

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2005

## 1. Group Restructuring and Basis of Presentation of Financial Statements

The Company was incorporated in Bermuda under The Companies Act with limited liability on January 27, 2004 and its shares have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from May 12, 2005.

Pursuant to a group reorganisation scheme to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Stock Exchange (the "Group Reorganisation"), the Company became the holding company of the Group on March 17, 2005. Details of the Group Reorganisation were set out in the prospectus issued by the Company dated April 28, 2005.

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the financial statements of the Group for the year ended June 30, 2004 and June 30, 2005 have been prepared on the basis as if the Company had always been the holding company of the Group using the principles of merger accounting in accordance with the Statement of Standard Accounting Practice No. 27 "Accounting for the Group Reconstructions" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The Company acts as an investment holding company. The activities of the Company's principal subsidiaries are set out in note 13.

## 2. Potential Impact Arising from the Recently Issued Accounting Standards

In 2004, the HKICPA issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after January 1, 2005 except for HKFRS 3 "Business Combinations". The Group and the Company has not early adopted the new HKFRSs in the financial statements for the year ended June 30, 2005.

HKFRS 3 is applicable to business combination for which the agreement date is on or after January 1, 2005. The Group has not entered into any business combination for which the agreement date is on or after January 1, 2005. Therefore, HKFRS 3 did not have any impact on the Group for the year ended June 30, 2005.

The Group and the Company has commenced considering the potential impact of other new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2005

## 3. Significant Accounting Policies

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to June 30 each year.

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

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

### **Negative goodwill**

Negative goodwill arising on acquisition with agreement date before January 1, 2005 represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition over the cost of acquisition.

Negative goodwill is presented as a deduction from assets. To the extent that such negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identified non-monetary assets, it is recognised in income immediately.

### **Revenue recognition**

Sales of goods are recognised when goods are delivered and title has passed.

Interest income from bank deposits is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Rental income, including rental invoiced in advance from properties let under operating leases, is recognised on a straight line basis over the period of the relevant lease.

Management fee income is recognised when the services are provided.

### **Investments in subsidiaries**

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment losses.

### 3. Significant Accounting Policies *(Continued)*

#### Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates.

#### Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost less depreciation and amortisation and accumulated impairment losses.

Construction in progress are stated at cost, which includes land cost and the related construction cost, less accumulated impairment losses. No depreciation or amortisation is provided on construction in progress until the construction is completed and the properties and assets are ready for use.

Depreciation and amortisation is provided to write off the cost of assets, other than construction in progress, over their estimated useful lives, using the straight line method, at the following rates per annum:

Freehold land	Nil
Leasehold land and buildings	50 years or over the term of lease or land use rights, whichever is shorter
Leasehold improvements	20% or over the term of lease, whichever is shorter
Plant and machinery	10% – 33 $\frac{1}{3}$ %
Furniture, fixtures and equipment	20%
Motor vehicles	20% – 33 $\frac{1}{3}$ %
Computer equipment	20% – 33 $\frac{1}{3}$ %

Asset held under finance leases are depreciated over their estimated useful lives on the same basis as owned assets or, where shorter, the period of the relevant lease.

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

#### Inventories

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2005

## 3. Significant Accounting Policies *(Continued)*

### Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

### Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong are translated at the rates ruling on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such transaction differences are recognised as income or as expense in the period in which the operation is disposed of.

### Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

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

### 3. Significant Accounting Policies *(Continued)*

#### **Taxation** *(Continued)*

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

#### **Assets held under finance leases**

Leases are classified as finance leases when the terms of the leases transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance leases obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant leases so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the rentals payable are charged to the income statement on a straight line basis over the relevant lease term.

#### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as expenses in the period in which they are incurred.

#### **Retirement benefit costs**

Payments to the Hong Kong Mandatory Provident Fund Scheme ("MPF Scheme") and the state-managed retirement benefit schemes are charged as expenses as they fall due.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2005

## 3. Significant Accounting Policies *(Continued)*

### Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

## 4. Turnover

Turnover represents the gross amounts received and receivable for goods sold, less returns and allowances, by the Group to outside customers during the year.

## 5. Segment Information

### Business segments

For management purposes, the Group is currently organised into three operating divisions – satellite television reception products, connectors and cables and communication related products. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Satellite television reception products	–	manufacture and trading of satellite television reception products
Connectors and cables	–	manufacture and trading of connectors and cables
Communication related products	–	manufacture and trading of assorted electronic accessories

## 5. Segment Information *(Continued)*

Year ended June 30, 2005

	Satellite television reception products <i>HK\$'000</i>	Connectors and cables <i>HK\$'000</i>	Communication related products <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>TURNOVER</b>					
External sales	828,343	246,194	233,585	–	1,308,122
Inter-segment sales	–	11,805	–	(11,805)	–
<b>Total</b>	<b>828,343</b>	<b>257,999</b>	<b>233,585</b>	<b>(11,805)</b>	<b>1,308,122</b>
<b>RESULT</b>					
Segment result	99,505	38,928	23,191	–	161,624
Other operating income					29,012
Unallocated corporate expenses					(78,247)
Profit from operations					112,389
Finance costs					(7,913)
Gain on dissolution of subsidiary	1,410	–	–	–	1,410
Allowance for loans to associates	–	–	(334)	–	(334)
Profit before taxation					105,552
Income tax expense					(5,787)
<b>Profit for the year</b>					<b>99,765</b>

Inter-segment sales are charged at cost plus a percentage of profit mark-up.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2005

## 5. Segment Information *(Continued)*

At June 30, 2005

### BALANCE SHEET

	Satellite television reception products <i>HK\$'000</i>	Connectors and cables <i>HK\$'000</i>	Communication related products <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>ASSETS</b>				
Segment assets	398,458	78,654	155,239	632,351
Interests in associates	–	–	13,331	13,331
Unallocated corporate assets				219,638
				<u>865,320</u>
<b>LIABILITIES</b>				
Segment liabilities	114,556	46,286	65,292	226,134
Unallocated corporate liabilities				235,856
				<u>461,990</u>

Year ended June 30, 2005

### OTHER INFORMATION

	Satellite television reception products <i>HK\$'000</i>	Connectors and cables <i>HK\$'000</i>	Communication related products <i>HK\$'000</i>	Corporate <i>HK\$'000</i>	Total <i>HK\$'000</i>
Capital additions	18,506	7,257	13,763	6,874	46,400
Depreciation and amortisation	17,856	2,141	4,345	2,875	27,217
Loss on disposal of property, plant and equipment	<u>–</u>	<u>–</u>	<u>3</u>	<u>–</u>	<u>3</u>



## 5. Segment Information *(Continued)*

Year ended June 30, 2004

	Satellite television reception products <i>HK\$'000</i>	Connectors and cables <i>HK\$'000</i>	Communication related products <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>TURNOVER</b>					
External sales	771,516	231,185	262,656	–	1,265,357
Inter-segment sales	–	9,680	–	(9,680)	–
Total	<u>771,516</u>	<u>240,865</u>	<u>262,656</u>	<u>(9,680)</u>	<u>1,265,357</u>
<b>RESULT</b>					
Segment result	<u>98,883</u>	<u>44,834</u>	<u>14,019</u>	<u>–</u>	157,736
Other operating income					28,356
Unallocated corporate expenses					<u>(77,172)</u>
Profit from operations					108,920
Finance costs					(5,591)
Allowance for loans to associates	–	–	(1,724)	–	<u>(1,724)</u>
Profit before taxation					101,605
Income tax expense					<u>(5,139)</u>
Profit for the year					<u>96,466</u>

Inter-segment sales are charged at cost plus a percentage of profit mark-up.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2005

## 5. Segment Information (Continued)

At June 30, 2004

### BALANCE SHEET

	Satellite television reception products <i>HK\$'000</i>	Connectors and cables <i>HK\$'000</i>	Communication related products <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>ASSETS</b>				
Segment assets	275,660	78,946	145,110	499,716
Interests in associates	–	–	13,665	13,665
Unallocated corporate assets				202,010
Consolidated total assets				<u>715,391</u>
<b>LIABILITIES</b>				
Segment liabilities	99,902	49,767	76,537	226,206
Unallocated corporate liabilities				341,685
Consolidated total liabilities				<u>567,891</u>

Year ended June 30, 2004

### OTHER INFORMATION

	Satellite television reception products <i>HK\$'000</i>	Connectors and cables <i>HK\$'000</i>	Communication related products <i>HK\$'000</i>	Corporate <i>HK\$'000</i>	Total <i>HK\$'000</i>
Capital additions	29,647	3,375	18,395	6,400	57,817
Depreciation and amortisation	14,021	2,147	7,383	2,236	25,787
Loss on disposal of property, plant and equipment	304	–	140	–	444
Allowance for bad and doubtful debts	<u>6,888</u>	<u>1,513</u>	<u>1,719</u>	<u>–</u>	<u>10,120</u>

## 5. Segment Information *(Continued)*

### Geographical segments

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods.

	Sales revenue by geographical market	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Middle East	607,326	605,528
North America	314,412	283,141
Europe	246,856	298,639
Asia	90,260	55,056
South America	47,515	15,838
Other regions	1,753	7,155
	<u>1,308,122</u>	<u>1,265,357</u>

Since the goods sold to various geographical markets were principally produced from the same production facilities located in the PRC, analysis of assets and liabilities by geographical market is not presented.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2005

## 6. Profit from Operations

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Profit from operations has been arrived at after charging:		
Directors' emoluments ( <i>note 7</i> )	6,384	8,125
Other staff costs	72,515	78,906
Retirement benefit scheme contributions, excluding directors	1,450	1,479
	<u>80,349</u>	<u>88,510</u>
Allowance for bad and doubtful debts	–	10,120
Auditors' remuneration	942	743
Depreciation and amortisation	27,217	25,787
Loss on disposal of property, plant and equipment	3	444
Research and development expenses	9,805	8,084
and after crediting:		
Bank interest income	1,237	502
Other interest income	–	37
	<u>1,237</u>	<u>539</u>
Exchange gain	4,872	4,813
Management fee income	1,260	1,260
Reversal of allowance for bad and doubtful debts	1,575	–

## 7. Directors' and Employees' Emoluments

Details of directors' emoluments are as follows:

### Year ended June 30, 2005

	Mr. Hung Tsung Chin HK\$'000	Mr. Wang Yao Chu HK\$'000	Mr. Liao Wen I HK\$'000	Ms. Chen Mei Huei HK\$'000	Mr. Yip Ho Chi HK\$'000	Mr. Chen Jo Wan HK\$'000	Mr. Hsu Chun Yi HK\$'000	Mr. Chen Chung Ho HK\$'000	Mr. Tsan Wen Nan HK\$'000	Total HK\$'000
<b>Directors</b>										
- fees	-	-	-	-	-	10	10	10	10	40
- salaries and other										
benefits	1,337	1,120	926	1,043	695	-	-	-	-	5,121
- bonus	329	287	178	358	41	-	-	-	-	1,193
- retirement benefit										
scheme										
contributions	5	4	4	5	12	-	-	-	-	30
	<u>1,671</u>	<u>1,411</u>	<u>1,108</u>	<u>1,406</u>	<u>748</u>	<u>10</u>	<u>10</u>	<u>10</u>	<u>10</u>	<u>6,384</u>

### Year ended June 30, 2004

	Mr. Hung Tsung Chin HK\$'000	Mr. Wang Yao Chu HK\$'000	Mr. Liao Wen I HK\$'000	Ms. Chen Mei Huei HK\$'000	Mr. Yip Ho Chi HK\$'000	Mr. Chen Jo Wan HK\$'000	Mr. Hsu Chun Yi HK\$'000	Mr. Chen Chung Ho HK\$'000	Mr. Tsan Wen Nan HK\$'000	Total HK\$'000
<b>Directors</b>										
- fees	-	-	-	-	-	-	-	-	-	-
- salaries and other										
benefits	1,174	935	780	890	640	-	-	-	-	4,419
- bonus	1,040	854	628	1,024	130	-	-	-	-	3,676
- retirement benefit										
scheme										
contributions	5	4	4	5	12	-	-	-	-	30
	<u>2,219</u>	<u>1,793</u>	<u>1,412</u>	<u>1,919</u>	<u>782</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,125</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2005

## 7. Directors' and Employees' Emoluments (Continued)

Of the five individuals with the highest emoluments in the Group, five (2004: four) were directors of the Company whose emoluments are included in the disclosure set out above. The emoluments of the remaining individual for the year ended June 30, 2004 are as follows:

	2005 HK\$'000	2004 HK\$'000
Employees		
– salaries and other benefits	–	360
– bonus	–	570
– retirement benefit scheme contributions	–	2
	<u>–</u>	<u>932</u>

For the years ended June 30, 2005 and 2004, no emoluments were paid by the Group to any of the directors or the five highest paid individuals (including directors and non-director employees) as an inducement to join or upon joining the Group or as compensation for loss of office. No director waived any emoluments during the year ended June 30, 2005 and 2004.

## 8. Finance Costs

	2005 HK\$'000	2004 HK\$'000
Interest on:		
– bank borrowings wholly repayable within five years	8,281	5,834
– bank borrowings not wholly repayable within five years	242	274
– obligations under finance leases	297	275
	<u>8,820</u>	<u>6,383</u>
Less: Interest capitalised	(907)	(792)
	<u>7,913</u>	<u>5,591</u>

Interest capitalised during the year arose on bank borrowings and are calculated by applying a capitalisation rate ranging from 3.7% to 5.5% (2004: 2.4% to 4%).

## 9. Income Tax Expense

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
The tax charge comprises:		
Taxation in other jurisdictions	5,589	5,083
Deferred tax charge ( <i>note 16</i> )	198	56
	<u>5,787</u>	<u>5,139</u>

No provision for Hong Kong Profits Tax has been made for the current year as the subsidiary operating in Hong Kong incurred a tax loss.

No provision for Hong Kong Profits Tax has been made for the year ended June 30, 2004 as there are available tax losses brought forward to offset the estimated assessable profits arising in Hong Kong.

Pursuant to the relevant laws and regulations in the PRC, one of the subsidiaries established in the PRC are entitled to exemption from the PRC enterprise income tax for the first two years commencing from their first profit-making year of operations and thereafter, the PRC subsidiary will be entitled to a 50% relief from the PRC enterprise income tax for the following three years. The reduced tax rate for the relief period is 12% ("Reduced Tax Rate"). After the expiry of the tax relief period on December 31, 2004, the PRC subsidiary will apply for Reduced Tax Rate as it qualified as an exported oriented enterprise.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2005

## 9. Income Tax Expense (Continued)

The charge for the year can be reconciled to the profit per consolidated income statement as follows:

	2005 HK\$'000	2004 HK\$'000
Profit before taxation	<u>105,552</u>	<u>101,605</u>
Tax at the applicable rate of 24% (2004: 24%)	25,332	24,385
Tax effect of income subject to Reduced Tax Rate	(4,153)	(4,812)
Tax effect of income exempted from income tax	(15,695)	(17,042)
Tax effect of expenses that are not deductible in determining taxable profit	1,936	121
Tax effect of income that is not taxable in determining taxable profit	(611)	(58)
Tax effect of tax losses not recognised	2,394	2,537
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	(3,851)	8
Derecognition of deferred tax assets previously recognised	360	–
Others	75	–
Tax charge	<u>5,787</u>	<u>5,139</u>

Details of deferred taxation for the year are set out in note 16.

## 10. Dividends

	2005 HK\$'000	2004 HK\$'000
Interim dividend declared and paid of HK\$nil per share (2004: HK\$35)	–	35,000
Final dividend proposed after the balance sheet date of HK6.9 cents per share (2004: HK\$3)	<u>35,099</u>	<u>3,000</u>
	<u>35,099</u>	<u>38,000</u>

The final dividend proposed after the balance sheet date have not been recognised as a liability at the balance sheet date. The final dividend of HK6.9 cents per share amounting to HK\$35,099,058 in respect of year ended June 30, 2005 has been proposed by the directors and is subject to approval by the shareholders in the forthcoming general meeting. The dividends for the year ended June 30, 2004 was paid by a subsidiary to its then shareholders prior to the Group Reorganisation.



## 11. Earnings Per Share

The calculation of the basic earnings per share is based on the following data:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Earnings for the purposes of basic earnings per share		
Net profit for the year	<u>99,765</u>	<u>96,466</u>
	<b>Number of shares</b>	
Weighed average number of ordinary shares for the purpose of basic earnings per share ( <i>Note</i> )	<u>435,877,227</u>	<u>425,000,000</u>

*Note:* The weighted average number of shares is computed assuming that the Group Reorganisation was effective on July 1, 2003.

No diluted earnings per share is presented as the Company had no potential dilutive shares outstanding during the year.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2005

## 12. Property, Plant and Equipment

	Land and buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Computer equipment HK\$'000	Construction in progress HK\$'000	Total HK\$'000
<b>THE GROUP</b>								
<b>COST</b>								
At July 1, 2004	108,037	4,500	132,667	6,357	5,829	4,365	5,541	267,296
Currency realignment	200	-	-	53	-	-	-	253
Additions	2,574	4,355	19,287	4,781	904	948	13,551	46,400
Transfers	15,590	-	-	-	-	-	(15,590)	-
Disposals	-	-	(33)	(968)	-	(11)	-	(1,012)
Upon dissolution of subsidiary	-	-	-	(228)	-	-	-	(228)
<b>At June 30, 2005</b>	<b>126,401</b>	<b>8,855</b>	<b>151,921</b>	<b>9,995</b>	<b>6,733</b>	<b>5,302</b>	<b>3,502</b>	<b>312,709</b>
<b>DEPRECIATION AND AMORTISATION</b>								
At July 1, 2004	10,242	1,718	54,405	2,830	2,841	2,304	-	74,340
Currency realignment	33	4	-	53	-	-	-	90
Provided for the year	3,101	707	19,995	1,558	899	957	-	27,217
Eliminated on disposals	-	-	(31)	(968)	-	(10)	-	(1,009)
Eliminated on dissolution of subsidiary	-	-	-	(94)	-	-	-	(94)
<b>At June 30, 2005</b>	<b>13,376</b>	<b>2,429</b>	<b>74,369</b>	<b>3,379</b>	<b>3,740</b>	<b>3,251</b>	<b>-</b>	<b>100,544</b>
<b>NET BOOK VALUES</b>								
<b>At June 30, 2005</b>	<b>113,025</b>	<b>6,426</b>	<b>77,552</b>	<b>6,616</b>	<b>2,993</b>	<b>2,051</b>	<b>3,502</b>	<b>212,165</b>
At June 30, 2004	97,795	2,782	78,262	3,527	2,988	2,061	5,541	192,956

## 12. Property, Plant and Equipment *(Continued)*

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
The net book value of the Group's land and buildings comprises:		
Properties held under medium-term land use rights in the PRC	99,564	84,240
Properties held under long-term leases in Hong Kong	10,869	11,111
Freehold properties in Taiwan	2,592	2,444
	<u>113,025</u>	<u>97,795</u>

Land and buildings includes assets carried at a cost of HK\$1,714,000 (2004: HK\$1,714,000) with accumulated depreciation of HK\$90,000 (2004: HK\$59,000) in respect of assets held under operating leases. Depreciation charged in respect of those assets in the year amounted to HK\$31,000 (2004: HK\$31,000).

The net book value of the Group's plant and machinery includes an amount of HK\$9,279,000 (2004: HK\$12,288,000) in respect of assets held under finance leases.

## 13. Interests in Subsidiaries

	THE COMPANY	
	2005 HK\$'000	2004 HK\$'000
Unlisted shares, at cost	181,888	—
Amounts due from subsidiaries <i>(note 14)</i>	198,619	—
	<u>380,507</u>	<u>—</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2005

## 13. Interests in Subsidiaries (Continued)

Details of the Company's principal subsidiaries at June 30, 2005 are as follows:

Name of company	Country/ place of incorporation/ operations	Class of shares held	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share/ registered capital held by the Company		Principal activities
				Directly	Indirectly	
Top Peaker Group Limited ("Top Peaker")	British Virgin Islands ("BVI")/ Hong Kong	Ordinary	US\$10,000	100%	–	Investment holding
Sandmartin (Zhong Shan) Electronic Co., Ltd. (note) 中山聖馬丁電子元件有限公司	PRC	Registered capital	US\$10,000,000	–	100%	Manufacture of audio-visual, cable and satellite television, and telecommunications accessories
SMT Electronic Technology Limited	Cayman Islands/ Taiwan	Ordinary	US\$1	–	100%	Trading of audio-visual, cable and satellite television, and telecommunications accessories
SMT Hong Kong Limited 宏揚科技有限公司	Hong Kong	Ordinary	HK\$2	–	100%	Provision of management services
SMT (Macao Commercial Offshore) Limited 虹揚(澳門離岸商業服務) 有限公司	Macau	Quota capital	MOP100,000	–	100%	Trading of audio-visual, cable and satellite television, and telecommunications accessories
TRT Business Network Solution, Inc.	United States of America ("USA")	Ordinary	US\$100,000	–	100%	Trading of audio-visual, cable and satellite television, and telecommunications accessories

*Note:* The company is a wholly foreign owned enterprise.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities subsidiary at any time of the year or at June 30, 2005.

## 14. Amounts due from/to Subsidiaries

The amounts due from/to subsidiaries of the Company are unsecured, interest-free and have no fixed repayment terms. In the opinion of the directors, the amounts due from subsidiaries will not be repaid within the next twelve months from the balance sheet date. Accordingly, the amounts are classified as non-current assets.

## 15. Interests in Associates

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Share of net assets	—	—
Loans to associates, less allowance	13,331	13,665
	<u>13,331</u>	<u>13,665</u>

Details of the Group's associates at June 30, 2005 are as follows:

Name of entity	Place of incorporation/ registration	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share/registered capital indirectly held by the Company	Principal activities
Alphalink Corporation	USA	US\$450,000	25.5%	Trading of optical fibre products
Fiberlink Technology Limited 珠海保稅區隆宇光電 科技有限公司	PRC	US\$1,500,000	50%	Manufacturing of optical fibre products
FLT Hong Kong Technology Limited	BVI	US\$8	50%	Trading of optical fibre products
Mighty Energy Investment Limited	BVI	US\$100	25.5%	Investment holding
Weblink Technology Limited	BVI	US\$100	50%	Investment holding

The loans are unsecured, interest-free and have no fixed repayment terms. In the opinion of the directors, the loans will not be repayable within twelve months from the balance sheet date and, accordingly, the amounts are classified as non-current.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2005

## 16. Deferred Tax

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Deferred tax assets	393	735
Deferred tax liabilities	–	(144)
	<u>393</u>	<u>591</u>

The movement for the year in the net deferred tax position are as follows:

	Tax losses HK\$'000	Deferred expenditure HK\$'000	Accelerated tax depreciation HK\$'000	Total HK\$'000
At July 1, 2003	566	270	(189)	647
(Charge) credit to income statement for the year	<u>(62)</u>	<u>(39)</u>	<u>45</u>	<u>(56)</u>
At June 30, 2004	504	231	(144)	591
(Charge) credit to income statement for the year	<u>(504)</u>	<u>162</u>	<u>144</u>	<u>(198)</u>
At June 30, 2005	<u>–</u>	<u>393</u>	<u>–</u>	<u>393</u>

At June 30, 2005, the Group has unused tax losses of HK\$29,869,000 (2004: HK\$25,010,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such loss (2004: recognised tax loss of HK\$2,880,000). Included in unused tax losses are losses not recognised of HK\$17,020,000 and HK\$8,875,000 (2004: HK\$12,539,000 and HK\$9,591,000) that will expire in five and ten years, respectively, from the respective balance sheet dates. Other tax losses may be carried forward indefinitely.

## 17. Inventories

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Raw materials	117,153	93,649
Work in progress	22,583	36,401
Finished goods	51,336	49,561
	<u>191,072</u>	<u>179,611</u>

All inventories are carried at cost.

## 18. Trade and Other Receivables

At June 30, 2005, included in trade and other receivables are trade receivables of HK\$263,600,000 (2004: HK\$161,525,000).

The Group allows an average credit period of 30 days to 90 days to its trade customers.

The following is an aged analysis of trade receivables at the balance sheet dates:

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
0 – 30 days	80,813	89,565
31 – 60 days	62,220	23,963
61 – 90 days	58,539	19,027
91 – 180 days	62,028	28,970
	<u>263,600</u>	<u>161,525</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2005

## 19. Amounts due from/to Associates

The amounts due from associates are unsecured, interest-free and have no fixed repayment terms.

The amount due to an associate arises from trading balance and the following is an aged analysis at the balance sheet dates:

	THE GROUP	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
0 – 30 days	510	817
31 – 60 days	382	556
61 – 90 days	464	599
Over 90 days	1,941	401
	<u>3,297</u>	<u>2,373</u>

## 20. Trade and Other Payables

At June 30, 2005, included in trade and other payables are trade payables of HK\$218,621,000 (2004: HK\$226,207,000).

The following is an aged analysis of trade payables at the balance sheet dates:

	THE GROUP	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
0 – 30 days	118,653	96,418
31 – 60 days	32,981	42,858
61 – 90 days	47,302	70,900
91 – 180 days	19,685	16,031
	<u>218,621</u>	<u>226,207</u>



## 21. Bank Borrowings

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Trust receipt loans	114,685	86,119
Bank loans	47,816	62,452
	<u>162,501</u>	<u>148,571</u>
The amounts are repayable as follows:		
Within one year	153,511	132,436
Between one to two years	3,839	7,145
Between two to five years	1,704	4,942
Over five years	3,447	4,048
	<u>162,501</u>	<u>148,571</u>
Less: Amount due within one year shown under current liabilities	<u>(153,511)</u>	<u>(132,436)</u>
Amount due after one year	<u>8,990</u>	<u>16,135</u>

The above bank borrowings are secured by the following assets of the Group:

- (a) bank deposits of HK\$53,582,000 (2004: HK\$42,967,000); and
- (b) land and buildings with a net book value of HK\$20,838,000 (2004: HK\$80,417,000).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2005

## 22. Obligations under Finance Leases

### THE GROUP

	Minimum lease payments		Present value of minimum lease payments	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Amounts payable under finance leases:				
Within one year	3,370	3,730	3,172	3,453
In the second to fifth year inclusive	2,469	5,762	2,394	5,561
	<u>5,839</u>	<u>9,492</u>		
Less: Future finance charges	(273)	(478)		
Present value of lease obligations	<u>5,566</u>	<u>9,014</u>	<u>5,566</u>	9,014
Less: Amount due within one year shown under current liabilities			<u>(3,172)</u>	<u>(3,453)</u>
Amount due after one year			<u>2,394</u>	<u>5,561</u>

It is the Group's policy to lease certain of its plant and machinery under finance leases. The average lease term is three years. For the year ended June 30, 2005, the average effective borrowing rate was 4% (2004: 4%). All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

## 23. Advances from Shareholders

The advances from shareholders of the Group were unsecured, interest-free and had no fixed repayment terms. The advances were capitalised upon completion of the Group Reorganisation on March 17, 2005.

## 24. Share Capital

	Number of shares	Amount <i>HK\$'000</i>
Ordinary shares of HK\$0.10 each		
Authorised	1,000,000	100
At June 30, 2004	1,000,000	100
Increase in authorised share capital	999,000,000	99,900
<b>At June 30, 2005</b>	<b><u>1,000,000,000</u></b>	<b><u>100,000</u></b>
Issued and fully paid:		
Allotted and issued shares to initial subscribers	1,000,000	100
At June 30, 2004	1,000,000	–
Arising from Group Reorganisation	1,000,000	100
Capitalisation of advances from shareholders	1,000,000	100
Issue of shares by capitalisation of share premium account	422,000,000	42,200
Issue of shares for placing and public offer	75,000,000	7,500
Issue of shares by over-allotment option	8,682,000	868
<b>At June 30, 2005</b>	<b><u>508,682,000</u></b>	<b><u>50,868</u></b>

The Company was incorporated in the Bermuda on January 27, 2004 with an authorised capital of HK\$100,000 divided into 1,000,000 ordinary shares of HK\$0.10 each.

On February 6, 2004, 1,000,000 ordinary shares of HK\$0.10 each were allotted and issued.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2005

## 24. Share Capital *(Continued)*

Pursuant to the written resolutions passed by all the shareholders of the Company on March 17, 2005 to effect the Group Reorganisation in preparation for the listing of the Company's shares on the Stock Exchange, the following movements in the share capital of the Company took place:

- (a) The authorised share capital of the Company was increased from HK\$100,000 to HK\$100,000,000 by the creation of an additional 999,000,000 ordinary shares.
- (b) 1,000,000 ordinary shares of HK\$0.10 each at par were allotted and issued by the Company as consideration for the acquisition of entire issued share capital of Top Peaker and 1,000,000 ordinary shares of HK\$0.10 each at par were allotted and issued by the Company to settle the loans in the total amount of HK\$80,000,000 (note 23) owing to the shareholders of Top Peaker by the Group.
- (c) 422,000,000 ordinary shares of HK\$0.10 each which were allotted and issued by way of capitalisation of share premium of HK\$42,200,000.

On May 12, 2005, by means of placing and public offer, the Company issued a total of 75,000,000 new shares of HK\$0.10 each at the price of HK\$1.08 per share.

On May 27, 2005, pursuant to the written resolutions dated March 17, 2005, by means of partially exercise of the over-allotment option, the Company allotted and issued a total of 8,682,000 new shares of HK\$0.10 each at the price of HK\$1.08 per share. The proceeds from placing, public offer and over-allotment are for establishment of a portion of the new production complex and a new research and development centre, and to provide additional working capital for the Group.

The share capital of the Group at July 1, 2004 represented the aggregate amount of the share capital of the Company and Top Peaker before Group Reorganisation.

All the shares issued during the year rank pari passu with the then existing shares in all respects.

## 25. Share Options

Pursuant to a share option scheme approved by a written resolution passed by the shareholders of the Company on March 17, 2005 (the "Option Scheme"), the Company may grant options to the directors or employees, any business consultants, business partners, suppliers, customers, agents, financial or legal advisers, debtors and creditors of the Company or any of its subsidiaries, for the recognition of their contributions to the Group, to subscribe for shares in the Company with a payment of HK\$1 upon each grant of options offered.

The exercise price of the share option will be determined at the highest of:

- (i) the closing price of the Company's shares on the Stock Exchange on the date of grant;
- (ii) the average of closing prices of shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the options; and
- (iii) the nominal value of the shares.

The share options are exercisable at any time during a period of not more than 10 years from the date of grant, subject to the terms and conditions of the Option Scheme, any conditions of grant as may be stipulated by the board of directors.

The maximum number of shares in respect of which options may be granted shall not exceed 10% of the number of shares of the Company in issue from time to time. Unless further shareholders' approval has been obtained pursuant to the conditions set out in the Option Scheme. No person shall be granted an option which, if all the options granted to the person (including both exercised and outstanding options) in any 12 months period up to the date of grant are exercised in full, would result in such person's maximum entitlement exceeding 1% of the number of issued shares of the Company.

No option has been granted by the Company under the Option Scheme during the period since its adoption.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2005

## 26. Reserves

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Special reserve <i>HK\$'000</i>	Accumulated (loss) profit <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY					
At January 27, 2004, date of incorporation	–	–	–	–	–
Loss for the year	–	–	–	(4)	(4)
At June 30, 2004	–	–	–	(4)	(4)
Arising from Group Reorganisation	–	181,788	–	–	181,788
Capitalisation of advances from shareholders	–	–	79,900	–	79,900
Capitalisation on issue of shares	(42,200)	–	–	–	(42,200)
Issue of shares	82,008	–	–	–	82,008
Share issue expenses	(11,480)	–	–	–	(11,480)
Profit for the year	–	–	–	39,869	39,869
<b>At June 30, 2005</b>	<b><u>28,328</u></b>	<b><u>181,788</u></b>	<b><u>79,900</u></b>	<b><u>39,865</u></b>	<b><u>329,881</u></b>

The contributed surplus represents the difference between the consolidated shareholders' fund of Top Peaker and the nominal value of the Company's shares issued to acquire Top Peaker at the time of Group Reorganisation.

The special reserve represents the surplus arising pursuant to the capitalisation of advances from shareholders as part of the Group Reorganisation.

The Company's reserves available for distribution to shareholders as at June 30, 2005 comprise the accumulated profit and contributed surplus of HK\$221,653,000 (2004: Nil).

## 27. Acquisition of a Subsidiary

In October 2003, the Group acquired 100% of the issued share capital of 珠海市艾雷特電子有限公司, for a consideration of HK\$7,000. The acquisition has been accounted for by the acquisition method of accounting.

	<b>THE GROUP</b>	
	<b>2005</b>	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net assets acquired:		
Other receivables	–	2
Bank balances and cash	–	7
	<hr/>	<hr/>
	–	9
Negative goodwill arising on acquisition	–	(2)
	<hr/>	<hr/>
Total consideration satisfied by cash	–	7
	<hr/> <hr/>	<hr/> <hr/>

The subsidiary acquired in the year ended June 30, 2004 did not contribute significantly to the turnover, operating results or cash flows of the Group.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2005

## 28. Dissolution of Subsidiary

In June 2005, the Group resolved to dissolve one of its wholly owned subsidiaries.

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Net liabilities disposed of:		
Property, plant and equipment	134	–
Trade and other receivables	4,502	–
Bank balances and cash	233	–
Trade and other payables	(5,997)	–
Tax payable	(426)	–
	<u>          </u>	<u>          </u>
Net liabilities	(1,554)	–
Exchange reserves realised on dissolution of subsidiary	144	–
Gain on dissolution of subsidiary	1,410	–
	<u>          </u>	<u>          </u>
	–	–
	<u>          </u>	<u>          </u>
Cash outflow arising on dissolution and bank balances and cash disposed of	233	–
	<u>          </u>	<u>          </u>

The subsidiary dissolved during the year did not contribute significantly to the turnover, operating results or cash flows of the Group.

## 29. Operating Lease Commitments

### The Group as lessee

Minimum lease payments paid under operating leases:

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Premises	<u>2,319</u>	<u>797</u>



## 29. Operating Lease Commitments *(Continued)*

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

	<b>THE GROUP</b>	
	<b>2005</b> <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Within one year	2,712	929
In the second to fifth year inclusive	1,096	1,657
	<u>3,808</u>	<u>2,586</u>

Operating lease payments represent rentals payable by the Group for certain of its offices and factories. Leases are negotiated for an average term of two years with fixed rentals.

The Company had no significant commitments under non-cancellable operating leases at the balance sheet date.

### **The Group as lessor**

Property rental income earned during the year was HK\$216,000 with no outgoings (2004: HK\$242,000 with no outgoings).

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	<b>THE GROUP</b>	
	<b>2005</b> <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Within one year	183	183
In the second to fifth year inclusive	183	365
	<u>366</u>	<u>548</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2005

## 30. Contingent Liabilities

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Export bills discounted with recourse	<u>2,529</u>	<u>4,259</u>

At June 30, 2005, the Company had guarantees given to banks in respect of banking facilities granted to certain subsidiaries of the Company. The extent of such facilities utilised by the subsidiaries at June 30, 2005 amounted to approximately HK\$161,906,000 (2004: HK\$118,053,000).

## 31. Capital Commitments

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Capital expenditure contracted but not provided for in the financial statements in respect of acquisition of property, plant and equipment	<u>1,210</u>	<u>9,019</u>

The Company had no significant capital commitments at the balance sheet date.

## 32. Retirement Benefit Plans

The Group operates a MPF Scheme for all qualifying employees in Hong Kong. The MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Group with respect to MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

The retirement benefit scheme contributions arising from the MPF Scheme charged to the income statement represent contributions payable to the funds by the Group at rates specified in the rules of the scheme.

The employees employed by the operations in the PRC are members of the state-managed retirement benefit schemes operated by the PRC government. The PRC operations are required to contribute a certain percentage of their payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes operated by the PRC government is to make the required contributions under the schemes.

### 33. Post Balance Sheet Event

On September 9, 2005, a subsidiary of the Company and an independent third party entered into a non-binding letter of intent in relation to the proposed acquisition of a company incorporated in Spain ("Target Company") which is principally engaged in the business of research and development and distribution of digital television reception products in Europe. The completion of the proposed acquisition is subject to the satisfaction of a due diligence review of the affairs of the Target Company and the negotiation and finalisation of the terms and conditions in relation thereof.

### 34. Related Party Transactions

During the year, the Group received management fee income of HK\$1,260,000 (2004: HK\$1,260,000) from associates of the Group for provision of administrative services. In addition, the Group also sold finished goods to and purchased finished goods from associates of the Group of HK\$809,000 (2004: HK\$602,000) and HK\$6,915,000 (2004: HK\$6,505,000) respectively. In the opinion of the directors, the above transactions were determined at terms agreed by the Group and the relevant party.

At June 30, 2005, certain banking facilities of the Group were still secured by personal guarantees given by certain directors of the Company even the Group has obtained written consent from the principle banks to release the directors' personal guarantees on the date of the listing of the Company's shares, which would be replaced by corporate guarantees and/or collaterals provided by the Company and/or other members of the Group.

At June 30, 2004, certain banking facilities of the Group were secured by personal guarantees given by certain directors of the Company.

Details of balances with related parties are set out on the consolidated balance sheet and in notes 15, 19 and 23.