Solartech International Holdings Limited

(Incorporated in Bernuda with limited liability) (Stock Code: 1166)

Annual Report 2006

Corporate Profile

Solartech International Holdings Limited (the "Group") is principally engaged in the business of manufacturing and trading of cables and wires, copper rods, and connectors and terminals. As a leading manufacturer and supplier of quality cables and wires,The Group is committed to developing its core business and providing top grade products and professional technical support to its customers across Asia, Europe and the United States.

The Group has a total workforce of over 6,000, with headquarter in Hong Hong and production facilities in Dongguan, Jingjiang, Kunshan, Qingdao, Shanghai, Xiamen, the Peoples' Republic of China, as well as Malaysia, Thailand, and Brazil. Building on its abundant industry experience and expertise, the Group will continue to devote efforts and resources into in expanding its business and exploring new opportunities, in the bid to consolidate its leadership in the market.

Contents

Corporate Information

Directors

Executive Directors

CHAU Lai Him
(Chairman and Managing Director)
ZHOU Jin Hua
(Deputy Chairman)
LAU Man Tak
LIU Jin Rong

Independent Non-Executive Directors

CHUNG Kam Kwong
LO Kao Cheng
LO Wai Ming

Company Secretary

LAU Man Tak

Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head Office and Principal Place of Business

No. 7, 2nd Floor
Kingsford Industrial Centre
13 Wang Hoi Road
Kowloon Bay
Kowloon
Hong Kong

Auditors

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

Legal Advisor

Herbert Smith
23/F, Gloucester Tower
15 Queen's Road Central
Hong Kong

Bermuda Principal Share Registrar and Transfer Office

Butterfield Fund Services (Bermuda)
Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

Hong Kong Branch Share Registrar and Transfer Office

Secretaries Limited
26/F Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

Principal Banks (in alphabetical order)

Bank SinoPac, Hong Kong Branch
CITIC Ka Wah Bank Limited
DBS Bank (Hong Kong) Limited
Equitable PCI Bank, Inc.,
Hong Kong Branch
Industrial and Commercial Bank of China
(Asia) Limited
Standard Chartered Bank
(Hong Kong) Limited
The Hong Kong and Shanghai
Banking Corporation Limited
Wing Hang Bank, Limited

Global Network

Location

Hong Kong
Dongguan, PRC
Xiamen, PRC
Kunshan, PRC
Qingdao, PRC

Shanghai, PRC
Singapore
Sungai Petani, Malaysia
Chonburi, Thailand

California, USA
Massachusetts, USA
Rio Claro, Brazil
Manaus, Brazil

Our Mission

Provide the most innovative and best quality products to our clients, with prompt delivery and at competitive prices.

Chairman's Statement

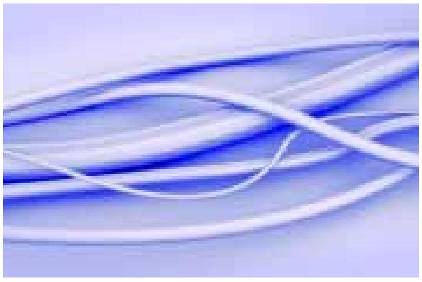
Financial Review

Herein are the results of the Company and its subsidiaries (the "Group") for the 12 months ended 30 June 2006 (the "Period"). As in 2005 the Group changed its financial year-end date from 31 March to 30 June, the results for the Period should not be directly compared with the results for the 15 months ended 30 June 2005 (the "Previous Year").

The Directors are pleased to announce that the Group recorded a turnover of approximately HK$2,115,548,000 for the Period, or on average, approximately HK$176,296,000 per month, 29% more than the per month average in the Previous Year. Profit from operations was HK$151,207,000. Profit for the Period was approximately HK$114,002,000, in which HK$79,146,000 was attributable to the realisation of the copper forward contracts and foreign exchange forward contracts (which are solely for hedging and risk management purposes) at their fair value in the consolidated income statement due to adoption of new accounting standards for the Period. Profit attributable to shareholders was approximately HK$78,856,000 (The Previous Year: loss attributable to shareholders was HK$60,659,000). Basic earnings per share was approximately HK19.5 cents (The Previous Year: Loss per share was around HK18.9 cents).

In the Previous Year, the Group's total turnover, profit from operations and loss attributable to shareholders were approximately HK$2,056,288,000, HK$3,170,000 and HK$60,659,000 respectively. Loss per share was approximately HK18.9 cents.

The Directors have proposed a final dividend of HK4 cents per ordinary share for the year ended 30 June 2006 (the Previous Year: Nil) to those shareholders



whose names appear on the register of members on 22 November 2006. Subject to the approval of shareholders at the forthcoming annual general meeting, dividend will be paid on or about 1 December 2006.

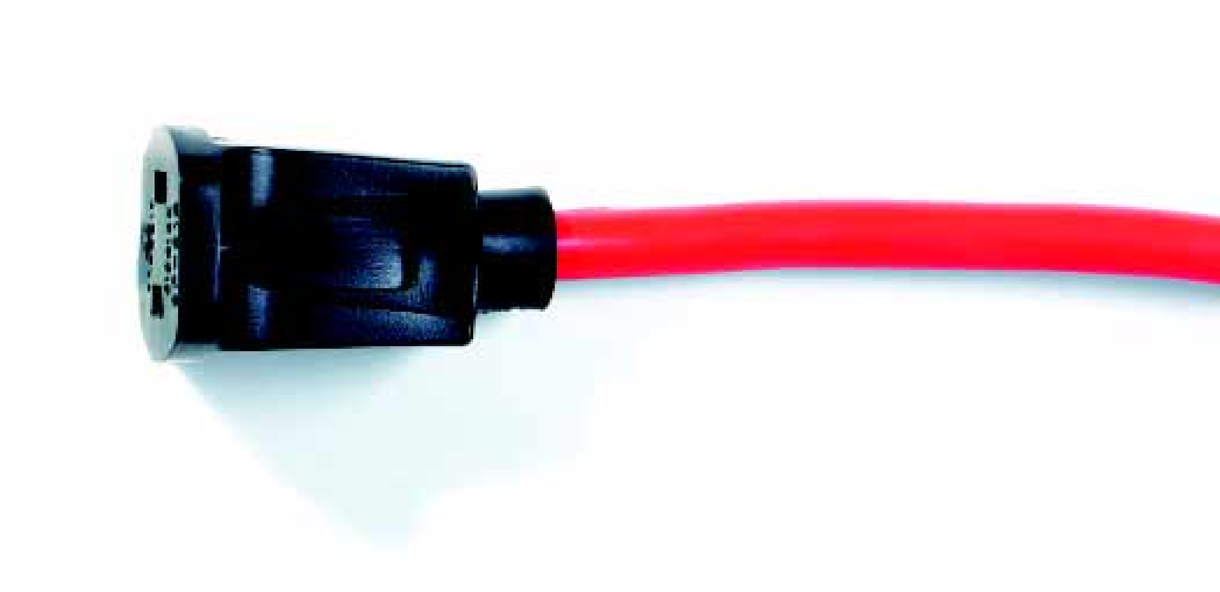
Business Review

During the Period, sales of cable and wire products approximated at HK$653,271,000, representing about 31% of the Group's total turnover; sales of copper rod products was approximately HK$1,209,150,000, representing about 57% of the Group's total turnover. Sales of connectors and terminals/wire harnesses totaled approximately HK$139,897,000, accounting for 7% of the Group's total turnover, while sales of life-like plants and other business were HK$87,605,000 and HK$25,625,000 respectively.

By market, sales from Mainland China and Hong Kong accounted for 82% of the Group's total turnover. Sales from North America accounted for 9% of the Group's turnover. Sales from other markets in Asia and Europe accounted for 7% and 2% of the Group's turnover respectively.

Cable and Wire

The consistently high prices of plastic and metal materials and increasing labour costs in the Pearl River Delta region continued to present a difficult operating environment for the cable and wire sector. Nevertheless, with the sector consolidating and smaller manufacturers being ousted, the Group was able to capture a larger market share. Moreover, given the continuous growth of the manufacturing sector in Mainland China and Yangtze River Delta regions emerging as the preferred base for local and foreign enterprises to develop Eastern China markets and extend business overseas, demand for the Group's cable and wire was satisfactory. During the Period, the Group's profit margin improved as a result of its endeavor to implement effective cost control measures and increased selling prices which enable the Group to partly transfer the soaring costs to customers and having received orders for products of higher margins.



To maximize cost efficiency and expand production scale, the Group strategically set up new manufacturing bases close to its customers. During the Period, the Group had made progress with two new plants in the following manner.

Kunshan Chau's Electrical Co. Ltd. ("Kunshan Chau's Electrical")
Heeding the increasing importance of the Yangtze River Delta region in China, the Group established Kunshan Chau's Electrical in Kunshan. On a 43,000 sq.m. site, the factory completed trial operation in the end of July 2006 and commenced full operation in the end of September 2006. Located near Shanghai and with an annual production capacity of approximately 84,000,000 sets of cable and wire products of various specifications, the plant is set to fulfill demands from customers in the Eastern and Northern parts of China.

Fund Resources Electric Industry Co. Ltd. (Shang Hang) ("Shang Hang Fund Resources")
The Factory of Shang Hang Fund Resources, located in Shang Hang county of Fujian Province, commenced trial production in February 2006. The factory, on an approximately 5,000 sq.m. site, will have an annual production capacity of approximately 36,500,000 sets of cable and wire products. The plant will not only fulfill demands from customers in this region, who are mainly Taiwanese manufacturers. But will also enjoy lower production cost and will be competitive in term of pricing amongst its peers.

Besides, the Group's HK-listed subsidiary Hua Yi Copper Holdings Limited has agreed with the subsidiary and the ultimate controlling company of Zijin Mining Group Co. Ltd. ("Zijin") to establish Fujian Jinyi Copper Products Co. Ltd. ("Fujian Jinyi") at Shang Hang. This initiative has laid a solid foundation for the Group's future cooperation opportunities with Zijin in other cable and wire businesses.

During the Period, the Group also reduced operational costs and optimized logistics management, a particular example being the consolidation of shipments at the Group's primary shipping port in Yantian, which resulted in enhanced cost effectiveness.

Copper Rod

The Group's copper rod business is operated through its listed subsidiary Hua Yi Copper Holdings Limited ("Hua Yi Copper"), which is principally engaged in the manufacturing and trading of copper rods and copper wires. Such products are largely sold as raw materials for cables and wires and are in turn used in the production of electrical appliances and electronics products.

During the Period, the supply of copper in both the PRC and the world markets remained tight. The limited stock can be traced to factors such as: insufficient output of copper concentrates; rising demand for copper by the global community; and growing appetite for materials in the PRC. As at 30 June 2006, the visible copper stocks published by the world's two sizable metal futures exchanges (i.e. London Metal Exchange ("LME") and New York Commodities Exchange) were at historic lows of merely 25,525 tonnes and 3,681 tonnes respectively. Accordingly, copper prices have continued to escalate.

As a result, the cash price of copper quoted by the London Metal Exchange ("LME") achieved a record high of US$8,788 per tonne on 12 May 2006. The average cash settlement price of LME copper transacted was US$5,052 between July 2005 to June 2006, representing an increase of US$2,032 or 67% compared to the previous 18-month period.

Capitalizing on strong demand for copper products and benefiting from ongoing expansion of the PRC economy, on average, monthly sales of the Group's copper rod products was approximately HK$100,762,000 for the Period, representing an increase of 45% against HK$69,459,000 in the Previous Year. Currently, high value-added, downstream products account for about 36% of the total turnover of Hua Yi Copper.

During the Period, with industry demand in excess of supply, the Group received more orders and enjoyed stronger bargaining power in price negotiations. The existing Dongguan plant achieved an average utilization rate of approximately 60% for products manufactured and sold by the Group (the Previous year: 60%), and the other 40% of the production capacity were consumed by orders from other manufacturers, to whom the Group provided mainly copper rod processing service. For the copper rod processing service business, rise in material costs from high copper prices was borne by customers and had no significant effect on the Group. However, for the Group's copper rods manufacturing and trading business, since it needs to order copper cathodes from suppliers with letters of credit and trust receipt loans, the higher copper prices in the review Period increased its required working capital and finance costs, which in turn limited growth of this business area in the Period. The Group was able to partially transfer the increase in finance costs including hikes in interest rates to customers.

The existing production facilities located in Dongguan of Guangdong Province, China is able to support a double or more growth in business volume. To capitalize on the surging copper demand and development of the domestic and international copper markets, the Group invested in the following facilities and had made progress during the Period:

Kunshan Hua Yi Copper Products Co. Ltd. ("Kunshan Hua Yi")

The Group's production plant under Kunshan Hua Yi in Jiangsu Province commenced operation in late July 2006. Recognizing the growing significance of the Yangtze River Delta Region as a manufacturing base for local and international enterprises, the facility on a 38,000 sq. m. site and with a designed output capacity of 10,000 tonnes of copper wires of various specifications per annum will serve customers in the region. Based on current copper prices, the annual production value at full capacity will be over US$70 million. The products manufactured will chiefly comprise high value-added downstream products including annealed copper wires, tin-coated copper wires, stranded copper wires and enameled copper wires targeting the region's manufacturers of electrical appliances, electronic products and wires.

Copper Recycling Plants in Dongguan and Jingjiang
With the central government and different government departments supporting and promoting the use of recycled copper as raw materials, the Group has put significant efforts into developing this business as reflected in its investment in two copper recycling plants in Dongguan and Jingjiang. These two projects involve integrated utilization of resources using the latest technology, which may preserve mineral resources and alleviate environmental pollution.

The copper recycling plant in Changling, Jingjiang (「靖江長凌銅業有限公司」) began commercial production in late August 2006. With an area 10,740 sq.m. the factory has an annual production capacity of 48,000 tonnes of 8.0mm copper rods. The plants have received approval by the State Office of Electricity (國家電辦) to import used motors, electrical wires and cables to meet production requirements.

At the end of the period, the copper recycling plant at Dongguan was still in the process of installing the machinery and the installation was completed in September this year, after which, trial operation will begin. When fully operational, the Dongguan facility will have an annual production capacity of approximately 30,000 tonnes of 2.6mm, 3mm and 8mm copper rods. These are the key materials for industries such as telecommunication cable industry and electrical cable industry. Given the continuous infrastructure development to nurture growth of economies in Western China, the Group sees huge room for development for the business.

Fujian Jinyi Copper Products Co. Ltd. ("Fujian Jinyi")
In September, 2005, Hua Yi Copper agreed with the subsidiary and the ultimate controlling company of Zijin Mining Group Co., Ltd. to establish Fujian Jinyi Copper Products Co. Ltd at the Shang Hang County of Fujian, China. The joint venture company has a registered capital of RMB40 million with the Group holding a 45% equity interest. The 12,000 sq.m. facility of Fujian Jinyi is targeted for completion by the end of the year and will commence operation in 2007. When fully operational, the facility will have an annual capacity of 10,000 tonnes of copper pipes for use in manufacturing refrigerators and air-conditioners. As Shang Hang County has rich copper mine resources, Fujian Jinyi will enjoy lower production costs and higher price competitiveness among its peers.

Upon full operation of all the new factories, the Group's total annual production capacity will be more than doubled from 66,000 tonnes to 164,000 tonnes of copper rods and copper wires so as to enjoy a larger economies of scale.

Life-like plant and others
Sales of life-like plants and other businesses of Hua Yi Copper were HK$87,605,000 and HK$1,111,000 respectively. To focus resources on the development of core cable and wire business, the Group will consider divesting the life-like plant business should the right opportunity arise.

Connectors and Terminals/Wire Harnesses
Connectors and terminals/wire harnesses are the primary ancillary products for manufacturers of such as household appliances and office equipment. With artificial intelligence products gaining popularity, the Group has been receiving ever-increasing orders for these related high value added products. Turnover from these products jumped from HK$9,000,000 in 1999 to HK$139,897,000 during the Period. On average, monthly sales of connectors and terminals/wire harnesses totalled approximately HK$11,658,000, 18% higher than HK$9,847,000 in the Previous Year.

To support the expansion of this business segment, the Group's additional production lines for connectors and terminals in Qingdao, Shangdong Province commenced production in June 2004. On a 4,700 sq.m. site, the factory has an annual production capacity of approximately 123,600,000 sets of connectors and terminals/wire harnesses.

The Group has also established another new factory in Chonburi, Thailand with a site area of approximately 1,650 sq.m. and an annual production capacity of approximately 45,600,000 sets of connectors and terminals/wire harnesses. The plant commenced production in April 2006 and is expected to fulfill demands from existing customers' facilities in Thailand such as Electrolux, Sony and Thompson Electric.

Strategic Acquisition of Brascabos

On 30 May 2006, the Group entered into an agreement with Whirlpool to acquire 100% equity interest in Brascabos Componentes Elétricos e Eletrônicos Ltda ("Brascabos") for US$10,000,000. The acquisition was completed on 31 July 2006.

Brascabos was founded by Whirlpool's Brazilian subsidiary, Whirlpool S.A., which is one of the largest white goods manufacturers in Brazil. Brascabos is the leading wire and automobile harness manufacturer in the country. Its products are used by the white goods business in laundry, cooking and refrigerating appliances. They can also be used in automobile parts, communication devices, computers, audio products, video-conferencing equipment and for industrial purposes. Other products that Brascabos manufactures include electronic controls and sensor devices. Brascabos holds patents of certain of its exclusive procedures and products.

The acquisition will allow the Group to quickly gain foothold and seize business opportunities in the booming Latin American economies. The acquisition is also consistent with the Group's development strategy of expanding its distribution network in Europe and America. Moreover, the acquisition will give the Group access to Brascabos' extensive experience and advanced technology in automobile harness operations, which it can apply to capture potential business in the PRC automobile market.

Pursuant to the acquisition agreement, Whirlpool S.A. and Brastemp entered into a 5-year exclusive Supplier Sourcing Agreement with Brascabos on the Closing Date whereby Whirlpool S.A. and Brastemp agreed to purchase from Brascabos 100% of their requirements for certain materials used in their manufacture process in South America.

Prospects

Although the Group has been facing fierce competition and rising raw material costs in the past few years, the management believes the most difficult period for the cable and wire sector is over. Global demand, comprising new and replacement demands, for white goods, electrical and electronic appliances has been growing steadily as new technologies are used in these products. As a supplier of basic components for white goods of various renowned international brands like Whirlpool, Philips, Electrolux, LG and TCL, the Group expects to continue to receive stable demand for its core cable and wire products in the future. The Group will continue to expand its market share taking advantage of the market consolidation. To match the research and development standards of and required by customers, the Group will continue to closely cooperate with customers to create products of various specifications. For example, the Group is setting up a technology development centre in North America to cater the needs of Whirlpool and other customers in North America.

The Group expects the fast developing connectors and terminals/wire harnesses business to emerge as one of its major growth drivers in the future. Leveraging the expertise of Brascabos in manufacturing harnesses for the automotive industry, the Group will also seek to tap the demand for premium automobile harnesses of the robust automobile market in Mainland China. Located in Brazil, Brascabos will also enable the Group to seize opportunities in South America's fast growing white goods market and to expand automobile harness business in the region. The Group is actively negotiating with some of its existing international clients on providing products to their factories in South America.

The Group has made much progress in establishing new plants to boost production capacity. Its vertically integrated operation has enabled it to climb the value chain and produce higher margin products that satisfy market demands. When all the new plants in the PRC and Thailand commence full operation, the Group will see its production capacity doubled, and accordingly its profitability boosted in the coming years.

On 4 May 2006, the Company entered into a memorandum of understanding (the "MOU") with an independent third party to continue negotiation regarding the acquisition of manufacturing facilities located in Europe and China. The facilities currently focus on the production of rubber, PVC, textile and polyurethane cords. The Company is pursuing with due diligence negotiations of the terms of the acquisition and expects to decide in the near future whether to proceed with the transaction. The Group believes the acquisition, if undertaken, will enable it to expand its customer base, increase production capacity and tap top tier markets in Europe. With soaring raw material prices posing high cost pressures on smaller manufacturers, the Group expects more acquisition opportunities to surface in the future for its consideration.

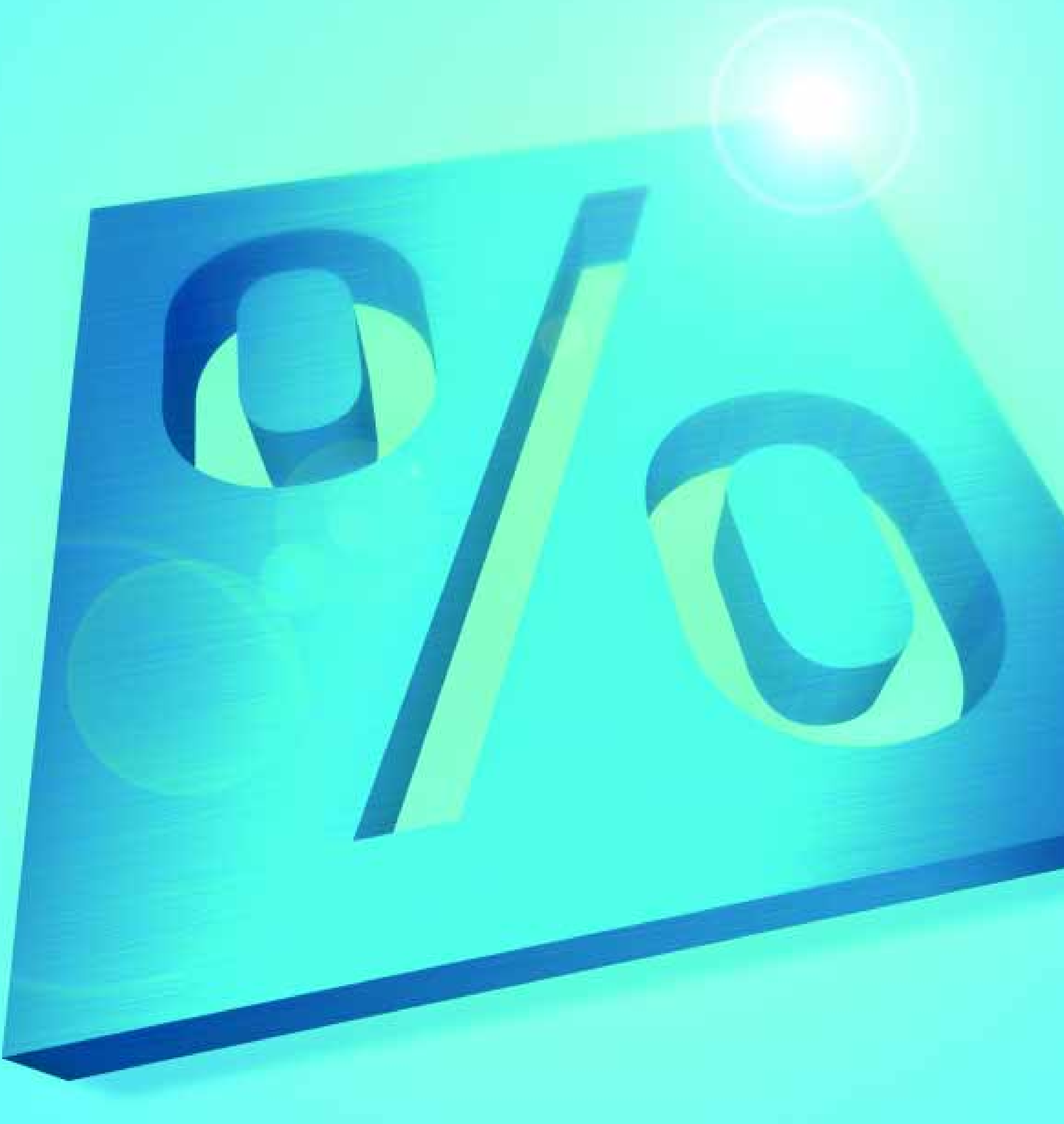
Looking ahead, the Group will strive to boost market shares of its products and expand its business globally, riding on the solid foundation of its core cable, wire and copper rod business and the synergies from acquisition. Its aim is to bring better returns to shareholders.

Financial Highlights

Gross profit margin percentage increased by 41%.

Basic earnings per share was HK19.5 cents.

The Board has proposed a final dividend of HK4 cents per share.



Management Discussion and Analysis

Dividend

The Directors recommended a final dividend of HK4 cents per ordinary share (30 June 2005: nil) in respect of the year ended 30 June 2006. As no interim dividend was paid by the Company during the year, the proposed final dividend makes a total dividend of HK4 cents per share for the year ended 30 June 2006 (2004/05: Nil). Subject to the approval of shareholders at the forthcoming Annual General Meeting, the dividend will be distributed and paid on or about 1 December 2006 to those shareholders as registered at the close of business on 22 November 2006.

Closure of Register of Members

The register of members of the Company will be closed from Thursday, 23 November 2006 to Friday, 24 November 2006, both days inclusive, during which no transfer of shares of the Company will be effected. In order to qualify for the final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar in Hong Kong, Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Wednesday, 22 November 2006.

Annual General Meeting

A notice of 2006 Annual General Meeting will be despatched to shareholders of the Company in due course.

Employees

As at 30 June 2006, the Group had approximately 5,600 employees in Hong Kong, the PRC and overseas. Remuneration policy is reviewed periodically and determined by reference to market terms, company performance, and individual qualifications and performance. Staff benefits include medical schemes, Mandatory Provident Fund scheme for Hong Kong employees, and state-sponsored retirement plans for employees in the PRC.

Liquidity and Financial Resources

During the year ended 30 June 2006, the Group had implemented a prudent financial management policy. As at 30 June 2006, the Group had cash and bank balances (including pledged bank deposits) amounted to approximately HK$425 million (30 June 2005: HK$189 million) and net current assets value being over approximately HK$516 million (30 June 2005: HK$345 million restated). The Group's gearing ratio as at 30 June 2006 was 0.58 (30 June 2005: 0.49 restated), being a ratio of total bank borrowings of approximately HK$546 million (30 June 2005: HK$371 million) to shareholders' funds of approximately HK$941 million (30 June 2005: HK$756 million restated). The face value of the convertible notes was HK$78 million.

As at 30 June 2006, the Group had pledged certain property, plant and machinery, land use rights, fixed deposits and trade debtors with an aggregate net book value of approximately HK$196 million (30 June 2005: HK$212 million restated) to secure general banking facilities granted to the Group.

As at 30 June 2006, the Company had issued guarantees to the extent of approximately HK$243 million (30 June 2005: HK$329 million) to banks to secure general banking facilities granted to its subsidiaries, of which, approximately HK$166 million (30 June 2005: HK$207 million) was utilised. In addition, the Company has issued guarantees to a financial institute amounting to approximately HK$39 million (30 June 2005: HK$39 million) in respect of commodity trading of copper by its subsidiaries.

In 2005, because of the adoption of new accounting standards in Hong Kong, the Group had to revalue and recognise the copper forward contracts, and foreign exchange forward contracts, (collectively referred as "derivative financial instruments" thereafter) at their fair value at the balance sheet date.

These derivative financial instruments were entered into in accordance with its hedging policies. They are solely used for hedging and risk management purposes; speculation is strictly prohibited. Although it only used the derivative financial instruments for hedging and risk management purposes, it could not fulfill the documentation requirements under the new HKFRS, which was effective from 1 January 2006. Therefore, the outstanding derivative financial instruments have to be revalued and stated at their fair value at the balance sheet date and the changes in fair value were charged to current year's income statement.

The above accounting treatment in fact had no tangible adverse impact on the Group's business operations. The Group's business operations and financial positions continue to be strong and healthy.

The Group's overall financial risk management focuses on the unpredictability of the financial markets, optimising the level of financial risks the Group can bear, and minimising any potential adverse effects on the financial performance of the Group. The purpose of which is to ensure that transactions undertaken are in accordance with the Group's policies and not for speculative purpose.

Top-up Placing of Existing Shares and Subscription of New Shares of Hua Yi Copper Holdings Limited

On 4 July 2005, Skywalk Assets Management Limited ("Skywalk"), a wholly owned subsidiary of the Company, entered into the agreements to place and subscribe for new shares in Hua Yi Copper Holdings Limited ("Hua Yi Copper"), a subsidiary of the Company whose shares are listed on the The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Pursuant to the agreements, Skywalk placed 111,000,000 ordinary shares of HK$0.20 each in the capital of Hua Yi Copper to independent investors at a price of HK$0.88 per share ("Top-Up Placing") and, upon the completion of the Top-Up Placing, subscribed for 111,000,000 new ordinary shares of HK$0.20 each in the capital of Hua Yi Copper at a price of HK$0.88 per share (the "Subscription"). The Top-Up Placing and the Subscription were completed on 7 July 2005 and 18 July 2005 respectively.

Prior to the Top-Up Placing and the Subscription, Skywalk had held 397,121,875 shares in Hua Yi Copper, representing approximately 71.49% of the issued share capital of Hua Yi Copper. Upon completion of the Top-Up Placing and the Subscription, Skywalk held 397,121,875 shares in Hua Yi Copper, representing 59.59% of the enlarged issued share capital of Hua Yi Copper.

In June 2006, Skywalk purchased 3,478,000 shares of Hua Yi Copper at the average price of HK$0.46 per share on the Exchange. As at 30 June 2006, Skywalk held 400,599,875 shares in Hua Yi Copper, representing approximately 60.05% of the issued share capital of Hua Yi Copper.

Formation of a Joint Venture Company for the Production of Copper Pipe Products

On 8 September 2005, Hua Yi Copper entered into an agreement with Fujian Zijin Investment Co., Ltd and Minxi Xinghang State-owned Assets Investment Co., Ltd under which the parties agreed to jointly establish a limited liability joint venture company ("JV") in Fujian Province, the PRC to mainly engage in copper pipes production and sales in Shanghang, Fujian. The JV is named "Fujian Jinyi Copper Products Company Limited." Pursuant to the agreement, the registered capital of the JV is RMB40 million, of which RMB18 million, representing a 45% equity interest in the JV, had to be contributed by Hua Yi Copper. Hua Yi Copper contributed RMB5.4 million in November 2005 and RMB12.6 million in May 2006. The details of the formation of the JV were set out in the circular dated 17 November 2005.

Placing of Existing Shares and Subscription of New Shares of the Company

Pursuant to the placing agreement dated 20 April 2006, Chau's Family Trust and Mr. Chau Lai Him (collectively "Chau's Family") placed 93,000,000 ordinary shares of HK$0.01 each in the capital of the Company to certain placees at a price of HK$1.00 per share (the "Placing"). The Placing was completed on 28 April 2006.

Pursuant to the subscription agreement dated 20 April 2006, Chau's Family subscribed for 93,000,000 new ordinary shares of HK$0.01 each in the capital of the Company at a price of HK$1.00 per share (the "Subscription"). As Mr. Chau is a director of the Company and Chau's Family Trust is a substantial shareholder of the Company, each holding approximately 8.97% and 20.9% of the issued capital of the Company respectively, as at the date of the subscription agreement, they were connected persons of the Company pursuant to the Listing Rules. Accordingly, the Subscription constituted a connected transaction pursuant to Chapter 14A of the Listing Rules. Following the completion of the Placing, the approval by the shareholders in the special general meeting held on 5 June 2006 and the granting of the approval by the Stock Exchange for the listing of and permission to deal in the Subscription Shares, the Subscription was completed on 21 June 2006. The details of the Subscription were set out in the circular dated on 17 May 2006.

Issue of Convertible Notes

On 24 April 2006, the Company entered into the Convertible Notes Subscription Agreements with certain investors whereby such investors agreed to subscribe for Convertible Notes (the "Convertible Notes") in the aggregate principal amount of US$10,000,000. Upon the granting of the approval by the Stock Exchange for the listing of and permission to deal in the conversion shares, the issue of the Convertible Notes was completed on 9 May 2006. The Convertible Notes were issued pursuant to the general mandate granted to the directors of the Company on 10 November 2005, and were subscribed by the investors themselves or through their nominees in the following principal amounts on completion:

Name of Investor	**Principal Amount** (US$)
Stark Investments	
Centar Investments (Asia) Limited	3.1 million
Shepherd Investments International Limited	0.6 million
Stark Asia Master Fund Limited	0.2 million
Stark International	0.1 million
Goldman Sachs International (nominee of Penta Investment)	3.0 million
Evolution Master Fund Ltd SPC, Segregated Portfolio M	2.0 million
D.B. Zwirn & Co., L.P.	
D.B. Zwirn Special Opportunities Fund, L.P.	0.3334 million
D.B. Zwirn Special Opportunities Fund, Ltd.	0.5836 million
D.B. Zwirn Special Opportunities Fund (TE), L.P. (who had taken an assignment of part of the convertible notes from each of D.B. Zwirn Special Opportunities Fund, L.P. and D.B. Zwirn Special Opportunities Fund, Ltd.)	0.083 million
Total:	10.0 million

Use of Proceeds

The Subscription and the issue of the Convertible Notes raised gross proceeds of approximately HK$93 million and approximately HK$78 million respectively. The proceeds (net of expenses of approximately HK$4 million) of these fund raising exercises of HK$167 million (comprising approximately HK$90 million from the Subscription and HK$77 million for the issue of the Convertible Notes) were used as to approximately HK$78 million for the acquisition of Brascabos Componentes Elétricos e Eletrônicos Ltda., a subsidiary of Whirlpool S. A. in Brazil, and the balance for general working capital or funding for future acquisition opportunities when they arise.

Post Balance Sheet Event

Acquisition of Brascabos constituting a major transaction

On 30 May 2006, the Company entered into the Quota Purchase Agreement with Whirlpool S.A. and Brasmotor, for the acquisition (the "Acquisition") of their 100% interest in Brascabos Componentes Elétricos e Eletrônicos Ltda. ("Brascabos") for an aggregate consideration of US$10,000,000 (approximately HK$78,000,000) and guaranteeing the repayment of the shareholders' loan in an amount of not more than US$4,000,000 (approximately HK$31,200,000). Brascabos is one of the leading manufacturer of power cords and wire harness for white goods (large electrical home appliances) and automotive parts in Brazil. The Acquisition constituted a major transaction for the Company under the Listing Rules and was subject to the approval of Shareholders of the Company. At the special general meeting held on 24 July 2006, Shareholders approved the Acquisition. The Acquisition had been completed and its completion was announced by the Company in an announcement dated 2 August 2006. The details of the Acquisition were set out in the circular dated 26 June 2006.

Compliance with the Code on Corporate Governance Practices

During the year ended 30 June 2006, the Company had complied with the code provisions set out in the Code on Corporate Governance Practices ("CG Code") in Appendix 14 of the Listing Rules, save and except that there has not been separation between the roles of the chairman and chief executive officer, the board of directors not having held at least four meetings, and notice of at least 14 days for a regular meeting not having been given.

Compliance with the Model Code

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the code of conduct regarding Directors' securities transactions. The Company has confirmed with all directors that they had complied with the required standard set out in the Model Code throughout the year ended 30 June 2006.

Audit Committee

The Company has revised the term of reference for the Audit Committee in accordance with the requirements of the Listing Rules. The Audit Committee comprises the three independent non-executive directors of the Company. The audited results for the year ended 30 June 2006 have been reviewed by the Audit Committee and external auditors. The Audit Committee is satisfied with the Group's internal control procedures and financial reporting disclosures.

Remuneration Committee

The Remuneration Committee has been set up with written term of reference in accordance with the requirements of the Listing Rules. The Remuneration Committee comprises the three independent non-executive directors of the Company.

Appreciation

On behalf of the Board, I would like to extend my sincere gratitude to our business partners, shareholders, staff and management for their continuous dedication, commitment and support in the past year.

On behalf of the Board
Chau Lai Him
Chairman and Managing Director

Hong Kong SAR, 5 October 2006

Directors and Senior Management

Executive Directors

Mr. CHAU Lai Him, aged 54, is the chairman and managing director of the Group and the founder of the Group. He is responsible for the overall management, strategic planning and business development of the Group. He has more than 25 years' experience in the manufacturing of cable and wire products.

Mr. ZHOU Jin Hua, aged 48, joined the Group in 1986 and is the deputy chairman of the Group and the general manager of the Group's Dongguan manufacturing facilities. He is responsible for the day-to-day operations of the Group's Dongguan manufacturing facilities including production, sales and marketing and business development. He has more than 20 years' experience in the manufacturing of cable and wire products.

Mr. LAU Man Tak, Ronald, aged 37, joined the Group in November 2001 and is the finance director and company secretary of the Group. He is responsible for the overall management of the Group's financial matters. He holds a bachelor degree in Accountancy from the Hong Kong Polytechnic University and has more than 10 years' corporate finance, accounting and auditing experience. He is a fellow member of the Association of Chartered Certified Accountants in the United Kingdom and a certified public accountant of the Hong Kong Institute of Certified Public Accountants. He is also a member of the Hong Kong Securities Institute.

Mr. LIU Jin Rong, aged 32, joined the Group in 1998 and is the administration manager of Qiaozi Chau's Electrical Company Limited. He has more than 5 years' experience in human resources management in PRC. He is the son-in-law of the sister of Mr. Chau Lai Him.

Independent Non-executive Directors

Mr. CHUNG Kam Kwong, aged 48, is a practising Certified Public Accountant in Hong Kong and is a fellow certified public accountant of the Hong Kong Institute of Certified Public Accountants and a member of CPA Australia, and a council member of the Macau Society of Certified Practising Accountants. Mr. Chung has extensive experience in accounting and financial management and is independent non-executive director of listed companies in Hong Kong.

Mr. LO Kao Cheng, aged 56, is the general manager of Sunf Pu Electric Wire & Cable Co., Ltd., a company incorporated in Taiwan, Republic of China. He has more than 30 years' experience in the cable and wire industry.

Mr. LO Wai Ming, Paulus, aged 55, is the president of Greater China Asset Management Limited. He is also the director and general manager of SW China Strategic Holdings Limited. He has over 30 years' extensive experience in capital investment, consumer marketing, infrastructure investment and management, business development and corporate finance. He holds a bachelor degree in Social Sciences (Hons) and a master degree in Business Administration of the Chinese University of Hong Kong. He is a member of the Chartered Institute of Marketing and the Chartered Management Institute of the United Kingdom.

Senior Management

Ms. CHAN Kam Yee, Shirley, aged 46, rejoined the Group in February 2001 and is the group financial controller of the Group. She is responsible for accounting, financial management and company secretarial affairs of the group. She has more than 15 years' experience in finance and accounting and more than 10 years' experience in company secretarial affairs. She is a fellow member of the Association of Chartered Certified Accountants in the United Kingdom and a certified public accountant of the Hong Kong Institute of Certified Public Accountants.

Ms. LAM Sui Lan, Miranda, aged 37, rejoined the Group in March 2004 and is the assistant to managing director of Chau's Electrical Co., Ltd. She holds a bachelor's degree of arts, major in business administration from the University of Northumbria at Newcastle, the United Kingdom and a higher diploma in business studies from the City University of Hong Kong. She has more than 10 years' experience in sales and marketing and of which more than 5 years is in the field of wire and cable products.

Mr. KAN Wai Kee, Ernest, aged 40, joined the Group in October 2001 and is the head of financial operations of the Group. He is responsible for internal audit function for the Group. He holds a bachelor's degree in Accountancy from the City University of Hong Kong and has more than 14 years' auditing, finance and accounting experience.

Mr. CHAN Sio Keong, Patrick, aged 33, joined the Group in April 2001 and is the finance manager of Chau's Electrical Co., Ltd. He is responsible for the accounting and finance of Chau's Electrical Co., Ltd. He holds a bachelor of commerce degree with major studies in accounting and finance from the Deakin University in Australia. He is a member of CPA Australia and a certified public accountant of the Hong Kong Institute of Certified Public Accountants. He has extensive experience in accounting, finance and auditing.

Mr. WONG Kam Wah, George, aged 44, joined the Group in July 1997 and is the information technology manager of the Group. He holds a bachelor's degree of computing science from the University of Ulster, the United Kingdom and a higher diploma in computer studies from the City Polytechnic of Hong Kong. He has more than 14 years' experience in information technology and computerized manufacturing management.

Mr. Robert J. MORTON, aged 41, joined the Group in March 1997 and is the general manager of Chau's Electrical International, Inc. He holds a bachelor's degree in science, major in technical business management from Johnson & Wales University, USA and a technical degree from New England Institute of Technology, USA. He has over 20 years of design engineering, manufacturing, purchasing, sales and marketing, and business development experience in the electrical products industry.

Mr. HO Pang Cheng, Vincent, aged 49, joined the Group in February 1999 and is the general manager of the Group's Singapore and Malaysia trading and manufacturing operations in Malaysia, Thailand and Qing Dao, the PRC. He holds a master degree in business administration from the University of Strathclyde, the United Kingdom; a professional diploma in marketing from the Chartered Institute of Marketing, the United Kingdom; a technical diploma in electrical & electronic engineering and a post graduate diploma in marketing management from Singapore. He has over 20 years of sales and marketing, business development and management experience in the electrical & electronics industries.

Mr. ZHOU Qi Qin, aged 42, joined the Group in November 1988 and is the operations manager of Dongguan Qiaozi Chau's Electrical Co., Ltd. He is responsible for the production operations of the Dongguan Qiaozi manufacturing facilities. He has more than 15 years' experience in manufacturing management.

Senior Management (continued)

Mr. KANG Jian, aged 37, joined the Group in December 2003 and is the general manager of Shanghai Chau's Electrical Co., Ltd. He is responsible for the day-to-day operations of the Shanghai manufacturing facilities including production, sales and marketing and business development. He holds a profession diploma in Accountancy and Management. He has more than 8 years' experience in management.

Mr. LIU Dong Yang, aged 32, joined the Group in September 1995 and is the deputy general manager of Shanghai Chau's Electrical Company Limited. He is responsible for the financial matters for the trading and manufacturing operations in Shanghai. He holds a professional diploma in international finance from Hunan Finance and Economics College, a bachelor degree in business administration from the Renmin University of China. He is a member of the Chinese Institute of Certified Public Accountants.

Mr. Francisco A FIOROTTO, aged 59, is the President of Brascabos, the Solartech acquisition in Rio Claro – SP – Brasil. He is responsible for the overall management, strategic planning and business development in South America. He is an electrical engineer with 35 years experience in business development, manufacturing, engineering, product development, marketing and sales.

Ms. Carmem Chacon SCHNOPP, aged 48, general manager of Brascabos, joined the company in February 1998. She holds a master degree in Business Administration and is responsible for the business development, sales and marketing, and logistic and procurement.

Directors' Report

The directors present their annual report and the audited financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 30 June 2006.

Principal Activities

The Company is an investment holding company. The activities of its principal subsidiaries, associates and jointly controlled entities are set out in notes 16, 17 and 43 to the financial statements, respectively.

Results

The results of the Group for the year ended 30 June 2006 are set out in the consolidated income statement on page 34.

The directors now recommend the payment of a final dividend of HK4 cents per share to the shareholders on the register of members on 22 November 2006 amounting to HK$19,403,000.

Financial Summary

A summary of the results and of the assets and liabilities of the Group for the past five financial periods is set out on page 94.

Property, Plant and Equipment

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

Share Capital

Details of changes in the share capital of the Company during the year are set out in note 31 to the financial statements.

Directors and Directors' Service Contracts

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

Executive directors:

Mr. Chau Lai Him (Chairman and Managing Director)
Mr. Zhou Jin Hua
Mr. Lau Man Tak
Mr. Liu Jin Rong

Independent non-executive directors:

Mr. Lo Kao Cheng
Mr. Lo Wai Ming
Mr. Chung Kam Kwong

Directors and Directors' Service Contracts (continued)

All directors are subject to retirement by rotation.

In accordance with Clause 87(1) and Clause 86(2) of the Company's Bye-Laws, Messrs. Chau Lai Him, Liu Jin Rong and Chung Kam Kwong shall retire and, being eligible, offer themselves for re-election. Mr. Lo Kao Cheng shall retire and not offer himself for re-election. The remaining directors continue in office.

Independent non-executive directors are not appointed for a specific term and are subject to retirement by rotation in accordance with the above Bye-Laws.

None of the directors proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Directors' Interests in Securities

As at 30 June 2006, the interests of the directors and their associates in the shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Long position in the shares of the Company

Name of director	Number of issued ordinary shares beneficially held	Percentage of the issued share capital of the Company
Mr. Chau Lai Him	117,202,000	24.16%

Long position in the shares of Hua Yi Copper Holdings Limited, an associated corporation of the Company

Name of director	Number of issued ordinary shares beneficially held	Percentage of the issued share capital of Hua Yi Copper
Mr. Chau Lai Him	2,894,000	0.43%
Mr. Lau Man Tak	970,000	0.15%

Other than as disclosed above, as at 30 June 2006, none of the directors, nor their associates had any interests or short position in the securities of the Company or any of its associated corporations as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Share Options

The Company

On 16 September 2002, the Company adopted a new share option scheme (the "New Share Option Scheme") which replaced the Company's old share option scheme adopted in 1996 (the "Old Share Option Scheme"). Particulars of these share option schemes are set out in note 38 to the financial statements.

The following table discloses movements in the Company's New Share Option Scheme during the year:

Capacity	Date of grant	Exercisable period	Exercise price HK$	Number of share options: Outstanding at 1.7.2005	Granted during the year	Outstanding at 30.6.2006	Exercisable period	Number of share options exercisable for the period
Others	26 May 2005	26 May 2005 to 25 May 2008	0.32	18,950,000	–	18,950,000	26 May 2005 to 25 May 2008	18,950,000
Others	5 January 2006	1 February 2006 to 31 January 2009	0.24	–	39,230,000	39,230,000	1 February 2006 to 31 January 2007	13,076,667
							1 February 2007 to 31 January 2008	13,076,667
							1 February 2008 to 31 January 2009	13,076,666
				18,950,000	39,230,000	58,180,000		

At the balance sheet date, the Company had 58,180,000 share options outstanding under the New Share Option Scheme, which represented approximately 12% of the Company's shares in issue as at that date. The exercise in full in the remaining share options would, under the present capital structure of the Company, result in the issue of 58,180,000 additional ordinary shares of the Company and additional share capital of HK$581,800 and share premium of HK$14,897,400 (before issue expenses).

The details of fair value of the options under the New Share Option Scheme are disclosed in note 38 to the financial statements.

Share Options (continued)

Subsidiary

On 4 December 2003, Hua Yi Copper Holdings Limited ("Hua Yi Copper"), a subsidiary of the Company, adopted a new share option scheme (the "Hua Yi New Share Option Scheme") which replaced its old share option scheme adopted in 1996 (the "Hua Yi Old Share Option Scheme").

The following table discloses movements in the Hua Yi New Share Option Scheme during the year:

For the year ended 30 June 2006

				Number of share options						
Capacity	**Date of grant**	**Exercisable period**	**Exercise price** HK$	**Outstanding at 1.7.2005**	**Granted during the year**	**Exercised during the year**	**Cancelled during the year**	**Outstanding at 30.6.2006**	**Exercisable period**	**Number of share options exercisable for the period**
Employees	1 April 2005	1 April 2005 to 31 March 2008	0.87	1,600,000	–	–	(1,600,000)	–	–	
Employees	1 April 2005	1 April 2005 to 31 March 2007	0.87	1,500,000	–	–	(1,500,000)	–	–	
Others	1 April 2005	1 April 2005 to 31 March 2008	0.87	9,856,000	–	–	(9,856,000)	–	–	
Employees	9 December 2005	1 January 2006 to 31 December 2008	0.275	–	3,000,000	(664,000)	–	2,336,000	1.1.2006 to 31.12.2006	336,000
									1.1.2007 to 31.12.2007	1,000,000
									1.1.2008 to 31.12.2008	1,000,000
Others	9 December 2005	1 January 2006 to 31 December 2008	0.275	–	12,000,000	–	–	12,000,000	1.1.2006 to 31.12.2006	4,000,000
									1.1.2007 to 31.12.2007	4,000,000
									1.1.2008 to 31.12.2008	4,000,000

Share Options (continued)

For the year ended 30 June 2006

				Number of share options						
Capacity	**Date of grant**	**Exercisable period**	**Exercise price** HK$	**Outstanding at 1.7.2005**	**Granted during the year**	**Exercised during the year**	**Cancelled during the year**	**Outstanding at 30.6.2006**	**Exercisable period**	**Number of share options exercisable for the period**
Others	6 April 2006	1 May 2006 to 30 April 2011	0.495	–	51,000,000	–	–	51,000,000	1.5.2006 to 30.4.2007	10,200,000
									1.5.2007 to 30.4.2008	10,200,000
									1.5.2008 to 30.4.2009	10,200,000
									1.5.2009 to 30.4.2010	10,200,000
									1.5.2010 to 30.4.2011	10,200,000
Total				12,956,000	66,000,000	(664,000)	(12,956,000)	65,336,000		

Arrangement to Purchase Shares or Debentures

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 contract 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.

Substantial shareholders' and other shareholders' interests in the Company and the Group

Other than the interests disclosed under the heading "Directors' Interests in Securities" above, pursuant to the register kept by the Company under Section 336 of the SFO, as at 30 June 2006, the following persons had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:–

Long positions in shares of the Company

Name	Number of shares of the Company	Capacity	Percent of issued share capital of the Company
Newcorp Ltd.	81,992,000	interest of corporation	16.90
Chau's Family 1996 Limited	81,992,000	controlled by substantial corporation beneficial owner	16.90
Hill David Henry Christopher	81,992,000	interest of corporation controlled by substantial shareholder	16.90
Hill Rebecca Ann	81,992,000	interest of substantial child under 18 or spouse	16.90
Newcorp Ltd.	81,992,000	interest of corporation controlled by substantial shareholder	16.90
Yin Jin Hua	75,300,000	beneficial owner	15.52
Penta Investment Advisers Ltd	42,622,727	investment manager	8.79
Zwaanstra John	42,622,727	interest of controlled corporation	8.79
Stark Investments (Hong Kong) Limited	28,363,636	investment manager	5.85
Centar Investments (Asia) Ltd.	21,981,818	beneficial owner	4.53
Deutsche Bank Aktiengesellschaft	24,430,000	security interest in shares	5.04
Credit Suisse Group	43,540,000	interest of controlled corporation	8.98

Save as disclosed above, the Directors and chief executive of the Company are not aware of any person who, as at 30 June 2006, had any interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Substantial shareholders' and other shareholders' interests in the Company and the Group (continued)

Other persons having interests or short positions in the Company and the Group

So far as is known to any Director, as at 30 June 2006, the following persons, other than a director or a chief executive of the Company, who had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance, or, who were, directly or indirectly, interested in ten per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group and the amount of each of such person's interest in such securities, together with particulars of any options in respect of such capital are, as follows:–

Name of the Company's subsidiary	Substantial shareholder of such subsidiary	Nature of interest	Number of Existing Shares/fully paid registered capital	Percentage of issued share capital/ registered capital
東莞新寶精化有限公司 Dongguan Xin Bao Precision Chemical Co., Ltd.	Luckyman Assets Management Limited	Beneficial owner	HK$6,750,000	15%
上海周氏電業有限公司 Shanghai Chau's Electrical Co., Ltd.	上海朱家角資產投資經營發展有限公司	Beneficial owner	US$875,000	35%
FT Multi-Media Limited	Nobleman Holdings Limited	Beneficial owner	4,000 shares	40%

Major Customers and Suppliers

For the year ended 30 June 2006, the five largest customers of the Group together accounted for less than 30% of the Group's total turnover and the five largest suppliers of the Group together accounted for approximately 52.4% of the Group's total purchases during the year, with the largest supplier accounted for approximately 18.8%.

At no time during the period did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest suppliers.

Purchase, Sale or Redemption of the Company's Listed Securities

During the year, the Company repurchased 300,000 of its own shares through the Stock Exchange of Hong Kong Limited, details of which are set out in note 31 to the financial statements.

Emolument Policy

Emolument policy on the remuneration of the directors and the employees of the Group is reviewed periodically an determined by reference to market terms, company performance, and individual qualifications and performance.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme are set out in note 38 to the financial statements.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's Bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Corporate Governance

The Company has complied throughout the period with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rule"), except that the independent non-executive directors are not appointed for a specific term but are subject to retirement by rotation.

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting that the required standard set out in Appendix 10 to the Listing Rules (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 the code of conduct regarding securities transactions by directors adopted by the Company.

The Company has received, form 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.

Audit Committee

The Company's audit committee comprising independent non-executive directors and non-executive directors.

The principal duties of the audit committee are reviewing the internal controls and the financial reporting requirements of the Group. The audit committee is satisfied with the Group's internal control procedures and the financial reporting disclosures.

Remuneration Committee

The Remuneration Committee has been set up with written term of reference in accordance with the requirements of the Listing Rules. The Remuneration Committee comprises the three independent non-executive directors of the Company.

Sufficiency of Public Float

The Company has maintained a sufficient public float throughout the year ended 30 June 2006.

Post Balance Sheet Events

Details of significant events occurring after the balance sheet date are set out in note 42 of the financial statements.

Auditors

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

On behalf of the Board

Chau Lai Him
Chairman

5 October 2006

Corporate Governance Principles

The Group is committed to promoting good corporate governance, and has applied the principles in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Compliance of the Code Provisions

Throughout the financial year ended 30 June 2006 (the "Financial Year"), the Company has complied with the Code except for the deviations from code provisions A.1.1, A1.3, A2.1 of the Code which are explained below.

Code provision A.1.1 Under code provision A.1.1 of the Code, the board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals.

During the Financial Year, the board met twice as two of the Executive Directors had to travel regularly to the United States of America and Brazil for business development.

Code provision A.1.3 Under code provision A.1.3 of the Code, notice of at least 14 days should be given for a regular board meeting to give all directors an opportunity to attend.

During the Financial Year, notice of 9 days were given, the Board considers this period of notice as sufficient and reasonable having regard to past practices of the Board.

Code provision A.2.1 Under code provision A.2.1 of the Code, the role of the chairman and the chief executive officer should be separate and should not be performed by the same individual.

During the Financial Year, Mr. Chau Lai Him acts as the Chairman and Managing Director of the Company. Mr. Chau is the founder of the Group and has extensive industry experience. Mr. Chau is responsible for effective running of the Board and for formulating business strategies. The Directors believe that it is the best interest of the Group to have Mr. Chau remained to be the executive chairman and that the current management structure has been effective in the development of the Group and implementation of business strategies under the leadership of Mr. Chau.

The Directors will continue to review the effectiveness of the Group's corporate governance structure to assess whether changes, including the separation of the roles of the chairman and the chief executive officer, are necessary.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by Directors. Having made specific enquiry by the Company, all the Directors confirmed that they had complied throughout the year with the required standard as set out therein.

Board Composition

The Board is entrusted with the overall responsibility for managing the Company's business and affairs and the ultimate responsibility for the day to day management of the Company which is delegated to the Chairman/Managing Director and the management.

The Board comprises a total of seven Directors, with four Executive Directors, Messrs. Chau Lai Him (Chairman), Zhou Jin Hua (Deputy Chairman), Lau Man Tak, and Liu Jin Rong and three independent Non-executive Directors, Messrs. Lao Kao Cheng, Lo Wai Ming Paulus and Chung Kam Kwong. Details of the Directors are disclosed on page 18.

During the Financial Year, the Board met twice. All Directors are given the opportunity to put items on the agenda for regular Board meetings. All Directors have access to the Company Secretary to ensure that all Board procedures and rules and regulations are followed. Full minutes of Board meetings are kept by the Company Secretary and are available for inspection on reasonable notice. Any Director may, in furtherance of his/her duties, take independent professional advice where necessary at the expense of the Company.

The roles of Chairman and Managing Director are not separate, please refer to the explanation in connection with Code provision A.2.1 as set out under the heading "Compliance with the Code provisions". The Chairman ensures that all Directors are properly briefed on issues arising at Board meetings and all Directors receive adequate, complete and reliable information.

During the Financial Year, the Board has at all times complied with the Rules 3.10(1) and (2) of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors and one of the Independent Non-executive Directors having the appropriate professional qualifications or accounting or related financial management expertise. Each of the Independent Non-executive Director has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all Independent Non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

Board Operation

During the Financial Year, the Board held 34 meetings and the attendance record of each member of the Board is set out below:

Executive Directors	**Attendance**
Chau Lai Him, Chairman and Managing Director	33
Zhou Jin Hua, Deputy Chairman	19
Lau Man Tak	32
Liu Jin Rong	22
Independent Non-executive Directors	
Lo Kao Cheng	11
Lo Wai Ming Paulus	11
Chung Kam Kwong	13

Remuneration Committee

The Remuneration Committee was established on 12 December 2005, comprising three Independent Non-executive Directors, Messrs. Chung Kam Kwong, Lo Kao Cheng and Lo Wai Ming and the chairman of the Remuneration Committee is Mr. Chau Lai Him. The role and function of the Remuneration Committee included the determination of the specific remuneration packages of all Executive Directors and senior management, including benefits in kind, pension rights and compensation payments, and make recommendations to the Board on the remuneration of Non-executive Directors, The Remuneration Committee should consider factors such as the salaries paid by comparable companies, employment conditions elsewhere in the Group and desirability of performance-based remuneration. The Remuneration Committee shall meet at least once a year.

One meeting was held in the Financial Year to adopt the terms of reference of the Remuneration Committee and all the committee members were present at the meeting. No meeting of the Remuneration Committee was held during the financial year. Details of the emoluments of the Directors are set out in note 9 to the financial statements.

Audit Committee

The Audit Committee was established on 10 December 1999, currently comprises three Independent Non-executive Directors, Messrs. Lo Kao Cheng, Lo Wai Ming and Chung Kam Kwong. The primary duties of the Audit Committee include the review of the Group's financial reporting system, the nature and scope of audit review as well as the effectiveness of the system of internal control procedures and risk management. The Audit Committee is also responsible for making recommendation in relation to the appointment, reappointment and removal of the external auditors, and reviews and monitors the external auditors' independence and objectivity. In addition, the Audit Committee discusses matters raised by the external auditors and regulatory bodies to ensure that appropriate recommendations are implemented. The Audit Committee shall meet at least twice a year.

During the Financial Year, the Audit Committee held two meetings and all committee members were present at the meetings. The Audit Committee has reviewed with the management, the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matter including the review of the Company's interim and annual financial statements before submission to the Board. The Group's financial statements for the year ended 30 June 2006 have been reviewed by the Audit Committee, which is of the opinion that such statements comply with applicable accounting standards and legal requirements, and that adequate disclosures have been made.

Auditors' Remuneration

During the year, the remuneration paid and payable to the auditors of the Company, Deloitte Touch Tohmatsu, for the provision of the Group's audit services and non-audit related services were HK$1,658,430.00 and HK$206,248.00 respectively.

No nomination committee has been established.

On behalf of the Board

Chau Lai Him
Chairman

5 October 2006

Auditors' Report

Deloitte.
德勤

TO THE SHAREHOLDERS OF SOLARTECH INTERNATIONAL HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements on pages 34 to 93 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective Responsibilities of Directors and Auditors

The Company's directors are responsible for the preparation of consolidated financial statements which give a true and fair view. In preparing consolidated financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those consolidated financial statements 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.

Basis of Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the consolidated financial statements are free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in consolidated the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 30 June 2006 and of the profit and cash flows of the Group for the year ended 30 June 2006 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

5 October 2006

Consolidated Income Statement

For the year ended 30 June 2006

	NOTES	1.7.2005 to 30.6.2006 HK$'000	1.4.2004 to 30.6.2005 HK$'000 (Restated)
Turnover	6	**2,115,548**	2,056,288
Cost of sales		**(1,886,090)**	(1,898,350)
Gross profit		**229,458**	157,938
Other income		**19,774**	29,115
Interest income		**9,651**	8,421
General and administrative expenses		**(161,165)**	(130,377)
Selling and distribution expenses		**(21,701)**	(24,436)
Change in fair value of derivative financial instruments		**79,146**	–
Allowance for doubtful debts		**(3,956)**	(23,491)
Impairment loss recognised in respect of property, plant and equipment		**–**	(14,000)
Finance costs	10	**(36,565)**	(32,134)
Impairment loss recognised in respect of goodwill		**–**	(16,212)
Share of results of associates		**236**	289
Share result of a jointly controlled entity		**10**	–
Discount on acquisition of subsidiaries	34	**892**	–
Loss on disposal of subsidiaries	33	**–**	(7,502)
Gain on deemed disposal of subsidiaries	34	**19,576**	1,845
Profit (loss) before taxation	8	**135,356**	(50,544)
Taxation	11	**(21,354)**	(10,504)
Profit (loss) for the year/period		**114,002**	(61,048)
Attributable to:			
Equity holders of the parent		**78,856**	(60,659)
Minority interests		**35,146**	(389)
		114,002	(61,048)
Dividends proposed	12	**19,403**	–
Earnings (loss) per share	13		
– basic		**19.5 cents**	(18.9) cents
– diluted		**18.8 cents**	N/A

Consolidated Balance Sheet

At 30 June 2006

	NOTES	2006 HK$'000	2005 HK$'000 (Restated)
Non-current assets			
Property, plant and equipment	14	**412,049**	382,659
Prepaid lease payments for land - non-current portion	15	**92,149**	81,506
Prepayment for property, plant and equipment		**192,495**	–
Interests in associates	16	**10,509**	9,885
Interests in jointly controlled entities	17	**17,485**	–
Notes receivable	18	**–**	55,000
Deferred tax assets	28	**–**	20
		724,687	529,070
Current assets			
Inventories	19	**370,795**	304,642
Television programmes and sub-licensing rights	20	**423**	963
Debtors, deposits and prepayments	21	**498,417**	392,108
Bills receivable	22	**34,717**	5,605
Prepaid lease payments for land - current portion	15	**2,173**	2,010
Derivative financial assets	29	**6,063**	–
Notes receivable	18	**55,000**	–
Tax recoverable		**1,249**	–
Pledged deposits	37	**67,180**	48,331
Bank balances and cash	23	**358,508**	140,806
		1,394,525	894,465
Current liabilities			
Creditors and accrued charges	24	**218,772**	164,187
Bills payable	25	**89,311**	9,749
Taxation		**11,447**	5,991
Obligations under finance leases	26	**1,030**	2,144
Bank overdrafts	27	**280**	1,315
Borrowings	27	**543,105**	366,030
Derivative financial liabilities	29	**1,478**	–
Conversion option of convertible notes	30	**12,492**	–
		877,915	549,416
Net current assets		**516,610**	345,049
Total assets less current liabilities		**1,241,297**	874,119

Consolidated Balance Sheet *(continued)*

At 30 June 2006

	NOTES	2006 HK$'000	2005 HK$'000 (Restated)
Non-current liabilities			
Convertible notes - debt component	30	**66,068**	–
Obligations under finance leases	26	**1,649**	2,060
Deferred tax liabilities	28	**19,974**	11,453
		87,691	13,513
		1,153,606	860,606
Capital and reserves			
Share capital	31	**4,851**	3,924
Reserves		**936,240**	752,852
Equity attributable to equity holders of parent		**941,091**	756,776
Share option reserve of listed subsidiary		**3,565**	–
Minority interests		**208,950**	103,830
		1,153,606	860,606

The financial statements on pages 34 to 93 were approved and authorised for issue by the Board of Directors on 5 October 2006 and are signed on its behalf by:

Chau Lai Him
Director

Lau Man Tak
Director

Consolidated Statement of Changes in Equity

For the year ended 30 June 2006

	Attributable to equity holders of the parent											
	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000	Exchange reserve HK$'000	Asset revaluation reserve HK$'000	Statutory reserve HK$'000	Retained profits HK$'000 (Restated)	Share option reserve HK$'000	Total HK$'000	Share option reserve of listed subsidiary HK$'000	Minority interests HK$'000 (Restated)	Total equity HK$'000
At 1 April 2004	2,730	42,171	587,012	(15,698)	22,814	4,474	159,875	–	803,378	–	14,026	817,404
– effect of changes in accounting policies (note 2)	–	–	–	–	(22,814)	–	6,833	–	(15,981)	–	–	(15,981)
– as restated	2,730	42,171	587,012	(15,698)	–	4,474	166,708	–	787,397	–	14,026	801,423
Exchange differences arising on translation of foreign operations	–	–	–	(238)	–	–	–	–	(238)	–	–	(238)
Loss for the period	–	–	–	–	–	–	(60,659)	–	(60,659)	–	(389)	(61,048)
Total recognised income and expense for the period	–	–	–	(238)	–	–	(60,659)	–	(60,897)	–	(389)	(61,286)
Placement of new shares	1,194	31,695	–	–	–	–	–	–	32,889	–	–	32,889
Expenses incurred in relation to the issue of new shares	–	(2,613)	–	–	–	–	–	–	(2,613)	–	–	(2,613)
Minority interest arising from acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	74,466	74,466
Partial disposal of a subsidiary	–	–	–	–	–	–	–	–	–	–	1,510	1,510
Partial disposal from placement of shares of a listed subsidiary											16,833	16,833
Realised upon partial disposal of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–
Dividends paid to minority shareholders	–	–	–	–	–	–	–	–	–	–	(2,616)	(2,616)
At 30 June 2005	3,924	71,253	587,012	(15,936)	–	4,474	106,049	–	756,776	–	103,830	860,606
– effect of changes in accounting policies (note 2)	–	–	–	–	–	–	2,147	–	2,147	–	(853)	1,294
– as restated	3,924	71,253	587,012	(15,936)	–	4,474	108,196	–	758,923	–	102,977	861,900

Consolidated Statement of Changes in Equity *(continued)*

For the year ended 30 June 2006

	Attributable to equity holders of the parent											
	Share capital HK$'000	**Share premium** HK$'000	**Contributed surplus** HK$'000	**Exchange reserve** HK$'000	**Asset revaluation reserve** HK$'000	**Statutory reserve** HK$'000	**Retained profits** HK$'000 (Restated)	**Share option reserve** HK$'000	**Total** HK$'000	**Share option reserve of listed subsidiary** HK$'000	**Minority interests** HK$'000 (Restated)	**Total equity** HK$'000
Exchange differences arising on translation of foreign operations	–	–	–	11,655	–	–	–	–	11,655	–	318	11,973
Profit for the year	–	–	–	–	–	–	78,856	–	78,856	–	35,146	114,002
Total recognised income and expense for the period	–	–	–	11,655	–	–	78,856	–	90,511	–	35,464	125,975
Placement of new shares	930	92,070	–	–	–	–	–	–	93,000	–	–	93,000
Repurchase of shares	(3)	(247)	–	–	–	–	–	–	(250)	–	–	(250)
Expenses incurred in relation to the issue of new shares	–	(2,876)	–	–	–	–	–	–	(2,876)	–	–	(2,876)
Acquisition of additional interest in a subsidiary	–	–	–	–	–	–	–	–	–	–	(2,499)	(2,499)
Recognition of equity-settled share based payments	–	–	–	–	–	–	–	1,783	1,783	3,565	–	5,348
Increase in minority interests arising from deemed disposal of a subsidiary	–	–	–	–	–	–	–	–	–	–	73,008	73,008
At 30 June 2006	4,851	160,200	587,012	(4,281)	–	4,474	187,052	1,783	941,091	3,565	208,950	1,153,606

The statutory reserve of the Group represents reserve required by the relevant People's Republic of China ("PRC") laws applicable to the Company's PRC subsidiaries.

The contributed surplus represented the net balance after setting off accumulated losses of the Company as at 1 April 2002 from reduced share capital and cancelled share premium of the Company in accordance with the Company's capital reorganisation in September 2002.

Consolidated Cash Flow Statement

For the year ended 30 June 2006

	NOTES	1.7.2005 to 30.6.2006 HK$'000	1.4.2004 to 30.6.2005 HK$'000 (Restated)
Operating activities			
Profit (loss) before taxation		**135,356**	(50,544)
Adjustments for:			
Equity-settled share based payments		**5,348**	–
Loss on disposal of property, plant and equipment		**595**	108
Depreciation of property, plant and equipment		**35,905**	43,118
Charge of prepaid lease premium for land		**2,334**	1,999
Change in fair value derivative financial instruments		**(79,146)**	–
Write down of inventories		**7,925**	2,993
Allowance for doubtful debts		**3,956**	23,491
Impairment loss on property, plant and equipment		**–**	14,000
Impairment loss recognised in respect of goodwill		**–**	16,212
Share of results of associates		**(236)**	(289)
Share of result of a jointly controlled entity		**(10)**	–
Gain on deemed disposal of a subsidiary		**(19,576)**	(1,845)
Gain on disposal of subsidiaries		**–**	(797)
Discount on acquisition of a subsidiary		**(892)**	–
Loss on disposal of subsidiaries		**–**	7,502
Interest income		**(9,651)**	(8,421)
Finance costs		**36,565**	32,134
Operating cash flows before movements in working capital		**118,473**	79,661
Increase in inventories		**(74,078)**	(60,198)
Decrease in television programmes and sub-licensing rights		**540**	2,546
Increase in debtors, deposits and prepayments		**(109,907)**	(62,756)
Increase in bills receivable		**(29,112)**	(1,672)
Increase in creditors and accrued charges		**55,599**	11,442
Increase (decrease) in bills payable		**79,562**	(18,616)
Cash generated from (used in) operations		**41,077**	(49,593)
Hong Kong Profits Tax refund (paid)		**2,331**	(448)
Taxation in other jurisdictions paid		**(11,080)**	(10,952)
Net cash from (used in) operating activities		**32,328**	(60,993)

Consolidated Cash Flow Statement *(continued)*

For the year ended 30 June 2006

	NOTES	1.7.2005 to 30.6.2006 HK$'000	1.4.2004 to 30.6.2005 HK$'000 (Restated)
Investing activities			
Interest received		**9,651**	8,421
Purchase of property, plant and equipment		**(56,766)**	(25,442)
Additions of prepaid lease premium for land		**(10,914)**	–
Prepayment for property, plant and equipment		**(192,495)**	–
Net settlement of derivative financial instruments		**75,855**	–
Proceeds from disposal of property, plant and equipment		**–**	100
Acquisition of subsidiaries	32	**–**	4,642
Purchase of additional shares of listed subsidiary		**(1,607)**	–
Proceeds from placement of shares of a listed subsidiary		**92,584**	24,098
Proceeds from disposal of subsidiaries	32 & 33	**–**	13,292
Capital contribution to a jointly controlled entity		**(17,475)**	–
Increase in pledged deposits		**(18,849)**	(20,224)
Net cash (used in) from investing activities		**(120,016)**	4,887
Financing activities			
Interest paid on bank borrowings		**(35,421)**	(26,930)
Interest paid on finance leases		**(184)**	(385)
Proceeds from issue of shares		**93,000**	32,889
Proceeds from issue of convertible notes		**77,600**	–
Expenses incurred in connection with the issue of shares		**(2,876)**	(8,033)
Repurchase of shares		**(250)**	–
Repayment of obligations under finance leases		**(1,525)**	(2,854)
New bank loans raised		**453,617**	348,917
Repayment of bank loans		**(325,369)**	(370,223)
New trust receipt loans raised		**1,001,467**	1,072,542
Repayment of trust receipt loans		**(927,972)**	(973,116)
New invoice financing loans raised		**28,066**	224,875
Repayment of invoice financing loans		**(55,866)**	(243,993)
Net additions of other loans		**737**	1,163
Dividends paid to a minority shareholder		**–**	(2,616)
Net cash from financing activities		**305,024**	52,236

	NOTES	1.7.2005 to 30.6.2006 HK$'000	1.4.2004 to 30.6.2005 HK$'000 (Restated)
Net increase (decrease) in cash and cash equivalents		**217,336**	(3,870)
Cash and cash equivalents at beginning of the year/period		**139,491**	143,455
Effect of foreign exchange rate changes		**1,401**	(94)
Cash and cash equivalents at end of the year/period		**358,228**	139,491
Analysis of the balances of cash and cash equivalents			
Being:			
Bank balances and cash		**358,508**	140,806
Bank overdrafts		**(280)**	(1,315)
		358,228	139,491

Notes to the Financial Statements

For the year ended 30 June 2006

1. General

The Company is an exempted company with limited liability incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the register office and principal place of business of the Company are disclosed in Corporate Information in the annual report.

The Company is an investment holding company. Its subsidiaries are principally engaged in the manufacture and trading of cables and wires, copper rods, connectors and terminals, life-like plants and production, distribution and licensing of television programmes. Its associate is principally engaged in the manufacture of optical fibre cable and its major jointly controlled entity is engaged in the manufacture and sales of copper wires.

The financial statements are presented in Hong Kong dollars, which is the functional currency of the Company.

During the last period, the Directors resolved to change the financial year end date of the Company and its subsidiaries (the "Group") from 31 March to 30 June in order to allow the Group to prepare and update its financial results on semi-annual basis as most members of the Group are in the People's Republic of China (the "PRC") having year end date of 31 December. As a result, the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement of the Group for the prior period covered the 15 months period ended 30 June 2005 and the current period covered the 12 months year ended 30 June 2006, and therefore may be not comparable.

2. Adoption of New/Revised Hong Kong Financial Reporting Standards/Changes in Accounting Policies

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations ("INTs") (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1 January 2005 except for HKFRS 3 "Business combinations", HKAS 36 "Impairment of assets" and HKAS 38 "Intangible assets" which the Group had early adopted in the accounting period ended 30 June 2005. The application of the other new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting polices in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented:

Owner-occupied leasehold interest in land

The Group has land use rights in the People's Republic of China (the "PRC"), with buildings erected on them for manufacturing purposes. In previous years, these property interests were included in property, plant and equipment and measured using the revaluation model. Under HKAS 17 "Leases", the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. The Group has resolved to state the buildings at cost and amortised over the lease term on a straight-line basic and reversed the amount held in the asset revaluation reserve and corresponding deferred taxation accordingly. This change in accounting policy has been applied retrospectively. (See note 2A for the financial impact).

2. Adoption of New/Revised Hong Kong Financial Reporting Standards/Changes in Accounting Policies (continued)

Financial instruments

In the current year, the Group has applied HKAS 32 "Financial instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. The application of HKAS 32 has had no material effect on the presentation of financial instruments in the financial statements of the Group. HKAS 39, which is effective for accounting periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". The classification depends on the purpose for which the assets are acquired. "Financial assets at fair value through profit or loss" and 'available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

Derivative financial instruments

By 30 June 2005, the Group's derivative financial instruments, mainly comprised future contracts, foreign exchange forward contracts and interest rates swaps, were previously recorded off balance sheet. Realised gain or loss of these derivative financial instruments were recognised in the income statement on settlement date, except for net interest on interest rate swaps, which were previously accounted for on an accrual basis.

From 1 July 2005 onwards, HKAS 39 requires derivative financial instruments that are within the scope of HKAS 39 to be carried at fair value at each balance sheet date, regardless of whether they are designated as effective hedging instruments. Derivatives (including embedded derivatives separately accounted for from non-derivative host contracts) are deemed as held for trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. Derivative financial instruments that do not qualify for hedge accounting are deemed as investments held for trading. Changes in fair value of such derivative financial instruments are recognised in profit or loss as they arise. The Group has applied the relevant transitional positions in HKAS 39. As a result, certain options embedded in the convertible notes are separately accounted for and recorded as derivative financial instruments in the balance sheet, with changes in fair value recognised in the income statement. (See note 2A for the financial impact).

Convertible notes

The principal impact of HKAS 32 and HKAS 39 on the Group is in relation to convertible notes issued by the Company. HKAS 32 requires an issuer of a compound financial instrument that contains both financial liability and equity components to separate the compound financial instrument into the liability and equity components on initial recognition and to account for these components separately, except in the case that the settlement were not at fixed amount for a fixed number of equity instrument, which HKAS 39 requires the issuer to recognise the compound financial instrument in the form of financial liability with embedded derivatives. HKAS 39 requires derivatives embedded in a non-derivatives host contract to be accounted for separately when the economic risks and characteristics are not closely related to those host contract and the host contract is not carried at fair value through profit or loss. The Group has applied HKAS 32 and HKAS 39 on the convertible bonds issued by the Company in current accounting year and the embedded derivatives on the convertible notes. The fair value of options embedded in convertible notes issued during the year is HK$12,492,000 and there is no change in fair value between the date of grant and the balance sheet date.

2. Adoption of New/Revised Hong Kong Financial Reporting Standards/Changes in Accounting Policies (continued)

Financial instruments (continued)

Derecognition

HKAS 39 provides more rigorous criteria for the derecognition of financial assets than the criteria applied in previous periods. Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualified for derecognition is made by applying a combination of risks and rewards and control tests. The Group has applied the relevant transitional provisions and applied the revised accounting policy prospectively for transfers of financial assets on or after 1 July 2005. As a result, the Group's bills receivable with full recourse which derecognised prior to 1 July 2005 have not been restated. As at 30 June 2006, the Group's bills receivable with recourse have not been derecognised. Instead, the related borrowings of HK$24,696,000 have been recognised on the balance sheet date. The change has had no material effect on the results for the current year.

Share-based payments

In the current period, the Group has applied HKFRS 2 "Share-based Payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of employees' and other eligible parties' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1 July 2005. In relation to share options granted before 1 July 2005, the Group has not applied HKFRS 2 to share options granted after 7 November 2002 and had vested before 1 July 2005 in accordance with the relevant transitional provisions. However, the Group is still required to apply HKFRS 2 retrospectively to share options that were granted after 7 November 2002 and had not yet vested on 1 July 2005. For share options that were granted after 7 November 2002 and fully vested before 1 July 2005, no prior period adjustments are made. For the share options that were granted by the listed subsidiary on 1 April 2005, 11,806,000 out of 12,956,000 share options had been vested before 1 July 2005 and no prior period adjustments are made accordingly. For the remaining 1,150,000 share options which have not been vested on 1 July 2005, the Group considered the effect is not significant and no prior period adjustments are made. For the share options that were granted during the year, the fair value of share options has been expensed in the income statement over the vesting period. (See not 2A for the financial impact).

2A. Summary of the Effects of the Changes in Accounting Policies

(i) The effects of the changes in accounting policies on the results for the year ended 30 June 2006 are as follows:

	Effect of adopting			
	HKAS 17	**HKAS 39**	**HKFRS 2**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
(Decrease) increase in profit for the year:				
General and administrative expenses	(153)	–	(5,348)	(5,501)
Changes in fair value of derivative financial instruments	–	4,585	–	4,585
Profit before taxation	(153)	4,585	(5,348)	(916)
Taxation	–	(802)	–	(802)
Profit for the year	(153)	3,783	(5,348)	(1,718)

(ii) The effects of the changes in accounting policies on the results for the period ended 30 June 2005 are as follows:

	Effect of adopting HKAS 17
	HK$'000
Increase in loss for the period:	
General and administrative expenses	476
Loss before taxation	476
Taxation	–
Loss for the period	476

2A. Summary of the Effects of the Changes in Accounting Policies (continued)

(iii) The cumulative effects of the changes in accounting policies on the consolidated balance sheet as at 30 June 2005 and 1 July 2005 are summarised below:

	As at 30 June 2005 (originally stated) HK$'000	**HKAS 17 Adjustments** HK$'000	**As at 30 June 2005 (restated)** HK$'000	**HKAS 39 Adjustments** HK$'000	**As at 1 July 2005 (restated)** HK$'000
Property, plant and equipment	498,460	(115,801)	382,659	–	382,659
Prepaid lease payments for land	–	83,516	83,516	–	83,516
Derivative financial assets	–	–	–	4,866	4,866
Derivative financial liabilities	–	–	–	(3,572)	(3,572)
Deferred tax liabilities	(14,867)	3,414	(11,453)	–	(11,453)
	483,593	(28,871)	454,722	1,294	456,016
Asset revaluation reserve	33,202	(33,202)	–	–	–
Retained profits	99,904	6,145	106,049	2,147	108,196
Minority interests	105,644	(1,814)	103,830	(853)	102,977
Total	238,750	(28,871)	209,879	1,294	211,173

(iv) The financial effects of the application of the new HKFRSs to the Group's equity on 1 April 2004 are summarised below:

	As originally stated HK$'000	**HKAS 17 Adjustments** HK$'000	**As restated** HK$'000
Asset revaluation reserve	22,814	(22,814)	–
Retained profits	159,875	6,833	166,708
Minority interests	14,026	–	14,026
Total effects on equity	196,715	(15,981)	180,734

2B. Potential Impact Arising on the New or Revised Accounting Standards not yet Effective

The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective. The Group has not already commenced an assessment of the impact of these new or revised standards, amendments and interpretations on the financial position of the Group. The Group anticipates that the applications of these new or revised standards, amendments and interpretations would not have significant impact on the result and the financial position of the Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	The effects of change in foreign exchange rate – net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC)-INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC)-INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC)-INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment[3]
HK(IFRIC)-INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economics[4]
HK(IFRIC)-INT 8	Scope of HKFRS 2[5]
HK(IFRIC)-INT 9	Reassessment of embedded derivatives[6]
HK(IFRIC)-INT 10	Interim financial reporting and impairment[7]

1 Effective for annual periods beginning on or after 1 January 2007.
2 Effective for annual periods beginning on or after 1 January 2006.
3 Effective for annual periods beginning on or after 1 December 2005.
4 Effective for annual periods beginning on or after 1 March 2006.
5 Effective for annual periods beginning on or after 1 May 2006.
6 Effective for annual periods beginning on or after 1 June 2006.
7 Effective for annual periods beginning on or after 1 November 2006.

3. Significant Accounting Policies

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

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to the balance sheet date.

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

All inter-company transactions and balances within the Group have been 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 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.

Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("Discount on acquisition")

A discount on acquisition arising on an acquisition of a subsidiary represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combinations. Discount on acquisition is recognised immediately in profit or loss.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

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

Income from the licensing and sub-licensing of Television programme is recognised, upon the delivery of master tapes to customers.

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

Dividend income from investments is recognised when the Group's right to receive payment has been established.

Borrowing costs

All borrowing costs are expensed and included in finance costs in the income statement in the period in which they are incurred.

3. Significant Accounting Policies (continued)

Property, plant and equipment

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

Depreciation is provided to write off the cost of property, plant and equipment other than construction in progress and leasehold improvement over their estimated useful lives.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Buildings are depreciated over the shorter of the term of the lease or fifty years using the straight-line method.

Leasehold improvement are depreciated over the shorter of the term of the lease or their estimated useful life under straight-line method.

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 income statement in the year in which the item is derecognised.

Interests in associates

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

Where a group entity transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the associate, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Prepaid lease payments on land use right

Prepaid lease payments on land use rights are stated at cost less subsequent accumulated amortisation and any accumulated impairment losses. The costs of prepaid lease payments on land use rights are amortised on a straight-line basis over the term of the land use right of the relevant company.

3. Significant Accounting Policies (continued)

Impairment of assets

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, impairment losses are recognised in the consolidated income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) 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 (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately as profit or loss.

Interests in jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Inventories

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

Television programmes and sub-licensing rights

Television programmes ("TV programmes")

TV programmes produced by the Group are stated at the lower cost and net realisable value. Costs represent the carrying amount transferred from TV programmes in progress upon completion.

Sub-licensing rights

Licence fees paid to acquire the rights for the sub-licensing of TV programmes produced by third parties in specified geographical areas and time periods are accounted for as sub-licensing rights. Upon the lease of these purchased TV programmes, the relevant portion of the licence fees are charged to the income statement on a systematic basis, with reference to the projected revenue and the underlying licence periods.

Borrowing costs

All borrowing costs are expensed and included in finance costs in the income statement in the period in which they are incurred.

3. Significant Accounting Policies (continued)

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 period. Taxable profit differs from profit as reported in the 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 bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Research and development expenditure

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

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

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

Leases

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

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

3. Significant Accounting Policies (continued)

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised as profit or loss in the period in which they arise. Exchange differences arising on the translation of non-monetary items carried at fair value are included as profit or loss.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (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 as profit or loss in the period in which the foreign operation is disposed of.

Retirement benefits schemes

Payments to defined contribution retirement benefit plans and the Mandatory Provident Fund Scheme are charged as an expense as they fall due.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated balance sheet when the Group 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 and 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 as profit or loss.

The Group's financial assets mainly include loans and receivables.

Loan 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 debtors, deposits, bills receivable, notes receivable and bank deposits) are carried at amortised cost using the effective interest method, less any identified impairment loss. An impairment loss is recognised as profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. Significant Accounting Policies (continued)

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Borrowings

Bank borrowings are subsequently measured at amortised cost, using the effective interest method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings.

Convertible notes

Convertible notes issued by the Company, which settlements were not at fixed amount for a fixed number of equity instruments, are recognised as compound financial instruments in form of financial liability with embedded derivatives. At the date of issue, the liability component of convertible notes is recognised at fair value and is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible loan notes and the fair value assigned to the liability component, representing the embedded call option for the holder to convert the loan notes into ordinary shares of the Company.

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method.

Other financial liabilities

Other financial liabilities including creditors and bills payable 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.

Derivatives not qualified for hedging

Derivatives that do not qualify for hedge accounting are deemed as financial assets/financial liabilities held for trading and are measured at fair value with fair value changes recognised in profit or loss except for derivative instruments which are linked to and must be settled by delivery of unquoted equity instruments whose fair value cannot be reliably measured and such derivative instruments are stated at cost less impairment, if applicable.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are separated from the relevant host contracts and deemed as held-for-trading when the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contracts, and the combined contracts are not measured at fair value through profit or loss.

Derivatives financial instruments is initially measured at fair value on the contract date, and is remeasured to fair value at subsequent reporting date.

3. Significant Accounting Policies (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 the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet (i.e. 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 received or receivable is recognised in profit or loss.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees of the Company

For the share options that were granted after 1 July 2005, the fair value of share options has been recognised in the income statement as share based payments.

The fair value of services received 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 or recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in 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 or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained earning.

Share options granted to others

Share options issued in exchange for goods or services are measured at the fair values the goods or services received unless that fair value cannot be estimated reliably, in which case the fair value is estimated by reference to the fair value of the share options. The fair values of the goods or services received are recognised as expenses on a straight-line basis over the period of service, unless the goods or services qualify for recognition as assets. Corresponding adjustment has been made to share option reserve.

4. Key Sources of Estimation Uncertainty

In the process of applying the Group's accounting policies, which are described in note 3, the Group has made the following judgements that have significant effect on the amounts recognised in the financial statements.

The Group makes estimates and assumptions concerning the future in preparing accounting estimates. The resulting accounting estimates may not equal to the actual results. The key estimates and assumptions that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed as below.

Fair value estimation

The fair value of derivative financial instruments and convertible notes is estimated by reference to the valuations carried out by banks, financial institute or professional valuers. Such valuation was based on assumptions using available market data. Any change in the assumptions will have an impact to the financial position in future.

5. Financial Risk Management Objectives and Policies

The Group's major financial instruments include debtors, deposits, bills receivable, derivative financial assets and liabilities, creditors, bills payable and 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 Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Foreign currency risk

Most of the Group's assets and liabilities are denominated in Hong Kong dollars, United States dollars and Renminbi which are the functional currencies of respective group companies. The Group does not expect any significant exposure to foreign currency risks.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations 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 credit risk, the Group has policies in place for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the credit risk is significantly reduced.

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

The Group is exposed to credit risk of notes receivable in the event of the notes issuer's failure to settle the outstanding balance of notes receivable of HK$55,000,000. In light of this, the Group has closely monitored the financial position of the notes issuer to ensure that adequate impairment loss has been made. As the directors of the Company consider that the notes have not been matured at the balance sheet date and there are no indications of deteriorations in the financial position of the note issuer, no impairment loss has been recognised at the balance sheet date.

The credit risk on liquid funds is limited because the counterparts are banks with high credit-ratings assigned by international credit-rating agencies.

Cash flow and fair value interest rate risk

Cash flow interest rate risk is the risk that the cash flows of the financial instruments will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of the financial instruments will fluctuate because of changes in market interest rates. The Group is exposed to cash flow interest rate risk which relates primarily to the Group's floating rate bank borrowings. It is the Group's policy to maintain borrowings at market interest rate and to restrict the exposable to fair value interest rate risk.

Copper price risk

The Group is exposed to price risk of copper cathodes, which are the major raw materials for the production process. To mitigate the copper price risk, the Group has entered into future copper contracts to hedge against the fluctuations of copper price. Details of the copper future contracts outstanding at balance sheet date are set out in note 29.

6. Turnover

Turnover represents the amounts received and receivable for goods sold to outside customers, net of returns and discounts and income from licensing of television programme, during the year.

7. Segmental Information

Business segments

For management purposes, the Group is currently organised into four principal operating divisions - manufacture and trading of cables and wires, copper rods, connectors and terminals and life-like plants. Others mainly comprised of the manufacturing and trading of chemical good. These divisions are the bases on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

For the year ended 30 June 2006

	Cables and wires HK$'000	Copper rods HK$'000	Connectors and terminals HK$'000	Life-like plants HK$'000	Others HK$'000	Elimination HK$'000	Unallocated HK$'000	Consolidated HK$'000
TURNOVER								
External sales	653,271	1,209,150	139,897	87,605	25,625	–	–	2,115,548
Inter-segment sales	94,460	215,300	1,284	–	–	(311,044)	–	–
Total sales	747,731	1,424,450	141,181	87,605	25,625	(311,044)	–	2,115,548

Inter-segment sales are charged at cost.

	Cables and wires HK$'000	Copper rods HK$'000	Connectors and terminals HK$'000	Life-like plants HK$'000	Others HK$'000	Elimination HK$'000	Unallocated HK$'000	Consolidated HK$'000
RESULT								
Segment result	9,837	142,205	5,372	1,479	1,504			160,397
Unallocated corporate income	–	–	–	–	–	–	7,642	7,642
Unallocated corporate expenses	–	–	–	–	–	–	(25,821)	(25,821)
Change in fair value of derivative financial instruments	–	–	–	–	–	–	8,989	8,989
Finance costs	–	–	–	–	–	–	–	(36,565)
Share of results of associates	236	–	–	–	–	–	–	236
Share of result of jointly controlled entities	–	10	–	–	–	–	–	10
Discount on acquisition of subsidiaries	–	892	–	–	–	–	–	892
Gain on deemed disposal of subsidiaries	–	19,576	–	–	–	–	–	19,576
Profit before taxation								135,356
Taxation								(21,354)
Profit for the year								114,002

7. Segmental Information (continued)

Business segments (continued)

At 30 June 2006

	Cables and wires HK$'000	Copper rods HK$'000	Connectors and terminals HK$'000	Life like plants HK$'000	Others HK$'000	Consolidated HK$'000
BALANCE SHEET						
Assets						
Segment assets	863,312	855,488	83,681	100,041	48,684	1,951,206
Interests in associates	10,509	–	–	–	–	10,509
Interests in jointly controlled entities	17,485	–	–	–	–	17,485
Unallocated corporate assets						140,012
Consolidated total assets						2,119,212
Liabilities						
Segment liabilities	111,374	144,730	23,248	14,469	6,736	300,557
Unallocated corporate liabilities						665,049
Consolidated total liabilities						965,606

OTHER INFORMATION

	Cables and wires HK$'000	Copper rods HK$'000	Connectors and terminals HK$'000	Life like plants HK$'000	Others HK$'000	Unallocated HK$'000	Consolidated HK$'000
Capital additions	23,687	29,296	2,813	256	714	–	56,766
Depreciation	20,889	8,073	2,522	1,934	2,487	–	35,905
Allowance for doubtful debts	3,956	–	–	–	–	–	3,956
Write down of inventories	7,925	–	–	–	–	–	7,925

7. Segmental Information (continued)

Business segments (continued)

For the period 1 April 2004 to 30 June 2005 (Restated)

	Cables and wires HK$'000	Copper rods HK$'000	Connectors and terminals HK$'000	Life-like plants HK$'000	Others HK$'000	Elimination HK$'000	Unallocated HK$'000	Consolidated HK$'000
TURNOVER								
External sales	807,486	1,041,881	147,708	40,710	18,503	–	–	2,056,288
Inter-segment sales	11,765	191,329	679	–	–	(203,773)	–	–
Total sales	819,251	1,233,210	148,387	40,710	18,503	(203,773)	–	2,056,288

Inter-segment sales are charged at cost.

	Cables and wires HK$'000	Copper rods HK$'000	Connectors and terminals HK$'000	Life-like plants HK$'000	Others HK$'000	Elimination HK$'000	Unallocated HK$'000	Consolidated HK$'000
RESULT								
Segment result	(29,823)	40,587	13,608	2,557	(21,322)			5,607
Unallocated corporate income	–	–	–	–	–	–	5,901	5,901
Unallocated corporate expenses	–	–	–	–	–	–	(8,338)	(8,338)
Finance costs	–	(20,167)	–	(146)	(3,312)	–	(8,509)	(32,134)
Impairment loss recognised in respect of goodwill	–	–	–	(16,212)	–	–	–	(16,212)
Share of results of associates	289	–	–	–	–	–	–	289
Loss on disposal of subsidiaries	–	–	–	(7,502)	–	–	–	(7,502)
Gain on deemed disposal of a subsidiary	–	1,845	–	–	–	–	–	1,845
Loss before taxation								(50,544)
Taxation								(10,504)
Loss for the period								(61,048)

7. Segmental Information (continued)

Business segments (continued)

At 30 June 2005 (Restated)

	Cables and wires HK$'000	Copper rods HK$'000	Connectors and terminals HK$'000	Life like plants HK$'000	Others HK$'000	Consolidated HK$'000
BALANCE SHEET						
Assets						
Segment assets	639,233	462,378	68,347	107,805	48,191	1,325,954
Interests in associates						9,885
Unallocated corporate assets						87,696
Consolidated total assets						1,423,535
Liabilities						
Segment liabilities	81,937	30,328	16,112	19,225	10,431	158,033
Unallocated corporate liabilities						404,896
Consolidated total liabilities						562,929

OTHER INFORMATION

	Cables and wires HK$'000	Copper rods HK$'000	Connectors and terminals HK$'000	Life like plants HK$'000	Others HK$'000	Unallocated HK$'000	Consolidated HK$'000
Capital additions	15,329	7,151	2,791	1,222	1,731	100	28,324
Depreciation	21,840	10,357	2,594	3,183	5,136	8	43,118
Allowance for (reversal of) doubtful debts	23,716	(3,825)	–	14	3,586	–	23,491
Write down of inventories	2,993	–	–	–	–	–	2,993
Impairment loss recognised in respect of property, plant and equipment	–	–	–	–	14,000	–	14,000

7. Segmental Information (continued)

Geographical segments

The Group's operations are located in Hong Kong, the PRC, North America, Europe and other Asian regions.

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

	Turnover by geographical market	
	1.7.2005 to 30.6.2006 HK$'000	1.4.2004 to 30.6.2005 HK$'000
PRC	**1,705,297**	1,501,303
North America	**188,098**	222,807
Europe	**38,013**	41,023
Hong Kong	**38,645**	94,375
Other Asian regions	**145,495**	196,780
	2,115,548	2,056,288

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

	Carrying amount of segment assets		Additions to property plant and equipment	
	2006 HK$'000	2005 HK$'000	**1.7.2005 to 30.6.2006 HK$'000**	1.4.2004 to 30.6.2005 HK$'000
PRC	**1,280,295**	795,554	**47,123**	23,623
Hong Kong	**654,394**	526,202	**7,253**	1,849
North America	**52,411**	35,268	**–**	61
Other Asian regions	**77,112**	66,491	**2,390**	2,791
	2,064,212	1,423,515	**56,766**	28,324

8. Profit (Loss) Before Taxation

	1.7.2005 to 30.6.2006 HK$'000	1.4.2004 to 30.6.2005 HK$'000 (Restated)
Profit (loss) before taxation has been arrived at after charging:		
Auditors' remuneration		
Current year	**2,546**	2,158
Underprovision in prior years	**74**	–
	2,620	2,158
Depreciation of property, plant and equipment		
Owned assets	**35,370**	42,412
Assets held under finance leases	**535**	706
	35,905	43,118
Charge of prepaid lease premium for land	**2,334**	1,999
Cost of inventories recognised as an expenses	**1,801,430**	1,722,804
Operating lease rentals in respect of rented premises	**5,677**	5,725
Staff costs including directors' emoluments	**94,889**	114,605
Research and development expenditure	**2,158**	3,579
Exchange loss, net	**–**	250
Loss on disposal of property, plant and equipment	**595**	108
Write down of inventories	**7,925**	2,993
Impairment on property, plant and equipment	**–**	14,000
Share-based payment expense	**5,348**	2,200
and after crediting:		
Exchange gain	**5,022**	–
Interest on bank deposits	**5,019**	4,221
Interest on notes receivables	**4,632**	4,200

9. Emoluments of Directors and Five Highest Paid Individuals

Particulars of the emoluments of the directors and the five highest paid individuals for the year/period were as follows:

Name of Director	Fees HK$'000	Salaries and other benefits HK$'000	Retirement benefit scheme contributions HK$'000	1.7.2005 to 30.6.2006 Total HK$'000	1.4.2004 to 30.6.2005 Total HK$'000
Mr. Chau Lai Him	–	5,027	18	**5,045**	3,975
Mr. Zhou Jin Hua	–	1,200	–	**1,200**	2,417
Mr. Lau Man Tak	–	1,418	12	**1,430**	1,775
Mr. Liu Jiu Rong	–	102	–	**102**	119
Mr. Lo Kao Cheng	–	–	–	**–**	–
Mr. Lo Wai Ming	96	–	–	**96**	120
Mr. Chung Kam Kwong	160	–	–	**160**	101
Total	256	7,747	30	**8,033**	8,507

The five highest paid individuals of the Group include three (period ended 30 June 2005: three) executive directors of the Company, details of whose emoluments are included above. The emoluments of the remaining two (period ended 30 June 2005: two) individuals for the period ended 30 June 2006 were as follows:

	1.7.2005 to 30.6.2006 HK$'000	1.4.2004 to 30.6.2005 HK$'000
Salaries and other benefits	**1,500**	1,795
Performance related incentive payments	**91**	76
Contributions to retirement benefits schemes	**114**	125
	1,705	1,996

Emoluments of these individuals were within the following bands:

	Number of employees 1.7.2005 to 30.6.2006	1.4.2004 to 30.6.2005
Nil – HK$1,000,000	**1**	1
HK$1,000,001 – HK$1,500,000	**1**	1

10. Finance Costs

	1.7.2005 to 30.6.2006 HK$'000	1.4.2004 to 30.6.2005 HK$'000
Interest on bank and other borrowings wholly repayable within five years	**35,421**	31,749
Interest on finance leases	**184**	385
Imputed interest on convertible notes	**960**	–
	36,565	32,134

11. Taxation

	1.7.2005 to 30.6.2006 HK$'000	1.4.2004 to 30.6.2005 HK$'000 (Restated)
Hong Kong Profits Tax		
Current year/period	**5,139**	–
Under(over) provision in respect of prior years	**1,760**	(307)
Taxation in other jurisdictions		
Current year/period	**5,640**	9,152
Under (over) provision in respect of prior years	**274**	(1,044)
	12,813	7,801
Deferred taxation (Note 28)		
Current year/period	**8,541**	2,703
	21,354	10,504

Hong Kong Profits Tax is calculated at 17.5% (period ended 30 June 2005: 17.5%) of the estimated assessable profit for the year/period.

Taxation in other jurisdictions is calculated at the rates applicable in the respective jurisdictions.

11. Taxation (continued)

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

	1.7.2005 to 30.6.2006 HK$'000	1.4.2004 to 30.6.2005 HK$'000
Profit (Loss) before taxation	**135,356**	(50,544)
Tax at the domestic income tax rate of 27% (2005: 27%)	**36,546**	(13,647)
Tax effect of expenses not deductible for tax purpose	**1,273**	24,389
Tax effect of income not taxable for tax purpose	**(8,216)**	(2,651)
Tax effect of tax losses not recognised	**–**	1,815
Utilisation of tax losses previously not recognised	**(6,281)**	(3,702)
Income tax on concessionary rate	**–**	4,375
Under (over) provision in respect of prior years	**2,034**	(1,351)
Others	**(65)**	(715)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(3,873)**	2,069
Share of tax effect of associate	**(64)**	(78)
Tax charge for the year/period	**21,354**	10,504

The domestic tax rate of principal subsidiaries in the PRC is used as it is where the operation of the Group is substantially based.

12. Dividends

	1.7.2005 to 30.6.2006 HK$'000	1.4.2004 to 30.6.2005 HK$'000
Proposed final dividend in respect of year 2005/2006 at HK4 cents per share (2004/2005: Nil)	**19,403**	–

The final dividend in respect of 2005/2006 of HK4 cents per share has been proposed by the Directors and is subject to approval by shareholders at the annual general meeting.

13. Earning (Loss) Per Share

The calculation of the basic earning (loss) per share is based on the following data:

	1.7.2005 to 30.6.2006 HK$'000	1.4.2004 to 30.6.2005 HK$'000 (Restated)
Results for the year/period attributable to equity owners of parents for the purpose of basic earnings (loss) per share	**78,856**	(60,659)
Imputed interest on convertible notes	**960**	–
Earnings (loss) for the purposes of diluted earnings per share	**79,816**	(60,659)

	Number of shares 1.7.2005 to 30.6.2006	Number of shares 1.4.2004 to 30.6.2005
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	**403,575,321**	320,138,287
Effect of dilutive potential ordinary shares:		
Share options	**11,908,534**	–
Convertible notes	**10,050,311**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**425,534,166**	320,138,287

The effect of potential ordinary shares in respect of share options of the listed subsidiary is anti-dilutive.

The prior period adjustments as mentioned in note 2 have no significant impact on the earnings per share.

14. Property, Plant and Equipment

	Construction in progress HK$'000	Buildings HK$'000	Leasehold improvements HK$'000	Equipment, furniture and fixtures HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Total HK$'000
THE GROUP							
COST OR VALUATION							
At 1 April 2004 – as originally stated	–	230,662	17,266	62,456	331,459	16,030	657,873
– effect of changes in accounting policies (note 2)	–	(27,276)	–	–	–	–	(27,276)
– as restated	–	203,386	17,266	62,456	331,459	16,030	630,597
Currency realignment	–	–	(2)	(15)	(25)	–	(42)
Additions	14,944	2,284	1,066	2,838	5,363	1,829	28,324
Acquired on acquisition of subsidiaries	–	47,540	–	2,023	8,088	172	57,823
Disposals	–	–	(4)	(47)	–	(934)	(985)
Disposed on disposal of subsidiaries	–	(18,618)	–	(300)	–	–	(18,918)
At 30 June 2005	14,944	234,592	18,326	66,955	344,885	17,097	696,799
Currency realignment	586	7,834	525	1,393	5,822	144	16,304
Additions	28,193	6,225	6,666	2,938	8,597	4,147	56,766
Reclassification	–	–	–	2,439	(2,439)	–	–
Disposals	–	–	–	–	–	(2,625)	(2,625)
At 30 June 2006	43,723	248,651	25,517	73,725	356,865	18,763	767,244

14. Property, Plant and Equipment (continued)

	Construction in progress HK$'000	Buildings HK$'000	Leasehold improvements HK$'000	Equipment, furniture and fixtures HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Total HK$'000
DEPRECIATION, AMORTISATION AND IMPAIRMENT							
At 1 April 2004, as originally stated	–	–	6,267	39,768	143,984	9,139	199,158
Effect of changes in accounting policies (note 2)	–	59,132	–	–	–	–	59,132
as restated	–	59,132	6,267	39,768	143,984	9,139	258,290
Currency realignment	–	–	(2)	(10)	(11)	–	(23)
Provided for the period	–	9,370	1,728	6,798	23,204	2,018	43,118
Impairment loss recognised	–	–	–	–	14,000	–	14,000
Eliminated on disposals	–	–	(3)	(44)	–	(730)	(777)
Eliminated on disposal of subsidiaries	–	(322)	–	(146)	–	–	(468)
At 30 June 2005	–	68,180	7,990	46,366	181,177	10,427	314,140
Currency realignment	–	2,584	211	969	3,355	61	7,180
Provided for the year	–	8,972	1,459	4,652	19,065	1,757	35,905
Reclassification	–	–	–	1,268	(1,268)	–	–
Eliminated on disposals	–	–	–	–	–	(2,030)	(2,030)
At 30 June 2006	–	79,736	9,660	53,255	202,329	10,215	355,195
CARRYING VALUES							
At 30 June 2006	43,723	168,915	15,857	20,470	154,536	8,548	412,049
At 30 June 2005	14,944	166,412	10,336	20,589	163,708	6,670	382,659

14. Property, Plant and Equipment (continued)

Buildings and leasehold improvements are depreciated over the lease terms and at 10% on a straight-line basis respectively.

Depreciation is provided to write off the cost of other property, plant and equipment over their estimated useful lives, using the reducing balance method, at the following rates per annum:

Equipment, furniture and fixtures	20%
Plant and machinery	6.67% – 20%
Motor vehicles	20% – 30%

	2006 HK$'000	2005 HK$'000
Buildings situated in the PRC		
– held under medium term leases	**165,638**	163,057
– held under long leases	**1,724**	1,763
Buildings situated in Hong Kong held under medium term leases	**1,553**	1,592
	168,915	166,412

In prior period, continuing operating losses were recorded by a subsidiary which is engaged in the manufacture and trading of chemical products in the PRC. The Directors had estimated the recoverable amount of the relevant plant and machinery employed in the manufacture of chemical products by reference to value-in-use. Based on the discounted future cash flow, the recoverable amount was less than their carrying amount. Accordingly, an impairment loss of HK$14,000,000 had been recognised in the income statement.

At 30 June 2006, the carrying value of property, plant and equipment of the Group includes plant and machinery of HK$3,928,000 (31.3.2005: HK$4,590,000) and motor vehicles of HK$696,000 (31.3.2005: HK$226,000) in respect of assets held under finance leases.

15. Prepaid Lease Payments for Land

	2006	2005
	HK$'000	HK$'000
Leasehold land under medium-lease in the PRC	**94,322**	83,516
Analysed for reporting purposes as:		
Non-current	**92,149**	81,506
Current	**2,173**	2,010
	94,322	83,516

16. Interests in Associates

	2006	2005
	HK$'000	HK$'000
Cost of unlisted investment	**490,697**	490,697
Share of post-acquisition profits and reserve, net of impairment	**(480,188)**	(480,812)
	10,509	9,885

The following list contains only the particulars of the associate at 30 June 2006 which principally affects the results of the year or form a substantial portion of the net assets or liabilities of the Group, as the directors are of the opinion that a full list of all the associates would be of excessive length.

Name of company	**Place of registration**	**Proportion of nominal value of issued capital indirectly held by the Company**	**Principal activities**
侯馬普天榮盛光纜有限公司	PRC	20%	Manufacture and trading of optical fibre cable and related products

16. Interests in Associates (continued)

The summarised financial information in respect of the Group's associates for the year ended 30 June 2006 and period ended 30 June 2005 is as follows:

	2006 HK$'000	2005 HK$'000
Total assets	**91,190**	77,890
Total liabilities	**(38,645)**	(28,465)
	52,545	49,425
Group's share of net assets of associate	**10,509**	9,885
Revenue	**81,665**	48,985
Profit for the year/period	**1,180**	1,445
Group's share of results of associate for the year/period	**236**	289

17. Interests in Jointly Controlled Entities

	2006 HK$'000	2005 HK$'000
Cost of unlisted investments	**66,626**	49,151
Share of post-acquisition profits and reserve, net of impairment	**(49,141)**	(49,151)
	17,485	–

17. Interests in Jointly Controlled Entities (continued)

Particulars of the Group's interest in the jointly controlled entities as at 30 June 2006 are as follows:

Name of company	Place of incorporation	Proportion of registered capital indirectly held by the Company	Principal activities
常州柏濤樓宇智能有限公司 Changzhou Bo Tao Lou Yu Zhi Neng Co., Ltd.	PRC	40%	Manufacture and distribution of computer network parts and components
福建金藝銅業有限公司 Fujian Jingyi Copper Products Limited	PRC	45%	Manufacture and sales of copper wires

The summarised financial information in respect of the Group's interests in the jointly controlled entities for the year ended 30 June 2006 is as follows:

	2006 **HK$'000**	2005 HK$'000
Current assets	**9,525**	–
Non-current assets	**8,151**	–
Current liabilities	**(191)**	–
Non-current liabilities	**–**	–
Income	**10**	–
Expenses	**–**	–

18. Notes Receivable

Pursuant to a sale and purchase agreement entered into between a Company's subsidiary and an independent third party in 2003, the Group had disposed of certain subsidiaries at a total consideration of HK$60,000,000 of which HK$5,000,000 was settled in cash and HK$55,000,000 will be settled by promissory notes. The notes are secured by assets owned by the notes issuer, carry interest at prime rate plus 2% per annum and are wholly repayable in June 2007.

The directors consider the carrying amount of notes receivable appropriate to its fair value.

19. Inventories

	2006 HK$'000	2005 HK$'000
Raw materials	**138,170**	111,131
Work in progress	**24,632**	23,250
Finished goods	**207,993**	170,261
	370,795	304,642

20. Television Programmes and Sub-licensing Rights

	2006 HK$'000	2005 HK$'000
Television programmes	**423**	386
Sub-licensing rights	**–**	577
	423	963

21. Debtors, Deposits and Prepayments

Included in the Group's debtors, deposits and prepayments were trade debtors of HK$368,949,000 (2005: HK$282,918,000). The Group allows an average credit period of 45 days to its trade customers.

The aging analysis of trade debtors is as follows:

	2006 HK$'000	2005 HK$'000
Within 30 days	**196,331**	164,035
31 – 60 days	**93,099**	63,875
61 – 90 days	**45,946**	32,444
Over 90 days	**33,573**	22,564
	368,949	282,918

The directors consider the carrying amounts of debtors and deposits approximate to their fair values.

22. Bills Receivable

The aging analysis of bills receivable as at 30 June 2006 and 30 June 2005 are within 90 days.

The directors consider the carrying amount of bills receivable approximates to its fair value.

23. Bank Balances and Cash

Bank balances and deposits comprise cash held by the Group and deposits with maturity of three months or less held with banks not restricted in use and carried at effective interest rates of bank balances and deposits range from 1% to 3% per annum. The carrying amounts of the Group's bank balances and cash approximates to its fair value.

24. Creditors and Accrued Charges

Included in the Group's creditors and accrued charges were trade creditors of HK$90,046,000 (2005: HK$95,752,000).

The aging analysis of trade creditors is as follows:

	2006	2005
	HK$'000	HK$'000
Within 30 days	**50,776**	51,338
31 – 60 days	**26,061**	27,522
61 – 90 days	**8,712**	14,665
Over 90 days	**4,497**	2,227
	90,046	95,752

The directors consider the carrying amount of creditors and accrued charges approximate to its fair value.

25. Bills Payable

The aging analysis of bills payable at 30 June 2006 and 30 June 2005 are within 90 days.

The directors consider the carrying amount of bills payable approximates to its fair value.

26. Obligations under Finance Leases

	Minimum lease payments		Present value of minimum lease payments	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under finance leases				
Within one year	**1,177**	2,386	**1,030**	2,144
In the second to fifth year inclusive	**2,088**	2,274	**1,649**	2,060
	3,265	4,660		
Less: Future finance charges	**(586)**	(456)		
Present value of lease obligations	**2,679**	4,204	**2,679**	4,204
Less: Amount due within one year			**(1,030)**	(2,144)
Amount due after one year			**1,649**	2,060

It is the Group's policy to lease certain of its plant and machinery and motor vehicles under finance leases. The average lease term is 4 years. For the year ended 30 June 2006, the average effective borrowing rate was 6.1% (period ended 30 June 2005: 6.1%) per annum. Interest rates were fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

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

The directors consider that carrying amounts of obligations under finance leases approximate to their fair values.

27. Borrowings/Bank Overdrafts

	2006 HK$'000	2005 HK$'000
Borrowings are analysed as follows:		
Bank loans	**79,303**	81,168
Trust receipt loans	**441,934**	234,500
Invoice financing loans	**8,284**	36,083
Other loans	**13,584**	14,279
	543,105	366,030
Bank overdrafts	**280**	1,315
	543,385	367,345
Secured	**264,996**	227,920
Unsecured	**278,389**	139,425
	543,385	367,345

All the above borrowings are repayable on demand or within one year and carried at floating interest rates.

The Directors consider that the current interest rates represent prevailing market rates and therefore, the fair values of the bank borrowings at 30 June 2006 approximate to the corresponding carrying amounts.

The average effective interest rates of the bank borrowings range from 4.7% to 9.5% (2005: 4.3% to 7.5%) per annum.

All the Group's bank borrowings are denominated in the functional currencies of the relevant group entities.

28. Deferred Taxation

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

	Accelerated tax depreciation HK$'000	Tax losses HK$'000	Allowance for doubtful debts HK$'000	Write down of inventories HK$'000	Others HK$'000	Total HK$'000
THE GROUP						
At 1 April 2004, as originally stated	14,202	(523)	(600)	(2,636)	–	10,443
Change in accounting policies (note 2)	(1,712)	–	–	–	–	(1,712)
As restated	12,490	(523)	(600)	(2,636)	–	8,731
Exchange realignment	(1)	–	–	–	–	(1)
Charge (credit) to income statement	6,163	(4,380)	426	780	(286)	2,703
At 30 June 2005	18,652	(4,903)	(174)	(1,856)	(286)	11,433
Exchange realignment	52	–	28	(72)	(8)	–
Credit to income statement for the year	2,595	4,282	–	1,563	101	8,541
At 30 June 2006	21,299	(621)	(146)	(365)	(193)	19,974

For the purpose of balance sheet presentation, the above deferred tax assets and liabilities have been offset.

	2006 HK$'000	2005 HK$'000
Deferred tax liabilities	**19,974**	11,453
Deferred tax assets	**–**	(20)
	19,974	11,433

At 30 June 2006, the Group has unused tax losses of HK$21,876,000 (2005: HK$72,742,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$1,241,000 (2005: HK$28,844,000) of such tax losses. No deferred tax asset has been recognised in respect of the remaining tax losses due to the unpredictability of future profit streams. The tax losses of HK$11,884,000 may be carried forward indefinitely and the remaining of HK$9,992,000 can be carried forward for a maximum of five years.

29. Derivative Financial Assets (Liabilities)

	2006	
	Assets	**Liabilities**
	HK$'000	**HK$'000**
Copper future contracts	**5,754**	**–**
Interest rate swap	**–**	**(803)**
Foreign exchange forward contracts	**309**	**(675)**
	6,063	**(1,478)**

Copper future contracts

At 30 June 2006, the fair value of copper future contracts of the Group which had not been designated as hedging instruments amounting to HK$5,754,000 was recognised as current assets in the balance sheet and the major terms of the outstanding contracts were as follows:

	As at 30 June 2006	As at 1 July 2005
Quantities (in tonnes)	**625**	10,525
Average price per tonne	**7,120**	3,231
Delivery period	**From August 2006 to October 2006**	From July 2005 to January 2006
Fair value gain of copper future contracts (HK$'000)	**5,754**	4,455

Interest rate swap

			Fair value loss as at	
Notional amount	**Maturity**	**Swap**	**30 June 2006**	1 July 2005
			HK$'000	HK$'000
USD5,000,000	13 September 2009	Receive structured rate	**(803)**	(3,082)
		Pay floating rate		

29. Derivative Financial Assets (Liabilities) (continued)

Forward foreign exchange contracts

Major terms of the forward foreign exchange contracts are as follows:

At 30 June 2006

Notional amount	Last expiration dates	Contracted exchange rates	Fair value gain (loss) as at 30 June 2006 HK$'000	HK$'000
US$500,000/month	15 January 2007	HK$7.73/US$1	36	–
US$300,000/month	25 May 2007	HK$7.73/US $1	–	(62)
US$1,000,000/month	5 December 2006	HK$7.758/US$1	–	(101)
US$1,000,000/month	5 July 2007	HK$7.738/US$1	–	(305)
US$500,000/month	17 January 2007	HK$7.728/US$1	259	–
US$500,000/month	2 May 2007	HK$7.73/US$1	14	–
US$1,000,000/month	6 March 2007	HK$7.725/US$1	–	(113)
US$1,000,000/month	19 September 2007	HK$7.7295/US$1	–	(94)
			309	(675)

Notional amount	Last expiration dates	Contracted exchange rates	Fair value gain (loss) as at 1 July 2005 HK$'000	HK$'000
US$1,000,000/month	5 October 2005	HK$7.75/US$1	68	–
US$1,000,000/month	5 December 2006	HK$7.758/US$1	–	(466)
US$500,000	27 October 2005	HK$7.694/US$1	35	–
US$1,000,000/month	3 February 2006	HK$7.712/US$1	308	–
US$2,000,000	5 August 2005	HK$7.7777/US$1	–	(18)
US$2,000,000	5 September 2005	HK$7.7695/US$1	–	(6)
			411	(490)

The above derivatives are measured at fair value at each balance sheet dates. Their fair values are determined based on the valuations provided by bankers at the balance sheet date.

30. Convertible Notes and Derivatives Financial Instruments

	2006 HK$'000	2005 HK$'000
Amortised cost of the debts component of convertible notes	**66,068**	–
Fair value of conversion option	**12,492**	–
	78,560	–

On 9 May 2006, the Company entered into subscription agreements with 8 investors, which are third parties independent of the Company for the issue of zero-coupon convertible notes with the maturity date being the first business day after the second anniversary from the date of issue. The aggregate principal amount of the convertible notes is US$10,000,000 (equivalent to HK$77,600,000). The subscribers are entitled to convert the convertible notes commencing on and excluding the 14th day after the issue date up to and including the date which is 14 days prior to the maturity date. In the event that the average closing price for any 30 consecutive dealing days representing 150% or more of the conversion price, the outstanding principal amount of the convertible notes will be mandatorily converted into the ordinary shares of the Company at the conversion price of HK$1.1 per share. The Company is required to redeem the convertible notes at its face value for the outstanding principal amount of the convertible notes which have not been converted on maturity.

During the period, none of the investors have converted the convertible notes.

The conversion options were fair valued by a professional valuer at the date of grant and the balance sheet date and there is no change in the fair value of the embedded derivatives during the period. The valuer has adopted discounted cash flow approach by applying a discount rate of 8.81% to arrive at the fair value of the debts component of the convertible notes and adopted the Black-Scholes option pricing model in measuring the fair value of the conversion option. Based on the valuation report, the valuers have taken into account of the effect of forced conversion and the dilution effect. Key parameters adopted in the valuations include volatility of 85% as at the date of valuation, which was generated from Bloomberg by taking into account the 180 days historical ordinary share prices of the Company before the date of valuation, and the risk free rate for 2 years exchange funds notes of 4.15% issued by the Hong Kong Monetary Authority at the date of valuation.

31. Share Capital

	Number of shares		Share capital	
	2006	2005	**2006**	2005
	'000	'000	**HK$'000**	HK$'000
Ordinary shares of HK$0.01 each				
Authorised	**30,000,000**	30,000,000	**300,000**	300,000
Issued and fully paid				
At beginning of the year/period	**392,364**	272,974	**3,924**	2,730
Shares repurchase during the year	**(300)**	–	**(3)**	–
Placements of new shares	**93,000**	119,390	**930**	1,194
At end of the year/period	**485,064**	392,364	**4,851**	3,924

In prior period, pursuant to two subscription agreements entered into between the Company and Chau's Family 1996 Limited, 54,000,000 ordinary shares of HK$0.01 each and 65,390,000 ordinary shares of HK$0.01 each in the Company were issued at a price of HK$0.27 per share and HK$0.28 per share respectively. All the new shares issued rank pari passu in all respects with the then existing shares. Details of these transactions were set out in the Company's announcements dated 17 June 2004 and 24 May 2005 respectively.

During the year, the Company repurchased 300,000 of its own shares of HK$0.01 each through the Stock Exchange of Hong Kong Limited at a price of HK$0.83 per share. The aggregate consideration paid by the Company was HK$250,000. The above shares were cancelled upon repurchase.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

During the year, pursuant to the subscription agreement entered into between the Company and Chau's Family 1996 Limited, 93,000,000 ordinary shares of HK$0.01 each in the Company were issued at a price of HK$1 per share. All the new shares issued rank pari passu in all respects with the then existing shares. Details of these transactions were set out in the Company's circular dated 17 May 2006.

32. Acquisition of Subsidiaries

In August 2004, the Company subscribed for 8,000,000,000 ordinary shares of HK$0.01 each of FT Holdings. The consideration was satisfied by injection for the Group's interest in certain companies (the "Copper Group") and plant and machinery and land and buildings engaging in manufacture and trading of copper rods and related products. Immediately after the completion of the transaction, the Group's interest in FT Holdings was 75.5%. In order to maintain the sufficiency of public float of FT Holdings, the Company disposed of 57,562,500 shares of FT Holdings to third parties at a consideration of HK$2,307,000, resulting in a gain on disposal of HK$797,000 which has been included in other income.

32. Acquisition of Subsidiaries (continued)

The effect of acquisition of FT Holdings and its subsidiaries is summarised as follows:

	Acquiree's carrying amount before combination HK$'000	Fair value adjustments HK$'000	Fair value HK$'000
NET ASSETS ACQUIRED			
Property, plant and equipment	57,823	–	57,823
Prepaid lease payments for land	16,800	–	16,800
Television programmes and sub-licensing rights	3,509	–	3,509
Inventories	18,363	(200)	18,163
Debtors, deposits and prepayments	8,328	–	8,328
Pledged deposits	5,000	–	5,000
Bank balances and cash	41,546	–	41,546
Creditors and accrued charges	(19,780)	–	(19,780)
Bills payable	(7,769)	–	(7,769)
Taxation	(460)	–	(460)
Obligations under finance leases	(309)	–	(309)
Borrowings	(14,472)	–	(14,472)
	108,579	(200)	108,379
Goodwill			16,212
Minority interests			(26,553)
Total consideration			98,038
Satisfied by:			
Disposal of 24.5% interests in the Copper Group			47,900
Cash paid for expenses related to acquisition			36,904
Expenses payable related to acquisition			13,234
Total consideration			98,038
Net cash inflow arising on acquisition:			
Cash paid for expenses related to acquisition			(36,904)
Bank balances and cash acquired			41,546
Net inflow of cash and cash equivalents in respect of the acquisition			4,642

32. Acquisition of Subsidiaries (continued)

The goodwill arising on acquisition is attributable to the anticipated profitability of the distribution of the Group's life-like plants in the new markets.

The recoverable amount of the operation was determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs. Management estimated discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the operation. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future change in market.

The Group prepared cash flow forecasts derived from the most recent financial budgets for the next financial year approved by management and further extrapolated for the next four years based on an estimated steady growth rate of 3%. This rate did not exceed the average long-term growth rate for the relevant markets. The rate used to discount rate forecast cash flow was 5%.

However, the estimated cash flow forecasts of the operation prepared by the management indicated that the attributable goodwill amounted to HK$16,212,000 had been fully impaired in the income statement.

The subsidiaries acquired during the prior period contributed HK$42,964,000 to the Group's turnover and HK$26,000 to the Group's profit from operation after the acquisition.

If the acquisition had been completed on 1 April 2004, the Group's turnover for the prior period and loss for the prior period would have been approximately HK$1,480 million and HK$24 million respectively. The financial information was for illustrative purposes only and is not necessarily an indicative revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 April 2004, nor is it intended to be a projection of future results.

33. Disposal of Subsidiaries

In April 2005, the Group disposed of its entire equity interests in FT Holdings Limited and FT Properties Limited. The net assets of these subsidiaries at the date of disposal were as follows:

	HK$'000
NET ASSETS DISPOSED OF	
Property, plant and equipment	18,450
Debtors, deposits and prepayments	70
Bank balances and cash	15
Accrued charges	(10)
Taxation	(23)
	18,502
Loss on disposal	(7,502)
Total consideration	11,000
SATISFIED BY	
Cash consideration	11,000
Net cash inflow arising on disposal:	
Cash consideration	11,000
Bank balances and cash disposed of	(15)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	10,985

The subsidiaries disposed of in the prior period did not have any significant impact on the Group's cash flows or operating results.

34. Deemed Disposal of a Subsidiary/Discount on Acquisition of Subsidiaries

During the year, a subsidiary of the Company, Skywalk Assets Management Limited ("Skywalk") entered into agreements to place and subscribe for new shares in the listed subsidiary, Hua Yi Copper Holdings Limited ("Hua Yi Copper"). Pursuant to the agreements, Skywalk has agreed to place 111,000,000 ordinary shares of HK$0.2 each in Hua Yi Copper at a price of HK$0.88 per share and to subscribe for 111,000,000 new ordinary shares of Hua Yi Copper at a price of HK$0.88 per share. Accordingly, the Group's interest in Hua Yi Copper has been diluted from 71.49% to 59.59%, resulting in a gain on deemed disposal of HK$19,576,000.

During the year, the Company has acquired 3,478,000 shares of Hua Yi Copper from the market at a total consideration of HK$1,607,000 and the Group's interest in Hua Yi Copper has been increased from 59.59% to 60.05%, resulting in a discount on acquisition of HK$892,000.

35. Capital Commitments

	2006 HK$'000	2005 HK$'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of:		
Leasehold improvements	**4,230**	18,561
Plant and machinery	**35,037**	9,266
	39,267	27,827

36. Lease Commitments

The Group as lessee

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

	2006 HK$'000	2005 HK$'000
Within one year	**4,081**	5,098
In the second to third year inclusive	**2,533**	3,467
	6,614	8,565

Leases are negotiated for an average term of three years and rentals are fixed for such term.

37. Pledge of Assets

At 30 June 2006, the Group has pledged certain of its assets with carrying values of HK$196,501,000 (2005: HK$212,263,000) to secure general banking facilities granted to the Group. The carrying values of these assets are analysed as follows:

	2006 HK$'000	2005 HK$'000
Property, plant and equipment	**118,709**	150,754
Fixed bank deposits	**67,180**	48,331
Trade debtors	**10,612**	13,178
	196,501	212,263

38. Share Option Schemes

The Company

The Company's share option scheme was adopted pursuant to a resolution passed on 16 September 2002 (the " Share Option Scheme") for the primary purpose of providing incentives to directors and eligible employees, and will expire on 15 September 2012. Under the Share Option Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors, of the Company and any of its subsidiaries, associates and jointly controlled entities to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to outside third parties with a view to maintain business relationship with such persons.

The total number of shares in respect of which options may be granted under the Share Option Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The total number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5,000,000 must be approved in advance by the Company's shareholders.

Options granted must be taken up within 28 days of the date of grant together with a payment of HK$1 as consideration of grant. Options may be exercised at any time from the date of grant to the tenth anniversary of the date of the grant. The exercise price is determined by the directors of the Company, will not be less than the higher of the closing price of the Company's shares on the date of grant, the average closing price of the shares for the five trading days immediately preceding the date of grant, and the nominal value of a share.

The following table discloses movements in the Company's Share Option Scheme during the year:

Capacity	Date of grant	Exercisable period	Vesting period	Exercise price HK$	Number of share options: Outstanding at 1.7.2005	Granted during the year	Outstanding at 30.6.2006	Exercisable period	Number of share options exercisable for the period
Others	26 May 2005	26 May 2005 to 25 May 2008	Fully vested at date of grant	0.32	18,950,000	–	18,950,000	26 May 2005 to 25 May 2008	18,950,000
Others	5 January 2006	1 February 2006 to 31 January 2009	5 January 2006 to 1 February 2006	0.24	–	39,230,000	39,230,000	1 February 2006 to 31 January 2007	13,076,667
			5 January 2006 to 1 February 2007					1 February 2007 to 31 January 2008	13,076,667
			5 January 2006 to 1 February 2008					1 February 2008 to 31 January 2009	13,076,666

Total consideration received during the period for taking up the options granted amounted to HK$2 (period ended 30 June 2005: HK$2).

During the year, options were granted on 5 January 2006. The estimated fair values of options granted on that date are HK$3,204,000.

38. Share Option Schemes (continued)

The Company (continued)

In prior years, the financial impact of share options granted was not recorded in the financial statements until such time as the options are exercised, and no charge was recognised in the consolidated income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued were recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Upon the application of HKFRS 2 (see note 2), the fair value of share options granted to directors and employees of the Group, determined at the date of grant of the shares options, is expensed over the vesting period.

These fair values were calculated using the binominal model. The inputs into the model were as follows:

Date of grant	**26 May 2005**	**5 January 2006**
Share price on the date of grant	HK$0.31	HK$0.23
Exercise price	HK$0.32	HK$0.24
Expected volatility	84%	76% p.a.
Average expected life	1.5 years	1.07 to 3.07 years
Average risk-free rate	3.141% p.a.	3.78% to 3.923% p.a.
Expected dividend yield	Nil	Nil

Expected volatility was determined by using the historical volatility of the Company's share price during the period from December 2005 to January 2006. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

Hua Yi Copper

On 4 December 2003, Hua Yi Copper adopted a new share option scheme (the "Hua Yi New Share Option Scheme") which replaced its old share option scheme adopted in 1996 (the "Hua Yi Old Share Option Scheme"). The Hua Yi Old Share Option Scheme will remain in force until it expires on 2 January 2007.

Under the Hua Yi New Share Option Scheme, the directors may, at their discretion, grant to full-time employees and executive directors of Hua Yi Copper and its subsidiaries, the right to take up options to subscribe for shares of the Hua Yi Copper. Additionally, Hua Yi Copper may, from time to time, grant share options to outside third parties for services provided to the Hua Yi Copper. The Hua Yi New Share Option Scheme, unless otherwise cancelled or amended, will expire on 3 December 2013. The subscription price of options is subject to a minimum which is the higher of the nominal value of a share, the closing price of the shares on the Stock Exchange on the date of grant and the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the grant date of the options.

The maximum number of unexercised share options permitted to be granted under the Hua Yi New Share Option Scheme must not exceed 10% of the shares of Hua Yi Copper in issue at any time. No option may be granted to any person which, if exercised in full, would result in the total number of shares already issued and issuable to him under the Hua Yi New Share Option Scheme exceeding 30% of the aggregate number of shares subject to the Hua Yi New Share Option Scheme, at the time it is proposed to grant the relevant option to such person.

The acceptance of an option, if accepted, must be made within 21 days from the date of the offer of the grant with a non-refundable payment of HK$1 from the grantee to Hua Yi Copper.

38. Share Option Schemes (continued)

Hua Yi Copper (continued)

The total number of shares issued and to be issued upon exercise of options granted to each participant (including exercised, cancelled and outstanding options) in 12-month period must not exceed 1% of the shares in issue from time to time unless the same is approved by the shareholders.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following table discloses movements in Hua Yi New Share Option Scheme during the year:

For the year ended 30 June 2006

Capacity	Date of grant	Exercisable period	Vesting period	Exercise price HK$	Number of share options: Outstanding at 1.7.2005	Granted during the year	Exercised during the year	Cancelled during the year	Outstanding at 30.6.2006	Exercisable period	Number of share options exercisable for the period
Employees	1 April 2005	1 April 2005 to 31 March 2008	Vested at date of grant	0.87	1,600,000	–	–	(1,600,000)	–	1.4.2005 to 31.3.2006	1,200,000
										1.4.2006 to 31.3.2007	1,400,000
										1.4.2007 to 31.3.2008	1,600,000
Employees	1 April 2005	1 April 2005 to 31 March 2007	1 April 2005 to 1 April 2006	0.87	1,500,000	–	–	(1,500,000)	–	1.4.2005 to 31.3.2006	750,000
			1 April 2005 to 1 April 2006							1.4.2006 to 31.3.2007	1,500,000
			1 April 2005 to 1 April 2007							1.4.2007 to 31.3.2008	1,500,000
Others	1 April 2005	1 April 2005 to 31 March 2008	1 April 2005 to 1 April 2007	0.87	9,856,000	–	–	(9,856,000)	–	1.4.2005 to 31.3.2006	9,856,000
			1 April 2005 to 1 April 2006							1.4.2006 to 31.3.2007	9,856,000
			1 April 2005 to 1 April 2007							1.4.2007 to 31.3.2008	9,856,000

38. Share Option Schemes (continued)

For the year ended 30 June 2006 (continued)

Capacity	Date of grant	Exercisable period	Vesting period	Exercise price HK$	Number of share options: Outstanding at 1.7.2005	Granted during the year	Exercised during the year	Cancelled during the year	Outstanding at 30.6.2006	Exercisable period	Number of share options exercisable for the period
Employees	9 December 2005	1 January 2006 to 31 December 2008	9 December 2005 to 1 January 2006	0.275	–	3,000,000	(664,000)	–	2,336,000	1.1.2006 to 31.12.2006	336,000
			9 December 2005 to 1 January 2007							1.1.2007 to 31.12.2007	1,000,000
			9 December 2005 to 1 January 2008							1.1.2008 to 31.12.2008	1,000,000
Others	9 December 2005	1 January 2006 to 31 December 2008	9 December 2005 to 1 January 2006	0.275	–	12,000,000	–	–	12,000,000	1.1.2006 to 31.12.2006	4,000,000
			9 December 2005 to 1 January 2007							1.1.2007 to 31.12.2007	4,000,000
			9 December 2005 to 1 January 2008							1.1.2008 to 31.12.2008	4,000,000
Others	6 April 2006	1 May 2006 to 30 April 2011	6 April 2006 to 1 May 2006	0.495	–	51,000,000	–	–	51,000,000	1.5.2006 to 30.4.2007	10,200,000
			6 April 2006 to 1 May 2007							1.5.2007 to 30.4.2008	10,200,000
			6 April 2006 to 1 May 2008							1.5.2008 to 30.4.2009	10,200,000
			6 April 2006 to 1 May 2009							1.5.2009 to 30.4.2010	10,200,000
			6 April 2006 to 1 May 2010							1.5.2010 to 30.4.2011	10,200,000
Total					12,956,000	66,000,000	(664,000)	(12,956,000)	65,336,000		

38. Share Option Schemes (continued)

For the year ended 30 June 2006 (continued)

					Number of share options		
Capacity	Date of grant	Exercisable period	Vesting period	Adjusted exercise price HK$	Balance at 1.7.2005	Lapsed during the year	Balance at 30.6.2006
Employees	7 March 1997	7 March 1997 to 6 March 2007	Fully vested at date of grant	14.112	200,000	(200,000)	–
					200,000	(200,000)	–

Total consideration received during the period for taking up the options granted amounted to HK$11 (period ended 30 June 2005: HK$10).

During the year, options were granted on 9 December 2005 and 6 April 2006. The estimated fair value of options granted on those date are HK$1,225,000 and HK$6,987,000 respectively.

39. Retirement Benefits Scheme

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of trustees.

Pursuant to the PRC Government regulations, the Group is required to contribute to a central pension scheme in respect of certain of the Group's employees in the PRC based on 10% to 24.5% of the salaries of those employees and there is no forfeited contributions under the central pension scheme.

The retirement benefits cost charged to income statement represents contributions payable to the schemes by the Group at rates specified in the rules of the schemes.

During the year, the Group made retirement benefits schemes contributions of HK$3,713,000 (period ended 30 June 2005: HK$4,380,000).

40. Company's Balance Sheet

	2006 HK$'000	2005 HK$'000
NON-CURRENT ASSET		
Investments in subsidiaries	**1**	1
CURRENT ASSETS		
Deposits and prepayments	**6,071**	676
Amounts due from subsidiaries	**884,363**	803,381
Bank balances and cash	**80,284**	630
	970,718	804,687
CURRENT LIABILITIES		
Accrued charges	**1,227**	1,327
Amounts due to subsidiaries	**14**	14
Conversion option of convertible notes	**12,492**	–
	13,733	1,341
NET CURRENT ASSETS	**956,985**	803,346
TOTAL ASSETS LESS CURRENT LIABILITIES	**956,986**	803,347
NON-CURRENT LIABILITY		
Convertible notes	**66,068**	–
	890,918	803,347
CAPITAL AND RESERVES		
Share capital	**4,851**	3,924
Reserves	**886,067**	799,423
	890,918	803,347

41. Related Party Transaction

Compensation of key management

The key management of the Group comprises all directors and the two highest paid employees, details of their remuneration are disclosed in note 9.

42. Post Balance Sheet Events

On 30 May 2006, the Company entered into a purchase agreement to acquire the entire equity interest in Brascabos Componentes Elétricos e Eletrônicos Ltda, which is engaged in the manufacture of power cords, wire harness, electronic controls and sensor devices in Brazil at a consideration of USD10 million. The transaction has been completed on 2 August 2006 and the details of the transaction were set out in the circular dated 26 June 2006. The directors consider that it is impractical to disclose the fair values of the net assets acquired and the goodwill at the date of completion of the transaction in view of the short period of time since the date of completion of the transaction.

43. Particular of Principal Subsidiaries

The following list contains only the particulars of the subsidiaries at 30 June 2006 which principally affect the results, assets or liabilities of the Group as the directors are of the opinion that a full list of all the subsidiaries would be of excessive length.

Name of company	Place of incorporation or registration/ operation	Issued and fully paid share capital or registered capital	Proportion of nominal value of issued capital or registered capital held by the Group	Principal activities
Brightpower Assets Management Limited	British Virgin Islands	US$1	100%	Investment holding
Chau's Electrical (BVI) Company Limited	British Virgin Islands/PRC	US$1	100%	Property holding
Chau's Electrical Company Limited	Hong Kong	HK$1,000 ordinary HK$500,000 non-voting deferred (Note 1)	100% –	Manufacture and trading of cable and wire products
Chau's Electrical International, Inc.	United States of America	US$20,000	100%	Trading
Chau's Industrial Investments Limited	British Virgin Islands	US$1,000	100%	Investment holding
Citigain Industrial Limited	Hong Kong	HK$1,000	100%	Investment holding
Crown Earth Investments Limited	Hong Kong/ PRC	HK$100	100%	Property holding
東莞華藝銅業有限公司 Dongguan Hua Yi Brass Products Co., Ltd. #	PRC	US$9,850,000 (Note 2)	100%	Manufacture and trading of copper products

43. Particular of Principal Subsidiaries (continued)

Name of company	Place of incorporation or registration/ operation	Issued and fully paid share capital or registered capital	Proportion of nominal value of issued capital or registered capital held by the Group	Principal activities
東莞橋梓周氏電業有限公司 Dongguan Qiaozi Chau's Electrical Co., Ltd.#	PRC	HK$5,000,000 (Note 3)	100%	Manufacture and trading of cable and wire products
東莞聯藝塑膠製品有限公司 Dongguan United Art Plastic Products Limited*	PRC	HK$49,000,000 (Note 4)	100%	Manufacture of life-like Christmas trees
東莞新寶精化有限公司 Dongguan Xin Bao Precision Chemical Co., Ltd. *	PRC	HK$45,000,000	85%	Manufacture and trading of chemical products
FT China Limited	Hong Kong	HK$2	100%	Manufacture of life-like decorative plants
FT Far East Limited	Hong Kong	HK$2	100%	Trading of life-like decorative plants
FT Multi-Media Limited	British Virgin Islands/PRC	US$10,000	60%	Production, acquisition and distribution of television programmes and provision of related multi-media services
Gosberton Assets Limited	British Virgin Islands	US$1	100%	Holding of trademarks
Hua Yi Copper Holdings Limited	Bermuda	HK$133,427,700	60.05%	Investment holding
Hua Yi Copper Products Company Limited	Hong Kong	HK$5,000,000	100%	Manufacture and trading of copper products
昆山周氏電業有限公司 Kunshan Chaus' Electrical Company Limited#	PRC	US$2,880,500	100%	Manufacture and trading of cable and wire products
昆山華藝銅業有限公司 Kunshan Hua Yi Copper Products Company Limited#	PRC	US$5,000,000	100%	Manufacture and trading of copper products

43. Particular of Principal Subsidiaries (continued)

Name of company	Place of incorporation or registration/ operation	Issued and fully paid share capital or registered capital	Proportion of nominal value of issued capital or registered capital held by the Group	Principal activities
上海周氏電業有限公司 Shanghai Chau's Electrical Co., Ltd. *	PRC	US$2,500,000	65%	Manufacture and trading of cable and wire products
Solartech Investments Limited	British Virgin Islands	US$1	100%	Investment holding
Stocko Electronics Asia Pacific Pte Ltd	Singapore	S$100,000	90.5%	Trading in wire harness and connectors
TEM Electronics (M) Sdn. Bhd.	Malaysia	RM500,000	100%	Manufacture of wire harness and connectors
Wah Yeung Capital Resources Limited	British Virgin Islands	US$1	100%	Investment holding
Yellowstone Assets Limited	British Virgin Islands	US$1	100%	Investment holding

* Equity joint venture
# Wholly foreign owned enterprise

Notes:

1. The deferred shares, which are not held by the Group, practically carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of the company or to participate in any distribution on winding up.

2. Prior to January 2004, Dongguan Hua Yi was an equity joint venture with a registered capital of US$9,850,000. The Group has solely contributed all the registered capital of Dongguan Hua Yi. No contribution was made by the PRC joint venture partner and accordingly the Group was entitled to the entire profit or loss of Dongguan Hua Yi. Pursuant to a supplemental agreement dated 5 August 2003, the PRC joint venture partner agreed to surrender its ownership in Dongguan Hua Yi to the Group at no consideration. The transfer has been approved by the PRC relevant authority and Dongguan Hua Yi became a wholly foreign owned enterprise since January 2004.

3. Dongguan Qiaozi Chau's Electrical Co., Ltd. ("Qiaozi Chau's") was established by the Group with an independent Chinese party in the PRC. Under the management agreement with the Chinese party, the Group was responsible for all of the assets and liabilities of the joint venture and is entitled to the profit derived from its operations after the payment of a fixed amount as management fee to the Chinese party each year. During the year, the PRC joint venture partner agreed to surrender its ownership in Qiaozi Chan's to the Group at no consideration. The transfer has been approved by the PRC relevant authority and Qiaozi Chan's became a wholly foreign owned enterprise since January 2006.

4. Pursuant to a joint venture agreement dated 8 September 1993 (the "Joint Venture Agreement") entered into between FT China Limited and a party in PRC, FT China Limited held a 75% equity interest in Dongguan United Art Plastic Products Limited ("DUAP").

   On 28 March 1996, the relevant PRC authorities approved the increase of the equity interest held by FT China Limited in DUAP from 75% to 90%, pursuant to an agreement signed between FT China Limited and the PRC joint venture partner on 22 March 1996. Following the approval of this agreement, the PRC joint venture partner is entitled to a 10% share of the assets and liabilities of DUAP.

   Pursuant to the Joint Venture Agreement, the PRC joint venture partner agreed to waive its entitlement to share in the profits and losses of DUAP in return for an annual management fee of HK$55,556. Pursuant to a supplemental agreement to the Joint Venture Agreement, all of the assets of DUAP will be assigned to FT China Limited upon the expiry of the Joint Venture Agreement. Accordingly, all assets, liabilities and the operating results of DUAP are consolidated into these financial statements as if it is a wholly-owned subsidiary of the Group.

5. Except for Chau's Industrial Investments Limited, all the subsidiaries are indirectly held by the Company.

None of the subsidiaries had issued any debt securities at the end of the year.

Financial Summary

Results

	Year ended 30 June 2006 HK$'000	For the period from 1 April 2004 to 30 June 2005 HK$'000 (Restated)	Year ended 31 March 2004 HK$'000 (Restated)	2003 HK$'000 (Restated)	2002 HK$'000 (Restated)
Turnover	**2,115,548**	2,056,288	1,197,100	946,222	875,531
Profit (loss) before taxation	**135,356**	(50,544)	(82,735)	13,806	(76,316)
Taxation	**(21,354)**	(10,504)	(8,990)	(8,613)	(31)
Profit (loss) before minority interests	**114,002**	(61,048)	(91,725)	5,193	(76,347)
Attributable to:					
Equity holders of the Company	**78,856**	(60,659)	(89,280)	5,074	(82,287)
Minority interests	**35,146**	(389)	(2,445)	119	5,940
	114,002	(61,048)	(91,725)	5,193	(76,347)

Assets and liabilities

	At 30 June 2006 HK$'000	At 30 June 2005 HK$'000 (Restated)	At 31 March 2004 HK$'000 (Restated)	2003 HK$'000 (Restated)	2002 HK$'000 (Restated)
Total assets	**2,119,212**	1,423,535	1,265,015	1,125,272	1,174,597
Total liabilities	**(965,606)**	(562,929)	(450,090)	(342,127)	(403,530)
	1,153,606	860,606	814,925	783,145	771,067
Attributable to:					
Equity holders of the Company	**944,656**	756,776	800,899	766,949	754,855
Minority interests	**208,950**	103,830	14,026	16,196	16,212
	1,153,606	860,606	814,925	783,145	771,067