Interim Report 2010/11

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
(resigned on February 21, 2011)

Mr. Liao Wen I

Independent non-executive directors

Mr. Hsu Chun Yi

Mr. Tsan Wen Nan

Mr. Lee Chien Kuo

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

Ms. Mak Po Man Cherie, *CPA, FCCA*

LEGAL ADVISORS

Sidley Austin

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants

AUDIT COMMITTEE

Mr. Hsu Chun Yi *(Chairman)*

Mr. Tsan Wen Nan

Mr. Lee Chien Kuo

REMUNERATION COMMITTEE

Mr, Hung Tsung Chin *(Chairman)*

Mr. Hsu Chun Yi

Mr. Tsan Wen Nan

NOMINATION COMMITTEE

Mr, Hung Tsung Chin *(Chairman)*

Mr. Hsu Chun Yi

Mr. Tsan Wen Nan

PRINCIPAL BANKERS

Bank SinoPac
Standard Chartered Bank (Hong Kong) Limited
Chinatrust Commercial Bank, Limited
Industrial and Commercial Bank of China (Asia) Limited

SHARE REGISTRARS AND TRANSFER OFFICE

In Hong Kong

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

In Taiwan

Grand Cathay Securities Corporation
5F., No. 2, Section 1,
Chongqing South Road,
Zhongzheng District,
Taipei City 100, Taiwan (R.O.C.)

In Bermuda

HSBC Bank Bermuda Limited
Bank of Bermuda Building
6 Front Street, Hamilton
HM 11, Bermuda

WEBSITE

www.sandmartin.com.hk

STOCK CODE

Hong Kong 00482
Taiwan 910482

MANAGEMENT DISCUSSION AND ANALYSIS

OVERALL REVIEW

In the wake of the financial crisis, the Group achieved the satisfactory results in first half 2010/11 year. The Group has recorded 833.7 million sales revenue for the six months ended December 31, 2010 (the "Period"), increased by 16.5% when compared with the same period last year (7.1.2009 to 12.31.2009: HK$715.5 million). Gross profit of the Group during the Period was up to 13.9% to HK$178.8 million (7.1.2009 to 12.31.2009: HK$157.0 million). Gross profit margin also remained stable at 21.4% (7.1.2009 to 12.31.2009: 21.9%). Net profit of the Group during the Period rose by about 11.9% to HK$46.3 million (7.1.2009 to 12.31.2009: HK$41.4 million).

Profit attributable to owners of the Company during the Period was HK$45.6 million (7.1.2009 to 12.31.2009: HK$41.5 million). During the Period, basic and diluted earnings per share was HK6.9 cents and HK6.8 cents respectively (7.1.2009 to 12.31.2009: HK7.3 cents and HK7.3 cents respectively).

BUSINESS REVIEW

Looking back to the second half year of 2010, the Group kept the excellent development situation same as that in the first half year, and had made great achievement and outstanding performance in the whole global market, which further secured the global business plan of the Group. Furthermore, the long term stable cooperative relationships with the strategic partners have made the Group keeping the leadership in different markets. The Group's great achievement in the past half year mainly attribute to the following points:

1. Middle East Market: Transform from Standard Definition (SD) Set Top Box to High Definition (HD) Set Top Box

Following the development of High Definition Television (HDTV), the development of HD set top box has become a must. With our first-class research and development (R&D) team of hardware and software, the Group had launched multiple platforms of new HD set top box series in the Middle East market. High quality products, excellent sales team and large customers marketing channels, all helped the Group to expand our market share in Middle East market.

HD products provide higher resolution for HDTV, moreover, clearer, more exquisite video and realistic sound gives the user a completely new experience in both visual and auditory. Besides, there are various optional add-value functions in HD products. The optional features enable users to get much more convenient services.

HD products with advanced technology are more profitable than SD products. The successful business of HD products has a good contribution to the Group revenue. HD products require high quality. The advanced manufacturing equipments and hi-tech testing devices provide guarantee to the quality of our products.

2. Europe Market: Transit from Simple Entry Level Products to Hi-end Deluxe Products

Following tightly with the market tread and the booming of new technologies, the Group had launched multiple platforms of Hi-end set top boxes with different solutions. The Hi-end platforms have various optional expanded functions, such as Personal Video Recorder Ready (PVR Ready), Dual Tuner/Combo, Triple play, Hybrid, Serial Advanced Technology Attachment interface (SATA interface), Internet Protocol Television (IPTV) and Hybrid Broadcast/Broadband Television (HbbTV) etc. These additional features provide the users of more qualified lives.

Hi-end products come with hi-technology which contributes higher profits and revenue for the Group. Committed to the development of the new technology for high-end models did not only bring economic profits to the Group, but also lay a reliable foundation for the development and innovation of the Group products structure. Furthermore, it provides a strong technique supports for the Group's leadership in the industry and market.

3. Africa Virgin Market Development

Through the cooperation with the most prestigious local religious people, our professional System Integration team well-equipped with advanced Conditional Access Systems (CAS) systems and high-quality products helped to set up the local digital signal broadcasting stations and complete signal transmission network for the customers successfully. Professional technology and high quality products help the Group to expand the market share, build brand image and win a very good reputation in the Africa market. The Group has prepared well to further expand in the Africa market in future.

4. Outsourcing Helps to Win More Market Opportunities

The new Group operation strategy is self-production of the core products and outsourcing the simple parts, such as accessories, which has made a positive contribution for the Group's steady development. Outsourcing action aids to release the production pressure, help the factory to have better schedule of the customers' orders and keep the delivery dates. As a result, the customer satisfaction has been enhanced and the cooperation in future would be more pleasant. Moreover, outsourcing assists R&D department to release from working in the simple parts, then R&D team could have more time and energy to focus on the development of the new technologies and new products. Therefore, outsourcing helps to catch more market opportunities for the Group's further development.

PROSPECTS

China has the largest television broadcasting network and the most population of TV users in the world. The huge market has endless potential. With the increasing population of digital TV in China markets, the digital terrestrial broadcasting and digital cable broadcasting business are growing rapidly with the huge market potential driving the whole digital broadcasting television related sectors. Since the beginning of 2010, the Group began to formulate the layout of China market aggressively and develop the digitalized Set Top Boxes (STBs) in accordance with the new standards of China terrestrial digital broadcasting television. Through the strategic cooperation with a famous broadcasting system operator in China, the Group has stepped into the terrestrial digital TV market in China successfully, and has become the largest supplier of the digital terrestrial STBs. Currently, the Group is actively expanding its territory in the digital cable TV market in China.

The Group did not only become the supplier of set top box to the system operator in Chinese market, but also participate as the role of System Integrator for the diverse, international and strong technique background support, who provide professional head-end equipments to Chinese system operator as the equipments supplier as well.

The Group is not only the designer and manufacturer of professional head-end equipments, transmission equipments, modulating equipments and terminal receiving equipments. In Latin America and Africa, the Group has obtained great success in co-operating with many local system operators to provide comprehensive system integration business and advanced CAS technology.

Being participated in the huge China market, the Group's strategy is to transform gradually from the designer and manufacturer role to become a digital broadcasting platform operator, content provider and system integration expert, so as to extend system integration business to content services.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group will focus on the establishment of its special and important presence in China market by its exclusive operation certifications and local advantages, and promote the self-researched advanced security systems and technologies to gain good reputation in building up its own brand.

The Group will form strategic alliances with technological co-operation partners, renowned locking system providers, platform operators, and multi-system operators.

Looking forward, with the successful operation in China market, the Group expects the total revenue from all the regions in China would represent an important part of the Group's total revenue in next five years. Our business mode will be transformed from Original Design Manufacturer (ODM) to system operator, content provider and system integration expert, to establish the media business and build up our own brand, so as to maintain and strengthen the global competitiveness of the Group and to enhance our leading position.

SEGMENTAL INFORMATION

Media entertainment platform related products remain as the major growth driver, contributing to 72.3% of the Group sales revenue (7.1.2009 to 12.31.2009: 71.9%). While other multimedia products contributed to 27.7% of the Group sales revenue (7.1.2009 to 12.31.2009: 28.1%).

Detailed information of the Group's turnover and profit for the period by segment is shown in note 3 to the interim financial statement.

ACQUISITION OF A COMPANY

(1) Agreement and Consideration

On December 17, 2010, the Company, Honstar Development Limited ("HDL"), the wholly-owned subsidiary of the Company, Sino Light Group Limited ("SLG"), Express Touch Limited, and Sino Light Enterprise Limited ("SLE") entered into an agreement that (a) HDL acquired from SLG the issued ordinary shares of SLE; and (b) HDL subscribed for new shares of SLE.

The consideration of acquisition is HK$20,000,000 that is satisfied partly by the allotment and issue of consideration shares of the Company and partly by cash. The consideration of the subscription is HK$30,000,000 that is satisfied by cash. After completion of the acquisition, HDL holds 55% of the entire issued capital of SLE and SLE becomes a non-wholly owned subsidiary of the Company.

On January 3, 2011, the Company allotted and issued 7,936,000 consideration shares, at an issue price of HK$2.52 per share, together with cash at HK$1,280 to SLG in order to fulfill the consideration of acquisition of HK$20,000,000.

The consideration for the subscription HK$30,000,000 which will, subject to satisfaction of the conditions of the agreement, be satisfied by cash, on or before April 30, 2011.

(2) Principle Activities of SLE

In December 2010, SLE has entered into a license agreement with the world-wide master distributor of "Pleasant Goat and Big Big Wolf" (Chinese: 喜羊羊與灰太狼 ("喜羊羊"); Chinese pronunciation: *Xǐ Yáng Yáng yǔ Huī Tài Láng* ("XYY")) to manufacture and distribute children's wear from 0-14 years old through establishing chain stores in the brand of XYY for 3 years with an option to renew for another three years in mainland China.

(3) Reasons for and Benefits of the Acquisition and Subscription

XYY is a cartoon series originally created by the Creative Power Entertaining (廣州原創動力) in Guangdong province of China. The cartoon series was first broadcasted in 2005 and since then more than 600 episodes have been broadcasted. Since the broadcasting of the XYY episodes, it has been recognized and honored by many awards. In 2008, XYY was the recipient of "The 4th Annual JinLong Prize for Original Cartoon Animation 2007" – "Mainland China, Hong-Kong, Macau and Taiwan The Best Creative Animation of the Year Award"; "14th Shanghai TV Festival Magnolia Award" – "Animation Silver Award"; and Guangdong channels' – "The 2007 Grand Prize for Outstanding Domestically Produced Animated Cartoon".

Owing to the fourth baby boom in China started in 2005, it is expected that this phenomenon will last for 10 to 15 years. By the end of 2008, the number of children in China aged between 0 to 14 has reached 250 million. With such a large population base of infants and children, it is expected that children's wear industry will continue to grow positively. Also, in the next ten years, the children's wear industry is expected to be able to attract those consumers who have the strongest purchasing power in Mainland China.

Apart from this, there are over 1,000 brands of children's wear in Mainland China with low concentration. Each famous brand has its own market pattern, segment, enterprise pattern, brand style and so on. As branded children's wear market continues to grow and develop, brand groups, marketing companies of professional brands, brand processors, brand retailers, exclusive retailers, professional purchasing agents, professional wholesalers, design companies and brand customization companies will put very much effort to differentiate their brands. It is estimated that the scale of the Chinese children's wear industry will grow significantly. Leverage from the already well-known XYY characters, the acquisition will enable the Group to benefit from the growing children's wear market in Mainland China.

For the above reasons, the Directors take the view that the Acquisition and the Subscription are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

SUBSCRIPTION OF CONVERTIBLE BONDS

In December 2010, the Company has subscribed for the convertible bonds in the aggregate principal amount of HK$200,000,000 to be issued by Heng Xin China Holdings Limited ("Heng Xin"). The subscription price was satisfied in cash by the Company. The convertible bonds do not bear any interest. The term of the convertible bonds is two years after the date of issue of the convertible bonds. Assuming the conversion rights attaching to the convertible bonds are exercised in full at the initial conversion price of HK$2 per conversion share, a maximum of 100,000,000 conversion shares will be allotted and issued.

Heng Xin is an investment holding company and its subsidiaries are principally engaged in wireless digital terrestrial television network equipment integrated business, digital cable television two-way conversion business, research, design, development on and manufacturing of electronic message security products, integrated circuits, and the integrated circuit solutions and the related services. In accordance with the Company's corporate strategy to explore other industries with good business potential and growth prospects, the Directors consider that the Subscription provides an opportunity for the Company to participate in the market with strong earnings potential.

The Directors consider that the terms of the convertible bonds are fair and reasonable and in the interests of the Company and the shareholders as a whole.

ISSUE OF TAIWAN DEPOSITORY RECEIPT ("TDR")

On August 26, 2010, the Company issued TDR at Taiwan Stock Exchange. The ordinary shares of the Company are the underlying securities of the TDR. One ordinary share represents one unit of TDR. A total TDR of 80 million units was issued and all of which are existing shares to be offered by ten shareholders, including Success Power Investments Limited and Wellever Investments Limited, two substantial shareholders of the Company. The Company did not issue any new shares for this TDR issue. The offer price of TDR is NT$9.30 (equivalent to HK$2.26) per unit. The net proceeds of TDR issue, after deduction of underwriting fees and expenses, has been delivered to the shareholders who participated in this TDR issue after completion of issue.

LIQUIDITY AND FINANCIAL RESOURCES

As at December 31, 2010, the Group's cash and bank balances amounted to HK$292.1 million (6.30.2010: HK$477.2 million).

During the Period, the Group has net cash inflow from its operating activities amounted to HK$25.0 million. Net cash outflow from investing activities and financing activities amounted to HK$204.3 million and HK$13.4 million respectively.

As a measure of liquidity, the current ratio (ratio of current assets to current liabilities) was 1.9 at December 31, 2010 and 2.1 at June 30, 2010. For the Period, the annualized average trade receivable turnover period, average inventory turnover period, and average trade payable turnover period were 51 days, 65 days, and 81 days respectively (For the year ended June 30, 2010: 47 days, 77 days, and 79 days respectively).

At December 31, 2010, the Group has the ability to borrow up to approximately HK$215.0 million under its existing credit facilities. The Group was in a net cash position, total bank and cash exceeded total borrowings at December 31, 2010. The gearing ratio, expressed as a percentage of interest bearing borrowings of HK$96.5 million over total assets of HK$1,327.1 million, was 7.3% (6.30.2010: 6.3%).

FOREIGN CURRENCY EXPOSURE

The Group's sales and purchases were mostly denominated in US dollars and Renminbi ("RMB"). Although the Group currently does not maintain any hedging policy to hedge against foreign exchange exposure that may arise from the above transactions, management team will continuously monitor the Group's foreign currency exposure.

CHARGES ON ASSETS

As at December 31, 2010, the Group's general banking facilities were secured by the following assets of the Group: (i) buildings with a carrying value of HK$36.6 million, and (ii) prepaid lease payments of HK$11.6 million.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at December 31, 2010.

EMPLOYEES

At December 31, 2010, the Group employed a total of 3,186 (6.30.2010: 3,866) full-time employees. Employees are remunerated accordingly to their performance and responsibilities. Other employee benefits include, inter alias, share option scheme, provident fund, insurance and medical coverage.

INTERIM DIVIDEND

The Board do not recommend the payment of an interim dividend (7.1.2009 to 12.31.2009: HK2.5 cents) for the six months period ended December 31, 2010.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the shares of the Company during the Period.

CORPORATE GOVERNANCE

The Company has complied with all the provisions set out in the Code on Corporate Governance Practices as contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), and where appropriate, adopted the recommended best practices throughout the Period.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the Company's code of conduct for dealings in securities of the Company by Directors. All Directors of the Company have confirmed, following specific enquiry by the Company that they have complied with the required standards set out in the Model Code throughout the Period.

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

As at December 31, 2010, 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, Chapter 571 of the laws of Hong Kong, 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") Contained in Appendix 10 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	Capacity and nature of interest	Number of shares held	Percentage of interest
Mr. Hung Tsung Chin	Corporate	147,523,125 (Note 1)	22.19%
Ms. Chen Mei Huei	Corporate	147,523,125 (Note 1)	22.19%
Mr. Wang Yao Chu	Corporate	92,665,000 (Note 2)	13.94%
Mr. Liao Wen I	Corporate	57,004,375 (Note 3)	8.57%

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.

(ii) Share options

As at December 31, 2010, the number of shares in respect of which options under the Option Scheme had been granted and remained outstanding was 14,275,000 (2010: 11,700,000), representing 2.15% of the shares of the Company in issue as at December 31, 2010.

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

				Number of share options				
Type of grantee	Date of grant	Closing price per share immediately prior to the grant date (Note)	Exercise price	Outstanding at July 1, 2010	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period	Outstanding at December 31, 2010
Directors								
Mr. Hung Tsung Chin	July 30, 2005	HK$1.02	HK$1.02	500,000	–	–	–	500,000
Ms. Chen Mei Huei	July 30, 2005	HK$1.02	HK$1.02	500,000	–	–	–	500,000
	October 22, 2010	HK$2.05	HK$2.05	–	2,000,000	–	–	2,000,000
Mr. Wang Yao Chu	July 30, 2005	HK$1.02	HK$1.02	500,000	–	–	–	500,000
Mr. Liao Wen I	July 30, 2005	HK$1.02	HK$1.02	500,000	–	–	–	500,000
				2,000,000	2,000,000	–	–	4,000,000
Employees	July 30, 2005	HK$1.02	HK$1.02	2,500,000	–	–	–	2,500,000
	December 16, 2006	HK$2.05	HK$2.05	1,100,000	–	–	(125,000)	975,000
	December 27, 2007	HK$1.76	HK$1.76	3,050,000	–	–	(150,000)	2,900,000
	April 1, 2009	HK$1.10	HK$1.114	3,050,000	–	–	(150,000)	2,900,000
	October 22, 2010	HK$2.05	HK$2.05	–	1,000,000	–	–	1,000,000
Total				11,700,000	3,000,000	–	(425,000)	14,275,000

Note:

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, options granted on December 27, 2007 are exercisable until December 26, 2017 and options granted on April 1, 2009 are exercisable until March 31, 2019, and options granted on October 22, 2010 are exercisable until October 21, 2020.

Save as disclosed above, as at December 31, 2010, 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 December 31, 2010, the interests or short position of the following 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 were as follows:

Name of shareholder	Capacity and nature of interests	Number of Company's shares held	Percentage of interest
Metroasset Investments Limited	Beneficial owner	147,523,125	22.19% (Note 1)
Success Power Investments Limited	Beneficial owner	92,665,000	13.94% (Note 2)

MANAGEMENT DISCUSSION AND ANALYSIS

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%.

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 December 31, 2010, 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.

REVIEW OF ACCOUNTS

The Audit Committee has reviewed the Group's consolidated financial statements for the six months ended December 31, 2010, including the accounting principles and practices adopted by the Group, in conjunction with the Company's external auditors.

By Order of the Board
Sandmartin International Holdings Limited
Hung Tsung Chin
Chairman

Hong Kong, February 25, 2011

Deloitte.
德勤

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

TO THE BOARD OF DIRECTORS OF
SANDMARTIN INTERNATIONAL HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 21 to 50, which comprises the condensed consolidated statement of financial position of Sandmartin International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") as of December 31, 2010 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
February 25, 2011

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended December 31, 2010

	NOTES	Six months ended December 31, 2010 HK$'000 (unaudited)	2009 HK$'000 (unaudited)
Revenue	3	**833,651**	715,469
Cost of sales		**(654,847)**	(558,499)
Gross profit		**178,804**	156,970
Other income		**7,159**	7,334
Other gains and losses		**(354)**	742
Distribution and selling costs		**(25,119)**	(27,575)
Administrative expenses		**(75,659)**	(64,079)
Impairment loss on goodwill	9	**(12,500)**	(3,055)
Impairment loss on trade receivables	11	**(2,300)**	(1,276)
Research and development costs		**(20,303)**	(18,822)
Finance costs		**(1,222)**	(3,703)
Profit before tax	4	**48,506**	46,536
Income tax expense	5	**(2,226)**	(5,165)
Profit for the period		**46,280**	41,371
Other comprehensive income			
Exchange difference arising from translation of foreign operations		**7,254**	3,346
Fair value gain on available-for-sale investments	10	**478**	–
Total comprehensive income for the period		**54,012**	44,717
Profit for the period attributable to:			
Owners of the Company		**45,580**	41,531
Non-controlling interests		**700**	(160)
		46,280	41,371

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended December 31, 2010

		Six months ended December 31,	
	NOTES	**2010**	2009
		HK$'000	HK$'000
		(unaudited)	(unaudited)
Total comprehensive income attributable to:			
Owners of the Company		**53,508**	44,885
Non-controlling interests		**504**	(168)
		54,012	44,717
Earnings per share	8		
Basic (HK cents)		**6.9**	7.3
Diluted (HK cents)		**6.8**	7.3

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2010

	NOTES	**December 31 2010, HK$'000 (unaudited)**	June 30, 2010 HK$'000 (audited) (restated)
Non-current assets			
Property, plant and equipment	9	**169,569**	170,814
Prepaid lease payments		**15,191**	15,009
Investment properties	9	**32,789**	31,981
Goodwill	9	**55,662**	66,392
Intangible assets		**1,764**	2,980
Available-for-sale investments	10	**174,241**	–
Derivatives embedded in convertible bonds	10	**24,696**	–
Deferred tax assets		**15,778**	12,624
		489,690	299,800
Current assets			
Inventories		**186,983**	278,791
Trade and other receivables	11	**356,479**	276,268
Prepaid lease payments		**388**	379
Derivative financial instruments		**47**	51
Pledged bank deposits		**1,425**	1,405
Bank balances and cash		**292,086**	477,150
		837,408	1,034,044
Current liabilities			
Trade and other payables	12	**335,172**	392,223
Tax liabilities		**15,203**	14,658
Bank borrowings – due within one year	13	**86,089**	66,395
Obligations under finance leases – due within one year		**275**	291
		436,739	473,567
Net current assets		**400,669**	560,477
		890,359	860,277

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2010

	NOTES	**December 31 2010, HK$'000 (unaudited)**	June 30, 2010 HK$'000 (audited) (restated)
Capital and reserves			
Share capital	14	**66,478**	66,478
Reserves		**791,939**	757,666
Equity attributable to owners of the Company		**858,417**	824,144
Non-controlling interests		**9,937**	9,433
Total equity		**868,354**	833,577
Non-current liabilities			
Bank borrowings			
– due after one year	13	**9,756**	16,157
Deferred tax liabilities		**11,820**	10,006
Obligations under finance leases			
– due after one year		**429**	537
		22,005	26,700
		890,359	860,277

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended December 31, 2010

	Attributable to owners of the Company										
	Share capital HK$'000	Share premium HK$'000	Share option reserve HK$'000	Statutory reserve HK$'000	Special reserve HK$'000	Translation reserve HK$'000	Revaluation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At July 1, 2009 (audited)	55,672	93,111	3,611	19,237	79,878	26,126	–	286,531	564,166	10,225	574,391
Profit for the period	–	–	–	–	–	–	–	41,531	41,531	(160)	41,371
Other comprehensive income for the period	–	–	–	–	–	3,354	–	–	3,354	(8)	3,346
Total comprehensive income for the period	–	–	–	–	–	3,354	–	41,531	44,885	(168)	44,717
Issue of shares	10,800	196,109	–	–	–	–	–	–	206,909	–	206,909
Transaction costs attributable to issue of shares	–	(3,720)	–	–	–	–	–	–	(3,720)	–	(3,720)
Recognition of equity-settled share-based payments	–	–	927	–	–	–	–	–	927	–	927
Exercise of share option	6	61	(6)	–	–	–	–	–	61	–	61
Dividends recognised as distribution (Note 6)	–	–	–	–	–	–	–	(8,908)	(8,908)	–	(8,908)
At December 31, 2009 (unaudited)	66,478	285,561	4,532	19,237	79,878	29,480	–	319,154	804,320	10,057	814,377
At July 1, 2010 (audited)	66,478	285,723	5,036	21,863	79,878	15,090	–	350,076	824,144	9,433	833,577
Profit for the period	–	–	–	–	–	–	–	45,580	45,580	700	46,280
Other comprehensive income for the period	–	–	–	–	–	7,450	478	–	7,928	(196)	7,732
Total comprehensive income for the period	–	–	–	–	–	7,450	478	45,580	53,508	504	54,012
Recognition of equity-settled share-based payments	–	–	708	–	–	–	–	–	708	–	708
Dividends recognised as distribution (Note 6)	–	–	–	–	–	–	–	(19,943)	(19,943)	–	(19,943)
At December 31, 2010 (unaudited)	66,478	285,723	5,744	21,863	79,878	22,540	478	375,713	858,417	9,937	868,354

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended December 31, 2010

	Six months ended December 31,	
	2010	2009
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Net cash from operating activities	**24,986**	51,657
Net cash used in investing activities:		
Purchase of available-for-sale investments	**(200,000)**	–
Additions to property, plant and equipment	**(5,068)**	(1,858)
(Increase) decrease in pledged bank deposits	**(20)**	1,275
Other investing cash flows	**815**	138
	(204,273)	(445)
Net cash (used in) from financing activities:		
Repayment of bank borrowings	**(55,536)**	(141,999)
Dividends paid	**(19,943)**	(8,908)
New bank borrowings raised	**62,253**	140,461
Proceeds from issue of shares	**–**	206,909
Other financing cash flows	**(124)**	(3,694)
	(13,350)	192,769
Net (decrease) increase in cash and cash equivalents	**(192,637)**	243,981
Cash and cash equivalents at beginning of the period	**477,150**	173,305
Effect of foreign exchange rate changes	**7,573**	1,154
Cash and cash equivalents at end of the period, represented by bank balances and cash	**292,086**	418,440

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended December 31, 2010

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed 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.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended June 30, 2010 except as stated below.

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. The group has designated the debt element of an investment in convertible bonds as an available-for-sale investment.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in the revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the revaluation reserve is reclassified to profit or loss.

Interest income is recognised on an effective interest basis for the debt element of the convertible bonds classified as an available-for-sale investment.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the HKICPA which are effective for the Group's financial year beginning on July 1, 2010.

HKAS 32 (Amendments)	Classification of Rights Issues
HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009[1]
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010[2]
HK – Int 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause
HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008.

1 Amendments that are effective for annual periods beginning on or after January 1, 2010.

2 Amendments that are effective for annual periods beginning on or after July 1, 2010.

Except as described below, the adoption of the new and revised HKFRSs has had no material effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Amendments to HKAS 17 Leases

As part of Improvements to HKFRSs issued in 2009, HKAS 17 "Leases" has been amended in relation to the classification of leasehold land. Before the amendments to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendments to HKAS 17 have removed such a requirement. The amendments require that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the leasee.

In accordance with the transitional provisions set out in the amendments to HKAS 17, the Group reassessed the classification of unexpired leasehold land as at July 1, 2010 based on information that existed at the inception of the leases. Leasehold land that qualifies for finance lease classification has been reclassified from prepaid lease payment to property, plant and equipment retrospectively. This resulted in prepaid lease payments with carrying amounts of HK$7,837,000 and HK$7,669,000 as at July 1, 2009 and June 30, 2010 respectively being reclassified to property, plant and equipment.

As at December 31, 2010, leasehold land that qualifies for finance lease classification with a carrying amount of HK$7,585,000 has been included in property, plant and equipment. The application of the amendments to HKAS 17 has had no impact on the reported profit or loss for the current and prior years.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Summary of the effects of the above changes in accounting policies

The effects of the above changes in accounting policies on the financial positions of the Group as at July 1, 2009 and June 30, 2010 is as follows:

	As at July 1, 2009 (originally stated) HK$'000	Adjustments HK$'000	As at July 1, 2009 (restated) HK$'000	**As at June 30, 2010 (originally stated) HK$'000**	**Adjustments HK$'000**	**As at June 30, 2010 (restated) HK$'000**
ASSETS						
Property, plant and equipment	180,733	7,837	188,570	**163,145**	**7,669**	**170,814**
Prepaid lease payment – non-current	22,899	(7,669)	15,230	**22,510**	**(7,501)**	**15,009**
Prepaid lease payment – current	543	(168)	375	**547**	**(168)**	**379**
Other assets	724,142	–	724,142	**1,147,642**	**–**	**1,147,642**
	928,317	–	928,317	**1,333,844**	**–**	**1,333,844**
LIABILITIES	353,926	–	353,926	**500,267**	**–**	**500,267**
NET ASSETS	574,391	–	574,391	**833,577**	**–**	**833,577**
CAPITAL AND RESERVES	574,391	–	574,391	**833,577**	**–**	**833,577**

Note: There is no effects on net assets and equity for the current and prior period.

The above changes in accounting policies have no effects on the Group's basic and diluted earnings per share for the current and prior period.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010[1]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[1]
HKFRS 9	Financial Instruments[2]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[3]
HKAS 24 (as revised in 2009)	Related Party Disclosures[1]
HK (IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[1]

1 Effective for annual periods beginning on or after January 1, 2011.

2 Effective for annual periods beginning on or after January 1, 2013.

3 Effective for annual periods beginning on or after January 1, 2012.

HKFRS 9 "Financial Instruments" (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 "Financial Instruments" (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. The directors anticipate application of HKFRS 9 that will be adopted in the Group's consolidated financial statements for the financial year ending June 30, 2014 may have a significant impact on amounts reported in respect of the Groups' financial assets.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

The amendments to HKAS 12 titled "Deferred Tax: Recovery of Underlying Assets" mainly deal with the measurement of deferred tax for investment properties that are measured using the fair value model in accordance with HKAS 40 "Investment Property". Based on the amendments, for the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties measured using the fair value model, the carrying amounts of the investment properties are presumed to be recovered through sale, unless the presumption is rebutted in certain circumstances. The directors anticipate that the application of the amendments to HKAS 12 may have a significant impact on deferred tax recognised for investment properties located in the People's Republic of China (the "PRC") that are measured using the fair value model. If the presumption under the amendments is not rebutted, the deferred tax liability relating to the revaluation of investment properties may increase as the land appreciation tax rate of the PRC is higher than the tax rate currently used by the Group to calculate the deferred tax recognised for investment properties.

Except as described above, the directors anticipate that the application of these new or revised standards, amendments or interpretations that have been issued but not yet effective will have no material impact on the results and the financial position of the Group.

3. SEGMENT INFORMATION

Information reported to the Board of Directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on two operating divisions-media entertainment platform related products and other multimedia products.

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segment:

Six months ended December 31, 2010

	Media entertainment platform related products HK$'000	Other multimedia products HK$'000	Total HK$'000
REVENUE			
External sales	602,770	230,881	833,651
RESULTS			
Segment results	113,745	25,140	138,885
Other income			7,159
Other gains and losses			(354)
Research and development costs			(20,303)
Administrative expenses			(75,659)
Finance costs			(1,222)
Profit before tax			48,506

3. SEGMENT INFORMATION *(Continued)*

Segment revenues and results *(Continued)*

Six months ended December 31, 2009

	Media entertainment platform related products HK$'000	Other multimedia products HK$'000	Total HK$'000
REVENUE			
External sales	514,113	201,356	715,469
RESULTS			
Segment results	107,205	17,859	125,064
Other income			7,334
Other gains and losses			742
Research and development costs			(18,822)
Administrative expenses			(64,079)
Finance costs			(3,703)
Profit before tax			46,536

Segment results represent the profit earned by each segment without allocation of administrative expenses, research and development costs, other income, other gains and losses, and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

4. PROFIT BEFORE TAX

	Six months ended December 31,	
	2010	2009
	HK$'000	HK$'000
Profit before tax has been arrived at after charging (crediting):		
Amortisation of intangible assets (included in cost of sales)	**1,362**	1,684
Release of prepaid lease payments	**194**	178
Depreciation of property, plant and equipment	**11,406**	14,887
Write-down of inventories (included in cost of sales)	**3,000**	8,200
Bank interest income	**(203)**	(318)
Net loss (gain) on fair value change of derivative financial instruments (Note)	**24**	(177)
Net loss on fair value change of derivatives embedded in convertible bonds (included in other gains and losses)	**1,541**	–

Note: The amount represents fair value change for foreign currency exchange contracts, certain of which are outstanding at the end of the reporting period.

5. INCOME TAX EXPENSE

	Six months ended December 31, 2010 HK$'000	2009 HK$'000
The tax charge (credit) comprises:		
Current tax:		
PRC Enterprise Income Tax	**2,851**	2,315
Other jurisdictions	**622**	1,450
Underprovision in prior years	**–**	88
Deferred taxation:		
Current period	**(2,905)**	–
Provision for PRC dividend withholding tax	**1,658**	1,312
	2,226	5,165

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

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 subject to PRC enterprise income tax that provide for a transitional period of 5 years commencing January 1, 2008 for the tax rate to reach 25%.

As for 中山聖馬丁電子元件有限公司, in late 2008, it successfully applied for High and New Technology Enterprises Status, so the applicable tax rate has been reduced to 15% from January 1, 2008 to December 31, 2010.

5. INCOME TAX EXPENSE *(Continued)*

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.

The Group's European subsidiaries are subject to profit tax rates at range of 26.3% to 30%.

Tax arising in other jurisdictions are subject to applicable tax rates in the relevant jurisdictions.

6. DIVIDENDS

During the six months ended December 31, 2010, a final dividend of HK3.0 cents per share (7.1.2009 to 12.31.2009: HK1.6 cents per share), amounting to HK$19,943,000 (7.1.2009 to 12.31.2009: HK$8,908,000) was paid to the shareholders for the year ended June 30, 2010.

The directors do not recommend the payment of an interim dividend.

7. 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.

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

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.

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

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

			Number of share options			
Type of grantee	**Date of grant** (note 2)	**Exercise price** (note 1)	**Outstanding at July 1, 2010**	**Granted during the period**	**Forfeited during the period**	**Outstanding at December 31, 2010**
Directors	July 30, 2005	HK$1.02	2,000,000	–	–	2,000,000
Directors	October 22, 2010	HK$2.05	–	2,000,000	–	2,000,000
Employees	July 30, 2005	HK$1.02	2,500,000	–	–	2,500,000
Employees	December 16, 2006	HK$2.05	1,100,000	–	(125,000)	975,000
Employees	December 27, 2007	HK$1.76	3,050,000	–	(150,000)	2,900,000
Employees	April 1, 2009	HK$1.114	3,050,000	–	(150,000)	2,900,000
Employees	October 22, 2010	HK$2.05	–	1,000,000	–	1,000,000
Total			11,700,000	3,000,000	(425,000)	14,275,000
Exercisable at the end of the period			7,125,000			8,375,000
Weighted average exercise price			1.33	2.05	1.62	1.48

Notes:

1. The closing prices of the Company's shares immediately before July 30, 2005, December 16, 2006, December 27, 2007, April 1, 2009 and October 22, 2010, the dates the options were granted, were HK$1.02, HK$2.05, HK$1.76, HK$1.10 and HK$2.05, respectively.

2. The share options vest 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, December 16, 2006, December 27, 2007, April 1, 2009 and October 22, 2010 are exercisable until July 31, 2015, December 15, 2016, December 26, 2017, March 31, 2019 and October 21, 2020, respectively.

In the current period, share options were granted on October 22, 2010. The fair value of the options at the date of grant using the Hull White Trinomial model was HK$2,527,000.

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

The following assumptions were used to calculate the fair value of share options:

	October 22, 2010
Grant date share price	HK$2.05
Exercise price	HK$2.05
Expected volatility	42.81%
Dividend yield	2.44%
Risk-free interest rate	2.088%

The Hull White Trinomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate with reference to the valuation performed by RHL Appraisal Ltd., firm of independent valuer not connected with the Group. Changes in variables and assumptions may result in changes in the fair value of the options.

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

The Group has recognised total expense of HK$708,000 (7.1.2009 to 31.12.2009: HK$927,000) in relation to share options granted by the Company.

8. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	Six months ended December 31,	
	2010	2009
	HK$'000	HK$'000
Earnings for the purposes of basic and diluted earnings per share		
Profit for the period attributable to owners of the Company	**45,580**	41,531

	Number of shares	
Weighted average number of ordinary shares for the purpose of basic earnings per share	**664,782,000**	565,530,913
Effect of dilutive potential ordinary shares in respect of share options	**4,451,926**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**669,233,926**	565,530,913

No diluted earnings per share had been presented for the six months ended December 31, 2009 since the exercise price of the Company's share options were higher than the average market price per share for the period.

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTIES AND GOODWILL

The directors are of the opinion that the carrying value of the Group's investment properties as at December 31, 2010 was not materially different from the fair value of the investment properties as at June 30, 2010. Accordingly, no valuation movement has been recognised in respect of the Group's investment properties in the period.

During the period, the Group spent HK$5,068,000 (7.1.2009 to 12.31.2009: HK$1,858,000) on additions of property, plant and equipment. The Group also disposed of property, plant and equipment with a carrying amount of HK$555,000 (7.1.2009 to 12.31.2009: HK$123,000) resulting in a gain of HK$260,000 (7.1.2009 to 12.31.2009: HK$15,000).

For the purpose of impairment testing, goodwill is allocated to two (7.1.2009 to 12.31.2009: three) individual cash-generating units ("CGU"), comprising BCN Distribuciones, S.A. ("BCN") and Intelligent Digital Services GmbH. As the recoverable amount of BCN is lower than the carrying value of the unit an impairment loss on goodwill of HK$12,500,000 (7.1.2009 to 12.31.2009: HK$3,055,000) was recognised for BCN during the period. The impairment loss mainly results from the sales performance of BCN being lower than the management expectation.

The recoverable amount of BCN on December 31, 2010 and December 31, 2009 was determined based on a value in use calculation using cash flow projections over a five-year period at a discount rate of 8%. The key assumptions for the value in use calculation are the budgeted gross margin and budgeted revenue, which are determined based on the unit's post performance and management's expectation for the market development.

10. AVAILABLE-FOR-SALE INVESTMENTS/DERIVATIVES EMBEDDED IN CONVERTIBLE BONDS

	December 31, 2010 HK$'000	June 30, 2010 HK$'000
Available-for-sale investments comprises:		
Unlisted securities:		
– convertible bonds (Note)	**174,241**	–
Derivatives embedded in convertible bonds, at fair value (Note)	**24,696**	–

Note:

On December 28, 2010, the Group acquired the zero coupon Convertible Bonds ("Convertible Bonds") issued by Heng Xin China Holdings Limited ("HXCH") with principal amount of HK$200,000,000 from HXCH at a consideration of HK$200,000,000. The consideration was settled in cash by the Group. HXCH is a public limited company with its shares listed on the Growth Enterprise Market Board of the Stock Exchange. The Convertible Bonds do not bear any interest with maturity on December 27, 2012. The Group can exercise the conversion option at anytime during the period from the day immediately after the expiry of six months from the issue date of December 28, 2010 up to the maturity date. The conversion price is HK$2.00 per share (subject to pro-rata adjustments on capital structure changes). From the day immediately after the expiry of six months from the issue date of December 28, 2010, HXCH may cancel and redeem all the outstanding Convertible Bonds in whole at 110% of the principal amount. Unless previously redeemed or converted or purchased and cancelled, HXCH shall redeem the Convertible Bonds at 100% of the principal amount at maturity date.

10. AVAILABLE-FOR-SALE INVESTMENTS/DERIVATIVES EMBEDDED IN CONVERTIBLE BONDS *(Continued)*

The Group has classified the debt element of the Convertible Bonds as available-for-sale investments on initial recognition.

The movement of the fair value of the components of the Convertible Bonds is set out below:

	Debt element	**Derivative element**	**Total**
	HK$'000	HK$'000	HK$'000
As at December 28, 2010	173,763	26,237	200,000
Increase (decrease) in fair value	478	(1,541)	(1,063)
As at December 31, 2010	174,241	24,696	198,937

10. AVAILABLE-FOR-SALE INVESTMENTS/DERIVATIVES EMBEDDED IN CONVERTIBLE BONDS *(Continued)*

The fair value of debt element was calculated based on the present value of the contractually determined stream of future cash flows discounted at the required yield, which was determined with reference to the credit rating of the convertible bonds issuer and remaining time to maturity. The effective interest rate of the debt element of the Convertible Bonds as at December 28, 2010 and December 31, 2010 are 7.279% and 7.162% respectively.

The Binomial model is used for the valuation of derivative element of the Convertible Bonds. The inputs into the model for the derivative element of the Convertible Bonds as at December 28, 2010 and December 31, 2010 are as follows:

	December 28, 2010	**December 31, 2010**
Share price	HK$1.43	**HK$1.50**
Conversion price	HK$2.00	**HK$2.00**
Redemption price (by the issuer)	HK$220,000,000	**HK$220,000,000**
Risk-free rate	0.653%	**0.584%**
Expected life	2 years	**1.99 years**
Implied volatility	56.503%	**56.503%**
Expected dividend yield	–	**–**

The fair value of each of the debt and derivatives element of the Convertible Bonds on initial recognition and at the end of the reporting period are determined by the directors of the Company with reference to the valuation performed by BMI Appraisals Limited, firm of independent valuer not connected with the Group.

11. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 90 days to its trade customers. The following is an aged analysis of trade receivables by age net of allowance for doubtful debts, presented based on the invoice date at the end of the reporting periods:

	December 31, 2010 HK$'000	June 30, 2010 HK$'000
0 – 30 days	**135,891**	119,748
31 – 60 days	**84,073**	63,497
61 – 90 days	**10,487**	41,932
91 – 180 days	**721**	11,052
More than 180 days	**–**	–
	231,172	236,229
Other receivables	**125,307**	40,039
Total trade and other receivables	**356,479**	276,268

During the period, the directors reviewed the carrying amounts of certain long outstanding trade receivables and identified an impairment loss of HK$2,300,000 (7.1.2009 to 12.31.2009: HK$1,276,000) which has been recognised in the statement of comprehensive income.

12. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables, presented based on the invoice date at the end of the reporting periods:

	December 31, 2010 HK$'000	June 30, 2010 HK$'000
0 – 30 days	**150,039**	151,276
31 – 60 days	**63,112**	102,782
61 – 90 days	**25,427**	49,380
91 – 180 days	**12,957**	23,895
181 – 365 days	**3,310**	1,891
	254,845	329,224
Other payables	**80,327**	62,999
Total trade and other payables	**335,172**	392,223

13. BANK BORROWINGS

During the current period, the Group raised and repaid bank loans in the amount of HK$62,253,000 and HK$55,536,000, respectively. The bank loans bear interest at prevailing market rate.

14. SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Ordinary shares of HK$0.10 each		
Issued and fully paid		
At July 1, 2009	556,722,000	55,672
Exercise of share options	60,000	6
Issue of shares (Note)	108,000,000	10,800
At December 31, 2009, June 30, 2010 and December 31, 2010	664,782,000	66,478

Note: On December 17, 2009, the Company issued 108,000,000 new ordinary shares. The 108,000,000 new ordinary shares, together with 40,000,000 existing ordinary shares held by various shareholders, were transferred to a depositary bank as underlying securities for the issuance of 148,000,000 units of Taiwan Depository Receipts ("TDRs") on Taiwan Stock Exchange Corporation. The TDRs were offered at a price of NT$8.00 (equivalent to HK$1.92) per unit, where each unit of TDR represents one ordinary share of the Company.

15. RELATED PARTY TRANSACTIONS

Compensation of key management personnel

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

	Six months ended December 31,	
	2010	2009
	HK$'000	HK$'000
Short-term employee benefits	**3,791**	5,726
Post-employment benefits	**150**	22
Share-based payments	**136**	60
	4,077	5,808

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.

16. COMMITMENT

On December 17, 2010, Honstar Development Limited ("Honstar"), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Sino Light Group Limited ("SLG"), pursuant to which SLG has conditionally agreed to sell, and Honstar has conditionally agreed to purchase, 2,500 ordinary shares of Sino Light Enterprise Limited ("SLE"), which is legally and beneficially owned by SLG, for a total consideration of HK$20,000,000, which will be satisfied by the Company's 7,936,000 new shares, at the issue price of HK$2.52 and in cash of HK$1,280.

On December 17, 2010, Honstar entered into a subscription agreement with SLG, pursuant to which SLG has conditionally agreed to allot and issue to Honstar, and Honstar has conditionally agreed to subscribe for 3,000 SLE's shares ("Subscribed Shares"), representing approximately 42.86% of the issued share capital of SLE and approximately 30.00% of the issued share capital of SLE as enlarged by the Subscribed Shares, for a total consideration of HK$30,000,000, which will be satisfied in cash.

The above transactions were conditional. Details of the transactions are included in a published announcement of the Company dated December 20, 2010. Immediately after the completion of the above sale and purchase agreement and subscription agreement, SLE shall be owned as to 55% by Honstar.

Up to the report date, the above transactions had not been completed as the conditions stated in the agreements had not been fully satisfied.