Sandmartin International Holdings Limited

聖馬丁國際控股有限公司

(Incorporated in Bermuda with limited liability)

Stock code: 0482

07' ANNUAL REPORT

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Corporate Information

DIRECTORS

Executive directors

Mr. Hung Tsung Chin *(Chairman)*
Ms. Chen Mei Huei *(Chief Executive Officer)*
Mr. Wang Yao Chu
Mr. Liao Wen I
Mr. Yip Ho Chi

Independent non-executive directors

Mr. Hsu Chun Yi
Mr. Chen Chung Ho
Mr. Tsan Wen Nan

REGISTERED OFFICE

Clarendon House, 2 Church Street
Hamilton, HM 11, Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1, 19/F., China Merchants Tower, Shun Tak Centre
168-200 Connaught Road Central, Hong Kong

COMPANY SECRETARY

Mr. Yip Ho Chi, *FCPA, FCCA*

LEGAL ADVISORS

Sidley Austin

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants

AUDIT COMMITTEE

Mr. Hsu Chun Yi *(Chairman)*
Mr. Chen Chung Ho
Mr. Tsan Wen Nan

PRINCIPAL BANKERS

The Hong Kong and Shanghai Banking Corporation
Bank SinoPac
Standard Chartered Bank (Hong Kong) Limited
Industrial and Commercial Bank of China (Asia) Limited

SHARE REGISTRARS AND TRANSFER OFFICE

In Hong Kong
Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre
183 Queen's Road East, Wanchai, Hong Kong

In Bermuda
The Bank of Bermuda Limited
Bank of Bermuda Building
6 Front Street, Hamilton, HM11, Bermuda

WEBSITE

www.sandmartin.com.hk

STOCK CODE

Hong Kong 482

EXECUTIVE DIRECTORS

Mr. Hung Tsung Chin, aged 46, the husband of Ms. Chen Mei Huei, is the founder and the Chairman of the Group. Mr. Hung founded the Group in November 1989 and is responsible for the Group's overall management, strategic planning and development, and formulation of company policies and business strategy. Mr. Hung has over 17 years of management experience in the electronics manufacturing industry. Mr. Hung obtained a bachelor degree in business administration from National Chengchi University in Taiwan.

Ms. Chen Mei Huei, aged 45, the wife of Mr. Hung Tsung Chin, is a co-founder of the Group since November 1989. Ms. Chen is the Chief Executive Officer of the Group, responsible for the overall management of the Group including all overseas offices. Ms. Chen has been actively engaged in the sales and marketing development of the Group in Taiwan and the international markets for more than 17 years and has particular focus on new customers and new market development in recent years. Ms. Chen graduated from Tamkang University in Taiwan with a bachelor degree in Spanish Literature.

Mr. Wang Yao Chu, aged 44, is a co-founder of the Group since November 1989 and is currently responsible for the overall management of the Group's fibre optic division from 2000. Mr. Wang has been engaged in the management of the Group's operations in the People's Republic of China (the "PRC") from 1991 to 2000. Mr. Wang has over 17 years of management experience in the electronics manufacturing industry. Mr. Wang graduated from National Chengchi University in Taiwan with a bachelor degree in business administration.

Mr. Liao Wen I, aged 39, is a co-founder of the Group since November 1989 and is responsible for the management of the Group's manufacturing operations and corporate affairs in the PRC. Mr. Liao studied electronic device maintenance in a technical college in Taiwan. Mr. Liao has over 17 years of experience in the cable and connector industries, including 15 years of management experience in the manufacturing operations in the PRC. Mr. Liao is currently a vice-chairman of (Zhong Shan) Taiwan Business Investors Social Association.

Mr. Yip Ho Chi, aged 38, is the finance director, company secretary and qualified accountant of the Group. Prior to joining the Group in March 2000, Mr. Yip worked as a manager with an international accounting firm where he had gained over seven years' auditing experience. He graduated from the University of Hong Kong where he earned a Bachelor of Business Administration degree. He is a fellow of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants of the United Kingdom.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Hsu Chun Yi, aged 45, is an independent non-executive director from October 2004. Mr. Hsu has a bachelor degree in public administration from Tunghai University in Taiwan and a master degree in international management studies from the University of Texas at Dallas of the United States of America (the "US"). Mr. Hsu is currently an executive director of United Capital Management Limited, a venture investment company based in Taiwan. Prior to that, Mr. Hsu was an associate vice president of China Development Industrial Bank, one of the largest institutional investors in Taiwan, where he gained over ten years' experience in the finance industry. Mr. Hsu is also a supervisor of a listed company in Taiwan.

Mr. Chen Chung Ho, aged 56, is an independent non-executive director from October 2004. Mr. Chen graduated from Chinese Culture University in Taiwan with a bachelor degree in English Literature. Mr. Chen is the Chairman of (Zhong Shan) Taiwan Business Investors Social Association and a member of the executive committee of Guangdong Association of Enterprise with Foreign Investment. Mr. Chen has over 22 years' extensive experience in corporate management and working experience across Taiwan, Hong Kong and the PRC.

Directors and Senior Management

Mr. Tsan Wen Nan, aged 44, is an independent non-executive director from October 2004. Mr. Tsan holds a bachelor degree in electrical engineering and a doctor degree in information management from National Central University, and a Master of Business Administration from National Chengchi University in Taiwan. Mr. Tsan has over 17 years' experience in the information technology industry. Mr. Tsan is now the general director of Market Intelligence Center of Institute for Information Industry, a semi-governmental organization in Taiwan.

SENIOR MANAGEMENT

Mr. Su Jow Shi, aged 44, is the deputy general manager of the Group's digital TV division, responsible for manufacturing operations. Mr. Su graduated from the San Diego State University in the US where he earned a Master of Public Administration degree. Mr. Su joined the Group in September 1995.

Mr. Hsiao Yu Jung, aged 42, is the deputy general manager of the Group's cable division responsible for the procurement, manufacturing and development of the Group's cable products. Mr. Hsiao obtained a diploma in mechanical design engineering from the National Formosa University in Taiwan. Mr. Hsiao joined the Group in July 2002.

Mr. Martin Johannes Hoch, aged 44, is the marketing manager of the Group's digital TV division, responsible for corporate image, product specifications and industrial design. Mr. Hoch studied Machinery at the University of Applied Sciences of Konstanz in Germany. Before joining the Group in 2004, Mr. Hoch has 17 years of experience in the electronic industry with the last 8 years focused on digital TV reception products.

Mr. Marcin Wojciehoh Dudar, aged 36, is the research and development ("R & D") manager of the Group's digital TV division where Mr. Dudar is responsible for the overall design, R&D and supervision of the engineers in the PRC. Mr. Dudar joined the Group from July 2005 and he studied in the University of Szczecin in Poland. Before joining the Group, Mr. Dudar has 6 years of working experience in the electronic industry in the PRC.

Mr. Carlos Domingo Bujosa, aged 43, is the executive director of BCN Distribuciones S.A. ("BCN") from 1988. Mr. Domingo Bujosa's family founded the business of BCN in 1965 and he has over 21 years of management experience in the production and marketing of telecommunications products in Europe. After the acquisition of BCN by the Group in January 2006, Mr. Domingo Bujosa is responsible for the overall operations of BCN, as well as the Group's technology and marketing strategy development.

Mr. Jorge Monte Collado, aged 44, is the technical manager of BCN from 2002, and now responsible for the R&D of the Group's radio frequency products in Europe. He has over 19 years of experience in the radio frequency and telecommunications industry. He obtained a telecommunications engineering degree and a master degree in industrial engineering and logistics from Technical University of Catalonia in Spain.

Mr. Jordi Garcia, aged 42 and working with BCN since 1985, has over 21 years of experience in the telecommunications industry. Mr. Garcia is the marketing manager of BCN, responsible for the sales and marketing activities of the Group in Europe. He has a commercial and marketing management degree from the Escuela de Alta Dirección y Administración in Spain.

BUSINESS REVIEW

The Group recorded turnover of HK$1,316.0 million for the Year, representing an increase of 20.7% as compared to the corresponding period last year (2006: HK$1,090.3 million). However, gross profit margin of the Group for the Year dropped to 14.6% (2006: 18.0%), or a decrease of 3.4% from last year. In addition, the decrease in distribution and selling costs was set off by the increase in administrative expenses and finance costs, mainly attributable to the Spanish subsidiary BCN Distribuciones, S.A. ("BCN") acquired in January 2006 (the "Acquisition"), and the payments of research and development ("R&D") costs, the Group recorded a loss for the Year amounted to HK$15.1 million (2006: profit of HK$33.5 million). Basic loss per share for the Year was 2.8 HK cents (2006: earnings per share of 6.6 HK cents). The outcome of the Year was disappointing but we believe that was a usual experience before the Group can fully benefit from the synergy of the Acquisition. The root of the trouble indeed was the worldwide digital television ("TV") market as a whole, from chip makers to TV operators, suffered delays in getting the product certified and launched. In response, we have taken a prudent approach and made substantial provisions against the debts and inventories, which caused a significant loss incurred in the second half of the Year and a decrease in gross profit margin.

In view of the need of the Group's future development, the Directors have resolved not to declare any final dividend for the year ended June 30, 2007 (2006: Nil).

ACQUISITION

On February 28, 2007, the Group completed the acquisition of the remaining 50% equity interest in FTE Maximal – Comercio de Antenas e Electronica, Lda., a limited company incorporated in Portugal, at a consideration of Euro 1 million (equivalent to approximately HK$10.2 million), which was an associate of the Group before. The goodwill arising from this acquisition amounted to HK$5.9 million.

ISSUE OF NEW SHARES

As announced on September 6, 2007, the Company entered into the subscription agreement (the "Subscription") pursuant to which the Company has agreed to issue and the subscriber, CDIB Capital (Japan) Limited, has agreed to subscribe 48,000,000 new ordinary shares of nominal value of HK$0.10 each in the share capital of the Company (the "Share"). The aggregate nominal value of the Subscription Shares amounted to HK$4.8 million. The Subscription price of HK$1.45 per Share represents a discount of approximately 11.59% to the closing price of HK$1.64 per Share quoted on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on September 5, 2007, being the last day of trading in the Shares on the Stock Exchange prior to the terms of the Subscription were fixed. In view of the positive conditions of the stock market, the Directors, including the independent non-executive Directors, consider that the Subscription represents an opportunity to raise capital for the Company while broadening the shareholder base and the capital base of the Company. The net proceeds from the Subscription is approximately HK$69.4 million, representing the net price raised per Share will be about HK$1.45 per Share, and will be used for general working capital of the Group.

Management Discussion and Analysis

SEGMENTAL INFORMATION

As for the core business, sales of digital TV reception products amounted to HK$711.7 million (2006: HK$524.6 million) for the Year, or 54.1% of the Group's turnover. The increase of 35.7% in this segment was mostly contributed by the growth in the European market handled by BCN after the Acquisition. During the Year, the sales from the European market amounted to HK$438.0 million (2006: HK$319.3 million) or an increase of 37.2% from last year.

As for the non-core segments, sales from connectors and cables amounted to HK$383.2 million for the Year (2006: HK$353.7 million), representing 29.1% of the Group's turnover. Sales from communication related products amounted to HK$221.1 million for the Year (2006: HK$212.0 million), or 16.8% of the Group's turnover. The overall decrease in these segments is in line with the Group's strategy that new investments in R&D and production facilities are principally for core business only.

PROSPECTS

After years of deferral in the global scale launch of digital TV broadcasting, we are in the midst of a significant phase of technology development, with worldwide consumers demand for high-definition ("HD") and personal video recorder ("PVR") products and services. Flat TV is evolving into high quality display device; however, it becomes clearer that there is little economic or technological logic for building advanced set-top box functionality into the TV due to the different rates of change between TV and set-top box technologies. In addition, there is strong competition between TV operators and new market entrants such as telephone operators providing video services over broadband. This adds to the demand on set-top boxes for HD and PVR services and other new advanced and specialist products, such as interactive digital services, as operators use the technology to differentiate their product offers to win and retain subscribers. For the meantime, it is clear that the Group is facing an unprecedented complex but energetic environment. Building on last year's investments in BCN which strengthens our distribution and R&D ability, the Group is working on next generation set-top boxes and well positioned to driving strong financial results.

LIQUIDITY AND FINANCIAL RESOURCES

At June 30, 2007, the Group's general banking facilities amounted to approximately HK$311.1 million, of which bank and other borrowings of HK$261.0 million and obligations under finance leases of approximately HK$805,000 were utilised (2006: HK$234.0 million and HK$3.0 million, respectively) and amounted to HK$49.0 million were not repayable within one year. The net gearing ratio, representing net borrowings over total equity of the Group, was 32.2% (2006: 28.7%). The general increase in borrowings was in line with the growth in sales.

The current ratio of the Group at June 30, 2007 was 1.2 (2006: 1.4). The increased trade receivable turnover from 79 days to 82 days was mainly due to the increased sales near the year end. The inventory turnover also increased from 112 days to 124 days, which was mainly attributable to the expanding Europe market. The Group also arranged more finished goods for the increased sales immediately after year end.

During the Year, net cash generated from the Group's operating activities amounted to HK$65.7 million (2006: HK$48.1 million). Net cash used in the Group's investing activities for the Year amounted to HK$62.2 million (2006: generated HK$16.2 million), mainly for the purchase of property, plant and equipment. Net cash generated from the Group's financing activities amounted to HK$18.6 million (2006: used HK$57.4 million) for the Year, mainly because of new bank borrowings raised.

CAPITAL STRUCTURE

The Group continues to maintain a prudent treasury policy and manage currency and interest risks on a conservative basis. At June 30, 2007, the Group had cash and cash equivalents of HK$114.1 million (2006: HK$92.2 million), of which denominated in US$, Euro, RMB, HK$ and NT$ were 39.2%, 39.1%, 18.3%, 1.9% and 1.5% respectively. The Group's borrowings as at June 30, 2007 were denominated in Euro, US$ and HK$ of 57%, 29% and 13% and bear interest on a EURIBOR, LIBOR and HIBOR basis, respectively. At June 30, 2007 the Group had commitments in respect of outstanding currency forward contracts amounting to approximately US$21.0 million (equivalent to approximately HK$164.0 million), to hedge significant future transactions and cash flows denominated in US$ and RMB.

CHARGES ON ASSETS

As at June 30, 2007, the Group's general banking facilities were secured by the following assets of the Group: (i) freehold land of HK$2.4 million, (ii) prepaid lease payments of HK$19.3 million, (iii) buildings with a carrying value of HK$76.7 million, (iv) investment properties of HK$24.8 million and (v) bank deposits of HK$10.7 million.

CAPITAL COMMITMENTS

At June 30, 2007, the Group had capital expenditure amounting to approximately HK$443,000 in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements.

EMPLOYEES

At June 30, 2007, the Group employed a total of 4,717 full-time employees (2006: 3,812). Employees are remunerated accordingly to their performance and responsibilities and the total employee benefit expenses for the Year amounted to HK$120.7 million (2006: HK$86.3 million), excluding Directors. Other employee benefits include, inter alias, share option scheme, provident fund, insurance and medical coverage.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at June 30, 2007.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company is committed to the establishment of good corporate governance practices and procedures with a view to being a transparent and responsible organization which is open and accountable to the Company's shareholders. The Directors believe that good corporate governance provides a framework and platform that is essential for and advantageous to effective management and successful business growth. The Company has adopted the code provisions of the Code on Corporate Governance Practices (the "CG Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Throughout the year ended June 30, 2007 (the "Year"), the Company has complied with the code provisions of the CG Code.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules regarding securities transactions by directors on terms no less exacting than the required standard set out in the Model Code. Having made specific enquiry of all Directors, all Directors confirmed they have complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions for the Year.

BOARD OF DIRECTORS

The composition of the Board of Directors and attendance of individual directors at Board, Remuneration and Audit Committee meetings during the Year, and up to the date of this report, are as follows:

	Meetings Attended/Held			
	Board	**Nomination Committee**	**Remuneration Committee**	**Audit Committee**
No. of meetings held	6	0	1	2
Executive Directors				
Mr. Hung Tsung Chin *(Chairman)*	6/6	0/0	1/1	2/2
Ms. Chen Mei Huei *(Chief Executive Officer)*	6/6		1/1	
Mr. Wang Yao Chu	6/6			2/2
Mr. Liao Wen I	6/6			
Mr. Yip Ho Chi *(Company Secretary)*	6/6		1/1	2/2
Independent Non-Executive Directors				
Mr. Hsu Chun Yi	5/6	0/0	1/1	2/2
Mr. Chen Chung Ho	3/6			1/2
Mr. Tsan Wen Nan	5/6	0/0	1/1	2/2

The Directors are collectively and ultimately responsible for how the Company is managed, its strategic direction and performance. The Directors meet to plan, decide and review these matters, which resolutions are put to a vote. Day-to-day operations of the Group operations of the Group and implementation of the Board's decisions and strategy are delegated to the Company's management team, and those arrangements are reviewed on a periodic basis to ensure they remain appropriate.

All Directors are regularly updated on corporate governance and regulatory matters. The Directors have separate and independent access to the Company's senior management, and upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expenses. All Directors also have access to the Company Secretary who is responsible for ensuring that the Board procedures, and all applicable rules and regulations, are followed. An agenda and accompanying Board/committee papers are distributed to the Directors/committee members with reasonable notice in advance of the meeting. Minutes of board meetings and meetings of board committee, which recorded in sufficient detail the matters considered by the Board and decisions reached, including any concerns raised by Directors or dissenting views expressed, are kept by the Company Secretary and are open for inspection by Directors.

The Company has also arranged a Director's and Officer's Liability Insurance policy in respect of legal action against its Directors.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Hung Tsung Chin, the Chairman, is the spouse of Ms. Chen Mei Huei, the Chief Executive Officer. The Chairman is responsible for ensuring that all Directors are properly briefed on issues arising at Board meetings and receive adequate, complete and reliable information in a timely manner as will enable them to make an informed decision. The Chief Executive Officer is delegated with the authority and is responsible for running the Group's business, and the implementation of the approved strategies in achieving the overall commercial objectives.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the independent non-executive directors of the Company has entered into letters of appointment with the Company and be appointed for a period of one year commencing January 1, 2007 and may be terminated by either party giving to the other three months' prior notice in writing. Pursuant to the guidelines set out in rule 3.13 of the Listing Rules, each of the independent non-executive directors has confirmed his independence and is continued to be considered by the Company to be independent.

REMUNERATION OF DIRECTORS

The Remuneration Committee of the Company is responsible for formulating and making recommendations to the Board on the Group's policy and structure of the Directors' and the senior management's remuneration, as well as on the establishment of a formal and transparent procedure for developing policy on such remuneration. Throughout the Year, the Remuneration Committee comprised Mr. Hung Tsung Chin (Chairman of the Remuneration Committee), Mr. Hsu Chun Yi and Mr. Tsan Wen Nan.

NOMINATION OF DIRECTORS

The Nomination Committee of the Company is responsible for the appointment of the directors and for considering appropriate candidates for re-election by the Company's shareholders at annual general meeting. Throughout the Year, the Nomination Committee comprised Mr. Hung Tsung Chin (Chairman of the Nomination Committee), Mr. Hsu Chun Yi and Mr. Tsan Wen Nan and has not held any meeting as there had been no major appointments to the Company.

AUDITORS' REMUNERATION

During the Year, the remuneration paid to the Company's external auditors, Deloitte Touche Tohmatsu, is set out as follows:

Services rendered	Fee paid	
	2007	2006
	HK$'000	HK$'000
Audit services	**1,633**	1,708
Non-audit services	**665**	645

AUDIT COMMITTEE

The Audit Committee has been established with the responsibility of assisting the Board in providing an independent review on the Company's (i) relationship with the external auditors, (ii) financial information, and (iii) the reporting system and internal control procedures. It acts in an advisory capacity and makes recommendations to the Board. Throughout the Year, the Audit Committee comprised Mr. Hsu Chun Yi (Chairman of the Audit Committee), Mr. Chen Chung Ho and Mr. Tsan Wen Nan.

The Directors are collectively responsible for preparing the consolidated financial statements of the Group which have been prepared on a going concern basis, and complied with requirements of the Listing Rules. There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. Also, there is no disagreement between the Directors and the Audit Committee regarding the selection of the external auditors.

The Directors have also conducted a review of the effectiveness of the system of internal control of the Group and are satisfied with the results of the review.

The directors present their annual report and the audited consolidated financial statements of the Group for the year ended June 30, 2007.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 41 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended June 30, 2007 are set out in the consolidated income statement on page 19.

No interim dividend was paid to shareholders during the year. The directors do not recommend the payment of a final dividend.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group are set out in note 14 to the consolidated financial statements.

INVESTMENT PROPERTIES

Details of movements during the year in the investment properties of the Group are set out in note 16 to the consolidated financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 32 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at June 30, 2007 were as follows:

	2007	2006
	HK$'000	HK$'000
Contributed surplus	**181,788**	181,788
Retained profits	**78,815**	2,149
	260,603	183,937

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Mr. Hung Tsung Chin
Ms. Chen Mei Huei
Mr. Wang Yao Chu
Mr. Liao Wen I
Mr. Yip Ho Chi

Independent non-executive directors:

Mr. Hsu Chun Yi
Mr. Chen Chung Ho
Mr. Tsan Wen Nan

In accordance with Clause 87(1) of the Company's Bye-laws, Mr. Hung Tsung Chin and Ms. Chen Mei Huei retire by rotation and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors of the Company has entered into a service contract with the Company for a term of three years commencing April 1, 2005, which may be terminated by either party thereto giving to the other party three months' prior notice in writing, which notice period should not be expired at any time during the first year commencing April 1, 2005.

Each of the independent non-executive directors of the Company has entered into letters of appointment with the Company and appointed for a period of one year commencing January 1, 2007 and may be terminated by either party giving to the other party three months' prior notice in writing.

Other than as disclosed above, none of the directors of the Company has a contract of service with the Company or any of its subsidiaries not determinable by the employing company within one year without payment of compensation (except for statutory compensation).

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES

As at June 30, 2007, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, the "SFO") which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions in which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), to be notified to the Company and the Stock Exchange were as follows:

(i) Ordinary shares of HK$0.10 each of the Company

Name of director	Nature of interest	Number of Company's shares interested	Approximate percentage of interest
Mr. Hung Tsung Chin	Corporate	147,523,125 (Note 1)	29.00%
Ms. Chen Mei Huei	Corporate	147,523,125 (Note 1)	29.00%
Mr. Wang Yao Chu	Corporate	111,150,000 (Note 2)	21.85%
Mr. Liao Wen I	Corporate	75,489,375 (Note 3)	14.84%

Notes:

1. These Company's shares are registered in the name of Metroasset Investments Limited which is held by Mr. Hung Tsung Chin as to 45.09%, his wife, Ms. Chen Mei Huei, as to 44.38% and Mr. Hung Shih Shih (on trust for Mr. Hung Chih Chun, a son of Mr. Hung Tsung Chin and Ms. Chen Mei Huei) as to 10.53%.

2. These Company's shares are registered in the name of Success Power Investments Limited which is held by Mr. Wang Yao Chu as to 58.80% and his wife, Ms. Tseng Wei Ti, as to 41.20%.

3. These Company's shares are registered in the name of Wellever Investments Limited which is held by Mr. Liao Wen I as to 86.14% and his wife, Ms. Lin Hsiu Ling, as to 13.86%.

All interests in the Company's shares stated above represent long position.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES *(Continued)*

(ii) Share options

Details of the Company's share option scheme are set out in note 37 to the consolidated financial statements.

The following table discloses movements in the Company's share options during the year:

			Number of share options			
Type of grantee	**Date of grant** (Note 2)	**Exercise price**	**Outstanding at July 1, 2006**	**Granted during the year**	**Forfeited during the year**	**Outstanding at June 30, 2007**
Directors						
Mr. Hung Tsung Chin	July 30, 2005	HK$1.02	500,000	–	–	500,000
Ms. Chen Mei Huei	July 30, 2005	HK$1.02	500,000	–	–	500,000
Mr. Wang Yao Chu	July 30, 2005	HK$1.02	500,000	–	–	500,000
Mr. Liao Wen I	July 30, 2005	HK$1.02	500,000	–	–	500,000
Mr. Yip Ho Chi	July 30, 2005	HK$1.02	500,000	–	–	500,000
			2,500,000	–	–	2,500,000
Employees	July 30, 2005	HK$1.02	3,400,000	–	(160,000)	3,240,000
Employees (Note 1)	December 16, 2006	HK$2.05	–	1,100,000	–	1,100,000
Total			5,900,000	1,100,000	(160,000)	6,840,000

Notes:

1. The closing price of the Company's shares immediately before December 16, 2006, the date of grant of the options granted during the current financial year, was HK$2.05.

2. The share options are vested in stages as follows:

On or after the second year anniversary of the date of grant	50%
On or after the third year anniversary of the date of grant	remaining 50%

Options granted on July 30, 2005 are exercisable until July 31, 2015 and options granted on December 16, 2006 are exercisable until December 15, 2016.

Save as disclosed above, as at June 30, 2007, none of the directors and chief executives of the Company had or were deemed to have any interest, or short positions in the shares or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the SFO), which has been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which has been notified to the Company pursuant to the Model Code of the Listing Rules.

SUBSTANTIAL SHAREHOLDERS

As at June 30, 2007, the interests of the substantial shareholders in the shares or underlying shares of the Company which have been disclosed to the Company pursuant to Division 2 and 3 of Part XV of the SFO have been recorded in the register kept by the Company pursuant to section 336 of the SFO:

Name of shareholder	Number of Company's shares held	Approximate percentage of interest
Metroasset Investments Limited	147,523,125	29.00% (Note 1)
Success Power Investments Limited	111,150,000	21.85% (Note 2)
Wellever Investments Limited	75,489,375	14.84% (Note 3)

Notes:

1. Metroasset Investments Limited is held by Mr. Hung Tsung Chin as to 45.09%, his wife, Ms. Chen Mei Huei, as to 44.38% and Mr. Hung Shih Shih (on trust for Mr. Hung Chih Chun, a son of Mr. Hung Tsung Chin and Ms. Chen Mei Huei) as to 10.53%.

2. Success Power Investments Limited is held by Mr. Wang Yao Chu as to 58.80% and his wife, Ms. Tseng Wei Ti, as to 41.20%.

3. Wellever Investments Limited is held by Mr. Liao Wen I as to 86.14% and his wife, Ms. Lin Hsiu Ling, as to 13.86%.

All the interests in the Company's shares stated above represent long position.

Save as disclosed above, so far as is known to the directors, as at June 30, 2007, there was no person (other than a director or chief executive of the Company) who had an interest in the shares or underlying shares in the Company which would fall to be disclosed to the Company pursuant to section 336 of the SFO.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the share option scheme of the Company, at no time during the year was the Company, or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' Report

EMOLUMENT POLICY

The emolument policy for the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

Other employee benefits included insurance and medical cover, subsidised training programme as well as share option scheme set out in note 37 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws although there are no restrictions against such rights under the laws in Bermuda.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, both the aggregate sales attributable to the Group's five largest customers and the aggregate purchases attributable to the Group's five largest suppliers were less than 30% of the Group's total sales and purchases, respectively.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended June 30, 2007.

POST BALANCE SHEET EVENT

Details of a significant event occurring after the balance sheet date are set out in note 42 to the consolidated financial statements.

AUDITOR

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

Chairman
Hong Kong, October 31, 2007

Deloitte.
德勤

TO THE MEMBERS OF
SANDMARTIN INTERNATIONAL HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Sandmartin International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 19 to 69, which comprise the consolidated balance sheet as at June 30, 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

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

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

Independent Auditor's Report

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at June 30, 2007 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong, October 31, 2007

Consolidated Income Statement

For the year ended June 30, 2007

	Notes	2007 HK$'000	2006 HK$'000
Revenue	6	**1,315,998**	1,090,342
Cost of sales		**(1,123,560)**	(893,880)
Gross profit		**192,438**	196,462
Other income		**27,055**	23,835
Increase in fair value of investment properties		**5,016**	2,891
Distribution and selling costs		**(51,638)**	(64,073)
Administrative expenses		**(150,248)**	(103,356)
Other expenses		**(11,666)**	(14,093)
Reversal of allowance for loans to an associate		**–**	6,169
Share of results of an associate		**512**	1,225
Finance costs	8	**(18,313)**	(14,339)
(Loss) profit before taxation		**(6,844)**	34,721
Income tax expense	9	**(8,251)**	(1,202)
(Loss) profit for the year	10	**(15,095)**	33,519
Attributable to:			
Equity holders of the Company		**(14,039)**	33,378
Minority interests		**(1,056)**	141
		(15,095)	33,519
Dividends	12	**–**	35,099
(Loss) earnings per share	13		
Basic		**(2.8) HK cents**	6.6 HK cents
Diluted		**(2.8) HK cents**	6.6 HK cents

Consolidated Balance Sheet

At June 30, 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment	14	**201,710**	186,614
Prepaid lease payments	15	**22,503**	21,139
Investment properties	16	**24,785**	20,074
Deposit paid for acquisition of property, plant and equipment	17	**779**	–
Goodwill	18	**70,294**	64,180
Intangible assets	19	**8,909**	1,090
Interest in an associate	20	**–**	3,987
Available-for-sale investments	21	**1,711**	1,624
Deferred tax assets	22	**1,019**	622
		331,710	299,330
Current assets			
Inventories	23	**382,128**	273,307
Trade and other receivables	24	**323,197**	295,075
Prepaid lease payments	15	**508**	480
Amount due from an associate	25	**–**	1,705
Derivative financial instruments	26	**215**	336
Pledged bank deposits	27	**10,725**	21,859
Bank balances and cash	28	**114,111**	92,179
		830,884	684,941
Current liabilities			
Trade and other payables	29	**463,960**	277,224
Tax liabilities		**10,315**	13,329
Bank and other borrowings – due within one year	30	**212,138**	194,291
Obligations under finance leases – due within one year	31	**683**	2,248
		687,096	487,092
Net current assets		**143,788**	197,849
		475,498	497,179

Consolidated Balance Sheet

At June 30, 2007

	Notes	2007 HK$'000	2006 HK$'000
Capital and reserves			
Share capital	32	**50,868**	50,868
Reserves		**362,034**	363,967
Equity attributable to equity holders of the Company		**412,902**	414,835
Minority interests		**12,039**	13,248
Total equity		**424,941**	428,083
Non-current liabilities			
Other long-term payable	33	**1,596**	28,143
Bank and other borrowings – due after one year	30	**48,839**	39,688
Obligations under finance leases			
– due after one year	31	**122**	775
Deferred tax liabilities	22	**–**	490
		50,557	69,096
		475,498	497,179

The consolidated financial statements on pages 19 to 69 were approved and authorised for issue by the Board of Directors on October 31, 2007 and are signed on its behalf by:

Hung Tsung Chin	**Yip Ho Chi**
DIRECTOR	*DIRECTOR*

Consolidated Statement of Changes in Equity

For the year ended June 30, 2007

	Attributable to equity holders of the Company										
	Share capital HK$'000	Share premium HK$'000	Share option reserve HK$'000	Statutory reserve HK$'000 (Note a)	Special reserve HK$'000 (Note b)	Revaluation reserve HK$'000	Exchange reserve HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At July 1, 2005	50,868	28,328	–	6,808	79,878	–	(132)	237,580	403,330	–	403,330
Exchange difference arising on translation of operations outside Hong Kong recognised directly in equity	–	–	–	–	–	–	6,916	–	6,916	(14)	6,902
Gain on fair value changes of available-for-sale investments	–	–	–	–	–	54	–	–	54	–	54
Income recognised directly in equity	–	–	–	–	–	54	6,916	–	6,970	(14)	6,956
Profit for the year	–	–	–	–	–	–	–	33,378	33,378	141	33,519
Total recognised income for the year	–	–	–	–	–	54	6,916	33,378	40,348	127	40,475
Recognition of equity – settled share-based payments	–	–	267	–	–	–	–	–	267	–	267
Transfer	–	–	–	2,856	–	–	–	(2,856)	–	–	–
Contribution from minority shareholders	–	–	–	–	–	–	–	–	–	19,110	19,110
Loss of subsidiaries shared by minority shareholders upon their capital contributions	–	–	–	–	–	–	–	5,989	5,989	(5,989)	–
Dividends (note 12)	–	–	–	–	–	–	–	(35,099)	(35,099)	–	(35,099)
At June 30, 2006	50,868	28,328	267	9,664	79,878	54	6,784	238,992	414,835	13,248	428,083
Exchange difference arising on translation of operations outside Hong Kong recognised directly in equity	–	–	–	–	–	–	11,576	–	11,576	(153)	11,423
Loss on fair value changes of available-for-sale investments	–	–	–	–	–	(25)	–	–	(25)	–	(25)
Income recognised directly in equity	–	–	–	–	–	(25)	11,576	–	11,551	(153)	11,398
Loss for the year	–	–	–	–	–	–	–	(14,039)	(14,039)	(1,056)	(15,095)
Total recognised income and expense for the year	–	–	–	–	–	(25)	11,576	(14,039)	(2,488)	(1,209)	(3,697)
Recognition of equity – settled share-based payments	–	–	555	–	–	–	–	–	555	–	555
Transfer	–	–	–	3,241	–	–	–	(3,241)	–	–	–
At June 30, 2007	50,868	28,328	822	12,905	79,878	29	18,360	221,712	412,902	12,039	424,941

Notes:

(a) The statutory reserve is required by the relevant law of The People's Republic of China (the "PRC") applicable to the subsidiaries in the PRC.

(b) The special reserve represents the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition at the time of group reorganisation prior to the listing of the Company's shares and the surplus arising pursuant to the capitalisation of advances from shareholders as part of the group reorganisation.

Consolidated Cash Flow Statement

For the year ended June 30, 2007

	Note	2007 HK$'000	2006 HK$'000
Operating activities			
(Loss) profit before taxation		**(6,844)**	34,721
Adjustments for:			
Finance costs		**18,313**	14,339
Interest income		**(1,304)**	(2,514)
Share of results of an associate		**(512)**	(1,225)
Depreciation of property, plant and equipment		**36,016**	31,761
Amortisation of intangible assets		**1,860**	121
Share-based payment expense		**555**	267
Increase in fair value of investment properties		**(5,016)**	(2,891)
Decrease (increase) in fair value of derivative financial instruments		**121**	(336)
Release of prepaid lease payments		**485**	442
(Gain) loss on disposal of property, plant and equipment		**(51)**	698
Impairment loss on trade and other receivables		**34,657**	15,718
Bad and doubtful debts written off		**–**	473
Inventories written off		**18,416**	–
Operating cash flows before movements in working capital		**96,696**	91,574
Increase in inventories		**(112,547)**	(32,414)
(Increase) decrease in trade and other receivables		**(48,983)**	112,904
Decrease (increase) in amount due from an associate		**1,705**	(1,705)
Increase (decrease) in trade and other payables		**158,712**	(106,789)
Decrease in amount due to an associate		**–**	(3,297)
Cash generated from operations		**95,583**	60,273
Taxation in other jurisdictions paid		**(12,829)**	(3,429)
PRC enterprise income tax refunded in respect of reinvestment of dividend declared		**–**	3,282
Interest received		**1,304**	2,514
Interest paid		**(18,313)**	(14,550)
Net cash from operating activities		**65,745**	48,090
Investing activities			
Purchase of property, plant and equipment		**(43,693)**	(15,046)
Decrease in other long term payable		**(28,143)**	–
Expenditure on products development		**(9,181)**	–
Deposit paid for acquisition of property, plant and equipment		**(779)**	–
Decrease in pledged bank deposits		**11,134**	31,985
Proceeds from disposal of property, plant and equipment		**5,505**	515
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	34	**2,902**	(1,216)
Net cash (used in) from investing activities		**(62,255)**	16,238

Consolidated Cash Flow Statement

For the year ended June 30, 2007

	2007 HK$'000	2006 HK$'000
Financing activities		
New bank borrowings raised	**190,523**	220,205
Repayments of bank borrowings	**(169,711)**	(238,605)
Repayments of obligations under finance leases	**(2,248)**	(3,517)
Dividends paid	**–**	(35,099)
Repayment to a minority shareholder	**–**	(390)
Net cash from (used in) financing activities	**18,564**	(57,406)
Net increase in cash and cash equivalents	**22,054**	6,922
Cash and cash equivalents at beginning of the year	**92,179**	83,617
Effect of foreign exchange rate changes	**(122)**	1,640
Cash and cash equivalents at end of the year, represented by bank balances and cash	**114,111**	92,179

1. GENERAL

The Company is incorporated in Bermuda with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office and principal place of business of the Company are disclosed in the corporate information to the annual report.

The consolidated financial statements are presented in Hong Kong dollars. The functional currency of the Company was Renminbi. As the Company is listed in Hong Kong, the directors consider that it is appropriate to present the consolidated financial statements in Hong Kong dollars.

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 41.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new standards, amendments, and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning July 1, 2006. The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting years have been prepared and presented. Accordingly, no prior year adjustment has been required.

The Group has not early applied the following new and revised standards, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 23 (Revised)	Borrowing Costs[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – INT 10	Interim Financial Reporting and Impairment[3]
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions[4]
HK(IFRIC) – INT 12	Service Concession Arrangements[5]
HK(IFRIC) – INT 13	Customer Loyalty Programmes[6]
HK(IFRIC) – INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[5]

1 Effective for annual periods beginning on or after January 1, 2007
2 Effective for annual periods beginning on or after January 1, 2009
3 Effective for annual periods beginning on or after November 1, 2006
4 Effective for annual periods beginning on or after March 1, 2007
5 Effective for annual periods beginning on or after January 1, 2008
6 Effective for annual periods beginning on or after July 1, 2008

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

Goodwill arising on acquisition on or after January 1, 2005

Goodwill arising on an acquisition of a subsidiary for which the agreement date is on or after January 1, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Interests in associates

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts for goods sold in the normal course of business, net of returns and discounts.

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

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

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

Management fee income is recognised when the services are rendered.

Property, plant and equipment

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

Construction in progress is stated at cost less any accumulated impairment losses. Cost comprises directly attributable cost of acquisition or construction. No depreciation is provided on construction in progress until the construction is completed and the relevant asset is ready for its intended use. When the asset concerned is brought into use, the carrying amount is transferred from construction in progress to the appropriate category of property, plant and equipment.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Prepaid lease payments

Prepaid lease payments, which represent up-front payments to acquire leasehold land interest, are stated at cost and released to profit or loss over the period of the lease on a straight-line basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year in which the item is derecognised.

Intangible assets

On initial recognition, intangible assets acquired separately and from business combinations are recognised at cost and at fair value respectively. After initial recognition, intangible assets with finite lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite lives is provided on a straight-line basis over their estimated useful lives.

Gains or losses arising from derecognition of any intangible assets are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

Inventories

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

Impairment (other than goodwill)

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, such 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

The Group's financial assets at fair value through profit or loss are derivative financial instruments.

Derivatives that do not qualify for hedge accounting are deemed as financial assets held for trading or financial liabilities held for trading. Changes in fair values of such derivatives are recognised directly in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, amount due from an associate, pledged bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in profit or loss in subsequent periods.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including trade and other payables, other long-term payable and bank and other borrowings are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after July 1, 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the exchange reserve.

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 profit as reported in the consolidated 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. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base 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 profits 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 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.

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 profits 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 profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair values at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 defined contribution retirement benefit plans, Hong Kong Mandatory Provident Fund Scheme (the "MPF Scheme") and the state-managed retirement benefit schemes are charged as expenses when employees have rendered service entitling them to the contributions.

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, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Share-based payment transactions

Equity-settled share-based payment transactions

The fair value of services received from employees determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of estimates, if any, is recognised in profit or loss with a corresponding adjustment to share option reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will continue to be held in share option reserve.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Impairment loss on trade receivables

The assessment of the impairment loss on trade receivables of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's estimate. In determining whether impairment is required, the Group takes into consideration the aging status, creditworthiness and the past collection history of each customer. Specific allowance is only made for receivables that are unlikely to be collected and is recognised on the difference between the estimated future cash flow expected to receive discounted using the original effective interest rate and the carrying value. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. As at June 30, 2007, the carrying value of trade receivables is HK$297,156,000.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at June 30, 2007, the carrying amount of goodwill was HK$70,294,000. Details of the recoverable amount calculation are disclosed in note 18.

Impairment for inventories

Management of the Group reviews inventories on a product-by-product basis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. Management estimates the net realisable value for such finished goods and work in progress based primarily on the latest invoice prices and current market conditions.

5. FINANCIAL INSTRUMENTS

(a) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, trade and other payables, bank and other borrowings, and bank balances and cash. Details of these financial instruments are disclosed in the respective notes. The risks associated with certain of these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

As at June 30, 2007, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet. In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Market risk

Currency risk

Certain trade and other receivables and trade and other payables of the Group are denominated in foreign currencies. The Group's foreign exchange exposures arise mainly from the exchange rate movements of Renminbi, Euro and United States dollars. The Group does not have an existing foreign exchange policy to minimise the currency risk.

Interest rate risk

The Group is exposed to fair value and cash flow interest rate risks through fixed and variable interest rates bank deposits, borrowings and obligations under finance leases. The Group currently does not have any interest rate hedging policy. The directors monitor the Group's exposure on ongoing basis and will consider hedging interest rate risk should the need arises.

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets traded on active liquid markets are determined with reference to quoted market bid prices; and
- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis, using prices or rates from observable current market transactions as input.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

6. REVENUE

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

7. SEGMENT INFORMATION

Business segments

For management purposes, the Group is currently organised into three operating divisions – digital 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:

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

7. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

Year ended June 30, 2007

	Digital television reception products HK$'000	Connectors and cables HK$'000	Communication related products HK$'000	Total HK$'000
REVENUE				
External sales	711,683	383,225	221,090	1,315,998
RESULT				
Segment result	48,854	67,460	(10,171)	106,143
Other income				27,055
Increase in fair value of investment properties				5,016
Unallocated corporate expenses				(127,257)
Share of results of an associate	512	–	–	512
Finance costs				(18,313)
Loss before taxation				(6,844)
Income tax expense				(8,251)
Loss for the year				(15,095)

At June 30, 2007

BALANCE SHEET

	Digital television reception products HK$'000	Connectors and cables HK$'000	Communication related products HK$'000	Total HK$'000
ASSETS				
Segment assets	692,342	161,433	130,516	984,291
Unallocated corporate assets				178,303
Consolidated total assets				1,162,594
LIABILITIES				
Segment liabilities	309,056	33,067	61,347	403,470
Unallocated corporate liabilities				334,183
Consolidated total liabilities				737,653

7. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

Year ended June 30, 2007

OTHER INFORMATION

	Digital television reception products HK$'000	Connectors and cables HK$'000	Communication related products HK$'000	Corporate HK$'000	Total HK$'000
Capital additions	**40,363**	**3,767**	**9,367**	**579**	**54,076**
Depreciation and amortisation	**19,224**	**11,867**	**5,603**	**1,182**	**37,876**

Year ended June 30, 2006

	Digital television reception products HK$'000	Connectors and cables HK$'000	Communication related products HK$'000	Total HK$'000
REVENUE				
External sales	524,619	353,693	212,030	1,090,342
RESULT				
Segment result	47,974	59,398	9,299	116,671
Other income				23,835
Increase in fair value of investment properties				2,891
Unallocated corporate expenses				(101,731)
Reversal of allowance for loans to an associate	–	–	6,169	6,169
Share of results of an associate	1,225	–	–	1,225
Finance costs				(14,339)
Profit before taxation				34,721
Income tax expense				(1,202)
Profit for the year				33,519

7. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

At June 30, 2006

BALANCE SHEET

	Digital television reception products HK$'000	Connectors and cables HK$'000	Communication related products HK$'000	Total HK$'000
ASSETS				
Segment assets	555,787	173,485	55,189	784,461
Interest in an associate	3,987	–	–	3,987
Unallocated corporate assets				195,823
Consolidated total assets				984,271
LIABILITIES				
Segment liabilities	201,614	52,849	51,745	306,208
Unallocated corporate liabilities				249,980
Consolidated total liabilities				556,188

Year ended June 30, 2006

OTHER INFORMATION

	Digital television reception products HK$'000	Connectors and cables HK$'000	Communication related products HK$'000	Corporate HK$'000	Total HK$'000
Capital additions	16,846	19,497	1,898	1,135	39,376
Depreciation and amortisation	14,118	10,462	5,972	1,330	31,882
Loss on disposal of property, plant and equipment	12	249	437	–	698

7. 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	
	2007	2006
	HK$'000	HK$'000
Europe	**437,994**	319,256
North America	**362,858**	314,729
Middle East	**333,305**	321,572
Asia	**69,836**	63,750
South America	**57,706**	66,967
Other regions	**54,299**	4,068
	1,315,998	1,090,342

The following is an analysis of the carrying amount of segment assets and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Asia	**676,188**	592,588	**28,086**	30,356
Europe	**292,528**	173,191	**25,990**	9,020
Other regions	**15,575**	18,682	**–**	–
	984,291	784,461	**54,076**	39,376

8. FINANCE COSTS

	2007 HK$'000	2006 HK$'000
Interest on:		
– bank borrowings wholly repayable within five years	**14,387**	11,286
– bank borrowings not wholly repayable within five years	**315**	344
– obligations under finance leases	**94**	267
– other long-term payable	**3,517**	2,653
Total borrowing costs	**18,313**	14,550
Less: Amount capitalised	**–**	(211)
	18,313	14,339

Borrowing costs capitalised during the year ended June 30, 2006 arose on bank borrowings and were calculated by applying a capitalisation rate of 5.9%.

9. INCOME TAX EXPENSE

	2007 HK$'000	2006 HK$'000
The tax charge comprises:		
Current tax:		
Taxation in other jurisdictions	**9,097**	4,969
PRC enterprise income tax refunded in respect of reinvestment of dividend declared	**–**	(3,282)
	9,097	1,687
Deferred taxation credit (note 22)	**(846)**	(485)
	8,251	1,202

No tax is payable on the profit for the year arising in Hong Kong since the assessable profit of the subsidiary operating in Hong Kong is wholly absorbed by tax losses brought forward.

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

The principal PRC subsidiary was qualified as an exported oriented enterprise for the year ended December 31, 2006 and continued to enjoy the reduced tax rate of 12% ("Reduced Tax Rate").

9. INCOME TAX EXPENSE *(Continued)*

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

	2007 HK$'000	2006 HK$'000
(Loss) profit before taxation	**(6,844)**	34,721
Tax at the applicable rate of 24%	**(1,642)**	8,333
Tax effect of income subject to Reduced Tax Rate	**(544)**	(3,260)
Tax effect of expenses not deductible for tax purpose	**15,400**	7,027
Tax effect of income not taxable for tax purpose	**(3,414)**	(5,995)
Tax effect of tax losses not recognised	**107**	1,609
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	**(1,523)**	(2,657)
Utilisation of tax losses previously not recognised	**(133)**	(573)
PRC enterprise income tax refunded in respect of reinvestment of dividend declared	**–**	(3,282)
Tax charge for the year	**8,251**	1,202

Details of deferred taxation for the year are set out in note 22.

10. (LOSS) PROFIT FOR THE YEAR

	2007 HK$'000	2006 HK$'000
(Loss) profit for the year has been arrived at after charging:		
Directors' emoluments (note 11)	**8,597**	9,390
Other staff costs	**111,379**	81,634
Retirement benefit scheme contributions, excluding directors	**8,824**	4,449
Share-based payment expense, excluding directors	**455**	167
Total employee benefit expenses	**129,255**	95,640
Auditor's remuneration	**2,033**	1,812
Depreciation of property, plant and equipment	**36,016**	31,761
Amortisation of intangible assets (included in cost of sales)	**1,860**	121
Release of prepaid lease payments	**485**	442
Decrease in fair value of derivative financial instruments	**121**	–
Loss on disposal of property, plant and equipment	**–**	698
Research and development expenses (included in other expenses)	**11,666**	14,093
Impairment loss on trade and other receivables	**34,657**	15,718
Bad and doubtful debts written off	**–**	473
Foreign exchange loss (included in administrative expenses)	**6,764**	6,995
Inventories written off	**18,416**	–
and after crediting:		
Bank interest income	**1,304**	2,514
Foreign exchange gain (included in other income)	**13,631**	5,704
Management fee income	**–**	525
Increase in fair value of derivative financial instruments	**–**	336
Gain on disposal of property, plant and equipment	**51**	–

Included in the total employee benefit expenses is an aggregate amount of HK$8,876,000 (2006: HK$4,507,000) in respect of contributions of retirement benefits schemes made by the Group.

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the directors were as follows:

Year ended June 30, 2007

	Mr. Hung Tsung Chin HK$'000	Ms. Chen Mei Huei HK$'000	Mr. Wang Yao Chu HK$'000	Mr. Liao Wen I HK$'000	Mr. Yip Ho Chi HK$'000	Mr. Hsu Chun Yi HK$'000	Mr. Chen Chung Ho HK$'000	Mr. Tsan Wen Nan HK$'000	Total HK$'000
Fees	–	–	–	–	–	40	40	40	120
Other emoluments:									
– salaries and other benefits	1,937	2,101	1,602	1,303	845	–	–	–	7,788
– bonus	24	511	–	–	2	–	–	–	537
– retirement benefit schemes contributions	10	10	10	10	12	–	–	–	52
– share-based payment expense	20	20	20	20	20	–	–	–	100
Total emoluments	1,991	2,642	1,632	1,333	879	40	40	40	8,597

Year ended June 30, 2006

	Mr. Hung Tsung Chin HK$'000	Ms. Chen Mei Huei HK$'000	Mr. Wang Yao Chu HK$'000	Mr. Liao Wen I HK$'000	Mr. Yip Ho Chi HK$'000	Mr. Hsu Chun Yi HK$'000	Mr. Chen Chung Ho HK$'000	Mr. Tsan Wen Nan HK$'000	Total HK$'000
Fees	–	–	–	–	–	40	40	40	120
Other emoluments:									
– salaries and other benefits	1,939	1,750	1,603	1,304	845	–	–	–	7,441
– bonus	347	825	233	183	83	–	–	–	1,671
– retirement benefit schemes contributions	12	12	11	11	12	–	–	–	58
– share-based payment expense	20	20	20	20	20	–	–	–	100
Total emoluments	2,318	2,607	1,867	1,518	960	40	40	40	9,390

Bonus were determined with reference to the Group's operating results, individual performances and comparable market statistics.

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, three (2006: four) were directors of the Company whose emoluments are included in the disclosure set out above. The emoluments of the remaining two (2006: one) individuals are as follow:

	2007 **HK$'000**	2006 HK$'000
Salaries and other benefits	**4,326**	1,135
Retirement benefit schemes contributions	**58**	18
	4,384	1,153

The emoluments were within the following band:

	2007 **No. of employees**	2006 No. of employees
HK$1,000,001 to HK$1,500,000	**–**	1
HK$1,500,001 to HK$2,000,000	**1**	–
HK$2,000,001 to HK$2,500,000	**1**	–

During the two years ended June 30, 2007 and 2006, no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office. No director waived any emoluments for the years ended June 30, 2007 and 2006.

12. DIVIDENDS

	2007 **HK$'000**	2006 HK$'000
Dividends recognised as distribution during the year represents:		
2005 final dividend of HK6.9 cents per ordinary share	**–**	35,099

No final dividend is proposed by the directors for the years ended June 30, 2007 and 2006.

13. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	2007	2006
	HK$'000	HK$'000
(Loss) earnings for the purposes of basic and diluted earnings per share		
(Loss) profit attributable to equity holders of the Company	**(14,039)**	33,378

	Number of shares	
Number of ordinary shares outstanding during the year, for the purpose of basic (loss) earnings per share	**508,682,000**	508,682,000
Effect of dilutive potential ordinary shares in respect of share options	**–**	123,216
Number of ordinary shares for the purpose of diluted (loss) earnings per share	**508,682,000**	508,805,216

The computation of the diluted loss per share does not assume the exercise of the Company's share options as their exercise would decrease the loss per share for the year ended June 30, 2007.

14. PROPERTY, PLANT AND EQUIPMENT

	Freehold land HK$'000	Buildings HK$'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
COST									
At July 1, 2005	2,488	98,738	8,855	151,921	9,995	6,733	5,302	3,502	287,534
Exchange adjustments	6	2,611	202	4,775	168	224	94	67	8,147
Additions	–	–	838	9,948	1,469	203	135	2,664	15,257
Acquired on acquisition of subsidiaries	791	7,677	1,368	11,046	371	987	668	–	22,908
Transfers	–	6,233	–	–	–	–	–	(6,233)	–
Transfer to investment properties	–	(16,000)	(2,031)	–	–	–	–	–	(18,031)
Disposals	–	–	–	(7,597)	(168)	–	(253)	–	(8,018)
At June 30, 2006	3,285	99,259	9,232	170,093	11,835	8,147	5,946	–	307,797
Exchange adjustments	(11)	6,568	534	11,905	479	447	368	–	20,290
Additions	–	16,362	2,841	23,453	127	253	657	–	43,693
Acquired on acquisition of subsidiaries	–	–	488	128	163	44	50	–	873
Transfer from investment properties	–	644	–	–	–	–	–	–	644
Disposals	(861)	(2,444)	(1,714)	(1,314)	(2,262)	(1,487)	(63)	–	(10,145)
At June 30, 2007	2,413	120,389	11,381	204,265	10,342	7,404	6,958	–	363,152
DEPRECIATION									
At July 1, 2005	–	10,733	2,429	74,369	3,379	3,740	3,251	–	97,901
Exchange adjustments	–	189	34	2,370	94	106	22	–	2,815
Provided for the year	–	1,974	1,535	23,450	2,414	1,259	1,129	–	31,761
Transfer to investment properties	–	(3,662)	(827)	–	–	–	–	–	(4,489)
Eliminated on disposals	–	–	–	(6,520)	(80)	–	(205)	–	(6,805)
At June 30, 2006	–	9,234	3,171	93,669	5,807	5,105	4,197	–	121,183
Exchange adjustments	–	628	150	7,255	324	302	275	–	8,934
Provided for the year	–	2,248	1,805	27,682	2,058	1,167	1,056	–	36,016
Eliminated on disposals	–	(17)	(1,047)	(1,225)	(976)	(1,364)	(62)	–	(4,691)
At June 30, 2007	–	12,093	4,079	127,381	7,213	5,210	5,466	–	161,442
CARRYING VALUES									
At June 30, 2007	2,413	108,296	7,302	76,884	3,129	2,194	1,492	–	201,710
At June 30, 2006	3,285	90,025	6,061	76,424	6,028	3,042	1,749	–	186,614

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Freehold land	Nil
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% – 33⅓%
Furniture, fixtures and equipment	20%
Motor vehicles	20% – 33⅓%
Computer equipment	20% – 33⅓%

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	2007	2006
	HK$'000	HK$'000
The carrying value of freehold land shown above comprises:		
Taiwan	**2,413**	2,446
Italy	**–**	839
	2,413	3,285

The carrying value of property, plant and equipment includes an amount of HK$5,294,000 (2006: HK$6,044,000) in respect of assets held under finance leases.

15. PREPAID LEASE PAYMENTS

	2007	2006
	HK$'000	HK$'000
The Group's prepaid lease payments comprise:		
Leasehold land in Hong Kong		
Long lease	**8,175**	8,343
Leasehold land outside Hong Kong		
Medium-term lease	**14,836**	13,276
	23,011	21,619
Analysed for reporting purposes as:		
Current asset	**508**	480
Non-current asset	**22,503**	21,139
	23,011	21,619

16. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUES	
At July 1, 2005	1,229
Exchange adjustments	490
Transfer from property, plant and equipment	13,542
Transfer from prepaid lease payments	1,922
Changes in fair value recognised in consolidated income statement	2,891
At June 30, 2006	20,074
Exchange adjustments	1,379
Transfer to property, plant and equipment (note 14)	(644)
Transfer to prepaid lease payments	(1,040)
Changes in fair value recognised in consolidated income statement	5,016
At June 30, 2007	**24,785**

The fair value of the Group's investment properties at June 30, 2007 has been arrived at on the basis of a valuation carried out on that date by DTZ Debenham Tie Leung Limited, independent qualified professional valuer not connected with the Group. DTZ Debenham Tie Leung Limited is a member of the Hong Kong Institute of Surveyors (the "HKIS"), and has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to Valuation Standards (First Edition 2005) on Valuation of Properties published by the HKIS, was arrived at by reference to market evidence of transaction prices for similar properties.

The carrying value of investment properties shown above comprises properties situated in the PRC under medium-term lease. They are held for rental purpose under operating lease.

17. DEPOSITS PAID FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

The deposits were paid by the Group in connection with the acquisition of property, plant and equipment for new production facilities. Details of the related capital commitments are set out in note 36.

18. GOODWILL

	HK$'000
CARRYING VALUES	
At July 1, 2005	–
Arising on acquisition of subsidiaries	64,180
At June 30, 2006	64,180
Exchange adjustments	247
Arising on acquisition of subsidiaries	5,867
At June 30, 2007	**70,294**

As explained in note 7, the Group uses business segments as its primary segment reporting information. For the purposes of impairment testing, goodwill has been allocated to two cash generating units ("CGUs") which are digital television reception products segment and connectors and cables segment. The carrying amounts of goodwill allocated to these units are as follows:

	2007	2006
	HK$'000	HK$'000
Digital television reception products	**64,184**	58,070
Connectors and cables	**6,110**	6,110
	70,294	64,180

The basis of the recoverable amounts of the above CGUs and their major underlying assumptions are summarised below:

The recoverable amount of these units has been determined based on a value in use calculation. That calculation uses cash flow projections covered a five-year period and adopted discount rates of 10% for digital television reception products segment and 10% for connectors and cables segment. The cash flow projections are projected based on the most recent financial budgets approved by management. Digital television reception products and connectors and cables cash flows during the five-year period are extrapolated from the budget using a steady 5% growth rate for sales. The key assumptions for the value in use calculations is the budgeted gross margin and budgeted revenue, which are determined based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of these units to exceed the aggregate recoverable amount of the units.

19. INTANGIBLE ASSETS

	Software HK$'000	Trademarks HK$'000	Total HK$'000
COST			
At July 1, 2005	–	–	–
Arising on acquisition of subsidiaries	–	1,211	1,211
At June 30, 2006	–	1,211	1,211
Exchange adjustments	201	–	201
Arising on acquisition of subsidiaries	329	–	329
Additions	9,181	–	9,181
Disposals	(316)	–	(316)
At June 30, 2007	9,395	1,211	10,606
AMORTISATION			
At July 1, 2005	–	–	–
Provided for the year	–	121	121
At June 30, 2006	–	121	121
Exchange adjustments	32	–	32
Provided for the year	1,618	242	1,860
Eliminated on disposals	(316)	–	(316)
At June 30, 2007	1,334	363	1,697
CARRYING VALUES			
At June 30, 2007	8,061	848	8,909
At June 30, 2006	–	1,090	1,090

The above intangible assets have finite useful lives and are amortised on a straight-line basis over 5 years.

20. INTEREST IN AN ASSOCIATE

	2007 HK$'000	2006 HK$'000
Cost of investment in an associate, unlisted	**–**	2,762
Share of post-acquisition profits	**–**	1,225
	–	3,987

20. INTEREST IN AN ASSOCIATE *(Continued)*

As at June 30, 2006, the Group had an interest in the following associate:

Name of associate	Form of business structure	Place of incorporation	Issued and fully paid share capital	Proportion of nominal value of issued share indirectly held by the Group	Principal activity
FTE Maximal – Comercio de Antenas e electronica, Lda ("FTE Maximal") (Note)	Incorporated	Portugal	Euro20,000	50%	Trading of electronic goods

Note: In February 2007, the Group acquired additional 50% equity interest in FTE Maximal and it became a subsidiary of the Company.

The summarised financial information in respect of the Group's associate is set out below:

	2007 HK$'000	2006 HK$'000
Revenue	**11,343**	13,940
Profit for the year	**1,024**	2,450
Group's share of results of the associate for the year	**512**	1,225
Total assets		12,350
Total liabilities		(4,375)
Net assets		7,975
Group's share of net assets of the associate		3,987

21. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments represent listed equity investments outside Hong Kong.

All available-for-sale investments are stated at fair value. Fair value of those investments have been determined by reference to bid prices quoted in active markets.

22. DEFERRED TAXATION

The following are the major deferred tax assets (liabilities) recognised by the Group and movements thereon during the current and prior years:

	Tax losses HK$'000	Deferred expenditure HK$'000	Accelerated tax depreciation HK$'000	Total HK$'000
At July 1, 2005	–	393	–	393
Exchange adjustments	–	48	(66)	(18)
Arising on acquisition of subsidiaries	–	500	(1,228)	(728)
Credit to consolidated income statement for the year	51	293	141	485
At June 30, 2006	51	1,234	(1,153)	132
Exchange adjustments	27	77	(63)	41
Credit (charge) to consolidated income statement for the year	625	(92)	313	846
At June 30, 2007	**703**	**1,219**	**(903)**	**1,019**

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2007 HK$'000	2006 HK$'000
Deferred tax assets	**1,019**	622
Deferred tax liabilities	**–**	(490)
	1,019	132

At June 30, 2007, the Group has unused tax losses of HK$12,386,000 (2006: HK$10,724,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$2,061,000 (2006: HK$292,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of HK$10,325,000 (2006: HK$10,432,000) due to the unpredictability of future profit streams.

Included in unused tax losses are losses not recognised of HK$7,045,000 (2006: HK$6,630,000) that will expire in ten years. Other tax losses may be carried forward indefinitely.

23. INVENTORIES

	2007 HK$'000	2006 HK$'000
Raw materials	**124,303**	133,843
Work in progress	**121,720**	62,153
Finished goods	**136,105**	77,311
	382,128	273,307

24. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 30 days to 180 days to its trade customers.

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

	2007 HK$'000	2006 HK$'000
0 – 30 days	**142,285**	64,392
31 – 60 days	**64,633**	44,208
61 – 90 days	**30,090**	26,640
91 – 180 days	**23,705**	18,128
More than 181 days	**36,443**	81,244
	297,156	234,612
Other receivables	**26,041**	60,463
Total trade and other receivables	**323,197**	295,075

During the year, management reviewed the trade receivables and identified that certain receivables are uncollectible in view of the payment due date and payment history and full impairment loss of HK$34,657,000 (2006: HK$15,718,000) was recognised in the consolidated income statement accordingly.

25. AMOUNT DUE FROM AN ASSOCIATE

The amount due from an associate is arose from trading balance and the aged analysis at the balance sheet date is as follows:

	2007 HK$'000	2006 HK$'000
0 – 30 days	**–**	1,242
31 – 60 days	**–**	463
	–	1,705

The amount due from an associate was unsecured, interest-free and fully settled during the year.

26. DERIVATIVE FINANCIAL INSTRUMENTS

During the year, the Group had entered into forward sale contracts in United States dollars in exchange for Renminbi. As at June 30, 2007, the notional principal amount of the outstanding contracts is US$21,000,000 (2006: US$22,000,000) which will be matured within one year and the changes in the fair value are recognised in the consolidated income statement. The fair value of derivative financial instruments are measured based on the prices for equivalent instruments quoted by respective financial institutions.

27. PLEDGED BANK DEPOSITS

The amounts represent deposits pledged to banks to secure short-term bank borrowings granted to the Group. The deposits carry fixed interest rates ranged from 2.09% to 4.88% (2006: 1.05% to 4.99%) per annum. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

28. BANK BALANCES AND CASH

Bank balances and cash of the Group comprise bank balances and cash held and short-term bank deposits that are interest-bearing at floating interest rate and are with maturity of three months or less. The bank deposits carry fixed interest rates ranged from 0.12% to 3.6% (2006: 0.07% to 4.98%) per annum.

The Group's bank balances and cash that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	Hong Kong dollars '000	United States dollars '000
As at June 30, 2007	**850**	**4,464**
As at June 30, 2006	1,380	5,181

29. TRADE AND OTHER PAYABLES

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

	2007 HK$'000	2006 HK$'000
0 – 30 days	**171,637**	77,061
31 – 60 days	**99,959**	55,030
61 – 90 days	**74,432**	47,698
91 – 180 days	**45,411**	25,916
181 – 365 days	**1,476**	346
	392,915	206,051
Other payables	**71,045**	71,173
Total trade and other payables	**463,960**	277,224

30. BANK AND OTHER BORROWINGS

	2007 HK$'000	2006 HK$'000
Trust receipt loans	**49,442**	125,382
Bank loans	**187,425**	61,980
Bills discounted with recourse	**2,425**	39,592
Other borrowings	**21,685**	7,025
	260,977	233,979
Analysed as:		
Secured	**68,710**	109,217
Unsecured	**192,267**	124,762
	260,977	233,979
Carrying amount repayable:		
Within one year	**212,138**	194,291
In more than one year but not more than two years	**16,811**	12,534
In more than two years but not more than three years	**12,234**	11,494
In more than three years but not more than four years	**8,582**	8,233
In more than four years but not more than five years	**5,261**	3,126
More than five years	**5,951**	4,301
	260,977	233,979
Less: Amount due within one year shown under current liabilities	**(212,138)**	(194,291)
Amount due after one year	**48,839**	39,688

The exposure of the Group's fixed-rate bank and other borrowings and the contractual maturity dates are as follows:

	2007 HK$'000	2006 HK$'000
Fixed-rate borrowings:		
Within one year	**483**	521
In more than one year but not more than two years	**–**	451
	483	972

30. BANK AND OTHER BORROWINGS *(Continued)*

The range of the effective interest rate on the Group's bank and other borrowings are as follows:

	2007	2006
Effective interest rate per annum:		
Fixed-rate bank and other borrowings	**5.5%**	5.5%
Variable-rate bank borrowings	**5.2% to 6.83%**	4.15% to 6.89%

The Group's bank borrowings that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	Hong Kong dollars '000	**New Taiwan dollars** '000	**United States dollars** '000
As at June 30, 2007	**23,187**	**5,404**	**9,702**
As at June 30, 2006	32,495	223	14,626

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

(a) bank deposits of HK$10,725,000 (2006: HK$21,859,000);

(b) buildings with a carrying value of HK$76,678,000 (2006: HK$74,202,000);

(c) prepaid lease payments of HK$19,283,000 (2006: HK$19,045,000);

(d) freehold land of HK$2,413,000 (2006: HK$2,446,000), and

(e) investment properties of HK$24,785,000 (2006: HK$19,054,000).

31. OBLIGATIONS UNDER FINANCE LEASES

It is the Group's policy to lease certain of its property, plant and equipment under finance leases. The average lease term is three years. Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 5.25% to 7% (2006: 5% to 7.25%) per annum.

	Minimum lease payments		Present value of minimum lease payments	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under finance leases:				
Within one year	**690**	2,369	**683**	2,248
In more than one year but not more than two years	**111**	662	**95**	645
In more than two years but not more than three years	**30**	91	**27**	87
In more than three years but not more than four years	**–**	45	**–**	43
	831	3,167		
Less: Future finance charges	**(26)**	(144)		
Present value of lease obligations	**805**	3,023	**805**	3,023
Less: Amount due within one year shown under current liabilities			**(683)**	(2,248)
Amount due after one year			**122**	775

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

32. SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At July 1, 2005, June 30, 2006 and 2007	1,000,000,000	100,000
Issued and fully paid:		
At July 1, 2005, June 30, 2006 and 2007	508,682,000	50,868

33. OTHER LONG-TERM PAYABLE

The balance represents the deferred consideration for the acquisition of subsidiaries during the year. Details of the acquisition of subsidiaries are disclosed in note 34.

The amount is unsecured, interest-bearing at 5% (2006: 6%) per annum and will be fully repayable on September 20, 2008.

34. ACQUISITION OF SUBSIDIARIES

On January 25, 2007, the Group acquired 100% equity interest in Irismedia, S. L., which is principally engaged in the research and development activities, for a consideration of Euro 15,043 (equivalent to approximately HK$154,000).

On February 28, 2007, the Group acquired additional 50% equity interest in FTE Maximal (previously an associate of the Group with 50% equity interest held), which is principally engaged in trading of electronic goods in Europe, for a consideration of Euro 1 million (equivalent to approximately HK$10,210,000).

These two transactions have been accounted for using the purchase method.

During the year ended June 30, 2006, the Group acquired certain subsidiaries, details of which are as follows:

(a) On November 30, 2005, the Group acquired additional 1% equity interest in a subsidiary, Weblink Technology Limited (previously an associate of the Group with 50% equity interest), which is principally engaged in investment holding, and trading and manufacturing of optical fibre products, for a consideration of HK$8.

(b) On January 16, 2006, the Group acquired 100% equity interest in BCN Distribuciones, S.A. and its subsidiaries, which are principally engaged in the business of research and development and distribution of digital television reception products in Europe, for a total consideration of Euro 10 million (equivalent to approximately HK$94,525,000).

34. ACQUISITION OF SUBSIDIARIES *(Continued)*

The net assets acquired in the transaction, and the goodwill arising, are as follows:

	2007	2006		
	Acquirees' carrying amount before combination and fair value HK$'000	Acquirees' carrying amount before combination HK$'000	Fair value adjustments HK$'000	Fair value HK$'000
Property, plant and equipment	**873**	22,908	–	22,908
Prepaid lease payments	**–**	2,339	–	2,339
Intangible assets	**329**	4,654	(3,443)	1,211
Interest in an associate	**–**	2,551	–	2,551
Available-for-sale investments	**–**	1,478	–	1,478
Inventories	**2,768**	51,041	(1,492)	49,549
Trade and other receivables	**–**	110,620	(4,113)	106,507
Bank balances and cash	**7,140**	37,024	–	37,024
Trade and other payables	**(1,001)**	(90,319)	–	(90,319)
Tax liabilities	**–**	(5,661)	–	(5,661)
Bank and other borrowings	**(1,009)**	(82,220)	–	(82,220)
Obligations under finance leases	**–**	(905)	–	(905)
Amounts due to minority shareholders	**–**	(19,500)	–	(19,500)
Deferred tax liabilities	**–**	(728)	–	(728)
	9,100	33,282	(9,048)	24,234
Less: Carrying amount previously recognised as interest in an associate	**4,603**			(6,111)
Goodwill	**5,867**			64,180
Total consideration	**10,364**			94,525
Total consideration satisfied by:				
Cash	**4,238**			38,240
Deferred consideration	**6,126**			56,285
	10,364			94,525
Net cash inflow (outflow) arising on acquisition:				
Cash consideration paid	**(4,238)**			(38,240)
Cash and cash equivalents acquired	**7,140**			37,024
	2,902			(1,216)

34. ACQUISITION OF SUBSIDIARIES *(Continued)*

The goodwill arising on the acquisitions is attributable to the anticipated profitability of the acquired business and the anticipated future operating synergies from the combination.

The subsidiaries acquired contributed HK$5,623,000 (2006: HK$124,378,000) to the Group's revenue and contributed profit of HK$1,005,000 (2006: HK$3,494,000) to the Group's loss before taxation for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on July 1, 2006, total group revenue for the year would have been HK$1,324,241,000 (2006: HK$1,214,720,000), and the loss for the year would have been HK$15,239,000 (2006: profit of HK$37,013,000). The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on July 1, 2006, nor is it intended to be a projection of future results.

35. OPERATING LEASES

The Group as lessee

Minimum lease payments paid under operating leases during the year:

	2007	2006
	HK$'000	HK$'000
Premises	**13,762**	5,674
Plant and machinery	**–**	25
	13,762	5,699

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:

	2007	2006
	HK$'000	HK$'000
Within one year	**6,139**	6,319
In the second to fifth year inclusive	**10,551**	15,157
	16,690	21,476

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

35. OPERATING LEASES *(Continued)*

The Group as lessor

Property rental income earned during the year was HK$2,577,000 with negligible outgoings (2006: HK$754,000 with negligible outgoings). All of the investment properties held have committed tenants for the next three to five years.

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

	2007 **HK$'000**	2006 HK$'000
Within one year	**2,283**	2,633
In the second to fifth year inclusive	**2,138**	4,107
Over fifth year	**42**	–
	4,463	6,740

36. CAPITAL COMMITMENTS

	2007 **HK$'000**	2006 HK$'000
Capital expenditure contracted but not provided for in the consolidated financial statements in respect of acquisition of property, plant and equipment	**443**	322

37. SHARE-BASED PAYMENT TRANSACTIONS

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 or financial or legal advisers of the Company or any of its subsidiaries, for the recognition of their contributions, to subscribe for shares in the Company with a payment of HK$1.00 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 option; 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, or any conditions stipulated by the board of directors.

37. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

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 month 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.

The following table discloses movements of the share options of the Company entitled by the Company's directors or employees during the year:

			Number of share options						
Type of grantee	Date of grant (Note 2)	Exercise price (Note 1)	Outstanding at July 1, 2005	Granted during the year	Forfeited during the year	Outstanding at June 30, 2006	Granted during the year	Forfeited during the year	Outstanding at June 30, 2007
Directors	July 30, 2005	HK$1.02	–	2,500,000	–	2,500,000	–	–	2,500,000
Employees	July 30, 2005	HK$1.02	–	4,020,000	(620,000)	3,400,000	–	(160,000)	3,240,000
Employees	December 16, 2006	HK$2.05	–	–	–	–	1,100,000	–	1,100,000
Total			–	6,520,000	(620,000)	5,900,000	1,100,000	(160,000)	6,840,000
Exercisable at the end of the year						–			–

Notes:

1. The closing prices of the Company's shares immediately before July 30, 2005 and December 16, 2006, the dates of grant of the options, were HK$1.02 and HK$2.05, respectively.

2. The share options are vested in stages as follows:

On or after the second year anniversary of the date of grant	50%
On or after the third year anniversary of the date of grant	remaining 50%

Options granted on July 30, 2005 are exercisable until July 31, 2015 and options granted on December 16, 2006 are exercisable until December 15, 2016.

The estimated fair values of the options granted during the year are approximately HK$1,170,000 (2006: HK$698,000).

37. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

These fair values were calculated using the Black-Scholes pricing model. The inputs into the model were as follows:

	2007	2006
Weighted average share price	**HK$2.05**	HK$1.02
Exercise price	**HK$2.05**	HK$1.02
Expected volatility	**55.97%**	23.81%
Expected life	**5 years**	5 years
Risk-free rate	**3.796%**	3.604%
Expected dividend yield	**0%**	7%

Expected volatility was determined by using the historical volatility of the Company's share price since the shares are listed on the Stock Exchange. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

The Group recognised total expense of approximately HK$555,000 for the year ended June 30, 2007 (2006: HK$267,000) in relation to share options granted by the Company.

38. RETIREMENT BENEFIT PLANS

The Group operates a MPF Scheme for all qualifying employees in Hong Kong. The MPF Scheme is 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 paid and payable in the future years.

The retirement benefit scheme contributions arising from the MPF Scheme charged to the consolidated income statement represent contributions paid and 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.

In addition, certain subsidiaries of the Company in foreign countries are required to contribute amounts based on employees' salaries to the retirement benefit scheme as stipulated by relevant local authorities. The employees are entitled to the Company's contributions subject to the regulations of the relevant local authorities.

39. RELATED PARTY DISCLOSURES

(i) During the year, the Group entered into the following transactions with related parties:

Relationship	Nature of transaction	2007 HK$'000	2006 HK$'000
Associates	Sales of finished goods	**3,100**	366
	Purchase of finished goods	**–**	2,905
	Management fee income received	**–**	525

(ii) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2007 HK$'000	2006 HK$'000
Short-term benefits	**12,771**	10,367
Post-employment benefits	**110**	76
Share-based payments	**100**	100
	12,981	10,543

In the opinion of the directors, the remuneration of directors and key executives is determined having regard to the performance of individuals and market trends.

40. BALANCE SHEET OF THE COMPANY

	Note	2007 HK$'000	2006 HK$'000
Total assets		**421,623**	352,675
Total liabilities		**1,102**	9,375
Net assets		**420,521**	343,300
Capital and reserves			
Share capital		**50,868**	50,868
Reserves	a	**369,653**	292,432
Equity attributable to equity holders of the Company		**420,521**	343,300

40. BALANCE SHEET OF THE COMPANY *(Continued)*

Note:

(a) Reserves

	Share premium HK$'000	Contributed surplus HK$'000	Share option reserve HK$'000	Special reserve HK$'000	Retained profits HK$'000	Total HK$'000
At July 1, 2005	28,328	181,788	–	79,900	39,865	329,881
Recognition at equity – settled share-based payments	–	–	267	–	–	267
Loss for the year	–	–	–	–	(2,617)	(2,617)
Dividend paid	–	–	–	–	(35,099)	(35,099)
At June 30, 2006	28,328	181,788	267	79,900	2,149	292,432
Recognition at equity – settled share-based payments	–	–	555	–	–	555
Profit for the year	–	–	–	–	76,666	76,666
At June 30, 2007	**28,328**	**181,788**	**822**	**79,900**	**78,815**	**369,653**

The contributed surplus represents the difference between the consolidated shareholders' fund of Top Peaker Group Limited ("Top Peaker") and the nominal value of the Company's shares issued to acquire Top Peaker at the time of the group reorganisation.

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

41. PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Company's principal subsidiaries at June 30, 2007 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 Directly	Indirectly	Principal activities
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$13,500,000	–	100%	Manufacture of electronic goods
SMT Hong Kong Limited	Hong Kong	Ordinary	HK$2	–	100%	Provision of management services
SMT Electronic Technology Limited	Cayman Islands/ Taiwan	Ordinary	US$1	–	100%	Trading of electronic goods
SMT (Macao Commercial Offshore) Limited	Macau	Quota capital	MOP100,000	–	100%	Trading of electronic goods
TRT Business Network Solutions, Inc.	United States of America	Ordinary	US$100,000	–	100%	Trading of electronic goods
Weblink Technology Limited	BVI/Hong Kong	Ordinary	US$100	–	51%	Investment holding
FLT Hong Kong Technology Limited	BVI/Hong Kong	Ordinary	US$450,000	–	51%	Trading of optical fibre products
Fiberlink Technology Limited (note) 珠海保稅區隆宇光電科技有限公司	PRC	Registered capital	US$1,500,000	–	51%	Manufacture of optical fibre products
BCN Distribuciones, S.A.	Spain	Ordinary	Euro412,102	–	100%	Research and development and trading of electronic goods
FTE Maximal, S.r.l.	Italy	Ordinary	Euro102,775	–	100%	Trading of electronic goods

Note: These companies are wholly foreign owned enterprises.

41. PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

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 outstanding at any time of the year or at June 30, 2007.

42. POST BALANCE SHEET EVENT

On September 6, 2007, the Company entered into a subscription agreement with CDIB Capital (Japan) Limited ("CDIB") pursuant to which the Company agreed to issue and CDIB agreed to subscribe for 48,000,000 new shares of HK$0.10 each in the Company at a price of HK$1.45 each. The net proceeds from the subscription will be used for general working capital of the Group. Details of this transaction are included in a published announcement of the Company on September 6, 2007.

Financial Summary

	Year ended June 30,				
	2003	2004	2005	2006	**2007**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
RESULTS					
Revenue	664,736	1,265,357	1,308,122	1,090,342	**1,315,998**
Profit (loss) before taxation	55,875	101,605	105,552	34,721	**(6,844)**
Income tax expense	(2,721)	(5,139)	(5,787)	(1,202)	**(8,251)**
Profit (loss) for the year	53,154	96,466	99,765	33,519	**(15,095)**
Attributable to:					
Equity holders of the Company	53,372	96,466	99,765	33,378	**(14,039)**
Minority interests	(218)	–	–	141	**(1,056)**
	53,154	96,466	99,765	33,519	**(15,095)**

	At June 30,				
	2003	2004	2005	2006	**2007**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
ASSETS AND LIABILITIES					
Total assets	465,942	715,391	865,320	984,271	**1,162,594**
Total liabilities	(380,027)	(567,891)	(461,990)	(556,188)	**(737,653)**
	85,915	147,500	403,330	428,083	**424,941**
Equity attributable to equity holders of the Company	85,915	147,500	403,330	414,835	**412,902**
Minority interests	–	–	–	13,248	**12,039**
	85,915	147,500	403,330	428,083	**424,941**

Notes:

(a) The Company was incorporated in Bermuda on January 27, 2004 and became the holding company of the Group with effect from March 17, 2005 as a result of the group reorganisation. The results of the Group for each of the three years ended June 30, 2005 and the assets and liabilities at June 30, 2003 and 2004 have been prepared on a combined basis as if the current group structure had been in existence throughout those years and have been extracted from the Company's prospectus dated April 28, 2005.

(b) The above financial summary prior to 2005 has not been adjusted for the effect on the changes in the accounting policies effective for accounting periods beginning on or after January 1, 2005 as the directors considered that it is not practicable to do so.