$ 0.66
Weighted average common shares used in basic net income per common share calculations	37,069,610	39,735,854	40,628,354
Effect of dilutive shares	68,360	66,275	70,603
Weighted average common shares used in diluted net income per common share calculations	37,137,970	39,802,129	40,698,957
Basic net income per non-vested restricted share before cumulative effect of change in accounting principle	\$ 0.41	\$ 0.32	\$ 0.65
Cumulative effect of change in accounting principle	\$ -	\$ -	\$ 0.01
Basic net income per non-vested restricted share	\$ 0.41	\$ 0.32	\$ 0.66
Diluted net income per non-vested restricted share before cumulative effect of change in accounting principle	\$ 0.41	\$ 0.32	\$ 0.65
Cumulative effect of change in accounting principle	\$ -	\$ -	\$ 0.01
Diluted net income per non-vested restricted share	\$ 0.41	\$ 0.32	\$ 0.66
Weighted average non-vested restricted shares used in basic net income per non-vested restricted share calculations	1,466,898	1,621,926	1,627,408
Effect of dilutive shares	-	-	-
Weighted average non-vested restricted shares used in diluted net income per non-vested restricted share calculations	1,466,898	1,621,926	1,627,408

Antidilutive share subscriptions	-	100,000	-
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Antidilutive share subscriptions had exercise prices greater than the average market price during the year.

**(v) Stock Based Compensation**

Effective January 1, 2006, the Company adopted the provisions of SFAS No. 123(R), "Share-Based Payment" using the modified prospective application transition method, which requires application of SFAS No. 123(R) for new awards granted after the adoption of SFAS No. 123(R) and for any portion of awards granted prior to the date of adoption but have not vested as of the date of adoption of SFAS No. 123(R).

Prior to the adoption of SFAS No. 123(R), the Company accounted for stock-based compensation using the intrinsic value method prescribed in APB No. 25, "Accounting for Stock Issued to Employees" and related interpretations. Accordingly, compensation cost of stock options was measured as the excess, if any, of the fair value of the Company's stock at the date of the grant over the option exercise price and is charged to operations over the vesting period. Under the SFAS No. 123(R), the compensation cost associated with the stock options is measured at fair value on the grant date and portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods.

The Company's employee stock compensation plans are share grants without any exercise price or exercise period. Therefore, the fair value of the share grants at the date of grant approximates the intrinsic value. As a result, the impact of fair value based accounting under SFAS No. 123(R) is not significantly different from the intrinsic value method under APB No. 25.

Prior to the adoption of SFAS No. 123(R), the Company accounted for equity instruments issued to non-employees in accordance with the provisions of SFAS No. 123 and EITF Issue No. 96-18, "Accounting for Equity Instruments that are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling Goods and Services." All transactions in which services are received for the issuance of equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable. The measurement date of the fair value of the equity instrument issued is the earlier of the date on which the counterparty's performance is complete or the date on which it is probable that performance will occur. The equity instruments issued to non-employees are within the scope of SFAS No. 123(R), except that such equity instruments should continue to be measured using the measurement guidance of EITF Issue No. 96-18. Thus there are no significant changes required in the accounting treatment of equity instruments issued to non-employees upon the adoption of SFAS No. 123(R).

As of December 31, 2005, there was \$7,900 of unearned compensation costs, related to share awards under Employee Equity Compensation Plans to our employees and non-employees. Upon the adoption of SFAS No. 123(R) with effect from January 1, 2006, the unearned compensation costs associated with Employee Equity Compensation Plans at the beginning of the year 2006 were reversed against additional paid in capital.

The Company recognizes the compensation costs associated with share awards with graded vesting to employees on a straight-line basis over the requisite service period for the entire award.

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The Company recognizes the compensation costs associated with share awards to non-employees on an accelerated attribution basis over the requisite service period.

Under SFAS No. 123(R) the Company is required to adjust its compensation cost for pre-vesting forfeitures i.e. an award that is forfeited prior to vesting. As the share grants to the employees include service conditions, the fair value of the awards is not adjusted subsequent to the grant date. At each reporting date, the Company would estimate the quantity of share grants expected to vest and record the compensation cost for the share grants that are expected to vest.

Prior to the adoption of SFAS No. 123(R), the Company accounted for the shares purchased by the directors under Directors Purchase Plan using the intrinsic value method prescribed in APB No. 25, "Accounting for Stock Issued to Employees" and related interpretations. Accordingly, compensation cost relating to the shares purchased by the directors was measured as the difference between the quoted market price of the stock at the grant date and the price paid by the directors (exercise price) on the measurement date. Upon adoption of SFAS No. 123(R), the Company has utilized the Black-Scholes option-pricing model ("Black-Scholes model") for determination of the grant date fair value and the recording of compensation cost associated with the shares purchased by the Directors under the plan.

**(w) Allowance for Doubtful Debts**

The Company estimates the collectibility of the accounts receivable based on the analysis of accounts receivable, historical bad debts, customer credit-worthiness and current economic trends and maintains adequate allowance for doubtful debts.

**(x) Change in Accounting Principle**

The Company adopted SFAS No. 123 (R) "Share-Based Payment", effective January 1, 2006. Under SFAS No. 123 (R) the Company is required to adjust its compensation cost for pre-vesting forfeitures i.e. an award that is forfeited prior to vesting. Accordingly, the Company changed its accounting principle with effect from January 1, 2006, with respect to the accounting for forfeitures.

Under the new accounting principle, at each reporting date, the Company estimates the quantity of share grants expected to vest and record the compensation cost for the share grants that are expected to vest.

This change in accounting principle does not have any income tax impact.

**(y) Recent Accounting Pronouncements**

In March 2006, the Emerging Issues Task Force ("EITF") reached a consensus on Issue No. 06-3, How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation). EITF 06-3 provides guidance on presentation of any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer. As per EITF 06-3, the presentation of taxes on either a gross (included in revenues and costs) or a net (excluded from revenues) basis is an accounting policy decision that should be disclosed. In addition, for any such taxes that are reported on a gross basis, a company should disclose the amounts of taxes in interim and annual financial statements for each period for which income statement is presented if these amounts are significant. The EITF 06-3 guidance is applicable to



financial reports for interim and annual reporting periods beginning after December 15, 2006. Earlier application is permitted. The Company is currently evaluating whether the adoption of EITF 06-3 has any impact on its consolidated financial statements.

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In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation ("FIN") No. 48, Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109. This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. This Interpretation prescribes a recognition threshold and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. This Interpretation is effective for fiscal years beginning after December 15, 2006. The Company will adopt FIN 48 as of January 1, 2007, as required. The cumulative effect of adopting FIN 48 will be recorded in retained earnings and other accounts as applicable. The Company is currently evaluating whether the adoption of this Interpretation has any impact on its consolidated financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS No. 157"). This Standard defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. As required under SFAS No. 157, the statement shall be applied prospectively as of the beginning of the fiscal year in which this Statement is initially applied, except that the Statement shall be applied retrospectively to certain financial instruments as of the beginning of the fiscal year in which this Statement is initially applied (a limited form of retrospective application). The Company is currently evaluating whether the adoption of SFAS No. 157 has any impact on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment of FASB Statement No. 115." SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal year beginning after November 15, 2007. The Company is currently evaluating whether the adoption of SFAS No. 159 has any impact on its consolidated financial statements.

**(z) Transition adjustment on adoption of SAB 108**

In September 2006, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements, ("SAB 108") which provides guidance on how uncorrected errors in previous years should be considered when quantifying errors in current-year financial statements. SAB 108 is effective for fiscal years ending after November 15, 2006. In the current year, the Company has corrected unadjusted differences (which are not material to each of the individual years in which they occurred) pertaining to the years 2000 to 2005 in the non-cash compensation expenses relating to share awards under its Employee Equity Compensation Plans. These differences arose from the incorrect application of attribution method and in the classification of share awards between employees and non-employees. Accordingly, the Company has recorded the prior years' cumulative non-cash compensation expenses of \$1,851 against the Company's opening retained earnings and the corresponding credit is taken to additional paid in capital in accordance with SAB 108. There is no income tax impact resulting from this adjustment.

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**3. Available-for-sale Securities**

	At December 31,					
	2005 Unrealized holding gain	Fair value	2006 Unrealized holding gain	Fair value	Cost	Cost
Debt securities issued by U.S.						
Treasury	\$ 17,832	\$ -	\$ 17,832	\$ 109,902	\$ -	\$ 109,902
Equity securities	-	-	-	12,237	2,265	14,502
Other securities	5,940	210	6,150	5,898	301	6,199
	\$ 23,772	\$ 210	\$ 23,982	\$ 128,037	\$ 2,566	\$ 130,603

The contractual maturity dates of debt securities as at December 31, 2005 and 2006 were less than one year.

The gross realized gains and losses from the sale of available-for-sale securities were as follows:

	Year Ended December 31,		
	2004	2005	2006
Gross realized gains	\$ 1,278	\$ 1,011	\$ 309
Gross realized losses	(158)	(34)	-
	\$ 1,120	\$ 977	\$ 309

The Company recorded dividend income derived from the available-for-sale securities of \$NIL, \$320, and \$1,893 during the year ended December 31, 2004, 2005 and 2006 respectively. The Company recorded interest income derived from the available-for-sale securities of \$92, \$963 and \$2,945 during the year ended December 31, 2004, 2005 and 2006 respectively.

**4. Current Assets**

	At December 31,	
	2005	2006
<b>Accounts receivable:</b>		
Gross trade receivables	\$ 6,197	\$ 7,148
Less: Allowance for doubtful debts	(652)	(680)
	\$ 5,545	\$ 6,468

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**Movements in allowance for doubtful debts:**

	Year Ended December 31,		
	2004	2005	2006
<b>Balance at beginning of year</b>	\$ 2,097	\$ 1,028	\$ 652
Provision during the year	—	18	216
Allowance for doubtful debts written-back	(716)	—	—
Write-off during the year	(353)	(394)	(188)
<b>Balance at end of year</b>	\$ 1,028	\$ 652	\$ 680

	At December 31,	
	2005	2006
<b>Prepaid expenses and other current assets:</b>		
Unsecured employee loans and other debtors	\$ 71	\$ 127
Prepaid expenses	768	870
Deferred expenses – short term	7,688	10,834
Other current assets	2,058	2,343
	\$ 10,585	\$ 14,174

**5. Property and Equipment, net**

	At December 31,	
	2005	2006
Building	\$ 19,384	\$ 19,384
Capital work-in-progress	855	985
Leasehold improvements	7,949	8,649
Motor vehicles	198	266
Computer equipment, software, fixtures, fittings and office equipment	18,348	20,113
Reusable trade show booths	86	191
Software development costs	3,571	3,832
Property and equipment, at cost	50,391	53,420
Less: Accumulated depreciation	(22,213)	(25,046)
	\$ 28,178	\$ 28,374

Depreciation expense for the years ended December 31, 2004, 2005 and 2006 was \$2,572, \$2,640 and \$3,428 respectively and the amortization of software costs for the years ended December 31, 2004, 2005 and 2006 was \$1,480, \$1,335 and \$1,250 respectively. The accumulated amortization of software costs as of December 31, 2005 and 2006 was \$2,280 and \$3,530 respectively.

During 2004, the Company entered into an agreement to purchase approximately 9,000 sq meters of office space in a commercial building in Shenzhen, China. The building is situated on a leasehold land. The lease period of the land is

50 years, commencing from year 2002. At the end of the lease period the building together with land will revert to the local government authority. The construction was completed and the property was put to use during the year 2005. Depreciation of the property commenced during the year 2005. This building which is under capital lease is depreciated on a straight line basis over the remaining

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lease term. The depreciation expenses on the said building amounted to \$311 and \$414 during the year 2005 and 2006 respectively.

**6. Long-term Investments and Bonds Held to Maturity**

- (i) As at December 31, 2006, the Company holds equity instruments carried at \$100 in a privately held unaffiliated electronic commerce company for business and strategic purposes. The investment is accounted for under the cost method since the ownership is less than 20% and the Company does not have the ability to exercise significant influence over the investee. The investment is shown under long term investments in the consolidated balance sheets.

The Company's policy is to regularly review the carrying values of the non-quoted investments and to identify and provide for when circumstances indicate impairment other than a temporary decline in the carrying values of such assets has occurred.

The net carrying value of the long term investment as at December 31, 2005 and 2006 was \$100. The Company will continue to evaluate this investment for impairment.

- (ii) U.S. Treasury strips zero % coupon

	<b>At December 31,</b>	
	<b>2005</b>	<b>2006</b>
The amortized cost classified by date of contractual maturity is as follows:		
Due within one year	\$ 189	\$ 195
Due after one year through five years	274	94
	<b>\$ 463</b>	<b>\$ 289</b>

	<b>At December 31,</b>	
	<b>2005</b>	<b>2006</b>
The fair value based on the market price, classified by date of contractual maturity is as follows:		
Due within one year	\$ 193	\$ 196
Due after one year through five years	280	95
	<b>\$ 473</b>	<b>\$ 291</b>

	<b>At December 31,</b>	
	<b>2005</b>	<b>2006</b>
Gross unrealized holding gains	\$ 10	\$ 2

Proceeds from the matured U.S. Treasury strips zero % coupons during the years ended December 31, 2004, 2005 and 2006 were \$383, \$240 and \$200, respectively.

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**7. Other Assets**

	<b>At December 31,</b>	
	<b>2005</b>	<b>2006</b>
Employee housing loans	\$ 152	\$ 184
Club memberships	418	418
Deferred expenses – exhibitions – long term	541	750
Rental, utility and other deposits	870	210
	<b>\$ 1,981</b>	<b>\$ 1,562</b>

**8. Current Liabilities**

	<b>At December 31,</b>	
	<b>2005</b>	<b>2006</b>
<b>Deferred income and customers' prepayments:</b>		
Advertising	\$ 28,846	\$ 34,627
Exhibitions, subscription and others	23,778	27,409
	<b>\$ 52,624</b>	<b>\$ 62,036</b>

	<b>At December 31,</b>	
	<b>2005</b>	<b>2006</b>
<b>Accrued liabilities:</b>		
Salaries, wages and commissions	\$ 1,326	\$ 2,062
Retirement contribution plans	645	665
Current portion of liabilities for incentive and bonus plans	1,169	1,399
Printing, paper and bulk mailing cost	430	958
Sales commissions and professional fees	1,446	3,440
Others	1,628	3,903
	<b>\$ 6,644</b>	<b>\$ 12,427</b>

**9. Liabilities for Incentive and Bonus Plans**

	<b>At December 31,</b>	
	<b>2005</b>	<b>2006</b>
Liability for long term discretionary bonus plan	\$ 307	\$ 102

**10. Deferred Income and Customers' Prepayments – Long Term**

**At December 31,**



	<b>2005</b>	<b>2006</b>
Exhibitions	\$ 348	\$ 1,802

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**11. Related Party Transactions**

The Company has extended loans to some of its employees to finance their purchase or lease of residences. The loans for the purchase of a residence are secured by the subject residence, bear interest at a rate of LIBOR plus 2% to 3%, generally have a term of ten years and become due and payable immediately under certain circumstances, including their termination of employment with the Company. The loans for the lease of a residence are unsecured, interest free and are repayable in equal monthly installments over the period of the lease, typically less than or equal to twelve months. Loans due from employees for purchase of residences were \$152 and \$184 as of December 31, 2005 and 2006 respectively. Loans due from employees for lease of residences were \$61 and \$31 as of December 31, 2005 and 2006, respectively. There were no other loans due from the Company's directors and executive officers as at December 31, 2005 and 2006. Other temporary advances to staff, which are generally repayable within twelve months, were \$10 and \$96 as of December 31, 2005 and 2006, respectively.

The Company had \$11,404 due to the Former Parent Company as of December 31, 2003. Due to the disposal of the Company's shares held by the Former Parent Company to the Company's chairman and chief executive officer, this liability as at December 31, 2003 was reclassified and disclosed as "Amount due to a shareholder" in the Company's consolidated balance sheet as at December 31, 2003. The amount due to the Former Parent Company was unsecured. This amount was fully re-paid during the year 2004. The amount due to Former Parent Company as of December 31, 2005 and 2006 was \$NIL and \$NIL, respectively.

**12. Liabilities for Incentive and Bonus Plans**

Before the commencement of the Equity Compensation Plans the Company rewarded its senior management staff based on their current performance through long term discretionary bonus awards. These awards are payable approximately at the end of five or ten years from the date of the award, even in the event of termination of employment unless certain non-compete provisions have been violated. The Company did not incur any expenses related to these awards during the years ended December 31, 2004, 2005 and 2006. The required funds were set aside for payment of the discretionary bonuses by purchasing U.S. Treasury strips zero % coupons maturing in either five or ten years. These investments are held until maturity and the proceeds are used for payment of the discretionary bonuses.

Certain sales representatives of the Company are eligible for incentive awards under plans administered by the Company. Costs incurred related to incentive awards under plans administered by the Company for the years ended December 31, 2004, 2005 and 2006 were \$164, \$126 and \$317 respectively.

**13. Retirement Contribution Plans**

The Company operates a number of defined contribution retirement plans. Employees working in a jurisdiction where there is no statutory provision for retirement contributions are covered by the Company's plans.

The two principal defined contribution retirement plans are plans where employees are not required to make contributions. One of these two plans is separately administered by an independent trustee and the plan assets are held independent of the Company. The other one is not independently administered and the Company's liabilities as of December 31, 2005 and 2006 were \$591 and \$641, respectively.

The Company incurred costs of \$1,099, \$1,166 and \$1,213 with respect to the retirement plans in the years ended December 31, 2004, 2005 and 2006, respectively.

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#### 14. Income Taxes

The Company and certain of its subsidiaries operate in the Cayman Islands and other jurisdictions where there are no taxes imposed on companies (collectively referred to as "Cayman Islands"). Certain of the Company's subsidiaries operate in Hong Kong SAR and Singapore and are subject to income taxes in their respective jurisdictions. Also, the Company is subject to withholding taxes for revenues earned in certain other countries.

Income before income taxes consists of:

	Year Ended December 31,		
	2004	2005	2006
Cayman Islands	\$ 12,746	\$ 12,828	\$ 27,494
Foreign	4,901	2,590	2,943
	\$ 17,647	\$ 15,418	\$ 30,437

The provision for income taxes consists of:

	Year Ended December 31,		
	2004	2005	2006
Current tax expense:			
Cayman Islands	\$ —	\$ —	\$ —
Foreign	622	650	932
Deferred tax expense:			
Cayman Islands	—	—	—
Foreign	29	109	(33)
Total provision	\$ 651	\$ 759	\$ 899

The provision for income taxes for the years ended December 31, 2004, 2005 and 2006 differed from the amount computed by applying the statutory income tax rate of 0% as follows:

	Year Ended December 31,		
	2004	2005	2006
Income taxes at statutory rate	\$ —	\$ —	\$ —
Foreign income and revenues taxed at higher rates	651	759	899
Total	\$ 651	\$ 759	\$ 899
Effective tax rate	3.69%	4.92%	2.95%

Deferred tax assets consist of the following:

	At December 31,	
	2005	2006
Net operating loss carry forwards	\$ 7,371	\$ 5,961
Less: valuation allowance	(7,371)	(5,961)
Deferred tax assets	\$ —	\$ —



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The Company recorded a full valuation allowance for the deferred tax assets due to the uncertainty as to their ultimate realization. The net change in valuation allowance for the years ended December 31, 2004, 2005 and 2006 was a decrease of approximately \$52, \$39 and \$1,410, respectively, resulting primarily from net operating losses incurred, expiry of operating losses carry forward and profits made by some of the subsidiaries during the respective years.

As of December 31, 2006 and 2005, a United States subsidiary had net operating loss carry forwards of approximately \$16,982 and \$17,099 respectively. These losses, which expire in year 2020, can be utilized to reduce future taxable income of the subsidiary subject to compliance with the taxation legislation and regulations in the relevant jurisdiction.

The Company recognized a deferred tax liability of \$436 and \$403 as at December 31, 2005 and 2006, respectively, which primarily arose from the temporary differences between the financial reporting and the tax bases of property and equipment in one of the subsidiaries of the Company.

**15. Share Capital**

On February 28, 2005 and 2006, the Company issued 6,655 and 96,800 common shares, respectively, under the Directors Purchase Plan. On March 29, 2005, the Company issued 3,630,000 common shares of par value \$0.01 at US\$12.27 per share. The total proceeds received from this issue was \$38,303 net of the offering expenses of \$2,197. Out of the total proceeds \$37 was included in the common share capital and the balance \$38,266 was included in additional paid in capital. During the year 2006 the Company increased its authorized share capital from 50,000,000 common shares of \$0.01 par value to 75,000,000 common shares of \$0.01 par value. The authorized share capital of the Company as at December 31, 2005 and 2006 is 50,000,000 common shares of \$0.01 par value and 75,000,000 common shares of \$0.01 par value respectively. As at December 31, 2005 and 2006, the Company has 42,174,344 and 42,271,144 common shares issued and outstanding, respectively.

**16. Fair Value of Financial Instruments**

The carrying amounts of the Company's cash equivalents, accounts receivable, receivables from sales representatives, unsecured employee loans and other debtors, accounts payable and accrued liabilities approximate fair value due to their short maturities. The fair value of available-for-sale securities is disclosed in Note 3. The carrying amount and market value of long term investments are discussed in Note 6.

**17. Concentration of Credit Risk and Other Risks**

Financial instruments, which potentially subject the Company to concentration of credit risk, consist primarily of investment in checking and money market accounts, available-for-sale securities, investment in U.S. Treasury strips zero % coupon, accounts receivable and receivables from sales representatives. The Company maintains checking, money market accounts and available-for-sale securities with high quality institutions. The Company has a large number of customers, operates in different geographic areas and generally does not require collateral on accounts receivable or receivables from sales representatives. The Company generally collects in advance from customers in markets with higher credit risk. In addition, the Company is continuously monitoring the credit transactions and maintains reserves for credit losses where necessary. No customer accounted for more than 10% of the Company's revenues for each of the years ended December 31, 2004, 2005 and 2006. No customer accounted for more than 10%

of the accounts receivable as of December 31, 2005 and 2006.

In 2006, the Company derived approximately 94% of its revenue from customers in Asia. The Company expects that a majority of its future revenue will continue to be generated from customers in this region. Future political or economic instability in Asia could negatively impact the business.

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### 18. Operating Leases

The Company leases office facilities under cancelable and non-cancelable operating leases generally with an option to renew upon expiry of the lease term. During the years ended December 31, 2004, 2005 and 2006, the Company's operating lease rental and building management services expenses were \$1,275, \$1,409 and \$1,185 respectively. The estimated future minimum lease rental payments under non-cancelable operating leases as of December 31, 2006 are as follows:

Year Ending December 31,	Operating Leases
2007	\$ 500
2008	467
2009 onwards	-
	\$ 967

### 19. Segment and Geographic Information

The Company has two reportable segments: online and other media services and exhibitions. Revenues by geographic location are based on the location of the customer.

#### (a) Segment Information

	Year Ended December 31,		
	2004	2005	2006
Revenue:			
Online and other media services (Note (a))	\$ 92,325	\$ 97,062	\$ 113,097
Exhibitions	13,010	14,300	42,122
Miscellaneous	511	832	1,262
Consolidated	\$ 105,846	\$ 112,194	\$ 156,481

Miscellaneous revenue consists mainly of technical services fee income, and for year 2005 and 2006 also includes rental income and commission income from consignment sales.

Revenue from barter transactions was \$771, \$1,366 and \$1,268 during the years ended December 31, 2004, 2005 and 2006, respectively. Similarly the expenses from barter transactions were \$806, \$1,142 and \$1,365 during the years ended December 31, 2004, 2005 and 2006, respectively.

	Year Ended December 31,		
	2004	2005	2006
Income/(Loss) from Operations:			
Online and other media services	\$ 17,700	\$ 13,460	\$ 21,936
Exhibitions	(2,133)	(1,258)	(3,752)
Miscellaneous	501	695	(76)
Consolidated	\$ 16,068	\$ 12,897	\$ 18,108





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	At December 31,	
	2005	2006
<b>Identifiable Assets:</b>		
Online and other media services	\$ 141,076	\$ 151,926
Exhibitions	29,316	67,182
Miscellaneous	1,288	1,781
Consolidated	\$ 171,680	\$ 220,889

Note: (a) Online and other media services consists of:

	Year Ended December 31,		
	2004	2005	2006
Online services	\$ 52,106	\$ 53,829	\$ 64,396
Print services	40,219	43,233	48,701
	\$ 92,325	\$ 97,062	\$ 113,097

**(b) Foreign Operations**

	Year Ended December 31,		
	2004	2005	2006
<b>Revenue:</b>			
Asia	\$ 97,876	\$ 104,746	\$ 146,315
United States	6,573	6,175	7,610
Europe	597	679	1,571
Others	800	594	985
Consolidated	\$ 105,846	\$ 112,194	\$ 156,481

	At December 31,	
	2005	2006
<b>Long-Lived Assets:</b>		
Asia	\$ 30,208	\$ 30,030
United States	51	6
Consolidated	\$ 30,259	\$ 30,036

**20. Contingencies**

From time to time the Company is involved in litigation in the normal course of business. While the results of such litigation and claims cannot be predicted with certainty, the Company believes that the probability is remote that the outcome of the outstanding litigation and claims as of the current date will have a material adverse effect on the Company's consolidated financial position and results of operations.



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**21. Capital Commitments**

The commitments as at December 31, 2006 for leasehold improvements, purchase of software and for the development of software amounted to \$1,427. The capital commitments as at December 31, 2005 were \$313 for leasehold improvements and for the development of software.

**22. Restricted Share Award Plan**

On February 4, 2000, the Company established a restricted share award plan for the benefit of its chairman and chief executive officer in recognition of services to the Company. In conjunction with the restricted share award plan, the Former Parent Company assigned 5,868,439 common shares of the Company, representing a 16% equity interest in the Company to the Company. The Company then awarded these shares to its chairman and chief executive officer. The chairman and chief executive officer's entitlement to 733,557 of these shares is subject to an employment agreement with one of the Company's United States subsidiaries and entitlement to such shares vested immediately. The chairman and chief executive officer's entitlement to the remaining 5,134,882 shares is subject to employment, non-compete and vesting terms under an employment agreement with one of the Company's United States subsidiaries. The 5,134,882 shares were to vest ratably over 10 years, 10% each year on each anniversary date from the grant date. However, effective August 30, 2000, the Company's Board of Directors approved the accelerated vesting of all the restricted shares granted to the chairman and chief executive officer resulting in immediate vesting of all the shares. The Company recorded a total of \$64,000 in non-cash compensation expense associated with these awards in the year ended December 31, 2000. At the modification date and subsequently the Company, based on historical evidence and the Company's forecast of future employee separations, estimated that the chairman and chief executive officer will not terminate employment and appointment as director prior to the date that vesting in the shares would have occurred absent the modification. Therefore, the Company has estimated that additional compensation expense to be recognized as a result of the modification is \$NIL. Should actual results differ from this estimate, adjustment in future reporting periods will be required.

**23. Equity Compensation Plans**

On December 30, 1999, the Company established The Global Sources Employee Equity Compensation Trust (the "Trust") for the purpose of administering monies and other assets to be contributed by the Company to the Trust for the establishment of equity compensation and other benefit plans. The Trust is administered by Appleby Trust (Bermuda) Ltd (previously known as "Harrington Trust Limited") (the "Bermuda Trustee"). The Bermuda Trustee in the exercise of its power under the Declaration of Trust may be directed by the plan committee, including the voting of securities held in the Trust. The Board of Directors of the Company will select the members of the plan committee.

On February 4, 2000, in conjunction with the establishment of the Trust and the Share Exchange, the Former Parent Company assigned 3,667,774 common shares of the Company at a historical cost of less than \$1, representing a 10% equity interest in the Company, for the establishment of share option plans and/or share award plans, known as ECP I, ECP II and ECP III. Subsequently, share option plans and/or share award plans, known as ECP IV, ECP V, ECP VI and ECP VII were established.

Eligible employees, directors and consultants under ECP I are entitled to purchase common shares of Global Sources Ltd. at a price determined by the plan committee at the time of the grant. The exercise price of these options may be

below the fair market value of the Company's common shares. The plan committee determines who will receive, and the terms of, the options.

Optionees may pay for common shares purchased upon exercise of options in the manner determined by the plan committee at the time of grant.

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Eligible employees, directors and consultants under ECP II were entitled to purchase common shares of Global Sources Ltd. at an exercise price determined by the plan committee at the time of the grant. There are two types of options under this plan. The exercise price of both of these options were below the fair market value of the Company's common shares at that time. The plan committee determines who will receive, and the terms of, the options. Employees could decide whether to exercise the options for a period of 95 days ending June 29, 2000. All the options granted were exercised. Optionees were able to pay for common shares purchased upon exercise of options by check to the Trust. Payment has been made to the Trust. Entitlement of the employees, directors and consultants to these common shares is subject to employment and vesting terms.

Eligible employees, directors and consultants under ECP III were awarded a defined amount of compensation payable in Global Sources Ltd. common shares, the number of which were determined by dividing the amount of compensation awarded by an amount determined by the plan committee prior to the Share Exchange.

Entitlement of the employees and directors to these common shares is subject to employment and vesting terms. Entitlement to consultants to these common shares is subject to continued services provided by the consultants and vesting terms.

The non-cash compensation expense associated with awards in accordance with APB No. 25 and SFAS No. 123, under ECP II and ECP III of approximately \$2,904 and \$2,357, respectively, were recognized over the three year vesting term from the respective award dates.

Eligible employees, directors and consultants under ECP IV are awarded a defined amount of compensation payable in Global Sources Ltd. common shares, the number of which are determined by the plan committee periodically.

Entitlement of the employees and directors to these common shares is subject to employment and vesting terms. Entitlement to consultants to these common shares is subject to continued services provided by the consultants and vesting terms.

Eligible employees, directors and consultants under ECP V were awarded a one-time grant of shares, the number of which were determined by the plan committee.

Entitlement of the employees and directors to these common shares is subject to employment and vesting terms. Entitlement to consultants to these common shares is subject to continued services provided by the consultants and vesting terms.

The Equity Compensation Plan committee approved the awards of common shares under ECP IV and ECP V on January 23, 2001. The Equity Compensation Plan committee approved additional awards of common shares under ECP IV on April 1, 2001, July 1, 2001 and August 29, 2001 and under ECP V on August 29, 2001, December 5, 2001, January 2, 2004, January 2, 2005 and on December 31, 2005.

The non-cash compensation expenses associated with the above awards in accordance with SFAS No. 123(R), under ECP IV and ECP V of approximately \$3,030 and \$2,748, respectively, are recognized over the five year vesting term from the respective award dates.

Eligible employees, directors and consultants under ECP VI are awarded a one-time grant of Global Sources Ltd. common shares, the number of which are determined by the plan committee.

Entitlement of the employees, directors and consultants to these common shares is subject to non-compete and vesting terms.

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The Equity Compensation Plan committee approved ECP VI on March 13, 2001 and made awards of common shares under plan on various dates during the year 2001, 2002, on July 28, 2004 and on April 1, 2005.

The non-cash compensation expenses associated with the awards in accordance with SFAS No. 123(R), under ECP VI totaling to approximately \$1,399, are recognized over the five year vesting term from the respective award dates.

Eligible employees, directors and consultants under ECP VII are awarded a grant of a defined number of Global Sources Ltd. common shares, the number of which are determined by the plan committee periodically.

The Equity Compensation Plan committee approved the awards of common shares under ECP VII on January 1, 2002 and made further awards on March 31, 2003, on June 19, 2003, on January 2, 2004 and on January 3, 2005 on February 13, 2006 and on May 19, 2006. The non-cash compensation expenses associated with the above awards in accordance with SFAS No. 123(R), under ECP VII of approximately \$13,026 are recognized over the six year vesting term from the respective award dates.

Entitlement of the employees and directors to these common shares is subject to employment and vesting terms. Entitlement to consultants to these common shares is subject to continued services provided by the consultants and vesting terms.

The Company expensed \$2,117, \$1,875 and \$4,000 in non-cash compensation costs associated with the awards under the above ECP plans in the years ended December 31, 2004, 2005 and 2006, respectively. As of December 31, 2006 there was \$6,956 of unrecognized non-cash compensation cost associated with the awards under the above ECP plans, which is expected to be recognized over the next six years.

The Company's non-vested shares as of December 31, 2006 and changes during the year ended December 31, 2006 were as follows:

	<b>ECP IV Grant Plan</b>		<b>ECP V Grant Plan</b>		<b>ECPVI Grant Plan</b>		<b>ECP VII Grant Plan</b>	
	<b>Shares</b>	<b>Weighted average grant date fair value</b>	<b>Shares</b>	<b>Weighted average grant date fair value</b>	<b>Shares</b>	<b>Weighted average grant date fair value</b>	<b>Shares</b>	<b>Weighted average grant date fair value</b>
Non-vested at January 1, 2006	118,333	\$ 8.15	72,189	\$ 8.59	63,632	\$ 7.74	1,237,268	\$ 8.22
Granted	—	—	—	—	—	—	372,911	\$ 10.06
Vested	(117,352)	\$ 8.16	(54,619)	\$ 9.27	(33,358)	\$ 6.41	(118,608)	\$ 5.74
Forfeited	(981)	\$ 6.96	—	—	—	—	(29,642)	\$ 8.05
Non-vested at December 31, 2006	—	—	17,570	\$ 6.48	30,274	\$ 9.19	1,461,929	\$ 8.89



The total fair value of shares vested during the years ended December 31, 2004, 2005 and 2006 were as follows:

<b>Year ended December 31,</b>	<b>ECP IV Grant Plan</b>	<b>ECP V Grant Plan</b>	<b>ECPVI Grant Plan</b>	<b>ECP VII Grant Plan</b>	<b>Total</b>
2004	\$ 781	\$ 573	\$ 214	\$ 122	\$ 1,690
2005	\$ 1,171	\$ 531	\$ 274	\$ 785	\$ 2,761
2006	\$ 1,175	\$ 674	\$ 361	\$ 1,145	\$ 3,355

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**24. Directors Purchase Plan**

A 2000 Non-Employee Directors Share Option Plan was approved on October 26, 2000 by the shareholders of the Company. Each eligible Director was entitled to an option to purchase up to 20,000 common shares at a price established at year end.

The option was exercisable before the end of each February following the year end at which the option price was established. The non-employee Directors have the right to decline all or part of the award, which is non-transferable.

For grants attributable to the 2001 year, the option price was fifteen percent less than the average closing price of the shares for the last five trading days of the previous calendar year. The award vested over four years with one quarter of the shares vesting each year. Full payment was required upon exercising the option. Upon resignation of an eligible Director, all unvested shares would be forfeited and the option price received for the forfeited unvested shares would be refunded. Only one Director accepted the offer on February 10, 2001 for the 29,282 shares granted under the option. The \$164 received as proceeds of this plan was included in additional paid-in capital. On February 28, 2002, 2003, 2004 and 2005 the Company issued to the Director the 7,321, 7,321, 7,321 and 6,655 common shares, respectively, that vested on those dates.

On November 1, 2001, the terms of the plan for prospective grants were amended to require only 15% of the exercise price to be paid upon exercise date and that the resignation of a director would no longer result in a forfeiture of the subscribed shares. The plan entitles the directors to a grant of options of a price established at the prior yearend. The ownership of the awards will transfer after four years. Optionees must pay 15% of the option price, which is the average closing price of the shares for the last five trading days of year 2001, at the time of exercising the option. The balance of 85% must be paid on or before the end of the holding period. The resignation of a Director following his or her exercise of the Grant of Options and payment of the Option Price shall not cause a forfeiture of the subscribed shares. All the eligible non-employee Directors accepted the offer before February 28, 2002 and \$50 was received towards the 15% of the option price. During the year 2006, the Company received before the end of the holding period, the balance 85% amounting to \$283 from the Directors and the 96,800 shares were issued to the Directors on February 28, 2006. Out of the total proceeds, \$1 being the par value of the shares issued, was included in share capital and the balance of \$332 was included in additional paid in capital.

On February 27, 2002, the terms of the plan for prospective grants were amended to require only 10% of the exercise price to be paid upon exercise date. The plan entitles the directors to a grant of options at a price established at the prior yearend. The ownership of the awards will transfer after four years. Optionees must pay 10% of the option price, which is the average closing price of the shares for the last five trading days of year 2002, at the time of exercising the option. The balance of 90% must be paid on or before the end of the holding period. The resignation of a Director following his or her exercise of the grant of options and payment of the option price shall not cause a forfeiture of the subscribed shares. Three eligible directors accepted the offer before February 28, 2003. The \$30 received towards the 10% of the option price was included in the additional paid in capital in 2003.

On May 8, 2003, shareholders approved the amendments to the 2000 Non-Employee Directors Share Option Plan to allow both employee and non-employee Directors to participate prospectively in the plan. The plan was renamed as Directors Purchase Plan by the Board of Directors on August 14, 2003.

Directors purchasing the shares under the plan pay 10% of the purchase price, which is the average closing price of the shares for the last five trading days of year 2003, on or before February 28, 2004. The balance of 90% will be paid by February 28, 2008 and the shares will be issued thereafter. The resignation of a Director following his or her purchase of the shares and payment of the 10% initial installment shall not cause

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a forfeiture of the purchased shares. Six directors opted to purchase 29,282 shares each and one director opted to purchase part of the 29,282 shares. The amount of \$92 received towards the 10% of the purchase price was included in the additional paid in capital in 2004.

As per the terms of the Directors Purchase Plan, Directors purchasing the shares under the plan in year 2005, pay 10% of the purchase price which is the average closing price of the shares for the last five trading days of the year 2004, on or before February 28, 2005. The balance of 90% will be paid by February 28, 2009 and the shares will be issued thereafter. The resignation of a Director following his or her purchase of the shares and payment of the 10% initial installment shall not cause a forfeiture of the subscribed shares. Five directors opted to purchase 26,620 shares each. The amount of \$118 received towards the 10% of the purchase price was included in the additional paid in capital in 2005.

As per the terms of the Directors Purchase Plan, Directors purchasing the shares under the plan in year 2006, pay 10% of the purchase price which is the average closing price of the shares for the last five trading days of the year 2005, on or before February 28, 2006. The balance of 90% will be paid by February 28, 2010 and the shares will be issued thereafter. Failing to pay the 90% balance of the purchase price before the end of the holding period will result in the 10% deposit being forfeited and all rights under the purchase plan and the issuance of shares to automatically lapse and expire and the shares will not be issued. The resignation of a Director following his or her purchase of the shares and payment of the 10% initial installment shall not cause a forfeiture of the unissued shares, provided that the balance of the purchase price is paid in full on or before the due date thereof. Four directors opted to purchase 24,200 shares each. The amount of \$77 received towards the 10% of the purchase price was included in the additional paid in capital.

As per the terms of the Directors Purchase Plan, Directors purchasing the shares under the plan in year 2007, pay 10% of the purchase price which is the average closing price of the shares for the last five trading days of the year 2006, on or before February 28, 2007. The balance of 90% will be paid by February 28, 2011 and the shares will be issued thereafter. Failing to pay the 90% balance of the purchase price before the end of the holding period will result in the 10% deposit being forfeited and all rights under the purchase plan and the issuance of shares to automatically lapse and expire and the shares will not be issued. The resignation of a Director following his or her purchase of the shares and payment of the 10% initial installment shall not cause a forfeiture of the unissued shares, provided that the balance of the purchase price is paid in full on or before the due date thereof. Four directors opted to purchase 22,000 shares each and one director opted to purchase part of the 22,000 shares. The amount of \$155 received in January and February 2007 towards the 10% of the purchase price will be included in the additional paid in capital in 2007.

A summary of share option activity under Directors Purchase Plan during the year ended December 31, 2006 was as follows:

	Shares	Weighted average exercise price
Outstanding at January 1, 2006	-	-
Granted	140,000	9.596

Exercised	80,000	9.596
Forfeited	-	-
Expired	60,000	9.596
Outstanding at December 31, 2006	-	-
Exercisable at December 31, 2006	-	-

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**25. Credit Facilities**

The Company holds a Documentary Credit facility with the Hongkong and Shanghai Banking Corporation Limited, for providing documentary credits to the Company's suppliers. This facility has a maximum limit of \$577. As at December 31, 2006, the unutilized amount under this facility was approximately \$548. Hongkong and Shanghai Banking Corporation Limited has also provided guarantees on behalf of the Company to the Company's suppliers. As at December 31, 2006, such guarantees amounted to \$3.

**26. Other Commitments**

The Company has entered into a number of licence agreements during the year 2004 for its exhibition events amounting to \$29,730 including fee increases for year 2007 and 2008, in payments over five (5) years. The agreements are cancelable under Force Majeure conditions, and with the consent of the other party but may be subject to a payment penalty. As of December 31, 2006 the amount paid under these agreements was \$13,896. The amount paid is expensed when the related events are held.

The Company also entered into several agreements for the event specific promotion of exhibition events amounting to \$3,978 in payments over four years. The amount paid under these agreements as of December 31, 2006 was \$2,686.

In August 2005, one of the Company's subsidiaries, eMedia Asia Limited ("eMedia") entered into an agreement with Penton Media Inc, ("Penton") to publish and distribute, in certain Asian territories, local language editions of Penton's "Electronic Design" publication, relating to the electronic design industry. The first such edition to be launched is a simplified Chinese edition in mainland China entitled "Electronic Design-China", the online website of which was launched in January 2006, and the first monthly issue of which was launched in March 2006. Under the agreement eMedia pays Penton forty per cent of the net after-tax profits of the business and also an annual content license fee for usage of Penton's editorial material.

**27. Bonus Shares**

On March 6, 2006, the Company announced a one for ten bonus share issue on the Company's outstanding common shares. Shareholders of record on March 15, 2006 received one additional common share for every ten common shares held, of face value of \$0.01 each. The bonus share issue was distributed on April 17, 2006. In addition, the Company has reclassified \$35 and \$35 from additional paid in capital to common share capital as of December 31, 2005 and 2006, respectively.

**28. Purchase of Shares of HC International, Inc.**

HC International, Inc. ("HC International") is a company listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. On May 24, 2006, Trade Media Holdings Limited ("TMH"), a wholly owned subsidiary of the Company, IDG Technology Venture Investment, Inc. ("IDGVC") and International Data Group, Inc. ("IDG") entered into a conditional sale and purchase agreement (the "Sale and Purchase Agreement") pursuant to which IDGVC agreed to transfer 47,858,000 shares or 10% of the issued share capital of HC International, being part of its shareholding interests in HC International, to TMH at a consideration of approximately \$9,875 or approximately \$0.2063 per share, of HC International (the "HC Share(s)"), which is subject to adjustment to approximately \$13,862 or approximately

\$0.2896 per HC Share (the “HC Share Transfer”), if and when HC International achieves a certain benchmark with reference to the HC International group’s performance during the Option Period (as defined below) or upon completion of the sale and purchase of the Option HC Shares (as defined below). IDG, being the sole shareholder of IDGVC, agreed to guarantee the due and punctual discharge by IDGVC of its obligations under the Sale and Purchase Agreement.

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**(In U.S. Dollars Thousands, Except Number of Shares and Per Share Data)**

The Company announced the completion of the above transaction via a press release dated June 21, 2006. As of December 31, 2006 the Company owns, together with 5,916,000 HC Shares owned by the Company prior to the Sale and Purchase Agreement (which represent approximately 1.24% of the issued share capital of HC International) and 8,878,000 HC Shares purchased by TMH after the completion of the Sale and Purchase Agreement (which represent approximately 1.87% of the issued share capital of HC International), an approximate 13.09% total equity interest in HC International. On August 1, 2006 HC International appointed the Company's Chief Operating Officer, John Craig Pepples, as a non-executive director on the board of directors of HC International and subsequently Beijing Huicong International Information Co., Ltd. appointed him as a non-executive director on the board of directors of Beijing Huicong International Information Co., Ltd.

TMH also entered into a call options deed (the "HC Options Deed") with IDGVC, Guo Fansheng ("Guo") and others which include certain members of the senior management of HC International (the "Option Grantors"), pursuant to which each of the aforesaid Option Grantors agreed to grant to TMH, (i) a right (the "HC Options") exercisable during the 12-month period from June 21, 2006, the date of the completion of the Sale and Purchase Agreement (the "Option Period"), to purchase all, but not in part only, of the 167,722,814 HC Shares owned by the respective parties (representing approximately 35.05% of the entire issued share capital of HC International) and any HC Shares that may be issued by HC International to certain directors of HC International if the options granted in accordance with the share option schemes of HC International (amounting to an aggregate of 4,185,320 Option HC Shares) are exercised, which together amount to a maximum of approximately 35.61% of the entire issued share capital of HC International (the "Option HC Share(s)") at an exercise price of approximately \$0.2896 per Option HC Share; and (ii) an undertaking to accept any offer for the Option HC Shares at a price not less than approximately \$0.2896 per Option HC Share, during the Option Period. Huicong Construction Co., Ltd. ("Huicong Construction"), in which Guo has an 80% equity interest, entered into a call option deed (the "Beijing Huicong Option Deed" and together with the HC Options Deed, the "Option Deeds") with TMH, pursuant to which Huicong Construction agreed to grant to TMH a right (the "Beijing Huicong Option" and together with the HC Options, the "Options") exercisable during the Option Period, to purchase (or to nominate a subsidiary of TMH to purchase) from Huicong Construction its entire 18% equity interest ("Beijing Huicong Equity Interest") in Beijing Huicong International Information Co., Ltd. ("Beijing Huicong"), a 82% indirect subsidiary of HC International, at an aggregate exercise price of approximately \$31,916.

The HC Options and the Beijing Huicong Option are inter-conditional. The sale and purchase of the Beijing Huicong Equity Interest is subject to confirmation from the Securities and Futures Commission ("SFC"). If the SFC's confirmation is not forthcoming, the sale and purchase of the Beijing Huicong Equity Interest will not be completed but TMH may proceed with the completion of the sale and purchase of the Option HC Shares.

Pursuant to the terms of the Beijing Huicong Option Deed and subject to the completion of the sale and purchase of the Beijing Huicong Equity Interest, Huicong Construction will also be required to transfer or assign its licenses and related contracts in relation to the provision of internet information and content services in the People's Republic of China to a TMH-nominated company, but pending such transfer or assignment, Huicong Construction has agreed to continue to provide services in relation to the internet content provider license to Beijing Huicong in the same manner and on the same terms as currently agreed.

The exercise and completion of the HC Options by TMH, if materialized, will result in a change in control of HC International (as the Company's aggregate shareholding in HC International will increase from approximately 13.09%



to a maximum of approximately 48.14%) and will trigger an obligation on the part of TMH to make a general offer in compliance with Rule 26 of the Hong Kong Code on Takeovers and Mergers to acquire all the issued HC Shares (other than those already owned by TMH or parties acting in concert with it).

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**(In U.S. Dollars Thousands, Except Number of Shares and Per Share Data)**

The Company has recorded the \$14,503 being the approximately 13.09% equity interest in HC International, at fair value based on the closing share price of HCI, as at December 31, 2006, of \$0.23148 per share, as available-for-sale securities in the Company's financial statements as at December 31, 2006. The unrealized market gain of \$2,265, has been credited to accumulated other comprehensive income, shown under shareholders' equity.

As a part of this transaction, the Company also acquired the following as mentioned in the above paragraphs:

- (i) The HC Options and the Beijing Huicong Option.
- (ii) The option to acquire the licences and related contracts in relation to the provision of internet information and content services held by Huicong Construction.

In addition, the Company has a contingent payable, subject to HC International achieving a certain benchmark with reference to the HC International group's performance during the Option Period as stated in the above paragraphs.

The options were recorded as a current asset in the Company's balance sheet and the contingent payable was recorded as a liability as at acquisition date.

As the option was out of money and the likelihood of the payment of the contingent liability is remote due to the reported losses of the HC International subsequent to the date of transaction, the Company has recorded full impairment charge relating to the option assets and has written off the contingent payable in the Company's financial statements as of December 31, 2006, the net of which was \$743.

## **29. Reclassification**

Certain prior year amounts have been reclassified to conform to the current year presentation. Effective from the year 2006, the Company has presented the non-cash compensation expenses associated with the employee equity compensation plans and Directors Purchase Plan under the respective categories of expenses in the income statement as required under SAB 107. Accordingly, such non-cash compensation expenses for prior years have been reclassified to respective categories of expenses to conform to the current year presentation.

## **30. Post Balance Sheet Events**

On March 5, 2007, the Company announced a one for ten bonus share issue on the Company's outstanding common shares. Shareholders of record on March 16, 2007 will receive one additional common share for every ten common shares held, of face value of \$0.01 each. The bonus share issue will be distributed on or about April 16, 2007. All common shares and per share amounts in the consolidated financial statements and related notes have been retroactively adjusted to reflect the one for ten bonus share issue for all periods presented. In addition, the Company has reclassified \$38 and \$38 from additional paid in capital to common share capital as of December 31, 2005 and 2006, respectively.

In March 2007, a subsidiary of the Company entered into a number of venue license agreements for its exhibition events amounting to \$44,396 in payments over five and a half years. The agreements are cancellable under Force Majeure conditions, or upon notice and payment of cancellation charges to the other party.

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During the first quarter of 2007, the Company entered into a letter of intent, followed by a purchase agreement, to purchase approximately 1,939.38 square meters of office space in a commercial building known as “Excellence Times Square” in Shenzhen, China, at a purchase price of approximately \$7,000, out of which a total down-payment of approximately \$91 has been made, with the total remaining balance of approximately \$6,909 being payable in or around April 2007. Delivery of the office space to the Company is expected to be completed in or around April 2007.

**ITEM 9. THE OFFER AND LISTING****Price history of stock**

The following table sets forth the high and low per share closing prices for our common shares for the periods indicated, as adjusted for the one for ten bonus share issues announced on February 16, 2004 and on March 1, 2005.

<b>Period</b>	<b>High</b>	<b>Low</b>
Year 2002	\$ 3.69	\$ 1.89
Year 2003	\$ 7.35	\$ 2.69
Year 2004	\$ 12.27	\$ 4.27
Year 2005	\$ 16.81	\$ 4.88
Year 2006	\$ 14.58	\$ 6.89
First Quarter 2005	16.81	7.36
Second Quarter 2005	9.28	4.88
Third Quarter 2005	7.85	5.72
Fourth Quarter 2005	8.07	5.52
First Quarter 2006	9.41	7.58
Second Quarter 2006	10.13	6.89
Third Quarter 2006	10.60	6.89
Fourth Quarter 2006	14.58	7.84
First Quarter 2007	16.93	11.29
December 2006	16.20	11.33
January 2007	18.81	15.01
February 2007	18.67	13.10
March 2007	15.62	13.93
April 2007	19.85	13.90
May 2007	22.48	16.41

**Markets**

Our shares are listed and traded under the symbol "GSOL" on the Nasdaq National Market.

**ITEM 10. ADDITIONAL INFORMATION****Memorandum and Articles of Association****Description of shareholder rights attaching to our common shares**

The following discussion of our common shares, and the laws governing the rights of our shareholders, is based upon the advice of Appleby, our Bermuda counsel.

Our authorized share capital consists of 75,000,000 common shares, par value \$0.01 per share. A bonus share distribution of one share for every ten shares was issued to all of our shareholders of record on March 16, 2007 and distributed on or about April 16, 2007. As of April 30, 2007, we had 42,337,568 common shares issued and outstanding.

- *Holders of common shares have no preemptive, redemption, conversion or sinking fund rights.*
- *Holders of common shares are entitled to one vote per share on all matters submitted to a vote of holders of common shares and do not have any cumulative voting rights.*
- *In the event of our liquidation, dissolution or winding-up, the holders of common shares are entitled to share ratably in our assets, if any, remaining after the payment of all our debts and liabilities.*
- *Our outstanding common shares are fully paid and non-assessable. Non-assessable as that term is understood under Bermuda Law means in relation to fully-paid shares of a company and subject to any contrary provision in any agreement in writing between such company and the holder of shares, that no shareholder shall be obliged to contribute further amounts to the capital of the company, either in order to complete payment for their shares, to satisfy claims of creditors of the company, or otherwise; and no shareholder shall be bound by an alteration of the memorandum of association or bye-laws of the company after the date on which he became a shareholder, if and so far as the alteration requires him to take, or subscribe for additional shares, or in any way increases his liability to contribute to the share capital of, or otherwise to pay money to, the company.*
- *Additional authorized but unissued common shares may be issued by the board of directors without the approval of the shareholders.*

The holders of common shares will receive dividends, if any, as may be declared by the board of directors out of funds legally available for purposes. We may not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that:

- *we are, or after the payment would be, unable to pay our liabilities as they become due; or*
- *the realizable value of our assets after such payment or distribution would be less than the aggregate amount of our liabilities and our issued share capital and share premium accounts.*

The following is a summary of provisions of Bermuda law and our organizational documents, including the bye-laws. We refer you to our memorandum of association and bye-laws, copies of which have been filed with the SEC. You are urged to read these documents for a complete understanding of the terms of the memorandum of association and bye-laws.

### **Share Capital**

Our authorized capital consists of one class of common shares. Under our bye-laws, our board of directors has the power to issue any authorized and unissued shares on such terms and conditions as it may determine. Any shares or class of shares may be issued with such preferred, deferred, qualified or other special rights or such restrictions, whether in regard to dividend, voting, return of capital or otherwise, as we may from time to time by resolution of the shareholders prescribe.

### **Voting Rights**

Generally, under Bermuda law and our bye-laws, questions brought before a general meeting are decided by a simple majority vote of shareholders present or represented by proxy. Each shareholder is entitled to one vote for each share held. Matters will be decided by way of votes cast on a show of hands, unless a poll is demanded.

If a poll is demanded, each shareholder who is entitled to vote and who is present in person or by proxy has one vote for each common share entitled to vote on such question. A poll may only be demanded under the bye-laws by:

- *the chairman of the meeting;*
- *at least three shareholders present in person or by proxy;*
- *any shareholder or shareholders present in person or by proxy and holding between them not less than one-tenth of the total voting rights of all shareholders having the right to vote at such meeting; or*
- *a shareholder or shareholders present in person or represented by proxy holding shares conferring the right to vote at such meeting, being common shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all such common shares conferring such right.*

No shareholder shall, unless the board of directors otherwise determines, be entitled to vote at any general meeting unless all calls or other sums presently payable by that shareholder in respect of all shares held by such shareholder have been paid.

### **Dividend Rights**

Under Bermuda law, a company may declare and pay dividends unless there are reasonable grounds for believing that the company is, or would, after the payment, be unable to pay its liabilities as they become due or that the realizable value of the company's assets would thereby be less than the aggregate of its liabilities and issued share capital and share premium accounts.

Under our bye-laws, each share is entitled to a dividend if, as and when dividends are declared by the board of directors. The board of directors may determine that any dividend may be paid in cash or will be satisfied in paying up in full in our common shares to be issued to the shareholders credited as fully paid or partly paid. The board of directors may also pay any fixed cash dividend which is payable on any of our common shares half-yearly or on other dates, whenever our position, in the opinion of the board of directors, justifies such payment.

Dividends, if any, on our common shares will be paid at the discretion of our board of directors and will depend on our future operations and earnings, capital requirements, surplus and general financial conditions, as our board of directors may deem relevant.

We have not paid any cash dividends on our common shares since October 1999. Previously, we paid dividends as a private company as a means to distribute earnings to shareholders. Beginning in October 1999, we have focused on the implementation of our growth plans, and we have retained earnings in furtherance of such plans. The Company's board of directors reviews its options for the use of cash on a regular basis, including whether or not to pay any cash dividends.

### **Purchase by a Company of its Own Common Shares**

We may purchase our own common shares out of the capital paid up on the common shares in question or out of funds that would otherwise be available for dividend or distribution or out of the proceeds of a fresh issue of common shares made for the purposes of the purchase. We may not purchase our shares if, as a result, our issued share capital would be reduced below the minimum capital specified in our memorandum of association.

However, to the extent that any premium is payable on the purchase, the premium must be provided out of the funds of the company that would otherwise be available for dividend or distribution or out of a company's share premium account. Any common shares purchased by a company are treated as cancelled and the amount of the company's



issued capital is diminished by the nominal value of the shares accordingly but shall not be taken as reducing the amount of the company's authorized share capital. However, pursuant to recent changes to the Companies Act 1981 of Bermuda, effective December 29, 2006, a company may purchase its own shares, to be held as treasury shares, if authorized to do so by its memorandum of associa-

tion or bye-laws. A proposed resolution for the amendment of our bye-laws, to authorize us to purchase our own shares, to be held as treasury shares, was put forth to our shareholders for approval at our Annual General Meeting, held on June 18, 2007 (Hong Kong time). The resolution was approved by our shareholders, so we are now able to acquire our own shares and hold them as treasury shares, subject always of course to the provisions of the Companies Act 1981 of Bermuda, to the Securities laws of the United States and to the rules of Nasdaq National Market.

### **Preemptive Rights**

Our bye-laws do not provide the holders of our common shares with preemptive rights in relation to any issues of common shares held by us or any transfer of our shares.

### **Variation of Rights**

We may issue more than one class of shares and more than one series of shares in each class. If we have more than one class of shares, the rights attached to any class of shares may be altered or abrogated either:

- *with the consent in writing of the holders of not less than seventy-five percent of the issued common shares of that class; or*
- *with the sanction of a resolution passed at a separate general meeting of the holders of such common shares, voting in proxy or present, at which a quorum is present.*

The bye-laws provide that a quorum for such a meeting shall be two persons present in person or by proxy representing a majority of the shares of the relevant class. The bye-laws specify that the creation or issue of shares ranking on parity with existing shares will not, subject to any statement to the contrary in the terms of issue of those shares or rights attached to those shares, vary the special rights attached to existing shares.

### **Transfer of Common Shares**

Subject to the “Transfer Restrictions” section below, a shareholder may transfer title to all or any of his shares by completing an instrument of transfer in the usual common form or in such other form as the board of directors may approve.

### **Transfer Restrictions**

The board of directors may in its absolute discretion and without assigning any reason refuse to register the transfer of any share that is not fully paid.

The board of directors may refuse to register an instrument of transfer of a share unless it:

- *is duly stamped, if required by law, and lodged with us;*
- *is accompanied by the relevant share certificate and such other evidence of the transferor’s right to make the transfer as the board of directors shall reasonably require;*
  - *has obtained, where applicable, permission of the Bermuda Monetary Authority; and*
  - *is in respect of one class of shares.*

A “blanket” authorization has been obtained from the Bermuda Monetary Authority for all transfers of our common shares between persons who are not resident in Bermuda for exchange control purposes, provided our common shares remain listed on an “appointed stock exchange” (which includes listing on the Nasdaq National Market).

### **Transmission of Shares**

In the event of the death of a shareholder, the survivor or survivors, where the deceased shareholder was a joint holder, or the legal personal representative of such shareholder, including executors and administrators, shall be the only persons recognized by us as having any title to the shareholder shares.

### **Disclosure of Interests**

Our bye-laws provide that a director who has at least a five percent interest, directly or indirectly, in an entity that is interested in a contract or proposed contract or arrangement with us, shall declare the nature of such interest at the first opportunity at a meeting of the board of directors, or by writing to the board of directors. If the director has complied with the relevant sections of the Companies Act and the bye-laws with regard to the disclosure of his interest, the director may vote at a meeting of the board of directors or a committee thereof on a contract, transaction or arrangement in which that director is interested and he will be taken into account in ascertaining whether a quorum is present.

Under Bermuda law, the Company may not make loans to directors unless approved by a majority of the shareholders holding 90% of the voting rights.

### **Rights in Liquidation**

Under Bermuda law, in the event of liquidation, dissolution or winding-up of a company, after satisfaction in full of all claims of creditors and subject to the preferential rights accorded to any series of preferred stock, the proceeds of such liquidation, dissolution or winding-up are distributed among the holders of shares in accordance with a company's bye-laws.

Under our bye-laws, if we are wound up, the liquidator may, with the sanction of a resolution from us and any sanction required by the Companies Act, divide amongst the shareholders in specie or kind the whole or part of our assets, whether they shall consist of property of the same kind or not and may for such purposes set such values as he deems fair upon any property to be divided as set out above and may determine how such division shall be carried out as between the shareholders.

### **Meetings of Shareholders**

Under Bermuda law, a company is required to convene at least one general meeting per calendar year. The directors of a company, notwithstanding anything in its bye-laws, shall, on the requisition of the shareholders holding at the date of the deposit of the requisition not less than one-tenth of the paid-up capital of the company carrying the right of vote, duly convene a special general meeting.

The bye-laws provide that the board of directors may convene a special general meeting whenever in their judgment such a meeting is necessary. Unless the bye-laws of a company specify otherwise, Bermuda law requires that shareholders be given at least five days' notice of a meeting of the company. Our bye-laws extend this period to provide that at least 21 days' written notice of a general meeting must be given to those shareholders entitled to receive such notice. The accidental omission to give notice to or non-receipt of a notice of a meeting by any person does not invalidate the proceedings of a meeting.

Under Bermuda law the number of shareholders constituting a quorum at any general meeting of shareholders may not be less than two individuals. Our bye-laws add to this quorum requirement to provide that no business can be

transacted at a general meeting unless a quorum of at least two shareholders representing a majority of the issued shares of the company are present in person or by proxy and entitled to vote. A shareholder present at a general meeting or a meeting of a class of shareholders in person or by proxy shall be deemed to have received appropriate notice of the meeting.

Under our bye-laws, notice to any shareholders may be delivered either personally, by electronic means or by sending it through the post, by airmail where applicable, in a pre-paid letter addressed to the shareholder at his address as appearing in the share register or by delivering it to, or leaving it at such registered address

or, in the case of delivery by electronic means, by delivering it to the shareholder at such address as may be provided to the company by the shareholder for such purpose. A notice of a general meeting is deemed to be duly given to the shareholder if it is sent to him by cable, telex, telecopier or electronic means.

### **Access to Books and Records and Dissemination of Information**

Under Bermuda law, members of the general public have the right to inspect the public documents of a company available at the office of the Bermuda Registrar of Companies. These documents include the memorandum of association and any alteration to the memorandum of association.

Our shareholders and directors have the additional right to inspect our minute books and our audited financial statements, which must be presented at an annual general meeting. For the avoidance of doubt, with respect to the aforesaid inspection of our minute books, our shareholders only have the right under our bye-laws to inspect minutes of shareholder meetings.

Our bye-laws provide that our register of shareholders is required to be open for inspection during normal business hours by shareholders without charge and to members of the general public on the payment of a fee. A company is required to maintain its share register in Bermuda but may, subject to the provisions of the Companies Act, establish a branch register outside of Bermuda. We have established a branch register with our transfer agent, Mellon Investor Services, LLC, at 85 Challenger Road, Ridgefield Park, NJ 07660, USA.

Under Bermuda law, a company is required to keep at its registered office a register of its directors and officers that is open for inspection for not less than two hours in each day by members of the public without charge. Our bye-laws extend this obligation to provide that the register of directors and officers be available for inspection by the public during normal business hours. Bermuda law does not, however, provide a general right for shareholders to inspect or obtain copies of any other corporate records.

### **Election or Removal of Directors**

The bye-laws provide that the number of directors will be such number not less than two, as our shareholders by resolution may from time to time determine. A director will serve until his successor is appointed or his prior removal in the manner provided by the Companies Act or the bye-laws. Our bye-laws provide that at each annual general meeting one-third of the directors will retire from office on a rotational basis based on length of time served. A director is not required to hold shares in a company to qualify to join the board, and once appointed may sit on the board regardless of age, unless the bye-laws provide otherwise. Our bye-laws do not require qualifying shares to join the board and do not set age limits for directors who serve on the board. All directors must provide written acceptance of their appointment within thirty days of their appointment.

The board has the power at any time and from time to time to appoint any individual to be a director so as to fill a casual vacancy. The board may approve the appointment of alternate directors.

We may, in a special general meeting called for this purpose, remove a director, provided notice of such meeting is served upon the director concerned not less than fourteen days before the meeting and he shall be entitled to be heard at that meeting.

The office of a director will be vacated in the event of any of the following:

- *if he resigns his office by notice in writing to be delivered to our registered office or tendered at a meeting of the board of directors;*

- *if he becomes of unsound mind or a patient for any purpose of any statute or applicable law relating to mental health;*
- *if he becomes bankrupt under the law of any country or compounds with his creditors;*

- *if he is prohibited by law from being a director;*
- *if he ceases to be a director by virtue of the Companies Act or is removed from office pursuant to the bye-laws;*
- *if he (or his alternate director, if any) is absent from more than three consecutive board of directors' meetings without the permission of the board of directors and the board of directors resolves that his office be vacated; or*
  - *if he is requested to resign in writing by not less than three quarters of the other directors.*

### **Amendment of Memorandum of Association and Bye-Laws**

Bermuda law provides that the memorandum of association of a company may be amended by a resolution passed at a general meeting of the shareholders of which due notice has been given. An amendment to a memorandum of association does not require the consent of the Minister of Finance save for specific circumstances, for example, the adopting of any objects which constitute restricted business activities under the Companies Act.

In certain limited circumstances, shareholders can apply to the court of Bermuda to annul an amendment to the memorandum of association.

Our bye-laws provide that they may be amended in the manner provided for in the Companies Act. The Companies Act provides that the directors may amend the bye-laws, provided that any such amendment shall be operative only to the extent approved by the shareholders.

### **Transactions with Interested Shareholders**

Our bye-laws prohibit us from engaging in a business combination with any interested shareholder unless the business combination is approved by two-thirds of the holders of our voting shares (other than shares held by that interested shareholder), or by a simple majority if the business combination is approved by a majority of continuing directors or if certain prescribed conditions are met assuring that we will receive fair market value in exchange for such business combination. In this context, a "business combination" includes mergers, asset sales and other material transactions resulting in a benefit to the interested shareholder or the adoption of a plan for our liquidation or dissolution; a "continuing director" is a member of our board of directors that is not an affiliate or associate of an interested shareholder and was a member of our board prior to such person becoming an interested shareholder; and an "interested shareholder" is any person (other than us or any of our subsidiaries, any employee benefit or other similar plan or any of our shareholders that received our shares in connection with our share exchange in 2000 prior to the listing of our shares on the Nasdaq National Market) that owns or has announced its intention to own, or with respect to any of our affiliates or associates, within the prior two years did own, at least 15% of our voting shares.

### **Appraisal Rights and Shareholder Suits**

#### *Amalgamation*

The Companies Act provides that, subject to the terms of a company's bye-laws, the amalgamation of a Bermuda company with another company requires the amalgamation agreement to be approved by the board of directors and at a meeting of the shareholders by seventy-five percent of the members present and entitled to vote at that meeting in respect of which the quorum shall be two persons holding or representing at least one-third of the issued shares of the company or class, as the case may be.



Our bye-laws alter the majority vote required and provide that any resolution submitted for the consideration of shareholders at any general meeting to approve a proposed amalgamation with another company requires the approval of two-thirds of the votes of disinterested shareholders cast at such meeting.

Under Bermuda law, in the event of an amalgamation of a Bermuda company, a shareholder who did not vote in favor of the amalgamation and who is not satisfied that fair value has been offered for such shareholder's shares, may apply to a Bermuda court within one month of notice of the meeting of shareholders to appraise the fair value of those shares.

#### *Class Actions and Derivative Actions*

Class actions and derivative actions are generally not available to shareholders under Bermuda law. Under Bermuda law, a shareholder may commence an action in the name of a company to remedy a wrong done to the company where the act complained of is alleged to be beyond the corporate power of the company, or is illegal or would result in the violation of the company's memorandum of association or bye-laws. Furthermore, consideration would be given by a Bermuda court to acts that are alleged to constitute a fraud against the minority shareholders or, for instance, where an act requires the approval of a greater percentage of the company's shareholders than those who actually approved it.

When the affairs of a company are being conducted in a manner which is oppressive or prejudicial to the interests of some part of the shareholders, one or more shareholders may apply to a Bermuda court, which may make such order as it sees fit, including an order regulating the conduct of the company's affairs in the future or ordering the purchase of the shares of any shareholders, by other shareholders or by the company.

#### **Capitalization of Profits and Reserves**

Under our bye-laws, the board of directors may resolve to capitalize all or any part of any amount for the time being standing to the credit of any reserve or fund which is available for distribution or to the credit of our share premium account; and accordingly make that amount available for distribution among the shareholders who would be entitled to it if distributed by way of a dividend in the same proportions and on the footing that the same may be paid not in cash but be applied either in or towards:

- *paying up amounts unpaid on any of our shares held by the shareholders; or*
- *payment up in full of our unissued shares, debentures, or other obligations to be allotted and credited as fully paid amongst such shareholders.*

As a proviso to the foregoing, the share premium account may be applied only in paying up unissued shares to be issued to shareholders credited as fully paid, and *provided, further*, that any sum standing to the credit of a share premium account may only be applied in crediting as fully paid shares of the same class as that from which the relevant share premium was derived.

#### **Registrar or Transfer Agent**

Our transfer agent and branch registrar is Computershare Investor Services, LLC. In addition to a register held by Computershare Investor Services, LLC, a register of holders of the shares is maintained by Appleby in Bermuda located at Canon's Court, 22 Victoria Street, Hamilton HM 12 Bermuda.

#### **Personal Liability of Directors and Indemnity**

The Companies Act requires every officer, including directors, of a company in exercising powers and discharging duties, to act honestly in good faith with a view to the best interests of the company, and to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The Companies Act further

provides that any provision whether in the bye-laws of a company or in any contract between the company and any officer or any person employed by the company as auditor exempting such officer or person from, or indemnifying him against, any liability which by virtue of any rule of law would otherwise attach to him, in respect of any fraud or dishonesty of which he may be guilty in relation to the company, shall be void.

Every director, officer, resident representative and committee member shall be indemnified out of our funds against all liabilities, loss, damage or expense, including liabilities under contract, tort and statute or any applicable foreign law or regulation and all reasonable legal and other costs and expenses properly payable, incurred or suffered by him as director, officer, resident representative or committee member; provided that the indemnity contained in the bye-laws will not extend to any matter which would render it void under the Companies Act as discussed above.

### **Material Contracts**

We believe that there are only the following material contracts outstanding.

During the first quarter of 2004, a subsidiary of the Company entered into a number of venue license agreements for our exhibition events amounting to approximately \$29.7 million including fee increases for year 2007 and 2008, in payments over five years. The agreements are cancelable under Force Majeure conditions, or with the consent of the other party, but may be subject to a payment penalty. As of December 31, 2006, the amount paid under these agreements was approximately \$13.9 million. In August 2005, one of the Company's subsidiaries, eMedia Asia Limited ("eMedia"), entered into an agreement with Penton Media Inc. ("Penton") to produce, publish and distribute, in certain Asian territories, local language editions of Penton's "Electronic Design" publication, relating to the electronic design industry. The first such edition launched pursuant to the agreement was a simplified Chinese edition in mainland China entitled *Electronic Design – China*, the online website of which was launched in January 2006, and the first print monthly issue of which was launched in March 2006. Under the agreement, eMedia pays Penton forty per cent of the net after-tax profits of the business. eMedia also entered into an agreement with Penton, under which eMedia is allowed to use and reproduce editorial content from Penton's electronics publications, including *Electronic Design*, *EE Product News* and *Microwaves & RF*, in consideration for which an annual content license fee is payable by eMedia to Penton.

HC International, Inc. ("HC International") is a company listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. On May 24, 2006, Trade Media Holdings Limited ("TMH"), a wholly-owned subsidiary of the Company, IDG Technology Venture Investment, Inc. ("IDGVC") and International Data Group, Inc. ("IDG") entered into a conditional sale and purchase agreement (the "Sale and Purchase Agreement") pursuant to which IDGVC conditionally agreed to transfer 47,858,000 shares of HC International (representing 9.81% of the issued share capital of HC International as of April 30, 2007), being part of its shareholding interests in HC International, to TMH at a consideration of approximately \$9.875 million or approximately \$0.2063 per share of HC International (the "HC Share(s)"), which is subject to adjustment to approximately \$13.862 million or approximately \$0.2896 per HC Share (the "HC Share Transfer"), if and when HC International achieves a certain benchmark with reference to the HC International group's performance during the Option Period (as defined below) ("Performance Benchmark") or upon completion of the sale and purchase of the Option HC Shares (as defined below). IDG, being the sole shareholder of IDGVC, agreed to guarantee the due and punctual discharge by IDGVC of its obligations under the Sale and Purchase Agreement.

On June 21, 2006, TMH completed the HC Share Transfer. The Company has announced, via a press release dated March 19, 2007, that the Performance Benchmark referred to above has not been met, and that accordingly TMH will not be required to make the price adjustment referred to above under the condition relating to the Performance Benchmark.

As of April 30, 2007, the Company and TMH collectively own, together with 5,916,000 HC Shares owned by the Company prior to the Sale and Purchase Agreement (representing approximately 1.21% of the issued share capital of HC International) and 8,878,000 HC Shares purchased by TMH after the completion of the Sale and Purchase Agreement (representing approximately 1.82% of the issued share capital of HC International), a total of 62,652,000

HC Shares (representing an approximate 12.84% total equity interest in HC International).

On August 1, 2006, HC International appointed the Company's Chief Operating Officer, John Craig Pepples, as a non-executive director on the board of directors of HC International. Subsequently, Beijing Hui-

cong International Information Co., Ltd. (“Beijing Huicong”), an 82% indirect subsidiary of HC International, also appointed him as a non-executive director on the board of directors of Beijing Huicong.

TMH also entered into a call options deed (the “HC Options Deed”) with IDGVC, Guo Fansheng (“Guo”) and others which include certain members of the senior management of HC International (the “Option Grantors”), pursuant to which each of the aforesaid Option Grantors agreed to grant to TMH, (i) a right (the “HC Options”) exercisable during the 12-month period from June 21, 2006, the date of the completion of the Sale and Purchase Agreement (the “Option Period”), to purchase all, but not in part only, of the 167,722,814 HC Shares owned by the respective parties (representing approximately 34.38% of the entire issued share capital of HC International as of April 30, 2007) and any HC Shares that may be issued by HC International to certain directors of HC International if the options granted in accordance with the share option schemes of HC International (amounting to an aggregate of 4,185,320 Option HC Shares) are exercised, which together represent a maximum of approximately 35.24% of the entire issued share capital of HC International as of April 30, 2007 (the “Option HC Share(s)”) at an exercise price of approximately \$0.2896 per Option HC Share; and (ii) an undertaking to accept any offer for the Option HC Shares at a price not less than approximately \$0.2896 per Option HC Share, during the Option Period.

Huicong Construction Co., Ltd. (“Huicong Construction”), in which Guo has an 80% equity interest, entered into a call option deed (the “Beijing Huicong Option Deed” and together with the HC Options Deed, the “Option Deeds”) with TMH, pursuant to which Huicong Construction agreed, subject to completion of the Sale and Purchase Agreement, to grant to TMH a right (the “Beijing Huicong Option” and together with the HC Options, the “Options”) exercisable during the Option Period, to purchase (or to nominate a subsidiary of TMH to purchase) from Huicong Construction its entire 18% equity interest (“Beijing Huicong Equity Interest”) in Beijing Huicong, at an aggregate exercise price of approximately \$31.916 million.

The HC Options and the Beijing Huicong Option are inter-conditional. The sale and purchase of the Beijing Huicong Equity Interest is subject to confirmation from the Securities and Futures Commission of Hong Kong (“SFC”). If the SFC’s confirmation is not forthcoming, the sale and purchase of the Beijing Huicong Equity Interest will not be completed but TMH may proceed with the completion of the sale and purchase of the Option HC Shares.

Pursuant to the terms of the Beijing Huicong Option Deed and subject to the completion of the sale and purchase of the Beijing Huicong Equity Interest, Huicong Construction will also be required to transfer or assign its licenses and related contracts in relation to the provision of internet information and content services in the People’s Republic of China to a TMH-nominated company, but pending such transfer or assignment, Huicong Construction has agreed to continue to provide services in relation to the internet content provider license to Beijing Huicong in the same manner and on the same terms as currently agreed.

The exercise and completion of the HC Options by TMH, if materialized, will result in a change in control of HC International (as the aggregate percentage shareholding of TMH and the Company in HC International will increase to over 30%) and will trigger an obligation on the part of TMH to make a general offer in compliance with Rule 26 of the Hong Kong Code on Takeovers and Mergers to acquire all the issued HC Shares (other than those already owned by TMH or parties acting in concert with it).

However, the Company has announced, via a press release dated June 18, 2007, that TMH will not be exercising the HC Options and the Beijing Huicong Option.

During the first quarter of 2007, a subsidiary of the Company entered into a number of venue license agreements for our exhibition events amounting to approximately \$44.396 million in payments over five and a half years. The agreements are cancellable under Force Majeure conditions, or upon notice and payment of cancellation charges to the other party.

We do not believe any of our other contracts to be material to the operation of our company, taken as a whole.

## **Exchange Controls**

### **Bermuda Law**

We have been designated as a non-resident under the Exchange Control Act of 1972 by the Bermuda Monetary Authority. This designation will allow us to engage in transactions in currencies other than the Bermuda dollar.

The Registrar of Companies (Bermuda) has neither approved nor disapproved of the securities to which this document relates, nor passed on the accuracy or adequacy of this document and accepts no responsibility for the financial soundness of any proposals or the correctness of any statements made or opinions expressed with regard to such securities. Approvals or permissions received from the Bermuda Monetary Authority do not constitute a guarantee by the Bermuda Monetary Authority as to our performance or our creditworthiness. Accordingly, in giving such approvals or permissions, the Bermuda Monetary Authority will not be liable for our performance or default or for the correctness of any opinions or statements expressed in this document.

The transfer of common shares between persons regarded as resident in Bermuda for exchange control purposes and the issue of common shares to such persons may be effected without specific consent under the Exchange Control Act and regulations thereunder. Issues and transfers of common shares to any person regarded as non-resident in Bermuda for exchange control purposes require specific prior approval from the Bermuda Monetary Authority under the Exchange Control Act.

There are no limitations on the rights of persons regarded as non-resident of Bermuda for foreign exchange control purposes owning our shares. Because we have been designated as a non-resident for Bermuda exchange control purposes, there are no restrictions on our ability to transfer funds, other than funds denominated in Bermuda dollars, in and out of Bermuda or to pay dividends to non-Bermuda residents who are holders of our shares, other than in respect of local Bermuda currency.

Under Bermuda law, share certificates are only issued in the names of corporations, partnerships or individuals. In the case of an applicant acting in a special capacity, for example an executor or a trustee, certificates may, at the request of the applicant, record the capacity in which the applicant is acting.

Notwithstanding the recording of any such special capacity, we are not bound to investigate or incur any responsibility in respect of the proper administration of any such estate or trust.

We will take no notice of any trust applicable to any of our common shares whether or not we had notice of such trust.

- *As an “exempted company,” we are exempt from Bermuda laws which restrict the percentage of share capital that may be held by non-Bermudians. However, as an exempted company we are generally not permitted to participate in most business transactions and activities conducted from within Bermuda, except in furtherance of our business carried on outside Bermuda or under a license granted by the Minister of Finance of Bermuda.*

## **Taxation**

### **Bermuda Taxation**

We have received from the Minister of Finance a written undertaking under the Exempted Undertakings Tax Protection Act, 1996 (as amended) of Bermuda, to the effect that in the event of there being enacted in Bermuda any legislation imposing tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any



tax in the nature of estate duty or inheritance tax, then the imposition of any such tax shall not be applicable to us or to any of our operations or to our shares, debentures or other obligations until March 28, 2016. These assurances are subject to the proviso that they are not construed so as to prevent the application of any tax or duty to such persons as are ordinarily resident in Bermuda or to

prevent the imposition of property taxes on any company owning real property or leasehold interests in Bermuda.

Currently there is no Bermuda withholding tax on dividends that may be payable by us in respect to the holders of our common shares. No income, withholding or other taxes or stamp duty or other duties are imposed upon the issue, transfer or sale of the shares or on any payment thereunder. There is no income tax treaty between Bermuda and the United States.

## **Documents On Display**

## **Where You May Find More Information**

We are required to comply with the reporting requirements of the Securities Exchange Act of 1934, as amended, applicable to a foreign private issuer. We will file annually a Form 20-F no later than six months after the close of our fiscal year, which is December 31. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. We will furnish our shareholders with annual reports, which will include a review of operations and annual audited consolidated financial statements prepared in conformity with U.S. GAAP. We may, although we are not obligated to do so, furnish our shareholders with quarterly reports by mail with the assistance of a corporate services provider, which may include unaudited interim financial information. We may discontinue providing quarterly reports at any time without prior notice to our shareholders.

Our reports and other information, when so filed, may be inspected and copied at the public reference facilities maintained by the Securities and Exchange Commission at Judiciary Plaza, 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549. Copies of such material may be obtained from the Public Reference Section of the Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates.

These reports and other information may also be inspected at the offices of the Nasdaq National Market, 1735 K Street, N.W., Washington, D.C. 20006.

## **ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We operate internationally and foreign exchange rate fluctuations may have a material impact on our results of operations. Historically, currency fluctuations have been minimal on a year-to-year basis in the currencies of the countries where we have operations. As a result, foreign exchange gains or losses in revenues and accounts receivable have been offset by corresponding foreign exchange losses or gains arising from expenses. However, during the Asian economic crisis of 1997 to 1998, both advertising sales and the value of Asian currencies declined, which caused a significant decline in revenue that was not fully offset by lower expense levels in Asian operations.

This decline in revenue occurred due to contracts being denominated and priced in foreign currencies prior to devaluations in Asian currencies. The conversion of these contract proceeds to U.S. dollars resulted in losses and reflects the foreign exchange risk assumed by us between contract signing and the conversion of cash into U.S. dollars.

The following table summarizes our foreign currency Accounts Receivable and provides the information in U.S. Dollar equivalent:

Currency	As of December 31, 2006 (in U.S. Dollars Thousands)				As of December 31, 2005 (in U.S. Dollars Thousands)			
	Expected maturity dates			Fair value	Expected maturity dates			Fair value
	2007	Thereafter	Total		2007	Thereafter	Total	
HKD	1,741	-	1,741	1,741	1,340	-	1,340	1,340
CNY	2,447	-	2,447	2,447	1,926	-	1,926	1,926
TWD	1,034	-	1,034	1,034	1,117	-	1,117	1,117
JPY	167	-	167	167	212	-	212	212
	5,389	-	5,389	5,389	4,595	-	4,595	4,595

We believe this risk is mitigated because historically a majority (ranging between 98% and 99%) of our revenue is denominated in U.S. dollars or is received in the Hong Kong currency, which is currently pegged to the U.S. dollar, the Chinese currency which historically remained relatively stable but slightly strengthened recently against the US Dollar and New Taiwan Dollar which is relatively stable against U.S.Dollar. Correspondingly, a majority (approximately 60% to 80%) of our expenses are denominated in Asian currencies. To the extent significant currency fluctuations occur in the New Taiwan dollar, and Chinese Renminbi or other Asian currencies relative to the U.S. dollar, or if the Hong Kong dollar is no longer pegged to the U.S. dollar, our profits would be affected.

As of December 31, 2006, we have not engaged in foreign currency hedging activities.

In the year ended December 31, 2006 and the year ended December 31, 2005, we derived more than 90% of our revenue from customers in the Asia-Pacific region. We expect that a majority of our future revenue will continue to be generated from customers in this region. Future political or economic instability in the Asia-Pacific region could negatively impact our business.

**ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES – (Not applicable)**

**PART II**

All financial information contained in this document is expressed in United States dollars, unless otherwise stated.

**ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES - (Not applicable)**

**ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS - (Not applicable)**

**ITEM 15. CONTROLS AND PROCEDURES - (Not applicable)**

**ITEM 15T. CONTROLS AND PROCEDURES**

**Disclosure Controls and Procedures**

The Company's management carried out an evaluation, with the participation of its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures (as defined in Rule

13(a)-15(e) under the Securities Exchange Act of 1934) as of December 31, 2006. Based

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upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of December 31, 2006.

### **Management's Annual Report on Internal Control over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with United States generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

Management maintains a system of controls intended to ensure that:

- (a) transactions are authorized;
- (b) assets are safeguarded; and
- (c) financial records are accurately maintained in reasonable detail and fairly reflect the transactions of the Company

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, based on the criteria set forth in the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management believes that, as of December 31, 2006, the Company's internal control over financial reporting is effective.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

### **Changes in internal control over financial reporting**

In conjunction with the Company's review and evaluation of its internal control over financial reporting during the year ended December 31, 2006, the Company implemented a number of measures to improve its internal control over financial reporting in various processes as it deemed necessary. The Company's management has assessed that, while these changes were an improvement to the Company's control activities, there have not been any changes in its internal control over financial reporting (as defined in Rule 13(a)-15(f) under the Exchange Act) during the year ended December 31, 2006 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting. Management continues to monitor the Company's business processes, and expects that it will continue to make improvements to its processes and controls in upcoming periods, in efforts to improve process efficiency and effectively utilize the Company's resources.

### **ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

Our audit committee financial expert is Roderick Chalmers, an independent director. Our other two audit committee members are David F. Jones and James Watkins, who are our independent directors.

### **ITEM 16B. CODE OF ETHICS**

We have adopted a Code of Ethics that applies to our chief executive officer, chief financial officer, chief accounting officer or controller and other persons performing similar functions. Our Code of Ethics is available on our website at

[www.corporate.globalsources.com](http://www.corporate.globalsources.com).

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During 2006, the Company did not grant any waiver, including any implicit waiver, from any provision of the Code of Ethics to the chief executive officer, chief financial officer, chief accounting officer or controller or other person performing similar functions.

#### **ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The following table sets forth the aggregate audit fees, audit-related fees, tax fees of our principal accountants and all other fees billed for products and services provided by our principal accountants for each of the fiscal years 2005 and 2006:

	<b>Year ended December 31,</b>	
	<b>2006</b>	<b>2005</b>
Audit fees	\$ 427,445	\$ 378,919
Audit-related fees	—	—
<b>Total</b>	<b>\$ 427,445</b>	<b>\$ 378,919</b>
Tax fees	1,800	1,800
All other fees	283,379	118,956
<b>Total fees</b>	<b>\$ 712,624</b>	<b>\$ 499,675</b>

Audit fees include fees associated with the review of the Company's annual financial statements and services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for those fiscal years.

Tax fees for year 2005 for tax compliance, tax advice and tax planning consisted of preparation of tax returns and review of tax provision for a subsidiary. For year 2006, such fees consisted of preparation of tax returns and review of tax provision for a subsidiary.

All other fees for year 2005 consisted mainly of cyber process certification for the Company's management's assertions on the computation of the number of Community membership, provision of information technology security assessment services and review of tax status. For year 2006, such fees consisted mainly of cyber process certification for the Company's management's assertions on the computation of the number of community membership, provision of information technology security assessment services, due diligence for an investment and review of tax status.

#### **Audit Committee's pre-approval policies and procedures**

Our Audit Committee nominates and engages our independent auditors to audit our financial statements. Our Audit Committee also requires management to obtain the Audit Committee's approval on a case-by-case basis before engaging our independent auditors to provide any audit or permitted non-audit services to us or our subsidiaries.

#### **ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES - (Not applicable)**

#### **ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS - (Not applicable)**

### **PART III**

All financial information contained in this document is expressed in United States dollars, unless otherwise stated.

**ITEM 17. FINANCIAL STATEMENTS – (Not applicable)**

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**ITEM 18. FINANCIAL STATEMENTS**

As provided in Item 8, the Company has presented financial statements in accordance with U.S. accounting standards in lieu of Item 18.

**ITEM 19. EXHIBITS**

**EXHIBIT INDEX**

<u>Exhibit No.</u>	<u>Description</u>
1.1	Memorandum of Association of the Company. *
1.2	Bye-laws of the Company. *
1.3	Amendments to the Bye-Laws of Global Sources Ltd., as approved at the May 6, 2002 Annual General Meeting of Shareholders. ++
2.1	Specimen Certificate. *
4.2	Form of executive officer employment agreement. *
4.3	Employment Agreement dated November 1, 1999, by and between Trade Media Holdings Limited and Merle Hinrichs. *
4.4	Amendment to Employment Agreement dated January 19, 2000, between Trade Media Holdings Limited and Merle Hinrichs. *
4.5	Employment Agreement dated as of January 29, 2000, by and between LER Corporation and Merle Hinrichs. *
4.6	Form of Restricted Stock Award and Agreement, dated as of January 29, 2000, by and between LER Corporation and Merle Hinrichs. *
4.7	Amendment No.1 to Restricted Stock Award and Agreement dated as of February 29, 2000, by and between LER Corporation and Merle Hinrichs. *
4.8	Form of The Global Sources Employee Equity Compensation Plan No. I. *
4.9	Form of The Global Sources Employee Equity Compensation Plan No. II. *
4.10	Form of The Global Sources Employee Equity Compensation Plan No. III. *
4.18	Form of The Global Sources Employee Equity Compensation Plan No. IV. **
4.19	Form of The Global Sources Employee Equity Compensation Plan No. V. **
4.20	Form of The Global Sources Employee Equity Compensation Plan No. VI. ***
4.21	Form of The Global Sources Employee Equity Compensation Plan No. VII. *****
4.22	Global Sources' Code of Ethics (approved and adopted by the Board of Directors on March 7, 2003). ###
4.23	Form of The Global Sources Employee Equity Compensation Plan No. V (Amended). *****
4.24	Placement Agency Agreement dated March 17, 2005, between the Company and W.R. Hambrecht & Co. LLC. #####
4.25	Form of Purchase Agreement between the Company and certain purchasers of the common shares. #####
4.26	Shenzhen International Chamber of Commerce Tower Subscription Agreement dated July 5, 2004 (English translation).++++
4.27	Real Estate Sales Contract of Shenzhen (Presale) dated August 31, 2004 (English translation).++++
4.28	Supplemental Agreement to the Contract on Purchasing Shenzhen International Commercial Chamber Center Premises dated August 31, 2004 (English

- translation).++++
- 4.29 Summary Table of Property Units and Payment Amounts.++++
- 4.30 Supplementary Agreement Concerning Alteration of Payment Method dated December 3, 2004 (English translation).++++
- 4.31 Sale and Purchase Agreement, dated May 24, 2006, by and between IDG Technology Venture Investment, Inc., Trade Media Holdings Limited and International Data Group, Inc. ~
- 4.32 Call Option Deed Relating to Shares in HC International, Inc., dated May 24, 2006, between Trade Media Holdings Limited and other parties thereto. ~
- 4.33 Call Option Deed Relating to Equity Interest in Beijing Huicong International Information Co., Ltd., dated May 24, 2006, between Trade Media Holdings Limited and HC Construction Co., Ltd. ~
- 4.34 The Global Sources Ltd. Directors Purchase Plan (as of 5 November 2005).  
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- 4.35 The Global Sources Equity Compensation (2007) Master Plan. +++++
- 4.36 The Global Sources Share Grant Award Plan.
- 4.37 The Global Sources Retention Share Grant Plan.

**Exhibit**      **Description**  
**No.**

- 8.1            Subsidiaries of Global Sources Ltd.
- 12.1         Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 12.2         Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 13.1         Certification by the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes – Oxley Act of 2002.
- 13.2         Certification by the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes–Oxley Act of 2002.
- 14.1         Consent of Independent Accountants for incorporation of their report filed with Form 6-K into the Company’s previously filed Registration Statements File No. 333-59058 and 333-62132. \*\*\*\*\*
- 14.2         Changes in Registrant’s Certifying Accountant. +++
- 14.3         Letter to the SEC from the Company pursuant to SEC Release No. 33-8070, dated April 9, 2002. \*\*\*\*\*
- 14.4         Consent of Independent Accountants for incorporation of their report filed under Form 20-F into the Company’s previously filed Registration Statements File No. 333-104426, 333-59058 and 333-114411.
- 14.5         Press release dated February 16, 2004 to announce the bonus share issue by Global Sources Ltd. ##
- 14.6         Press release dated March 1, 2005 to announce the bonus share issue by Global Sources Ltd. #####
- 14.7         Press release dated March 6, 2006 to announce the bonus share issue by Global Sources Ltd. #####
- 14.8         Press release dated March 5, 2007 to announce the bonus share issue by Global Sources Ltd. #####

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- \*            Incorporated by reference to Form 20-F Annual Report of Global Sources Ltd. filed with the Securities and Exchange Commission on June 30, 2000.
  - \*\*          Incorporated by reference to Form 20-F Annual Report of Global Sources Ltd. filed with the Securities and Exchange Commission on April 5, 2001.
  - \*\*\*        Incorporated by reference to Form S-8 Registration Statement filed with the Securities and Exchange Commission on June 1, 2001.
  - \*\*\*\*       Incorporated by reference to Form 6-K filed with the Securities and Exchange Commission on April 25, 2002.
  - ~           Incorporated by reference to Form 20-F Annual Report of Global Sources Ltd. filed with the Securities and Exchange Commission on June 12, 2006 and confidential treatment requested (the confidential portions of such exhibits have been omitted and filed separately with the Securities and Exchange Commission)
  - \*\*\*\*\*    Incorporated by reference to Form S-8 Registration Statement filed with the Securities and Exchange Commission on April 10, 2003.
  - +           Incorporated by reference to Form 20-F Annual Report of Global Sources Ltd. filed with the Securities and Exchange Commission on April 30, 2002.
  - ++          Incorporated by reference to Form 6-K filed with the Securities and Exchange Commission on May 6, 2002.
  - +++

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Incorporated by reference to Form 6-K filed with the Securities and Exchange Commission on August 13, 2002.

++++ Incorporated by reference to Form 20-F Annual Report of Global Sources Ltd. filed with the Securities and Exchange Commission on May 13, 2005.

+++++ Incorporated by reference to Form S-8 Registration Statement filed with the Securities and Exchange Commission on November 7, 2006.

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- # Incorporated by reference to Form 20-F Annual Report of Global Sources Ltd. filed with the Securities and Exchange Commission on May 05, 2003.
- ## Incorporated by reference to Form 6-K filed with the Securities and Exchange Commission on February 18, 2004.
- ### Incorporated by reference to Form 20-F Annual Report of Global Sources Ltd. filed with the Securities and Exchange Commission on May 4, 2004.
- #### Incorporated by reference to Form 6-K filed with the Securities and Exchange Commission on March 21, 2005.
- ##### Incorporated by reference to Form 6-K filed with the Securities and Exchange Commission on March 8, 2005.
- ##### Incorporated by reference to Form 6-K filed with the Securities and Exchange Commission on March 7, 2006
- ##### Incorporated by reference to Form 6-K filed with the Securities and Exchange Commission on March 7, 2007

SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

GLOBAL SOURCES  
LTD.

By: /s/ EDDIE

HENG

Eddie Heng, Director  
and Chief Financial  
Officer

Date: June 28, 2007