Management Discussion and Analysis

BUSINESS REVIEW

Due to the slower than expected global timetable of popularity in adopting digital TV ("DTV") broadcasting, primarily because of fine tuning the system specifications, together with the intense competition, the Group recorded a decrease in both turnover and profit for the year ended June 30, 2006 (the "Year"). The Group achieved the exit from all non-strategic businesses during the Year in view of picking up overall profitability in the future. At the same time, resources dedicated to research and development ("R&D") in its core business increased substantially and, in particular, through acquisitions as follows:

On January 16, 2006, the Group acquired the entire interest in BCN Distribuciones, S.A. and its subsidiaries (collectively "BCN") principally engaged in the business of R&D and distribution of DTV products for a consideration of €10 million (equivalent to approximately HK$94.5 million) payable in four installments up to May 31, 2008. BCN is headquartered in Spain with group companies in France, Italy and Portugal. The Group has established a long-term business relationship with BCN since 1998 and the acquisition demonstrates the continued commitment to further strengthen the Group's distribution network and R&D capability.

On November 30, 2005, the Group also acquired an additional interest in Weblink Technology Limited ("Weblink"), effectively changed from an associate to a subsidiary. Weblink and its subsidiaries are engaged in the manufacture and trading of optic fiber products, which preserve the comprehensiveness of the Group's connectors and cables.

OUTLOOK

The underlying growth driver for set-top box (STB) industry is the evolution of TV digitalisation which changes the fundamental way viewers watch TV. Government mandates in particular will support rapidly growing demand for integrated DTVs over the medium term. Once the analogue signal is switched off, nearly every TV and video recorder will need a digital receiver. The Directors believe that the Group's future performance and the extent of growth will be dependent on the rate and timing of service launch in DTV broadcasting.

To improve margin performance, the Group has limited its role in the low margin market for free-to-air STB and shifted the balance of shipments towards higher specification, higher-margin products. Benefit from BCN's European-led R&D team as well as its sales and marketing capabilities, cost savings and synergies have been created by the combination. The Group now focuses on high-end product development with integrated R&D process to enter into the professional segment and operator markets, initially in Europe and then other parts of the world. This trend is performing healthily, which will likely improve the overall profit margin in the coming years.

FINANCIAL REVIEW

The Group's turnover decreased by 16.7% from last year, from HK$1,308.1 million to HK$1,090.3 million, was principally due to the decrease in the segment of DTV reception products. However, gross profit margin of the Group for the Year maintained at 18% (2005: 17.9%). Profit for the year amounted to HK$33.5 million (2005: HK$99.8 million, representing a decrease of 66.4% from last year. Basic earnings per share for the Year was HK6.6 cents (2005: HK22.9 cents). In view of the unsatisfactory financial results and having considered a need to retain the Company's cash for the future commitments in BCN and the increased R&D expenditure, or other corporate purposes, the Directors do not recommend the payment of a dividend for the Year (2005: HK6.9 cents).

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The turnover attributable to the core business, sales of DTV reception products, amounted to HK$524.6 million (2005: HK$828.3 million), or 48.1% of the Group's turnover. With the contribution since January 2006 from the acquired BCN group, which focusing on the high-end DTV reception products and operating under its own trademarks in Europe, the overall gross margin of the Group in core activities can maintain a similar level as last year, despite the general decrease in products' average selling prices and weak performance of the overall market arising from keen competition. Sales contributed from BCN group also led an increase of 29.3% in the Group's sales in Europe, amounted to HK$319.3 million (2005: HK$246.9 million).

Sales from connectors and cables increased by 37.1% to HK$353.7 million (2005: HK$258 million), representing 32.4% of the Group's turnover. The segment profit also increased to HK$59.7 million (2005: 38.9 million). The increase was mainly attributable to the growth of TRT Business Network Solution, Inc. ("TRT"), a subsidiary of the Company in the United States, which selling the Group's products under its own brand name, as well as the contribution from the acquired Weblink group since December 2005.

Sales from communication related products recorded HK$212 million for the Year (2005: HK$233.6 million), or 19.5% of the Group's turnover. Owing to the loss in non-core activities, this segment recorded a segment profit of HK$12 million (2005: segment profit of HK$23.2 million), a decrease of 48.3% compared to last year.

Other income mainly consists of interest income, scrap sales of copper dust generated from the production of connectors, and foreign exchange gains. Distribution costs as a percentage of turnover increased from 5.5% for last year to 5.9% for the Year in order to induce more sales. R&D expenditure increased to HK$14.1 million for the Year (2005: HK$9.8 million), mainly for the development of new product software.

Pursuant to the capital verification report dated September 28, 2005, the Group has re-invested US$3.5 million to Sandmartin (Zhong Shan) Electronic Co., Ltd. ("Sandmartin (Zhong Shan)") by utilising dividend declared of Sandmartin (Zhong Shan) itself. The registered capital of Sandmartin (Zhong Shan) increased from US$10 million to US$13.5 million accordingly. As an export-oriented enterprise, by doing this, Sandmartin (Zhong Shan) obtained a refund of PRC enterprise income tax amounted to HK$3.3 million.

The goodwill of HK$64.2 million at June 30, 2006 was attributable to the significant synergies expected to arise after the integration of the Group's existing business with the BCN group and the Weblink group acquired.

LIQUIDITY AND FINANCIAL RESOURCES

At June 30, 2006, the Group had cash and cash equivalents of HK$92.2 million (June 30, 2005: HK$83.6 million) and net current assets of HK$197.8 million (June 30, 2005: HK$189.3 million). The current ratio of the Group at June 30, 2006 was 1.4, the same as at June 30, 2005. During the Year, the increased receivable turnover days from 74 days to 79 days was mainly due to the consolidation of BCN. The Group allows credit periods up to 180 days to its trade customers. Long credit periods are granted to several well established customers with long business relationship. However, for prudence sake, provision for doubtful debts of HK$15.7 million had been made during the Year. The inventory turnover days also increased sharply from 65 days to 112 days, which was mainly attributable to the increased inventories from BCN and the growth in TRT, both of which maintain warehouses for overseas distribution business. The Group also prepared more raw materials for the expected increase in production and sales. The Group's general banking facility at June 30, 2006 amounted to approximately HK$338.1 million, of which HK$227 million were utilised.

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During the Year, net cash generated from the Group's operating activities amounted to HK$48.1 million (2005: HK$13.4 million). Net cash generated from the Group's investing activities for the Year amounted to HK$16.2 million (2005: used HK$56.3 million), mainly because of the decrease in pledged bank deposits. Net cash used in the Group's financing activities amounted to HK$57.4 million (2005: generated HK$51.4 million) for the Year, mainly for repayments of bank borrowings.

CAPITAL STRUCTURE

At June 30, 2006, the Group has bank and other borrowings and obligations under finance leases of HK$234 million and HK$3 million, respectively (June 30, 2005: HK$162.5 million and HK$5.6 million respectively), of which HK$40.5 million were not repayable within one year. 53.6% of the bank and other borrowings are trust receipt loans principally for purchases of raw materials (2005: 70.6%). The above borrowings are mainly denominated either in HK$ or US$ or euro and bear interest on a HIBOR or LIBOR or EURIBOR basis. The net gearing ratio, representing bank borrowings and obligations under finance leases net of all bank balances and cash, divided by total equity, was 27.1% at June 30, 2006 (June 30, 2005: 7.7%).

EMPLOYEES

At June 30, 2006, the Group employed a total of 3,812 full-time employees (2005: 4,998). Employees are remunerated according to their performance and responsibilities. Other employee benefits include, inter alias, share option scheme, provident fund, insurance and medical coverage. During the Year, the staff costs excluding directors' emoluments of the Group amounted to HK$81.6 million (2005: HK$72.5 million).

INVESTMENT PROPERTIES

During the Year, the Group has changed the use of part of the plants in Zhuhai and the old Industrial Zone No. 1 of Zhongshan to rental purposes subsequent to the consolidation of the core operations into the new Industrial Zone No. 3 of Zhongshan in PRC. Accordingly, the carrying value of investment properties amounted to HK$20.1 million at June 30, 2006. The net increase in fair value of investment properties, which was credited to income statement for the Year, amounted to HK$2.9 million.

CHARGES ON ASSETS

At June 30, 2006, part of the Group's assets was pledged to secure the Group's general banking facilities as follows: (i) bank deposits of HK$21.9 million (2005: HK$53.6 million), (ii) buildings with a carrying value of HK$74.2 million (2005: HK$7.6 million), (iii) prepaid lease payments of HK$19 million (2005: HK$10.7 million), (iv) freehold land of HK$2.4 million (2005: HK$2.5 million) and (v) investment properties of HK$19 million (2005: Nil).

CAPITAL COMMITMENTS

At June 30, 2006, the Group had capital expenditure amounting to approximately HK$322,000 in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements.

FOREIGN EXCHANGES

In the current year, the Group has used currency forward contracts to hedge significant future transactions and cash flows denominated in US$ and RMB. At June 30, 2006, the Group had commitments in respect of outstanding currency forward contracts amounting to approximately US$22 million. The Group has not engaged in foreign exchange transactions for speculative purposes.