Annual Report 2008

Sandmartin International Holdings Limited
聖馬丁國際控股有限公司

(Incorporated in Bermuda with limited liability)

Stock code: 00482

Contents

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

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

Bank SinoPac
Chinatrust Commercial Bank, Limited
Industrial and Commercial Bank of China (Asia) Limited
The Hong Kong and Shanghai Banking Corporation
Standard Chartered Bank (Hong Kong) 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 47, 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 18 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 46, 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 18 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 45, 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 18 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 40, 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 18 years of experience in the cable and connector industries, including 16 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 39, 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.

Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Hsu Chun Yi, aged 46, 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 two listed companies in Taiwan.

Mr. Chen Chung Ho, aged 57, 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 Standing Executive Council Member of Guangdong Association of Enterprise with Foreign Investment. Mr. Chen has over 23 years' extensive experience in corporate management and working experience across Taiwan, Hong Kong and the PRC.

Mr. Tsan Wen Nan, aged 45, 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 19 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 45, 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 43, 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 45, 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. Carlos Domingo Bujosa, aged 44, 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 22 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 technology and marketing strategy development.

Mr. Jorge Monte Collado, aged 45, 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 20 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 43 and working with BCN since 1985, has over 22 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.

Mr. Frank Fischer, aged 48, is the chief technology officer of the Group. He joined the Group in January 2008 and is responsible for the technical strategy of the Group and is leading and coordinating the R&D activities in China, Germany, Spain and the US. Mr. Fischer has more than 20 years experience in hardware and software development for consumer electronic products in Europe and has been involved in Digital TV technologies since the beginning of Digital Video Broadcasting Project (DVB) in 1994. He graduated as diplom degree engineer for automation technology and cybernetics from the Technical University Leipzig in Germany.

Management Discussion and Analysis

BUSINESS REVIEW

It was an encouraging year since our acquisition of BCN Distribuciones, S.A. and its subsidiaries ("BCN") in Europe from January 2006. The Group's improvement in market competitiveness, by means of enhanced research and development ("R&D") and sales teams, positioned it to take advantage of a rising digital television ("DTV") set-top box market. We delivered a solid year across almost all geographies. We believe that the newly integrated Group has found remarkable success, as evidenced by a 31.1% increase in the Group's turnover and a turnaround from loss to profit for the 2007/08 fiscal year. We understand that the stability in the management team of BCN before and after the acquisition acts a significant role in this achievement.

Macro-economically, the Directors have noticed the recent unification of tax laws, labor law reform, and the appreciation of RMB in China. It is generally expected that these changes will stimulate the development of high-tech, infrastructure, agriculture, and some other industries. Conversely, simple production and processing industries, driven mainly by cheap labor and uncomplicated know-how, will be under pressure to upgrade their technology and labor productivity. The Group's manufacturing base, where located in the mainland China, inevitably to a certain extent would be affected by these new rules. The Group would take all necessary measures and develop proper strategies to optimize the domestic and global tax tactics. Furthermore, the Group's total employee benefit expenses for the year ended June 30, 2008 amounted to merely 12.0% (2007: 11.5%) of the Group's costs of sales. The Directors believe that the Group is well-positioned to face these new challenges and able to maintain its competitiveness.

ACQUISITION

In April 2008, we completed the acquisition of 100% equity interest in Intelligent Digital Services GmbH ("IDS"), a company registered in Germany, for a consideration of EUR1,800,000 (equivalent to approximately HK$22.2 million). A founder of IDS, Mr. Frank Fischer, also joined the Group as chief technical officer from January 2008, who has more than 20 years experience in hardware and software development for DTV products in Europe. The Directors believe that the addition of IDS can further enhance the R&D capability of the Group as a whole, especially in the development of innovative products and new markets.

FINANCIAL REVIEW

Revenue. During the Year, revenue of the Group grew 31.1% year-on-year to approximately HK$1,725.1 million (2007: HK$1,316.0 million), driven mainly by the increasing contribution from the European subsidiaries and regaining the Middle East market. The growth in the African markets was also significant.

Segmental information. The revenue attributable to the Group's core business, sales of DTV reception products, amounted to HK$1,213.9 million (2007: HK$711.7 million), or 70.4% of the Group's revenue. Compared with last year, an increase of 70.6% in this segment was mainly attributable to the growth in DTV set-top boxes, both in output units and the percentage of top value products. The continuing growth in the European market, where we are selling higher margin products, was also a key factor to boost up the revenue and gross margin simultaneously.

As for the non-core segment, sales from other multimedia products maintained at HK$511.2 million for the Year (2007: HK$604.3 million), representing 29.6% of the Group's revenue. The major products in this segment are cables and connectors, being components for audio and video electronic products.

Revenue by geographical markets:

	Middle East	Europe	North America	Africa	South America	Other regions	Total
Revenue for the Year (HK$ m)	698.9	539.4	265.0	83.7	78.3	59.8	1,725.1
% of Group's revenue	40.5	31.3	15.4	4.9	4.5	3.4	100
% growth (decline) from last year	109.7	23.2	(27.0)	153.6	35.7	(34.3)	31.1

Operating Results. The gross profit margin for the Year improved to 19.2% from last year's 14.6 %. The Group's profit for the Year attributable to equity holders amounted to HK$42.3 million (2007: loss of HK$14.0 million). The Group's earnings before interest, tax, depreciation and amortisation (EBITDA) increased 122.3% to HK$110.7 million (2007: HK$49.8 million), primarily due to the gross profit generated from the higher margin markets like Europe and the strong unit shipment of DTV set-top boxes. Furthermore, merit to the capital expenditures in previous years, the production capacity of the Group has not reached its limit and the Group can continue to benefit from the economies of scale. In general, distribution and selling costs for the Year increased in line with the improved revenue. Meanwhile, the Group would continue its investment in R&D and the R&D costs for the Year amounted to HK$39.3 million, or 2.8% of the cost of sales (2007: HK$11.7 million and 1.0% respectively)

Though the Group's profit for the Year has been adversely affected by the impairment loss on trade receivables amounted to HK$47.9 million, mainly related to a former Middle East customer, the Directors have sustained the prudent approach and tightened the overall credit control to address the issue. We believe that through the diversification of markets and customers, the problem can be mitigated.

Income Tax Expense. We recognised income tax expense of HK$7.8 million for the Year compared to HK$8.3 million last year. The decrease in income tax expense was primarily attributable to the increase in profits being offset by the PRC Enterprise Income Tax refunded of HK$6.5 million regarding reinvestment of dividends of a subsidiary in the PRC during the Year.

CAPITAL STRUCTURE

In September 2007, upon the completion of the issue of 48,000,000 new shares (the "Subscription") under the general mandate granted to the Directors at the annual general meeting of the Company held on December 5, 2006, the sum of share capital and share premium of the Company has been enlarged from HK$79.2 million to HK$148.8 million. The Directors considered that the Subscription represented an opportunity to raise capital for the Company while broadening the shareholder and capital base of the Company, and the Company can have readily available resources to make investments as and when opportunities arise.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

At June 30, 2008, our cash and cash equivalent balances totaled HK$170.3 million compared with HK$114.1 million at June 30, 2007, of which 52.6% (2007: 39.2%) was denominated in US dollars, 17.6% (2007: 39.1%) in Euros, 16.3% (2007: 18.3%) in Renminbi, 12.1% (2007: 1.9%) in Hong Kong dollars, and 1.4% (2007: 1.5%) in other currencies. The increase resulted primarily from net cash provided by operating activities of HK$91.9 million and the net proceeds of HK$69.6 million from issue of new shares in relation to the Subscription, partially offset by increased repayment of bank and other borrowings. We expect to fund our cash requirements and our existing business plan using our available cash balances, and cash provided by operations.

As a measure of liquidity, the current ratio (ratio of current assets to current liabilities) was 1.4 at June 30, 2008 and 1.2 at June 30, 2007. Because of the rapid growth in revenue and costs of sales, together with our tightened credit sale terms and the improved operating efficiency, the trade receivable turnover period and inventory turnover period decreased to 41 days and 85 days respectively. (2007: 82 days and 124 days, respectively). The trade payable turnover period also reduced to 72 days (2007: 128 days).

At June 30, 2008, the Group had the ability to borrow up to HK$361 million under its existing credit facility. The Group is subject to restrictive covenants under its credit facility. These covenants limit the ability of the Company and its respective subsidiaries to, among other things, make restricted payments, including dividends, or loans. At June 30, 2008, we had HK$217.1 million in total outstanding borrowings. Our outstanding borrowings primarily consist of trust receipt loans of HK$57.0 million, bills discounted with recourse of HK$9.0 million, and other bank loans of HK$151.1 million whereas HK$28.1 million were not repayable within one year. The Group's borrowings as at June 30, 2008 were denominated in Euros, US dollars and Hong Kong dollars of 58.8%, 37.5% and 3.7% (2007: 57%, 29% and 14% respectively). The net gearing ratio (net borrowings over total equity of the Group) was significantly reduced to a single digit of 6.7% at June 30, 2008 from 32.2% at June 30, 2007.

At June 30, 2008, capital expenditure of approximately HK$2.5 million (2007: HK$443,000) has been authorised but not contracted in respect of the acquisition of property, plant and equipment.

CHARGES ON ASSETS

As at June 30, 2008, the Group's general banking facilities were secured by the following assets of the Group: (i) bank deposits of HK$9.7 million, (ii) buildings with a carrying value of HK$9.1 million, (iii) prepaid lease payments of HK$13.2 million and (iv) investment properties of HK$30.3 million.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at June 30, 2008.

PROSPECTS

The diversified growth of the global DTV set-top box market in different platforms namely terrestrial, satellite, cable and internet protocol TV, and products' various functionality such as high-definition, personal video recorder and interactive services, together with government-orchestrated plans around the world to phase-out analog TV transmissions over the next couple of years, have stimulated customer demand for DTV set-top boxes. These trends are driving the replacement rate and accelerating the adoption of the latest technologies. The Group has delivered a strong performance during the Year, primarily benefited from recent years' acquisitions to enhance the R&D competence and the world-wide distribution network. We will maintain our focus on our DTV reception products and we believe that the Group will continue to enjoy the contributions from our overseas markets. In view of the recent global financial crisis and credit crunch originated from the United States, the worldwide economy would inevitably be adversely affected to a certain extent. We shall maintain our conservative financial strategies and excellent liquidity to deal with the uncertainties and reduce any potential unfavorable influence.

During the Year, the Group has entered into agreements with a consulting firm of a well-known Enterprise Resource Planning system (ERP). The firm will assist our upgrading of both hardware and software infrastructure to enhance the information technology system of the Group. By streamlining the data flow between departments and allowing employees to view all of the information pertinent to manage their jobs, we believe that the operational efficiency can be improved and the internal control procedures can be implemented more effectively.

EMPLOYEES

At June 30, 2008, the Group employed a total of 3,909 (2007: 4,717) full-time employees. Employees are remunerated accordingly to their performance and responsibilities and the total employee benefit expenses, excluding directors, for the Year amounted to HK$156.6 million (2007: HK$120.2 million). Other employee benefits include, inter alias, share option scheme, provident fund, insurance and medical coverage.

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 Main Board Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Main Board Listing Rules"), and where appropriate, adopted the recommended best practices. Throughout the year ended June 30, 2008 (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 Main Board 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 (the "Board"), including independent non-executive directors ("INEDs"), 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 in 2007/08				
	Board	**Audit Committee**	**Nomination Committee**	**Remuneration Committee**	**2007 AGM**
Number of Meetings Held during the Year	8	2	0	1	1
Executive Director					
Hung Tsung Chin *(Chairman)*	8/8		0	1/1	1/1
Chen Mei Huei *(Chief Executive Officer)*	7/8				0/1
Wang Yao Chu	8/8				1/1
Liao Wen I	8/8				1/1
Yip Ho Chi	8/8				1/1
INEDs					
Hsu Chun Yi	7/8	2/2	0	1/1	0/1
Chen Chung Ho	5/8	1/2			1/1
Tsan Wen Nan	5/8	2/2	0	1/1	0/1
Average attendance rate	**88%**	**83%**	**N/A**	**100%**	**63%**

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 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.

Details of the rules governing the appointment, re-election and removal of Directors are laid down in the Bye-laws of the Company. Biographies of the Directors are set out in the Directors and Senior Management section of this Annual Report.

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 INEDs of the Company has entered into letters of appointment with the Company and be appointed for a period of one year commencing December 13, 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 Main Board Listing Rules, each of the INEDs 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:

	2008	2007
	HK$'000	HK$'000
Audit	**2,459**	2,033
Non-audit services:		
Taxation services fee	**444**	332
Interim review	**310**	260
Others	**30**	30

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 Main Board 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 and management have also conducted regular reviews on the effectiveness of the system of internal control of the Group and are satisfied with the results of the reviews.

The directors present their annual report and the audited consolidated financial statements of the Group for the year ended June 30, 2008.

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, 2008 are set out in the consolidated income statement on page 21.

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 13 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 15 to the consolidated financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 29 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at June 30, 2008 were as follows:

	2008	2007
	HK$'000	HK$'000
Contributed surplus	**181,788**	181,788
Retained profits	**74,817**	78,815
	256,605	260,603

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.

Directors' Report

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 the Company's Bye-laws, Mr. Yip Ho Chi, Mr. Hsu Chun Yi, Mr. Chen Chung Ho and Mr. Tsan Wen Nan retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

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 and will continue thereafter unless and until terminated by either party by three months' prior notice in writing.

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 December 13, 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 that is 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, 2008, 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 shares interested	Approximate percentage of interest
Mr. Hung Tsung Chin	Corporate	147,523,125 (Note 1)	26.50%
Ms. Chen Mei Huei	Corporate	147,523,125 (Note 1)	26.50%
Mr. Wang Yao Chu	Corporate	111,150,000 (Note 2)	19.37%
Mr. Liao Wen I	Corporate	75,489,375 (Note 3)	13.56%

Notes:

1. These 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 Chih Chun, a son of Mr. Hung Tsung Chin and Ms. Chen Mei Huei as to 10.53%.

2. These 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 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:

Type of grantee	Date of grant (Note 2)	Exercise price	Number of share options: Outstanding at July 1, 2007	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at June 30, 2008
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	3,240,000	–	(40,000)	(340,000)	2,860,000
	December 16, 2006	HK$2.05	1,100,000	–	–	–	1,100,000
	December 27, 2007	HK$1.76	–	3,050,000	–	–	3,050,000
Total			6,840,000	3,050,000	(40,000)	(340,000)	9,510,000

Notes:

1. The closing price of the Company's shares immediately before December 27, 2007, the date the options were granted during the current financial year, was HK$1.76.

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

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

Options granted on July 30, 2005 are exercisable until July 31, 2015, options granted on December 16, 2006 are exercisable until December 15, 2016 and options granted on December 27, 2007 are exercisable until December 26, 2017.

Save as disclosed above, as at June 30, 2008, 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, 2008, 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	26.50% (Note 1)
Success Power Investments Limited	111,150,000	19.97% (Note 2)
Wellever Investments Limited	75,489,375	13.56% (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 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, 2008, 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.

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 the share option scheme that is 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, the aggregate sales attributable to the Group's five largest customers comprised approximately 36% of the Group's total sales and the sales attributable to the Group's largest customer was approximately 20% of the Group's total sales.

The aggregate purchases attributable to the Group's five largest suppliers during the year were less than 30% of the total purchases.

None of the directors, their associates or any shareholders which, to the knowledge of the directors, own more than 5% of the Company's issued share capital had any interest in the share capital of any of the Group's five largest customers.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended June 30, 2008.

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 22, 2008

Deloitte.
德勤

德勤 • 關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

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 21 to 79, which comprise the consolidated balance sheet as at June 30, 2008, 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, 2008 and of the Group's profit 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 22, 2008

Consolidated Income Statement

For the year ended June 30, 2008

	NOTES	2008 HK$'000	2007 HK$'000 *(restated)*
Revenue	5	**1,725,083**	1,315,998
Cost of sales		**(1,394,062)**	(1,123,560)
Gross profit		**331,021**	192,438
Other income		**13,282**	13,424
Other gain and loss		**5,198**	6,746
Increase in fair value of investment properties		**2,828**	5,016
Distribution and selling costs		**(64,880)**	(51,638)
Administrative expenses		**(132,981)**	(108,706)
Research and development cost		**(39,263)**	(11,666)
Impairment loss on trade receivables		**(47,947)**	(34,657)
Gain on disposal of a subsidiary		**656**	–
Share of results of an associate		**–**	512
Finance costs	7	**(17,654)**	(18,313)
Profit (loss) before taxation		**50,260**	(6,844)
Income tax expense	8	**(7,818)**	(8,251)
Profit (loss) for the year	9	**42,442**	(15,095)
Attributable to:			
Equity holders of the Company		**42,300**	(14,039)
Minority interests		**142**	(1,056)
		42,442	(15,095)
Earnings (loss) per share	12		
Basic		**7.7 HK cents**	(2.8) HK cents
Diluted		**7.7 HK cents**	(2.8) HK cents

Consolidated Balance Sheet

At June 30, 2008

	NOTES	2008 HK$'000	2007 HK$'000
Non-current assets			
Property, plant and equipment	13	**203,539**	201,710
Prepaid lease payments	14	**23,468**	22,503
Investment properties	15	**30,341**	24,785
Deposit paid for acquisition of property, plant and equipment	16	**661**	779
Goodwill	17	**90,725**	70,294
Intangible assets	18	**10,333**	8,909
Available-for-sale investments	19	**15**	1,711
Deferred tax assets	20	**4,241**	1,019
		363,323	331,710
Current assets			
Inventories	21	**322,772**	382,128
Trade and other receivables	22	**231,212**	323,197
Prepaid lease payments	14	**544**	508
Derivative financial instruments	23	**2,198**	215
Pledged bank deposits	24	**9,716**	10,725
Bank balances and cash	25	**170,330**	114,111
		736,772	830,884
Current liabilities			
Trade and other payables	26	**305,170**	463,960
Tax liabilities		**10,655**	10,315
Derivative financial instruments	23	**3,307**	–
Bank and other borrowings – due within one year	27	**188,946**	212,138
Obligations under finance leases – due within one year	28	**166**	683
		508,244	687,096
Net current assets		**228,528**	143,788
		591,851	475,498

Consolidated Balance Sheet

At June 30, 2008

	NOTES	2008 HK$'000	2007 HK$'000
Capital and reserves			
Share capital	29	**55,672**	50,868
Reserves		**491,376**	362,034
Equity attributable to equity holders of the Company		**547,048**	412,902
Minority interests		**11,757**	12,039
Total equity		**558,805**	424,941
Non-current liabilities			
Other long-term payable	30	**–**	1,596
Bank and other borrowings – due after one year	27	**28,121**	48,839
Deferred tax liabilities	20	**4,916**	–
Obligations under finance leases			
– due after one year	28	**9**	122
		33,046	50,557
		591,851	475,498

The consolidated financial statements on pages 21 to 79 were approved and authorised for issue by the Board of Directors on October 22, 2008 and are signed on its behalf by:

Hung Tsung Chin
DIRECTOR

Wang Yao Chu
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended June 30, 2008

	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$'000	Retained profit HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At July 1, 2006	50,868	28,328	267	9,664	79,878	54	6,784	238,992	414,835	13,248	428,083
Exchange difference arising from translation of foreign operations, representing total income recognised directly in equity	–	–	–	–	–	–	11,576	–	11,576	(153)	11,423
Loss on fair value changes of available-for-sale investments	–	–	–	–	–	(25)	–	–	(25)	–	(25)
Net 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
Exchange difference arising from translation of foreign operations, representing total income recognised directly in equity	–	–	–	–	–	–	21,148	–	21,148	(424)	20,724
Net income recognised directly in equity	–	–	–	–	–	–	21,148	–	21,148	(424)	20,724
Net profit for the year	–	–	–	–	–	–	–	42,300	42,300	142	42,442
Transfer to profit or loss on sales of available-for-sale investments	–	–	–	–	–	(29)	–	–	(29)	–	(29)
Total recognised income and expense for the year	–	–	–	–	–	(29)	21,148	42,300	63,419	(282)	63,137
Placing of new shares	4,800	64,800	–	–	–	–	–	–	69,600	–	69,600
Transaction costs attributable to placing of new shares	–	(58)	–	–	–	–	–	–	(58)	–	(58)
Exercise of share options	4	41	(4)	–	–	–	–	–	41	–	41
Recognition of equity-settled share-based payments	–	–	1,144	–	–	–	–	–	1,144	–	1,144
Transfer	–	–	–	2,902	–	–	–	(2,902)	–	–	–
At June 30, 2008	55,672	93,111	1,962	15,807	79,878	–	39,508	261,110	547,048	11,757	558,805

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 a group reorganisation prior to the listing of the Company's shares and the surplus arising pursuant to a capitalisation of advances from shareholders as part of the group reorganisation.

Consolidated Cash Flow Statement

For the year ended June 30, 2008

	NOTES	2008 HK$'000	2007 HK$'000
Operating activities			
Profit (loss) before taxation		**50,260**	(6,844)
Adjustments for:			
Amortisation of intangible assets		**3,245**	1,860
Depreciation of property, plant and equipment		**39,009**	36,016
Finance costs		**17,654**	18,313
Gain on disposal of property, plant and equipment		**(1,131)**	(51)
Gain on disposal of subsidiary		**(656)**	–
Impairment loss on trade and other receivables		**47,947**	34,657
Increase in fair value of investment properties		**(2,828)**	(5,016)
Decrease in fair value of derivative financial instruments		**1,113**	121
Interest income		**(2,792)**	(1,304)
Inventories written off		**–**	18,416
Release of prepaid lease payments		**501**	485
Share-based payment expense		**1,144**	555
Share of results of an associate		**–**	(512)
Operating cash flows before movements in working capital		**153,466**	96,696
Decrease (increase) in inventories		**102,084**	(112,547)
Decrease (increase) in trade and other receivables		**85,884**	(48,983)
Decrease in amount due from an associate		**–**	1,705
(Decrease) increase in trade and other payables		**(226,325)**	158,712
Cash generated from operations		**115,109**	95,583
Taxation in other jurisdictions paid		**(14,889)**	(12,829)
PRC enterprise income tax refunded in respect of reinvestment of dividend		**6,537**	–
Interest received		**2,792**	1,304
Interest paid		**(17,654)**	(18,313)
Net cash from operating activities		**91,895**	65,745
Investing activities			
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	31	**(20,503)**	2,902
Decrease in other long term payable		**(1,596)**	(28,143)
Disposal of a subsidiary	32	**654**	–
Deposit paid for acquisition of property, plant and equipment		**(661)**	(779)
Expenditure on intangible assets-products development		**(423)**	(9,181)
Decrease in pledged bank deposits		**1,009**	11,134
Proceeds from disposal of property, plant and equipment		**3,229**	5,505
Proceeds from disposal of available-for-sale investments		**2,089**	–
Purchase of property, plant and equipment		**(18,265)**	(43,693)
Net cash used in investing activities		**(34,467)**	(62,255)

Consolidated Cash Flow Statement

For the year ended June 30, 2008

	2008 HK$'000	2007 HK$'000
Financing activities		
New bank borrowings raised	**326,059**	190,523
Repayments of bank borrowings	**(394,143)**	(169,711)
Repayments of obligations under finance leases	**(668)**	(2,248)
Expense on placing of new shares	**(58)**	–
Proceeds from placing of shares	**69,600**	–
Proceeds from issue of shares upon exercise of share options	**41**	–
Net cash from financing activities	**831**	18,564
Net increase in cash and cash equivalents	**58,259**	22,054
Cash and cash equivalents at beginning of the year	**114,111**	92,179
Effect of foreign exchange rate changes	**(2,040)**	(122)
Cash and cash equivalents at end of the year, represented by bank balances and cash	**170,330**	114,111

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 United States dollars ("USD"). 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 ("HKFRSs")

In the current year, the Group has applied, for the first time, a number of new standard, amendment 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 on July 1, 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions

Except for the changes in disclosures as set out below, the adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[1]
HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets[4]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC) – Int 12	Service Concession Arranagements[3]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[4]
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[3]
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate[1]
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation[5]

[1] Effective for annual periods beginning on or after January 1, 2009
[2] Effective for annual periods beginning on or after July 1, 2009
[3] Effective for annual periods beginning on or after January 1, 2008
[4] Effective for annual periods beginning on or after July 1, 2008
[5] Effective for annual periods beginning on or after October 1, 2008

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after July 1, 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other new or revised standards, amendments and interpretations will have no material impact on the results and the financial position of the Group.

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 at initial recognition, 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 and 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 business 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 an acquisition of a business 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 business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business 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 ("CGU"), or groups of CGU, that are expected to benefit from the synergies of the acquisition. A CGU 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 CGU to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the CGU 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 the relevant CGU, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Revenue recognition

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

Revenue from sale of goods is recognised when the goods are delivered and title has passed.

Interest income from a financial asset excluding financial assets at fair value through profit or loss 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

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.

Freehold land is stated at cost less accumulated impairment losses.

Assets held under finance leases are depreciated over their expected 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 amortised represent up-front payments to acquire leasehold land interest are stated at cost and over the period of the lease on a straight-line basis.

Investment properties

Investment properties are properties held to earn rentals or for capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment property 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing *(Continued)*

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. Finance charges are charged directly to profit or loss.

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.

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 the respective 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.

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 borrowing costs are recognised as and included in finance costs in the consolidation income statement 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.

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 or expense that are taxable or deductible in other years, and it further excludes 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.

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.

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses below).

Gains or losses arising from derecognition of an intangible asset 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.

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.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. 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.

Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Inventories

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

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.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or

- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

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, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

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 (see accounting policy on impairment of financial assets below).

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, 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.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent 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.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

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.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including trade payables, interest 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.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

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. If the Group retains substantially all the risks and rewards of ownership of a transferred asset, the Group continues to recognise the financial asset and recognise a collateralised borrowing for proceeds received.

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.

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 during the vesting period, 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.

Impairment losses on assets other than goodwill (see the accounting policy in respect of goodwill above)

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are 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.

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, 2008, the carrying value of trade receivables was HK$192,479,000 (2007: HK$297,156,000) (net of allowance for doubtful debts of HK$103,322,000 (2007: HK$55,241,000)).

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. Where the future cash flow and the discount rate are different from the original estimate, such difference will impact the carrying value of goodwill and impairment loss in the year in which such estimate has been changed. As at June 30, 2008, the carrying amount of goodwill was HK$90,725,000 (2007: HK$70,294,000). Details of the recoverable amount calculation are disclosed in note 17.

5. REVENUE

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

6. SEGMENT INFORMATION

Business segments

For management purposes, the Group is currently organised into two operating divisions – digital television reception products and other multimedia products. These divisions are the basis on which the Group reports its primary segment information.

In the previous period, the Group's operations were organised into three operating divisions, namely, digital television reception products, connectors and cables, and communication related products. During the year, management analysed that most of the customers ordered both connectors and cables, and communication related products and these products are subject to similar risk and returns. Accordingly, management has reorganised the operating divisions by grouping the connectors and cables, and communication related products and renamed it as other multimedia products. Comparative segment information has been restated accordingly.

Principal activities are as follows:

Digital television reception products	–	manufacture and trading of digital television reception products
Other multimedia products	–	manufacture and trading of connectors, cables and assorted electronic accessories

Year ended June 30, 2008

	Digital television reception products HK$'000	Other multimedia products HK$'000	Total HK$'000
REVENUE			
External sales	**1,213,900**	**511,183**	**1,725,083**
RESULTS			
Segment results	**156,127**	**62,067**	**218,194**
Other income			**13,282**
Other gain and loss			**5,198**
Increase in fair value of investment properties			**2,828**
Gain on disposal of a subsidiary			**656**
Unallocated corporate expenses			**(172,244)**
Finance costs			**(17,654)**
Profit before taxation			**50,260**
Income tax expense			**(7,818)**
Profit for the year			**42,442**

6. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

At June 30, 2008

BALANCE SHEET

	Digital television reception products HK$'000	Other multimedia products HK$'000	Total HK$'000
ASSETS			
Segment assets	585,579	246,899	832,478
Unallocated corporate assets			267,617
Consolidated total assets			1,100,095
LIABILITIES			
Segment liabilities	180,624	98,604	279,228
Unallocated corporate liabilities			262,062
Consolidated total liabilities			541,290

Year ended June 30, 2008

OTHER INFORMATION

	Digital television reception products HK$'000	Other multimedia products HK$'000	Corporate HK$'000	Total HK$'000
Capital additions	38,823	3,504	651	42,978
Depreciation and amortisation	22,042	18,565	1,647	42,254
Release of prepaid lease payment	294	38	169	501

6. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

Year ended June 30, 2007

	Digital television reception products HK$'000	Other multimedia products HK$'000	Total HK$'000
REVENUE			
External sales	711,683	604,315	1,315,998
RESULT			
Segment result	48,854	57,289	106,143
Other income			13,424
Other gain and loss			6,746
Increase in fair value of investment properties			5,016
Unallocated corporate expenses			(120,372)
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$'000	Other multimedia products HK$'000	Total HK$'000
ASSETS			
Segment assets	692,342	291,949	984,291
Unallocated corporate assets			178,303
Consolidated total assets			1,162,594
LIABILITIES			
Segment liabilities	309,056	94,414	403,470
Unallocated corporate liabilities			334,183
Consolidated total liabilities			737,653

6. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

Year ended June 30, 2007

OTHER INFORMATION

	Digital television reception products HK$'000	Other multimedia products HK$'000	Corporate HK$'000	Total HK$'000
Capital additions	46,230	13,134	579	59,943
Depreciation and amortisation	19,224	17,470	1,182	37,876
Release of prepaid lease payment	262	54	169	485

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	
	2008 HK$'000	2007 HK$'000
Middle East	**698,853**	333,305
Europe	**539,420**	437,994
North America	**265,035**	362,858
Africa	**83,709**	32,959
South America	**78,337**	57,706
Asia		
– Taiwan	**20,661**	41,902
– PRC	**–**	–
– Others	**24,972**	27,934
Other regions	**14,096**	21,340
	1,725,083	1,315,998

6. SEGMENT INFORMATION *(Continued)*

Geographical segments *(Continued)*

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**	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Asia				
– PRC	**499,154**	668,967	**13,940**	27,909
– Taiwan	**8,315**	7,221	**–**	177
Europe	**299,152**	292,528	**29,038**	31,857
Other regions	**25,857**	15,575	**–**	–
	832,478	984,291	**42,978**	59,943

7. FINANCE COSTS

	2008	2007
	HK$'000	HK$'000
Interest on:		
– bank borrowings wholly repayable within five years	**15,489**	14,387
– bank borrowings not wholly repayable within five years	**239**	315
– obligations under finance leases	**7**	94
– deferred consideration	**1,919**	3,517
Total borrowing costs	**17,654**	18,313

8. INCOME TAX EXPENSE

	2008 HK$'000	2007 HK$'000
The tax charge comprises:		
Current tax:		
PRC	**7,987**	4,039
Jurisdictions other than the PRC and Hong Kong	**5,360**	5,058
Underprovision in prior years	**204**	–
PRC enterprise income tax refunded in respect of reinvestment of dividend	**(6,537)**	–
	7,014	9,097
Deferred taxation:		
Current year	**(370)**	(846)
Provision for withholding tax	**1,397**	–
Attributable to a change in tax rate	**(223)**	–
	804	(846)
	7,818	8,251

The tax rates applicable to the Group's principal operating subsidiaries are as follows:

(i) PRC

Pursuant to the relevant laws and regulations in the PRC, 珠海保稅區虹揚電子科技有限公司 and 珠海保稅區隆宇光電科技有限公司 are entitled to exemption from the PRC enterprise income tax for two years commencing from their first profit-making year of operation, followed by a 50% tax relief for the next three years ("Tax Holidays"). The Tax Holidays for both subsidiaries were expired during the year.

中山聖馬丁電子元件有限公司, established in a "Coastal Open Economic Zone", was subject to a reduced PRC enterprise income tax rate of 24%. In addition, it was qualified as an exported oriented enterprise and continued to enjoy the reduced tax rate of 12% ("Reduced Tax Rate") in 2007. The tax rate has changed to 25% starting from January 1, 2008.

On March 16, 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On December, 6, 2007, the State Council of the PRC issued Implementation Regulations of the New Law. As for 珠海保稅區虹揚電子科技有限公司 and 珠海保稅區隆宇光電科技有限公司 that were qualified under old law of regulations for incentive tax rate, the New Law and the implementation regulations provide for a transitional period of 5 years commencing January 1, 2008 for the PRC enterprise tax rate to reach 25%.

8. INCOME TAX EXPENSE *(Continued)*

(ii) Hong Kong

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

Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profit for the year. On June 26, 2008, the Hong Kong Legislative Council passes the Revenue Bill 2008 which includes the reduction in corporate profit tax rate by 1% to 16.5% effective from the year of assessment 2008-2009. The effect of such decrease has been reflected in measuring the current and deferred tax for the year ended June 30, 2008.

(iii) Europe

The Group's European subsidiaries are subject to profit tax rates at range of 30% to 33% (2007: 33% to 35%).

(iv) Macau

As stated in the Decree Law No. 58/99/M, Chapter 2, Article 12, dated October 18, 1999, the Macau subsidiary is exempted from Macao Complementary Tax.

(v) Others

Other subsidiaries operating in other jurisdictions are subject to applicable tax rates in the relevant jurisdictions.

8. INCOME TAX EXPENSE *(Continued)*

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

	2008 **HK$'000**	2007 HK$'000
Profit (loss) before taxation	**50,260**	(6,844)
Tax at the applicable rate of 25% (2007: 24%)	**12,565**	(1,642)
Tax effect of income subject to falling within Reduced Tax Rate	**(2,342)**	(544)
Tax effect of expenses not deductible for tax purpose	**13,783**	15,400
Tax effect of income not taxable for tax purpose	**(5,190)**	(3,414)
Tax effect of tax losses not recognised	**–**	107
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	**968**	1,504
Tax effect of exemption granted to Macau subsidiary	**(6,801)**	(3,027)
Tax effect of utilisation of tax losses previously not recognised	**(451)**	(133)
Underprovision in prior year	**204**	–
PRC enterprise income tax refunded in respect of reinvestment of dividend	**(6,537)**	–
Deferred taxation arising from dividend withholding tax	**1,396**	–
Increase in opening deferred tax asset resulting from an increase in applicable tax rate	**223**	–
Tax charge for the year	**7,818**	8,251

Details of deferred taxation for the year are set out in note 20.

9. PROFIT (LOSS) FOR THE YEAR

	2008 **HK$'000**	2007 HK$'000
Profit (loss) for the year has been arrived at after charging:		
Directors' emoluments (Note 10)	**9,998**	8,597
Other staff costs	**144,952**	111,379
Retirement benefit scheme contributions, excluding directors	**10,649**	8,824
Share-based payment expense, excluding directors	**1,044**	455
Total employee benefit expenses	**166,643**	129,255
Auditor's remuneration	**2,459**	2,033
Depreciation of property, plant and equipment	**39,009**	36,016
Amortisation of intangible assets (included in cost of sales)	**3,245**	1,860
Release of prepaid lease payments	**501**	485
Net decrease in fair value of derivative financial instruments (included in other gain and loss)	**233**	121
Foreign exchange loss (included in other gain and loss)	**14,488**	6,764
Inventories written off	**4,069**	18,416
and after crediting:		
Bank interest income	**2,792**	1,304
Foreign exchange gain (included in other gain and loss)	**19,919**	13,631
Gain on disposal of property, plant and equipment	**1,131**	51
Property rental with negligible outgoings	**2,232**	2,577

Included in the total employee benefit expenses is an aggregate amount of HK$11,179,000 (2007: HK$8,876,000) in respect of contributions of retirement benefits schemes made by the Group.

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

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

Year ended June 30, 2008

	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	1,944	2,530	1,607	1,309	1,040	–	–	–	8,430
– bonus	333	399	280	220	60	–	–	–	1,292
– retirement benefit schemes contributions	11	10	12	11	12	–	–	–	56
– share-based payment expense	20	20	20	20	20	–	–	–	100
Total emoluments	2,308	2,959	1,919	1,560	1,132	40	40	40	9,998

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

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

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

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, three (2007: three) were directors of the Company whose emoluments are included in the disclosure set out above. The emoluments of the remaining two (2007: two) individuals are as follow:

	2008 **HK$'000**	2007 HK$'000
Salaries and other benefits	**4,808**	4,326
Retirement benefit schemes contributions	**–**	58
	4,808	4,384

The emoluments were within the following band:

	2008 **No. of employees**	2007 No. of employees
HK$1,500,001 to HK$2,000,000	**1**	1
HK$2,000,001 to HK$2,500,000	**–**	1
HK$2,500,001 to HK$3,000,000	**–**	–
HK$3,000,001 to HK$3,500,000	**1**	–

During each of the two years ended June 30, 2008, 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 each of the two years ended June 30, 2008.

11. DIVIDENDS

No dividend is declared or proposed by the directors for each of the two years ended June 30, 2008.

12. EARNINGS (LOSS) PER SHARE

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

	2008	2007
	HK$'000	HK$'000
Earnings (loss) for the purposes of basic and diluted earnings per share		
Profit (loss) attributable to equity holders of the Company	**42,300**	(14,039)

	Number of shares	
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	**546,323,000**	508,682,000
Effect of dilutive potential ordinary shares in respect of share options	**2,248,000**	–
Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share	**548,571,000**	508,682,000

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

13. PROPERTY, PLANT AND EQUIPMENT

	Freehold land in Taiwan	Buildings	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Computer equipment	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
COST								
At July 1, 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
Exchange adjustments	263	13,172	1,294	22,812	1,096	562	889	40,088
Additions	–	–	196	13,915	1,042	1,099	2,792	19,044
Acquired on acquisition of subsidiary	–	–	–	–	–	170	69	239
Disposals	–	–	(22)	(1,319)	(378)	(5,416)	(274)	(7,409)
At June 30, 2008	2,676	133,561	12,849	239,673	12,102	3,819	10,434	415,114
DEPRECIATION								
At July 1, 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
Exchange adjustments	–	1,031	455	13,267	501	306	875	16,435
Provided for the year	–	2,265	2,036	29,057	2,902	1,039	1,710	39,009
Eliminated on disposals	–	–	(11)	(952)	(291)	(3,798)	(259)	(5,311)
At June 30, 2008	–	15,389	6,559	168,753	10,325	2,757	7,792	211,575
CARRYING VALUES								
At June 30, 2008	2,676	118,172	6,290	70,920	1,777	1,062	2,642	203,539
At June 30, 2007	2,413	108,296	7,302	76,884	3,129	2,194	1,492	201,710

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

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% – 33$^1/_3$%
Furniture, fixtures and equipment	20%
Motor vehicles	20% – 33$^1/_3$%
Computer equipment	20% – 33$^1/_3$%

At June 30, 2008, the carrying value of property, plant and equipment included an amount of HK$370,000 (2007: HK$5,294,000) in respect of assets held under finance leases.

14. PREPAID LEASE PAYMENTS

	2008	2007
	HK$'000	HK$'000
The Group's prepaid lease payments comprise:		
Leasehold land in Hong Kong		
Long lease	**8,006**	8,175
Leasehold land outside Hong Kong		
Medium-term lease	**16,006**	14,836
	24,012	23,011
Analysed for reporting purposes as:		
Current asset	**544**	508
Non-current asset	**23,468**	22,503
	24,012	23,011

15. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At July 1, 2006	20,074
Exchange adjustments	1,379
Transfer to property, plant and equipment (Note 13)	(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
Exchange adjustments	2,728
Changes in fair value recognised in consolidated income statement	2,828
At June 30, 2008	**30,341**

The fair value of the Group's investment properties at June 30, 2008 has been arrived at on the basis of a valuation carried out as of 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 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 leases.

16. 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 34.

17. GOODWILL

	HK$'000
CARRYING AMOUNTS	
At July 1, 2006	64,180
Exchange adjustments	247
Arising on acquisition of subsidiaries (Note 31)	5,867
At June 30, 2007	70,294
Exchange adjustments	769
Arising on acquisition of subsidiaries (Note 31)	19,662
At June 30, 2008	**90,725**

As explained in note 6, the Group uses business segments as its primary segment reporting information. For the purposes of impairment testing, goodwill has been allocated to three cash generating units ("CGUs"), including one subsidiary in other multimedia products segment and two subsidiaries in digital television reception products segment. The carrying amounts of goodwill allocated to these CGUs are as follows:

	2008 **HK$'000**	2007 HK$'000
Digital television reception products (BCN Distribuciones, S.A.)	**65,154**	64,184
Digital television reception products (Intelligent Digital Services GmbH)	**19,461**	–
Other multimedia products	**6,110**	6,110
	90,725	70,294

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. For impairment assessment purpose that calculation uses cash flow projections covered a five-year period for impairment assessment purpose and adopted discount rates of 8% for both segment. The cash flow projections are from the most recent financial budgets that cover a five-year period approved by management. 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 recoverable amount of these units to fall below their carrying amount.

18. INTANGIBLE ASSETS

	Product technology HK$'000	Trademarks HK$'000	Others HK$'000	Total HK$'000
COST				
At July 1, 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
Exchange adjustments	578	–	288	866
Arising on acquisition of subsidiaries	42	–	3,568	3,610
Additions	423	–	–	423
At June 30, 2008	10,438	1,211	3,856	15,505
AMORTISATION				
At July 1, 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
Exchange adjustments	201	–	29	230
Provided for the year	2,646	242	357	3,245
At June 30, 2008	4,181	605	386	5,172
CARRYING VALUES				
At June 30, 2008	6,257	606	3,470	10,333
At June 30, 2007	8,061	848	–	8,909

Others represent the fair value of the research and development team of Intelligent Digital Services GmbH, a subsidiary that the Group acquired during the year (see note 31). The mature research and development team can support the group for further expansion. The fair value of the research and development term was determined on a provisional basis and until upon final determination of fair value of intangible assets.

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

19. 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 quoted market bid prices in active markets.

20. DEFERRED TAXATION

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

	Fair value adjustment on intangible asset	Tax losses	Deferred expenditure	Revaluation of investment properties	Provision for PRC withholding tax	Accelerated tax depreciation	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At July 1, 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
Exchange adjustments	(87)	225	224	–	(95)	(87)	180
Credit (charge) to consolidated income statement for the year	–	1,508	215	(1,961)	–	608	370
Acquire on acquisition of subsidiary	(1,070)	–	–	–	–	–	(1,070)
Provision for PRC withholding tax	–	–	–	–	(1,397)	–	(1,397)
Effect of change in tax rate	–	(3)	223	–	–	3	223
At June 30, 2008	**(1,157)**	**2,433**	**1,881**	**(1,961)**	**(1,492)**	**(379)**	**(675)**

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2008	2007
	HK$'000	HK$'000
Deferred tax assets	**4,241**	1,019
Deferred tax liabilities	**(4,916)**	–
	(675)	1,019

At June 30, 2008, the Group had unused tax losses of HK$16,133,000 (2007: HK$12,386,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$7,611,000 (2007: HK$2,061,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of HK$8,522,000 (2007: HK$10,325,000) due to the unpredictability of future profit streams.

Included in the unrecognised tax losses are losses of HK$7,307,000 (2007: HK$7,045,000) that will expire in ten years. Other tax losses may be carried forward indefinitely.

21. INVENTORIES

	2008 HK$'000	2007 HK$'000
Raw materials	**99,427**	124,303
Work in progress	**69,640**	121,720
Finished goods	**153,705**	136,105
	322,772	382,128

22. TRADE AND OTHER RECEIVABLES

	2008 HK$'000	2007 HK$'000
Trade receivables	**295,801**	352,397
Less: allowance for doubtful debts	**(103,322)**	(55,241)
	192,479	297,156
Other receivables	**38,733**	26,041
Total trade and other receivables	**231,212**	323,197

The Group allows an average credit period of 90 days to its trade customers. The following is an aged analysis of trade receivables at the balance sheet dates:

	2008 HK$'000	2007 HK$'000
0 – 30 days	**109,265**	142,285
31 – 60 days	**42,828**	64,633
61 – 90 days	**23,763**	30,090
91 – 180 days	**13,709**	23,705
More than 180 days	**2,914**	36,443
	192,479	297,156

Before accepting any new customer, the Group assess the potential customer's credit quality and defines credit limit by customer. Limits and scoring attributed to customers are reviewed twice a year. 91% (2007: 80%) of the trade receivables that are neither past due nor impaired have the best credit scoring attributable under the external credit scoring system used by the Group. Credit sales are made to customers with a satisfactory credit history and credit limits are reviewed regularly. The Group does not hold any collateral over these balances.

Included in the Group's trade receivable balance are debtors with an aggregate carrying amount of HK$16,623,000 (2007: HK$60,148,000) which was past due at the reporting date but for which the Group has not provided for impairment loss because management believes that the fundamental credit quality of the relevant customers has not deteriorated.

22. TRADE AND OTHER RECEIVABLES *(Continued)*

Aging of trade receivables which are past due but not impaired:

	2008 HK$'000	2007 HK$'000
91 – 180 days	**13,709**	23,705
More than 180 days	**2,914**	36,443
	16,623	60,148

Movement in the allowance for doubtful debts:

	2008 HK$'000	2007 HK$'000
Balance at beginning of the year	**55,241**	21,057
Impairment loss recognised on receivables	**47,947**	34,657
Amount written off as uncollectable	**–**	(535)
Exchange realignment	**134**	62
Balance at the end of the year	**103,322**	55,241

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of HK$103,322,000 (2007: HK$55,241,000), which was long outstanding over 1 year and legal actions have been taken. The Group does not held any collateral over these balances.

During the year, the Group discounted certain bill receivables to financial institutions with recourse. The Group continues to recognise the full carrying amount of the receivables as the Group is still exposed to credit risk on these receivables. At June 30, 2008, the carrying amount of the bills discounted was HK$10,601,000 (2007: HK$2,853,000). The carrying amount of the associated liability which represented the cash received from discounted bills (see note 27) was HK$9,011,000 (2007: HK$2,425,000).

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

	United States dollars HK$'000	Renminbi HK$'000
As at June 30, 2008	**624**	**14,797**
As at June 30, 2007	27	30,124

23. DERIVATIVE FINANCIAL INSTRUMENTS

	2008		2007	
	Assets	**Liabilities**	Assets	Liabilities
	HK$'000	**HK$'000**	HK$'000	HK$'000
Foreign currency forward contracts	**2,198**	**3,307**	215	–

Major terms of the outstanding foreign currency forward contracts as at June 30, 2008 are as follows:

Notional amount	**Forward Contract Rates**	**Maturity**
17 contracts to buy US$17,000,000 in total	US$1 to RMB6.3260 – 7.1675	From July 16, 2008 to April 2, 2009
9 contracts to sell US$18,000,000 in total	US$1 to RMB6.4104 – 6.7741	From July 31, 2008 to March 31, 2009

Major terms of the outstanding foreign currency forward contracts as at June 30, 2007 are as follows:

Notional amount	**Forward Contract Rates**	**Maturity**
4 contracts to buy US$4,000,000 in total	US$1 to RMB7.2845 – 7.3875	From February 21, 2008 to May 16, 2008

The above derivatives are measured at fair value at each balance sheet date. Their fair values are determined based on the quoted market prices provided by counterparty multi-national financial institutions for equivalent instruments at the balance sheet date.

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

	United States dollars	
	Assets	**Liabilities**
	HK$'000	HK$'000
As at June 30, 2008	**2,198**	**3,307**
As at June 30, 2007	215	–

24. 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 1.15% to 5.8% (2007: 2.09% to 4.88%) per annum. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

25. 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 in a range from 0.02% to 1.1% (2007: 0.12% to 3.6%) 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:

	United States dollars	**Hong Kong dollars**	**Renminbi**
	HK$'000	HK$'000	HK$'000
As at June 30, 2008	**61,123**	**2,042**	**1,623**
As at June 30, 2007	41,957	850	1,041

26. TRADE AND OTHER PAYABLES

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

	2008	2007
	HK$'000	HK$'000
0 – 30 days	**154,441**	171,637
31 – 60 days	**67,918**	99,959
61 – 90 days	**37,605**	74,432
91 – 180 days	**11,675**	45,411
181 – 365 days	**1,693**	1,476
	273,332	392,915
Other payables	**31,838**	71,045
Total trade and other payables	**305,170**	463,960

The average credit period on purchases of goods is 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

26. TRADE AND OTHER PAYABLES *(Continued)*

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

	Renminbi
	HK$'000
As at June 30, 2008	**111,359**
As at June 30, 2007	44,579

27. BANK AND OTHER BORROWINGS

	2008	2007
	HK$'000	HK$'000
Trust receipt loans	**56,951**	49,442
Bank loans	**151,105**	209,110
Bills discounted with recourse	**9,011**	2,425
	217,067	260,977
Analysed as:		
Secured	**20,344**	68,710
Unsecured	**196,723**	192,267
	217,067	260,977
Carrying amount repayable:		
Within one year	**188,946**	212,138
In more than one year but not more than two years	**6,827**	16,811
In more than two years but not more than three years	**5,841**	12,234
In more than three years but not more than four years	**5,833**	8,582
In more than four years but not more than five years	**4,160**	5,261
More than five years	**5,460**	5,951
	217,067	260,977
Less: Amount due within one year shown under current liabilities	**(188,946)**	(212,138)
Amount due after one year	**28,121**	48,839

27. BANK AND OTHER BORROWINGS *(Continued)*

An analysis of the Group's bank and other borrowings between fixed and variable interest rates is as follows:

	2008 **HK$'000**	2007 HK$'000
Fixed interest rate borrowings	–	12,427
Variable interest rate borrowings	**217,067**	248,550
	217,067	260,977

The range of the effective interest rate during the year were as follows:

	2008	2007
Effective interest rate per annum:		
Fixed interest rate borrowings	**6.5%**	5.5%
Variable interest rate borrowings	**5.95% – 7.36%**	5.2% to 6.83%

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

	United States dollars HK$'000
As at June 30, 2008	**72,542**
As at June 30, 2007	76,498

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

		2008 **HK$'000**	2007 HK$'000
(a)	bank deposits	**9,716**	10,725
(b)	buildings with a carrying value	**9,143**	76,678
(c)	prepaid lease payments	**13,179**	19,283
(d)	freehold land	–	2,413
(e)	investment properties	**30,341**	24,785

28. 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 5.5% (2007: 5.25% to 7%) per annum.

	Minimum lease payments		Present value of minimum lease payments	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under finance leases:				
Within one year	**173**	690	**166**	683
In more than one year but not more than two years	**10**	111	**9**	95
In more than two years but not more than three years	**–**	30	**–**	27
	183	831		
Less: Future finance charges	**(8)**	(26)		
Present value of lease obligations	**175**	805	**175**	805
Less: Amount due within one year shown under current liabilities			**(166)**	(683)
Amount due after one year			**9**	122

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

29. SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At July 1, 2006, June 30, 2007 and 2008	1,000,000,000	100,000
Issued and fully paid:		
At July 1, 2006 and June 30, 2007	508,682,000	50,868
Exercise of share options (i)	40,000	4
Placing of new shares (ii)	48,000,000	4,800
At June 30, 2008	**556,722,000**	**55,672**

29. SHARE CAPITAL *(Continued)*

(i) During the year ended June 30, 2008, a total of 40,000 ordinary shares of the Company were issued upon the exercise of 40,000 share options at an exercise price of HK$1.02 with a consideration of HK$40,800.

(ii) Pursuant to a subscription agreement dated September 6, 2007, an independent third party agreed to subscribe 48,000,000 shares in the Company at a price of HK$1.45 per share. The subscription price represented a discount of 11.59% to the closing price of HK$1.64 per share as quoted on the Stock Exchange on September 5, 2007, being the last day of trading of the Company's shares on the Stock Exchange prior to the date of the subscription agreement. In the opinion of the directors, the discount was necessary and reasonable taking into account the trading volume and the Company's shares and the quantum of the shares subscribed under the subscription agreement. The subscription was completed on September 18, 2007.

30. OTHER LONG-TERM PAYABLE

The balance represents the deferred consideration for the acquisition of subsidiaries in prior year.

The amount was unsecured, interest-bearing at 5% (2007: 5%) per annum and was fully settled during the year.

31. ACQUISITION OF SUBSIDIARIES

On January 1, 2008, the Group acquired 100% equity interest in Intelligent Digital Services GmbH from independent third parties, which is principally engaged in the design and manufacture of digital television equipment, for a cash consideration of EUR1,800,000 (equivalent to approximately HK$22,194,000).

The initial accounting for the acquisition of the subsidiary has been determined provisionally, subject to determination of the fair value of intangible assets. Hence, goodwill and intangible assets may be subject to further changes upon finalisation of the initial accounting.

This transaction has been accounted for using the purchase method.

During the year ended June 30, 2007, the Group acquired certain subsidiaries, details of which are as follows:

(a) 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 cash consideration of EUR15,043 (equivalent to approximately HK$154,000).

(b) On February 28, 2007, the Group acquired additional 50% equity interest in FTE Maximal – Comercio de Antenas e Electronica, Lda (previously an associate of the Group with 50% equity interest held), which is principally engaged in trading of electronic goods in Europe, for a cash consideration of EUR1 million (equivalent to approximately HK$10,210,000).

31. ACQUISITION OF SUBSIDIARIES *(Continued)*

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

	2008			2007
	Acquirees' carrying amount before combination and at fair value HK$'000	**Provisional fair value adjustment HK$'000**	**Provisional fair value HK$'000**	Acquirees' carrying amount before combination and at fair value HK$'000
Property, plant and equipment	**239**	**–**	**239**	873
Intangible assets	**42**	**3,568**	**3,610**	329
Inventories	**124**	**–**	**124**	2,768
Trade and other receivables	**13,599**	**–**	**13,599**	–
Bank balances and cash	**458**	**–**	**458**	7,140
Trade and other payables	**(13,483)**	**–**	**(13,483)**	(1,001)
Tax liabilities	**(589)**	**–**	**(589)**	–
Deferred tax liabilities	**–**	**(1,070)**	**(1,070)**	–
Bank and other borrowings	**(356)**	**–**	**(356)**	(1,009)
	34	**2,498**	**2,532**	9,100
Less: Carrying amount previously recognised as interest in an associate			**–**	(4,603)
Goodwill			**19,662**	5,867
Total consideration			**22,194**	10,364
Total consideration satisfied by:				
Cash			**20,961**	4,238
Deferred consideration			**1,233**	6,126
			22,194	10,364
Net cash (outflow) inflow arising on acquisition:				
Cash consideration paid			**(20,961)**	(4,238)
Cash and cash equivalents acquired			**458**	7,140
			(20,503)	2,902

The deferred consideration was fully settled on September 30, 2008 (2007: fully settled during 2008).

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.

31. ACQUISITION OF SUBSIDIARIES *(Continued)*

For the year ended June 30, 2008, the subsidiaries acquired contributed HK$15,588,000 (2007: HK$5,623,000) to the Group's revenue and contributed a loss of HK$89,000 (2007: profit of HK$1,005,000) to the Group's profit (2007: loss) before taxation for the period between the date of acquisition and the balance sheet date.

Had the acquisition(s) been completed at the beginning of the relevant financial year, total Group revenue for the year ended June 30, 2008 would have been HK$1,745,390,000 (2007: HK$1,324,241,000), and the profit for the year ended June 30, 2008 would have been HK$42,676,000 (2007: loss of HK$15,239,000). This proforma information is for illustration 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(s) been completed at the beginning of the relevant financial year, nor is it intended to be a projection of future results.

32. DISPOSAL OF A SUBSIDIARY

During the year, the group disposed of a wholly owned subsidiary to independent third parties for a cash consideration of RMB600,000 (equivalent to approximately HK$655,000). The disposal assets and liabilities disposed were insignificant and results in a gain on disposal of HK$656,000 to the Group.

At the disposal date, the entity had a cash balance of HK$1,000. The net cash inflow arising on disposal of HK$654,000.

33. OPERATING LEASES

The Group as lessee

Minimum lease payments paid under operating leases during the year:

	2008 **HK$'000**	2007 HK$'000
Premises	**7,806**	13,762

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:

	2008 **HK$'000**	2007 HK$'000
Within one year	**7,738**	6,139
In the second to fifth year inclusive	**26,962**	10,551
Over five years	**1,459**	–
	36,159	16,690

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

33. OPERATING LEASES *(Continued)*

The Group as lessor

Property rental income earned during the year was HK$2,232,000 (2007: HK$2,577,000) 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:

	2008	2007
	HK$'000	HK$'000
Within one year	**2,559**	2,283
In the second to fifth year inclusive	**1,365**	2,138
Over fifth year	**45**	42
	3,969	4,463

34. CAPITAL COMMITMENTS

	2008	2007
	HK$'000	HK$'000
Capital expenditure contracted but not provided for in the consolidated financial statements in respect of acquisition of property, plant and equipment	**2,518**	443

35. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes the borrowing disclosed in note 27, equity reserves attributable to equity holders of the Group, comprising issued share capital and various reserves and retained profits.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through new share issues and the issue of new debt or the redemption of existing debts.

36. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2008 HK$'000	2007 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**372,525**	421,992
Derivative financial instruments	**2,198**	215
Available-for-sale investment	**15**	1,711
	374,738	423,918
Financial liabilities		
Amortised cost	**490,574**	656,293
Derivative financial instruments	**3,307**	–
	493,881	656,293

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, derivative financial instruments, pledged bank deposits, bank balances and cash, trade payables, other long-term payable, obligation under finance leases and bank and other borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign exchange risks.

The carrying amounts of the Group's foreign currency (as in relation to the functional currency of the relevant group entities) denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000
Renminbi ("RMB")	**111,359**	44,579	**16,420**	31,165
Hong Kong Dollars ("HKD")	**–**	–	**2,042**	850
United States Dollars ("USD")	**75,849**	76,498	**63,945**	42,199

36. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

(i) Currency risk (Continued)

Sensitivity analysis

As HKD is pegged with USD, the Group's currency risk relative to USD in relation to the monetary assets/liabilities denominated in HKD is not expected to be significant.

The Group is mainly exposed to RMB. The Group does not have a formal foreign currency hedging policy. But management monitors the Group's foreign currency exposure and will enter into forward contracts when movement in RMB/USD exchange rate moves outside management's expected range.

The following table details the Group's sensitivity to a 5% increase and decrease in functional currency of respective group entities against RMB. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only RMB monetary assets and liabilities at the balance sheet date and outstanding RMB forward contracts (Note 23). A negative number below indicates a decrease in profit or increase in loss where RMB strengthen 5% against the functional currency. For a 5% weakening of RMB against the functional currency, there would be an equal and opposite impact on the profit or loss for the year, and the balances below would be positive.

	RMB	
	2008	2007
	HK$'000	HK$'000
Profit (loss) for the year	**(4,100)**	(671)

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed rate bank borrowings and other long term payable as set out in notes 27 and 30.

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances and bank and other borrowings as set out in notes 25 and 27. It is the Group's policy to keep its balances and borrowings at floating rate of interest so as to minimise the fair value interest rate risk.

The Group cash flow interest rate risk is mainly concentrated on the fluctuation of London Interbank Offered Rate arising from the Group's USD borrowings.

36. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

(ii) Interest rate risk (Continued)

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for a variable rate bank borrowings. The analysis is prepared assuming the amount of assets and liabilities outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point charge is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

A summary of the Group's monetary assets and liabilities at the balance sheet date that carried variable interest rate is as follows:

	2008	2007
	HK$'000	HK$'000
Assets	**132,212**	89,460
Liabilities	**217,067**	248,550

Based on the above summary, if interest rates had been 50 basis points higher or lower and all other variables were held constant, the Group's profit for the year ended June 30, 2008 would decrease or increase by HK$259,000 (2007: loss increase or decrease by HK$634,000), and vice versa. The Group's sensitivity to interest rates has decreased during the year mainly due to a decrease in net bank borrowings.

Credit risk

The Group's maximum exposure to credit risk in the event of counterparties' failure to perform their obligations as at June 30, 2008 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, management of the Group has delegated a team 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 and debt investments at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. During the year, impairment losses of HK$47,947,000 (2007: HK$34,657,000) had been made for the long outstanding major customers, representing the full irrecoverable amount of those customers. In this regard, the directors of the Company consider that the Group's credit risk in other debts is significantly reduced.

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

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas.

36. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

Liquidity and interest risk tables

	Weighted average effective interest rate %	Less than 1 month HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	Over 1 year HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at June 30, 2008 HK$'000
2008							
Trade payables	–	50,973	222,359	–	–	273,332	273,332
Bank and other borrowings	6.66	16,794	33,588	151,147	29,994	231,523	217,067
Obligation under finance leases	5.40	15	29	131	9	184	175
		67,782	255,976	151,278	30,003	505,039	490,574
Derivatives (net settlement)							
Foreign currency forward contracts		118	424	2,765	–	3,307	3,307

	Weighted average effective interest rate %	Less than 1 month HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	Over 1 year HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at June 30, 2007 HK$'000
2007							
Trade payables	–	121,403	271,512	–	–	392,915	392,915
Bank and other borrowings	6.02	18,742	37,485	168,682	51,779	276,688	260,977
Obligation under finance leases	6.13	60	121	544	130	855	805
Other long term payable	5	–	–	–	1,676	1,676	1,596
		140,205	309,118	169,226	53,585	672,134	656,293

36. FINANCIAL INSTRUMENTS *(Continued)*

(c) Fair value

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

- the fair value of financial assets (including available for sale investments) with standard terms and conditions and 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 (including derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions.

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.

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.

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.

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

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

Type of grantee	Date of grant (note 2)	Exercise price (note 1)	Outstanding at July 1, 2006	Granted during the year	Forfeited during the year	Outstanding at June 30, 2007	Granted during the year	Exercise during the year	Forfeited during the year	Outstanding at June 30, 2008
			Number of share options							
Directors	July 30, 2005	HK$1.02	2,500,000	–	–	2,500,000	–	–	–	2,500,000
Employees	July 30, 2005	HK$1.02	3,400,000	–	(160,000)	3,240,000	–	(40,000)	(340,000)	2,860,000
Employees	December 16, 2006	HK$2.05	–	1,100,000	–	1,100,000	–	–	–	1,100,000
Employees	December 27, 2007	HK$1.76	–	–	–	–	3,050,000	–	–	3,050,000
Total			5,900,000	1,100,000	(160,000)	6,840,000	3,050,000	(40,000)	(340,000)	9,510,000
Exercisable at the end of the year			–			–				2,680,000
Weighted average exercise price			1.02	2.05	1.02	1.19	1.76	1.02	1.02	1.02

Notes:

1. The closing prices of the Company's shares immediately before July 30, 2005, December 16, 2006 and December 27, 2007, the dates the options were granted, were HK$1.02, HK$2.05 and HK$1.76, 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, options granted on December 16, 2006 are exercisable until December 15, 2016 and options granted on December 27, 2007 are exercisable until December 26, 2017.

The estimated fair values of the options granted during the year is approximately HK$2,734,000 (2007: HK$1,170,000).

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

The fair value of the options granted during the year ended June 30, 2008 was calculated using the binominal model. The inputs into the model were as follows:

	2008
Share price	**HK$1.72**
Exercise price	**HK$1.76**
Expected volatility	**49.86%**
Suboptimal exercise factor	**2.2**
Risk-free rate	**3.469%**
Expected dividend yield	**0%**

The fair value of the options granted during the year ended June 30, 2007 was calculated using the Black-Scholes pricing model. The inputs into the model were as follows:

	2007
Weight average share price	HK$2.05
Exercise price	HK$2.05
Expected volatility	55.97%
Expected life	5 years
Risk-free rate	3.796%
Expected dividend yield	0%

Expected volatility was determined by using the historical volatility of the Company's share price since the shares are listed on the Stock Exchange in 2005.

The suboptimal exercise factor used in binominal model was to account for early exercise behaviour of the share options granted by the Company.

The Group recognised total expense of approximately HK$1,144,000 for the year ended June 30, 2008 (2007: HK$555,000) in relation to share options that were vested during the year.

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.

38. RETIREMENT BENEFIT PLANS *(Continued)*

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**	**2008** **HK$'000**	2007 HK$'000
Associates	Sales of finished goods	**–**	3,100

(ii) Compensation of key management personnel

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

	2008 **HK$'000**	2007 HK$'000
Short-term benefits	**14,650**	12,771
Post-employment benefits	**56**	110
Share-based payments	**100**	100
	14,806	12,981

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	**2008** HK$'000	2007 HK$'000
Total assets		**488,166**	421,623
Total liabilities		**(916)**	(1,102)
Net assets		**487,250**	420,521
Capital and reserves			
Share capital		**55,672**	50,868
Reserves	(a)	**431,578**	369,653
Equity attributable to equity holders of the Company		**487,250**	420,521

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, 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
Placing of new shares	64,800	–	–	–	–	64,800
Transaction costs attributable to placing of new shares	(58)	–	–	–	–	(58)
Exercise of share options	41	–	(4)	–	–	37
Recognition of equity – settled share-based payments	–	–	1,144	–	–	1,144
Loss for the year	–	–	–	–	(3,998)	(3,998)
At June 30, 2008	**93,111**	**181,788**	**1,962**	**79,900**	**74,817**	**431,578**

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 a group reorganisation in a prior year.

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, 2008 and 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				Principal activities
				2008		2007		
				Directly	Indirectly	Directly	Indirectly	
Top Peaker	British Virgin Islands ("BVI")/ Hong Kong	Ordinary	US$10,000	**100%**	**–**	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$19,500,000	**–**	**100%**	–	100%	Manufacture of electronic goods
SMT Hong Kong Limited	Hong Kong	Ordinary	HK$2	**–**	**100%**	–	100%	Trading of electronic goods
SMT Electronic Technology Limited	Cayman Islands/ Taiwan	Ordinary	US$1	**–**	**100%**	–	100%	Trading of electronic goods
SMT (Macao Commercial Offshore) Limited	Macau	Quota capital	MOP100,000	**–**	**100%**	–	100%	Trading of electronic goods
TRT Business Network Solutions, Inc.	United States of America	Ordinary	US$100,000	**–**	**100%**	–	100%	Trading of electronic goods
Weblink Technology Limited	BVI/Hong Kong	Ordinary	US$100	**–**	**51%**	–	51%	Investment holding
FLT Hong Kong Technology Limited	BVI/Hong Kong	Ordinary	US$450,000	**–**	**51%**	–	51%	Trading of optical fibre products

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

Name of company	Country/ place of incorporation/ operations	Class of shares held	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share/registered capital held by the Company				Principal activities
				2008		2007		
				Directly	**Indirectly**	Directly	Indirectly	
Fiberlink Technology Limited (note) 珠海保税區隆宇光電科技有限公司	PRC	Registered capital	US$1,500,000	**–**	**51%**	–	51%	Manufacture of optical fibre products
BCN Distribuciones, S.A.	Spain	Ordinary	EUR412,102	**–**	**100%**	–	100%	Research and development and trading of electronic goods
Intelligent Digital Service GmbH	Germany	Ordinary	EUR31,250	**–**	**100%**	N/A	N/A	Design and manufacture of electronic goods

Note: These companies are wholly foreign owned enterprises.

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, 2008.

42. COMPARATIVE FIGURES

Certain comparative figures has been reclassified to conform with the current year's presentation. In particular foreign exchange gain of HK$13,631,000 (included in "other income" previously) and foreign exchange loss and net decrease in fair value of derivative financial instruments of HK$6,885,000 (included in "administrative expenses" previously) were reclassified as other gain and loss.

Financial Summary

	Year ended June 30,				
	2004	2005	2006	2007	**2008**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
RESULTS					
Revenue	1,265,357	1,308,122	1,090,342	1,315,998	**1,725,083**
Profit (loss) before taxation	101,605	105,552	34,721	(6,844)	**50,260**
Income tax expense	(5,139)	(5,787)	(1,202)	(8,251)	**(7,818)**
Profit (loss) for the year	96,466	99,765	33,519	(15,095)	**42,442**
Attributable to:					
Equity holders of the Company	96,466	99,765	33,378	(14,039)	**42,300**
Minority interests	–	–	141	(1,056)	**142**
	96,466	99,765	33,519	(15,095)	**42,442**

	At June 30,				
	2004	2005	2006	2007	**2008**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
ASSETS AND LIABILITIES					
Total assets	715,391	865,320	984,271	1,162,594	**1,100,095**
Total liabilities	(567,891)	(461,990)	(556,188)	(737,653)	**(541,290)**
	147,500	403,330	428,083	424,941	**558,805**
Equity attributable to equity holders of the Company	147,500	403,330	414,835	412,902	**547,048**
Minority interests	–	–	13,248	12,039	**11,757**
	147,500	403,330	428,083	424,941	**558,805**

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 two years ended June 30, 2005 and the assets and liabilities at June 30, 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.