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Corporate Information

DIRECTORS

Lin Wan Qaing *(Chairman)*
Liu Zhao Cai *(Vice-Chairman)*
Xiang Song *(Chief Executive Officer)*
Tong Yiu On
Pan Chang Chi*
Cai Xun Shan*
Cheung Chuen*

* *Independent Non-executive Directors*

QUALIFIED ACCOUNTANT & COMPANY SECRETARY

Tong Yiu On, *FCCA, CPA*

AUTHORISED REPRESENTATIVES

Lin Wan Qaing
Tong Yiu On, *FCCA, CPA*

AUDIT COMMITTEE

Pan Chang Chi
Cai Xun Shan
Cheung Chuen

REMUNERATION COMMITTEE

Lin Wan Qaing
Pan Chang Chi
Cai Xun Shan

LEGAL ADVISER FOR CAYMAN ISLANDS LAW

Conyers Dill & Pearman

PRINCIPAL BANKERS

Bank of China
The China Construction Bank
Xiamen International Bank
China Merchants Bank
Standard Chartered Bank

AUDITORS

KPMG
8th Floor, Prince's Building
10 Chater Road
Central
Hong Kong

INVESTOR RELATIONS CONSULTANT

Elite Communications Group Limited

REGISTERED OFFICE

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Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1–1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 1805, 18th Floor
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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited
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Grand Cayman
Cayman Islands

HONG KONG BRANCH REGISTRAR AND TRANSFER OFFICE

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Shops 1712–1716, 17th Floor
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Wanchai, Hong Kong

TRADING CODE ON THE STOCK EXCHANGE OF HONG KONG LIMITED

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WEBSITE

www.sinotronics.com.cn

Financial Highlights

Turnover for the year ascended to approximately RMB526 million.

Gross profit margin for the year was approximately 35%.

Profit for the year was approximately RMB108 million.

Profit attributable to equity shareholders for the year was approximately RMB102 million.

Net profit margin (excluding profit attributable to minority interests) for the year was approximately 19%.

Earnings per share was approximately RMB22 cents.

Shareholders' equity reached RMB670 million.

Chairman's Statement

Dear Shareholders,

On behalf of the Board of Directors of Sinotronics Holdings Limited ("Sinotronics" or the "Company"), I am pleased to present the financial report of the Group and its subsidiaries (collectively referred to as the "Group") for the year ended 30 June 2006.

The Group is one of a few vertically integrated Electronic Manufacturing Services (EMS) providers in China. As a pioneer in providing one-stop EMS solutions, the Group has been seizing the blossoming business opportunities in the industry and is committed to expanding its business to consolidate its leading position in the market.

During the year under review, the Group continued to record double-digit growth of 42.2% in turnover to approximately RMB156 million. Profit attributable to equity shareholders of the Company grew at 26.6% to RMB102 million, resulting in a basic earnings per share of RMB22 cents. The increase was mainly attributable to a significant increase in the Group's expanding businesses of flexible PCBs and PCB Assembly ("PCBA") services.

Looking forward, we believe that EMS in China will enjoy continuous robust growth due to strong demand from consumer electronic products as well as the global trend of outsourcing EMS to low cost countries. PCB demand is also expected to keep on growing in the future. China is becoming one of the most important manufacturing regions for electronic products in the world.

Riding on the optimistic industry outlook, the Group will further expand its production capacity of both rigid PCBs in Fujian Province and flexible PCBs in Guangdong Province. Given the wide application of flexible PCBs and strong demands from clients, the Group is optimistic that flexible PCBs will become one of its key revenue engines in the coming years.

In view of increasing needs for one-stop EMS solutions to further shorten the production cycle and our successful PCBA business during the year, we plan to further expand our current PCBA capacity to meet overwhelming demands.

We believe our expertise and experience in the EMS industry as well as our unique strategic position will enable the Group to further expand its market and capture market share, paving the way for us to become the leading market player in the industry.

Finally, I would like to take this opportunity to express my gratitude to the board of directors, management and staff for their loyalty and dedication towards the Group; customers, suppliers and business partners for their cooperation and trust over the years; and shareholders and investors for their support.

Lin Wan Qaing
Chairman
Hong Kong, 19 October 2006

Management Discussion and Analysis

MANAGEMENT DISCUSSION AND ANALYSIS

Results

The Group's financial performance for the year ended 30 June 2006 recorded a steady upward growth with a double-digit increase in both turnover and net profit. During the year under review, turnover of the Group amounted to RMB525,953,000 (2005: RMB369,787,000), representing an increase of approximately 42.2% as compared to the corresponding period last year. The Group managed to achieve satisfactory results during the year primarily due to the increased utilization rate and production capacity of two subsidiary companies, so as to expand its scope of operations and attain even greater economies of scale.

The gross profit for the year under review reached approximately RMB186,290,000 as compared to approximately RMB147,004,000 for last year. The overall gross profit margin was decreased due to the increase in raw material prices, changes in products mix and the relatively lower utilization rate of the production capacity of the two subsidiary companies as compared to the old subsidiary company. Operating profit and profit attributable to equity shareholders were RMB162,551,000 (2005: RMB112,289,000) and RMB101,816,000 (2005: RMB80,427,000) respectively, representing increases of approximately 44.8% and 26.6% respectively as compared to the corresponding period last year. Basic earnings per share was RMB22 cents (2005: RMB17 cents).

Loss on changes in fair value of the derivative components of the convertible bonds ("CB") amounted to approximately RMB13,966,000 (2005: Nil). Ignoring such loss, the net profit attributable to equity shareholders for the year under review would be reached RMB115,782,000, representing an increase of 44.0% as compared to last year.

Business Review

The Group is principally engaged in the manufacturing and sale of rigid printed circuit boards ("PCBs") and flexible printed circuit boards ("FPCBs") and also provides printed circuit boards assembly ("PCBA") and sub-contracting services. Due to the strong overall demand from downstream electronic consumer products, such as LCDs, PSPs, multi-media products and mobile phones, as well as the trend of multi-national companies outsourcing EMS to China, the Group has achieved strong results during the 2006 financial year despite the rising cost of raw materials.

PCBs have received strong orders from clients. However, as the utilization rate of the PCBs plant has reached full capacity, the revenue only recorded 6.9% growth of that sector this year.

The new FPCBs business recorded a growth of 2,201.4% in turnover compared with last year. The business has significantly benefited from the overall trend that FPCBs industry has been moving to China as a result of EMS outsourcing. Furthermore, the Group has successfully obtained certifications from additional renowned international companies such as Sankyo Seiki Management Co., Ltd, JVC and Truly Semiconductors Ltd, which resulted in an upsurge of orders.

Management Discussion and Analysis

The Group's PCBA business has also recorded tremendous growth of 404.5% in turnover compared with last year. The growth reflected the success of the Group's strategy in offering one-stop solutions for the PCBs industry.

Segmental Information

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group in making operating and financial decisions.

Rigid printed circuit boards

During the year under review, the sales of PCBs amounted to RMB382,498,000 (2005: RMB357,714,000), representing approximately 72.7% of the Group's total turnover. Operating profit/(loss) contributed by this business segment was RMB157,080,000 (2005: RMB141,740,000), up 10.8% as compared with that of the preceding year.

Flexible printed circuit boards

Total sales of FPCBs reached approximately RMB72,286,000 (2005: RMB3,141,000), which made up approximately 13.8% of the Group's total turnover during the year under review. Operating profit/(loss) reached approximately RMB8,122,000 (2005: RMB(14,390,000)). The FPCBs sector was one of the Group's key revenue engines, primarily targeting Korean and Japanese clients. Since the Group started full-scale manufacturing operation in January 2005, sales of FPCBs have recorded rapid growth. Given the wide application and strong demand of FPCBs yield, this business segment has increased the Group's overall profit significantly.

Rigid printed circuit boards assembly

The PCBA service provides a major competitive edge to the Group's business, consolidating its position as a one-stop EMS provider. It is the second fastest growing sector apart from the FPCBs. Turnover of PCBA during the year under review amounted to approximately RMB45,363,000 (2005: RMB8,932,000), accounting for approximately 8.6% of the Group's total sales, and the operating profit/(loss) was approximately RMB1,316,000 (2005: RMB(4,330,000)).

Provision of SMT processing services

Turnover contributed by this business segment amounted to RMB25,806,000 (2005: NIL), accounting for 4.9% of the Group's total sales, and operating profit came up to RMB2,879,000 (2005: NIL).

Management Discussion and Analysis

Geographically, sales within the PRC (excluding Hong Kong and Taiwan) remained the largest segment in which approximately 83.8% (2005: 83.0%) of the Group's turnover was generated, while approximately 8.0% (2005: 10.6%) was attributable to the sales to Australia for the year under review. The balance of approximately 8.2% of the Group's turnover (2005: 6.4%) was taken up by Germany, Hong Kong, Taiwan and other countries.

Manufacturing Facilities

The Group currently operates three manufacturing facilities in the PRC, located in Fujian and Guangdong provinces. Details of the individual facilities are as follows:

Fuqiang Plant, Fujian Province

The manufacturing facility in Fuqiang, Fujian Province, focuses on rigid PCBs, including double-side and multilayer PCBs. Adopting the high mix, low volume strategy, the Fuqiang Plant specializes in the early stage of the production cycle. The Group has successfully expanded the plant's production capacity to 40,000 square meters of PCBs per month, which is near full capacity.

Shuangxiang Electronics, Fujian Province

In line with the Group's objective to position itself as a "one-stop" EMS provider, the Group has been stepping up efforts to maintain and expand its assembly production line. Located in Mawei, Fuzhou city, the facility occupies 6 SMT lines and 2 MI lines and is primarily responsible for conducting PCBA and SMT processing services, including the design of sub-system, production of prototype samples, low-volume production and testing services.

Gemini Electronics, Guangdong Province

FPCBs is one of the fastest growing sectors of the Group. The plant in Huizhou, Guangdong Province, has reached a production capacity of 10,000 square meters per month.

FUTURE PROSPECT

Strong demand for electronic products and the outsourcing trend of EMS to China has foreseen the positive outlook for EMS. International Data Corporation expected that the total income of EMS solution providers worldwide will grow at a compounded annual rate of 10.2% from US$89 billion in 2002 to US$400 billion in 2007. It also predicts that the EMS industry in China will grow at a compounded annual rate of 29.7% from year 2002 to 2007, and will account for 38% of the global EMS industry by year 2007. While PCB demand in China is expected to enjoy an annual growth rate of 15.2%, from US$6.85 billion in 2003 to US$13.88 billion in 2008, according to BPA Consulting. It also expects that the China market, the largest in the world, to account for approximately one-third of global demand by then.

As one of the few pioneering one-stop solution providers in the industry, the management believes that the Group is well-positioned to capitalize and enjoy further growth.

Management Discussion and Analysis

In recent years, there has been robust global demand for compact, thin, multi-functional and portable electronic devices, boosting the demand for FPCBs. It is the management's view that there is still room for market expansion and higher operation efficiency. The Group plans to install new production facilities in the coming years, in a bid to boost monthly capacity by 50% to 15,000 square meters by next financial year.

Regarding the PCBA business, the Group plans to install 2 more SMT lines in the Shuangxiang Electronics plant by next financial year, in addition to current 6 SMT lines.

To cope with the rising demand for PCBs, the Group will acquire a new site area for a second plant named Hai Chuang. The new plant is expected to begin manufacturing PCBs in the financial year of 2009, total monthly capacity for PCBs is expected to reach 60,000 square meters.

The Group will continue to explore strategic merger and acquisition opportunities for further expansion. This will boost production capacity, broaden its client base and provide a wide range of value-added services to clients.

The management is fully confident that the Group will again achieve record growth next year and further increase shareholders' returns.

Liquidity and Financial Resources and Capital Structure

For the year ended 30 June 2006, the Group's working capital requirement was principally financed by its internal resources, banking facilities and convertible bonds.

As at 30 June 2006, the Group had cash and cash equivalents, net current assets and total assets less current liabilities of RMB572,803,000 (2005: RMB540,915,000), RMB383,386,000 (2005: RMB519,729,000) and RMB738,154,000 (2005: RMB727,939,000) respectively.

As at 30 June 2006, the Group had total borrowings (excluding obligations under finance leases) of RMB300,717,000 (2005: RMB213,019,000), comparing utilised bank loan facilities of RMB229,391,000 (2005: RMB143,791,000) and convertible bonds of RMB71,326,000 (2005: RMB69,228,000), of the total utilised bank loans of RMB199,391,000 (2005: RMB110,657,000) for short term and the remainder of RMB30,000,000 (2005: RMB33,134,000) for long term. Included in these utilised bank loans, RMB8,293,000 and RMB144,800,000 were secured by bills receivables and corporate guarantee given by the Company and the remaining balance of RMB76,298,000 was unsecured. Besides, the Group had available RMB40,000,000 (2005: RMB8,385,000) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met and had obligations under finance leases of RMB13,135,000 (2005: RMB12,982,000) denominated in Hong Kong Dollars. The total borrowings were mainly for business expansion, capital expenditure and working capital purposes. The Group's short term and long term borrowings were mainly denominated in Renminbi and US Dollars. Loan facilities were granted to the Group at the normal market interest rates.

The shareholders' equity of the Group as at 30 June 2006 increased by RMB73,387,000 to RMB670,033,000 (2005: RMB596,646,000). The gearing ratio (calculated as the ratio of current liabilities plus non-current liabilities: shareholders' equity) of the Group as at 30 June 2006 was approximately 0.74 (2005: 0.56).

Significant Investments

Saved as disclosed elsewhere on the Management Discussion and Analysis, the Group had no other significant investment held.

Acquisition and disposal of Subsidiaries and Associated Companies

During the year ended 30 June 2006, the Group had no material acquisition and disposals of subsidiaries and affiliated companies.

Employment Information

As at 30 June 2006, the Group employed a total of 1,550 (2005: 1,200) employees. It is a policy of the Group to review its employee's pay levels and performance bonus system regularly to ensure that the remuneration policy is competitive within the relevant industry. During the year ended 30 June 2006, the employment cost (including directors' emoluments) amounted to approximately RMB28,848,000. In order to align the interests of staffs, directors and consultants with the Group, share options may be granted to staffs, directors and consultants under the Company's 2003 share options schemes ("2003 Scheme"). As at 30 June 2006, there are 4,000,000 share options outstanding under the 2003 Scheme.

Charges on Group Assets

As at 30 June 2006, there were no charges on group assets.

Future Plans for Material Investments and Expected Sources of Funding

Save as disclosed elsewhere on the Management Discussion and Analysis, as at 30 June 2006, the Group had no future plans for material investments.

The management will continue to monitor the industry and review its business expansion plans regularly, so as to take necessary measures in the Group's best interests.

Exposure to Fluctuations in Exchange Rates

During the year ended 30 June 2006, the Group experiences only immaterial exchange rate fluctuations as most of the Group's monetary assets and liabilities are denominated in Hong Kong Dollars, US Dollars and Renminbi, and the Group conducted its business transactions principally in

Management Discussion and Analysis

Hong Kong Dollars, US Dollars and Renminbi, all of which were relatively stable during the year under review. The Group considered that as the exchange rate risks of the Group is considered to be minimal, the Group did not employ any financial instruments for hedging purposes.

Capital Commitment

As at 30 June 2006, in respect of capital expenditures, the Group had contracted for capital commitment in the financial statements amounted to approximately RMB100,702,000.

Contingent Liabilities

As at 30 June 2006, the Group did not have any material contingent liabilities.

Biographical Information of Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Lin Wan Qaing (林萬強), aged 52, is the chairman of the Company and founder of the Group. He is responsible for the Group's overall strategic planning, and is also the compliance officer of the Group. Prior to founding the Group in March 1996, Mr. Lin had gained more than 16 years of entrepreneurial and management experience. Mr. Lin was the deputy chairman and general manager of the Fujian Province Shenlong Enterprise Group Company Limited (福建省神龍企業集團有限公司) ("Shenlong") in 1992 up to 1994. He was appointed the executive of the standing committee of Young Entrepreneur Association of Fujian Province (福建省青年企業家協會) in May 1999 and has been elected the vice-president of Electronics Industry Branch of Fujian Province of China International Commerce Association (中國國際商會福建電子行業商會) since November 1997.

Mr. Liu Zhao Cai (劉兆才), aged 64, is the vice-chairman of the Company. He graduated from the Xidian University (西安電子科技大學) (formerly known as Northwestern Telecommunication Engineering Institute (西北電訊工程學院)). Mr. Liu was the president of Fujian Province Science and Technology Commission (福建省科學技術委員會) in 1998 for a term of three years, and the president of the 36th research institute of the Department of Electronics Industry (電子工業部) of the PRC during the period from 1987 to 1995. Mr. Liu became an independent non-executive Director on 8 May 2001 and was redesignated as an executive Director on 22 April 2002.

Mr. Xiang Song (項松), aged 35, is the chief executive officer of the Company. Mr. Xiang graduated with a bachelor's degree in mechanical engineering from the University of Science and Technology of Beijing (北京科技大學) in 1993. Prior to joining the Group in July 1998, Mr. Xiang had gained substantial management experience when he served as the plant general manager and engineer of Guangzhou Printronics Circuit Corp. (廣州普林電路公司). He has more than 11 years of management experience in the PCB industry. Mr. Xiang was appointed as an executive Director in September 2000 and he is principally responsible for the supervision of the Group's technology, production and quality control.

Mr. Tong Yiu On (唐耀安), aged 40, is an executive Director, qualified accountant and the company secretary of the Company. He is responsible for the financial reporting and management and regulatory compliance of the Company. He holds a fellow membership of the Association of Chartered Certified Accountants and is a certified public accountant of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group in September 2000, Mr. Tong was the financial controller of a wholly owned subsidiary of a Hong Kong listed company, and has gained 9 years of experience from an international accounting firm and a wholly owned subsidiary of a company listed on the Australia stock exchange in auditing and financial management for various industries.

Biographical Information of Directors and Senior Management

Independent Non-executive Directors

Mr. Pan Chang Chi (潘昌馳), aged 54, is an independent non-executive Director and a senior economist. He graduated from Xiamen University (廈門大學) in 1998 with a master's degree in law. He has extensive experience in financial management while working as a senior economist in the Fuqing branch of the Bank of China. He is currently employed by Fujian International Corporation Limited (福建省國際投資有限公司). He has been appointed as an independent non-executive Director of the Company since 8 May 2001.

Mr. Cai Xun Shan (蔡訓善), aged 64, is an independent non-executive Director. He studied in the Astronomy and Geography Department (天文大地系) of the Surveying Institution of the People's Liberation Army of the PRC (中國人民解放軍測繪學院) and obtained his graduation certificate in 1962. He was appointed as the deputy manager of the Electronics Industrial Company of Fuzhou City (福州市電子工業公司) in 1984. Mr. Cai obtained a certificate from the Fujian Province Human Resources Bureau (福建省人事局) in 1989 certifying that Mr. Cai is qualified to be appointed as an economist. On 23 May 1997, Mr. Cai was appointed as the Fuzhou Municipal People's Government's deputy secretary and officer of its Beijing representative office (福州市人民政府副秘書長，駐北京辦事處主任).

Mr. Cheung Chuen (張全), aged 32, is an independent non-executive Director. He is a certified public accountant practicing in the United States of America and Hong Kong. Mr. Cheung graduated from Hong Kong Shue Yan College in 1999 with majoring in accounting and obtained a master degree in professional accounting from the Hong Kong Polytechnic University in 2004. He is a member of the American Institute of Certified Public Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Cheung has over the years gained extensive experience in accounting and auditing. He has been appointed independent non-executive Director since September 2004.

SENIOR MANAGEMENT

Mr. Lin Wan Xin (林萬新), aged 52, is the chairman and executive president of Fuqiang. He is a cousin of Mr. Lin. He graduated from Fujian Teachers University (福建師範大學) and has gained extensive administration experience as the production director, administration director and vice-president of the general administration department of Fujian Teachers University (福建師範大學). He joined the Group in March 1998 and was one of the founding members.

Mr. Hu Zhao Rui (胡兆瑞), aged 49, is the director of Fuqiang. He graduated from Fuzhou Technical Institute (福州工業學校), majoring in finance and is a certified public accountant in the PRC. Prior to joining the Group in June 1998, he worked as the financial manager of several companies including Fujian Minjiang Shipping Company (福建省閩江航運總公司), Fujian Fuqing Rangqiao Wharf Co. Ltd. (福建福清融僑碼頭港務有限公司), Fujiang Mingjiang Wu Yi Cement Transportation Company Limited (福建閩江武夷散裝水泥聯運公司) and Fujiang Hong Feng Investment & Development Company Limited (福建鴻豐投資發展有限公司). He has gained more than 20 years' experience in accounting and financial management.

Biographical Information of Directors and Senior Management

Mr. Li Fei (李飛), aged 49, the chairman of Gemini Electronics (Huizhou) Co. Ltd, with tertiary education qualification. Prior to joining the Group, Mr. Li worked as senior executive in production and sales department in a PRC listed company. Mr. Li joined the Group in 2002, and has been appointed as chairman of Gemini Electronics (Huizhou) Co. Ltd in early 2004.

Mr. Li Jia Quan (李加全), aged 32, is the chief engineer of Gemini Electronics (Huizhou) Co. Ltd, and he is mainly responsible for the aspects in technology, research and development. He graduated from Chongqing University (重慶大學) majoring in Material Science and Engineering and joined the Group in 2005. Mr. Li worked as senior executive in a Hong Kong listed company which focuses on flexible printed circuit boards production, and therefore has accumulated over 10 years' manufacturing and managerial experience in flexible printed circuit boards industry.

Mr. Wen Song Tang (文松堂), aged 33, is the director and financial manager of Gemini Electronics (Huizhou) Co. Ltd. He graduated from South-Central University For Nationalities (中南民族大學), majoring in Accountancy, and obtained a bachelor degree in Economics. Mr. Wen had worked in financial department of Guangdong Province Zhanjiang Farming (廣東省湛江農墾集團). He joined the Group in 2001 and has been assigned by the Group to Gemini Electronics (Huizhou) Co. Ltd in early 2004.

Mr. Lin Wei Sheng (林偉生), aged 39, is the chief operation officer of the Group. Mr. Lin graduated from Huazhong University of Science and Technology (華中科技大學) with a bachelor degree in engineering, Electronics and Information Engineering Department and obtained a MBA from Canada Kinston College (加拿大京士頓學院). He worked in Fujian Province People's Government (福建省人民政府), and was responsible for the planning and management of key project's investment and working process. He has accumulated 8 years managerial experience in administration and engineering. He emigrated to Canada in 1997 and became Canadian citizen. Prior to joining the Group, Mr. Lin worked as engineer and technical supervisor in Canada ATI Technology INC and STIM Canada INC, mainly responsible for quality control of electronic products; he has extensive knowledge and experience in electronic industry. Mr. Lin has been appointed as the chief operation officer of the Group in 2006.

Mr. Jiang Wei Tao (江偉濤), aged 36, is the chairman of Shuangxiang (Fujian) Electronics Limited. He graduated from Fuzhou University (福州大學) and worked as marketing manager in Fujian Fuhui Jewelry (福建福輝珠寶). He joined the Group in 1996 as the regional manager in marketing department of Fujian Fuqiang Delicate Circuit Plate Co., Ltd, and accumulated extensive managerial experience.

Corporate Governance Report

The Group is committed to statutory and regulatory corporate governance standards and adherence to the principles of corporate governance emphasizing accountability, transparency, independence, fairness and responsibility.

The Group has complied with the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 30 June 2006 (the "Year"), except the code provision A.4.1 that all independent non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the articles of association of the Company.

A. SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by the Directors (the "Model Code").

Having made specific enquiries of all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code throughout the Year.

B. BOARD OF DIRECTORS

1. Composition of the Board of Directors

As at 30 June 2006, the Board consisted of four Executive Directors, namely, Mr. Lin Wan Qaing (Chairman), Mr. Liu Zhao Cai (Vice-Chairman), Mr. Xiang Song (Chief Executive Officer) and Mr. Tong Yiu On, and three Independent Non-executive Directors, namely, Mr. Pan Chang Chi, Mr. Cai Xun Shan and Mr. Cheung Chuen.

The composition of the Board of Directors is well balanced with each Director having sound knowledge, experience and/or expertise relevant to the business of the Group. To the best knowledge of the Company, there is no financial, business, family or other material/relevant relationship among members of the Board (including the Chairman and the Chief Executive Officer).

2. Functions of the Board of Directors

The Board is responsible for the oversight of the Company's business and affairs with the objective of enhancing shareholder value. The Board also makes decisions on matters such as approving the annual results and interim results, notifiable and connected transactions, appointment and re-appointment of directors, declaring dividend and adopting accounting policies, etc. Details of the experience and qualifications of Directors are set out in the section headed "Biographical information of directors and senior management" in this Annual Report.

The Board delegates the authority and responsibility for implementing day-to-day operations, business strategies and management of the Group's businesses to the Executive Directors and the Management. When the Board delegates aspects of its management and administration functions to the Management, it has given clear directions as to the powers of the Management, in particular, with respect to the circumstances where the Management shall report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company.

3. Board Meetings and Board Practices

The Board conducts at least four regular meetings a year and the Board will meet on other occasions when a board-level decision on a particulars matter is required. The attendance records of the Board meetings held are set out below:

Directors' Attendance at Board Meetings	No. of attendance
Executive Directors	
Mr. Lin Wan Qaing (Chairman)	4/4
Mr. Chen Yan Shun (Vice-Chairman) (resigned on 1 April 2006)	3/4
Mr. Liu Zhao Cai (Vice-Chairman)	3/4
Mr. Xiang Song (Chief Executive Officer)	4/4
Mr. Tong Yiu On	4/4
Independent Non-executive Directors	
Mr. Pan Chang Chi	2/4
Mr. Cai Xun Shan	2/4
Mr. Cheung Chuen	2/4

The Directors will receive details of agenda items for decision and minutes of committee meetings in advance of each Board meeting. The Company Secretary is responsible for distributing detailed documents to Directors prior to the Board meetings to ensure that the Directors are able to make informed decisions regarding the matters discussed in the meetings. The Company Secretary is also responsible for ensuring the procedures of the Board meetings are observed and providing to the Board of Directors opinions on matters in relation to the compliance with the procedures of the Board meetings.

4. Independent Non-executive Directors

In compliance with Rule 3.10(1) of the Listing Rules, there are three Independent Non-executive Directors representing over one-third of the Board of Directors. Among the three Independent Non-executive Directors, one of them have appropriate professional qualification in accounting or relating financial management expertise as required by Rule 3.10(2) of the Listing Rules.

The Independent Non-executive Directors bring independent judgment on issues of strategy, performance and risk. The Company has received from each of the Independent Non-executive Directors written confirmations of their independence pursuant to Rule 3.13 of the Listing Rules. Based upon the said confirmations, the Board considers that all the Independent Non-executive Directors are independent.

5. Chairman and Chief Executive Officer

The roles of the Chairman, Mr. Lin Wan Qaing, and the Chief Executive Officer ("CEO"), Mr. Xiang Song are segregated. This segregation ensures a clear distinction between the Chairman's and the CEO's responsibilities which allows a balance of power between the Board and the management of the Group, and ensures their independence and accountability.

6. Appointment, Re-election and Removal of Directors

According to the articles of association of the Company, one-third of the Directors are required to retire from office at each annual general meeting, provided that every Director shall be subject to retirement by rotation at least once in every three years.

According to the code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term of service. However, all Independent Non-executive Directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the articles of association of the Company.

7. Nomination of Directors

According to the CG Code, it is recommended to set up a nomination committee with a majority of the members thereof being Independent Non-executive Directors. As the Board considers that may take up by the board members, therefore, the Company has not established a nomination committee. The Board is responsible for selecting and recommending candidates for directorship, which based on assessment of their professional qualifications and experience and also responsible for determining the independence of each Independent Non-executive Director.

C. BOARD COMMITTEE

1. Remuneration Committee

The Company established a remuneration committee in November 2005 with terms of reference no less exacting terms than the CG Code. The remuneration committee is responsible for advising the Board on the remuneration policy and framework of the Company's directors and senior management, as well as review and determine the remuneration of directors and senior management, including benefits in kinds, pension rights and compensation payments, with reference to the Company's objectives from time to time.

As at 30 June 2006, the remuneration committee consisted of three members, comprising Chairman and Executive Director Mr. Lin Wan Qaing and two Independent Non-executive Directors, namely, Mr. Pan Chang Chi and Mr. Cai Xun Shan. Mr. Lin Wan Qaing is the chairman of the remuneration committee. The remuneration committee had met 1 time during the Year and the attendance records of the remuneration committee meeting held are set out below:

Directors' Attendance at Remuneration Committee Meeting	No. of attendance
Mr. Lin Wan Qaing	1/1
Mr. Pan Chang Chi	1/1
Mr. Cai Xun Shan	1/1

2. Audit Committee

The Company established an audit committee in May 2001 with written terms of reference revised to substantially the same as the provision as set out in the CG Code. The audit committee acts as an important link between the Board and the Company's auditors in matters within the scope of the group's audit. The duties of the audit committee are to review and discuss on the effectiveness of the external audit and risk evaluation of the Company, as well as the Company's annual report and accounts, interim reports and to provide advice and comments to the Board. The audit committee is also responsible for reviewing and supervising the Group's financial reporting and internal control. The audit committee has reviewed the audited financial statements of the Company for the year ended 30 June 2006.

As at 30 June 2006, the audit committee consisted three members and they are all the Independent Non-executive Directors of the Company, namely, Mr. Pan Chang Chi, Mr. Cai Xun Shan and Mr. Cheung Chuen. Mr. Pan Chang Chi is the chairman of the audit committee. The audit committee had met 2 times during the Year and the attendance records of the audit committee meetings held are set out below:

Directors' Attendance at audit committee meetings	No. of attendance
Mr. Pan Chang Chi	2/2
Mr. Cai Xun Shan	1/2
Mr. Cheung Chuen	2/2

D. ACCOUNTABILITY AND AUDIT

1. Directors' Responsibility for the Consolidated Financial Statements

The Directors are responsible for the preparation of the consolidated financial statements. The Company's accounts are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies have been adopted and applied consistently, and that judgments and estimates made are prudent and reasonable.

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Group. Having made appropriate enquiries, the Board is not aware of any material uncertainties relating to events or conditions which may cast significant doubt over the Group's ability to continue as a going concern. Accordingly, the Board has continued to adopt the going concern basis in preparing the consolidated financial statements.

2. Internal Controls

The Board had conduct a review of the effectiveness of the system of internal control of the Group. The Group's internal control system includes a defined management structure with limits of authority, is designed to help the achievement of business objectives, safeguard assets against unauthorized use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with relevant legislation and regulations. The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure in operation systems and achievement of the Group's objectives. The Board throughout the Group maintains and monitors the internal control systems on an ongoing basis.

3. Auditors' Remuneration

During the Year, the remuneration paid/payable to the Company's auditors, KPMG, is set out as follows:

Nature of Services	**Fee paid/payable** *HK$'000*
Audit services	1,980
Non-audit services	50
Total:	2,030

E. INVESTOR AND SHAREHOLDERS RELATIONS

The Company continues to pursue a proactive policy in promoting investor relations and communications with the shareholders of the Company. The Board also recognized that effective communication with investors is the key to establish investor confidence and to attract new investors.

The Company communicates with its shareholders and investors through the publication of annual, interim reports, press announcements, releases and also the Company's website at www.sinotronics.com.cn.

The annual general meeting of the Company also provides an important opportunity for constructive communication between the Board and the shareholders of the Company. The chairman of the Board as well as the chairmen of the audit committee and remuneration committee, or in their absence, members of the relevant Board Committees are available to answer any questions raised by the shareholders.

The Group regularly releases corporate information such as awards received, and the latest news of the Group's developments on the Company's website. The public are welcome to give their comments and make their enquiries through the Company's website, the management will give their prompt response.

Directors' Report

The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 30 June 2006.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in the provision of electronic manufacturing services and the manufacturing and trading of printed circuit boards.

An analysis of the principal activities and geographical locations of the operations of the Company and its subsidiaries during the financial year are set out in note 11 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total	
	Sales	**Purchases**
The largest customer	18%	
Five largest customers in aggregate	52%	
The largest supplier		20%
Five largest suppliers in aggregate		57%

At no time during the year have the Directors, their associates or any shareholders of the Company (which to the knowledge of the Directors own more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 30 June 2006 and the state of the Company's and the Group's affair as at that date are set out in the financial statements on pages 31 to 91.

DIVIDENDS

The Board recommended the payment of a final dividend of HK$0.035 (equivalent to approximately RMB0.03605) (2005: HK$0.035 (equivalent to approximately RMB0.0371)) per share for the year ended 30 June 2006, subject to shareholders' approval at the forthcoming annual general meeting to be held on 22 December 2006, will be payable to the shareholders whose names appear on the Register of Members of the Company on 22 December 2006 and will be paid on or around 18 January 2007. No interim dividend was declared for the six months ended 31 December 2005 (2004: Nil).

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 24 to the financial statements.

There were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries during the year.

TRANSFER OF RESERVES

Profits attributable to equity shareholders, before dividends, of RMB101,816,000 (2005: RMB80,427,000) have been transferred to reserves.

DISTRIBUTABLE RESERVES

Details of the movements in reserves of the Group and the Company during the year are set out in note 24 to the financial statements.

As at 30 June 2006, the distributable reserves of the Company available for distribution to shareholders amounted to approximately RMB174,388,000 (2005: RMB216,248,000) computing in accordance with the Companies Law (Revised) of the Cayman Islands and the Company's Articles of Association. This includes the Company's share premium, contributed surplus, share-based compensation reserves and convertible bonds reserve of approximately RMB159,175,000 (2005: RMB159,175,000), RMB29,283,000 (2005: RMB46,305,000), RMB144,000 (2005: RMB1,453,000) and Nil (2005: RMB11,743,000) respectively, less accumulated losses of approximately RMB14,214,000 (2005: RMB2,428,000), which is available for distribution provided that immediately following the date on which the dividend is proposed, the Company will be able to pay off its debts as they fall due in the ordinary course of business of the Company.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 30 June 2006 are set out in note 14 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 12 to the financial statements.

BANKING FACILITIES

Particulars of the banking facilities of the Company as at 30 June 2006 are set out in note 20 to the financial statements.

Directors' Report

CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to RMB96,900 (2005: RMB209,440).

CONVERTIBLE BONDS

Details of the convertible bonds are set out in note 23 to the financial statements.

COMMITMENTS

Particulars of the commitments of the Group as at 30 June 2006 are set out in note 28 to the financial statements.

SHARE OPTION SCHEME

At the extraordinary general meeting of the Company held on 9 January 2003, an ordinary resolution was passed to adopt a share option scheme (the "2003 Scheme").

Summary of the 2003 Scheme

(a) *Purpose of the 2003 Scheme*

The purpose of the 2003 Scheme is to provide incentives and rewards to Eligible Participants (as defined hereinafter) who contribute to the success of the Group.

(b) *Participants of the 2003 Scheme*

Pursuant to the 2003 Scheme, the Board may offer eligible participants (being employees (whether full time or part time) or executives or officers of the Company or any of its subsidiaries (including executive and non-executive directors of the Company or any of its subsidiaries) and business consultants, agents, legal or financial advisers who the Board considers, in its sole discretion, will contribute or have contributed to the Company or any of its subsidiaries) ("Eligible Participants") options to subscribe for such number of shares in the Company.

(c) *Total number of shares available for issue under the 2003 Scheme*

The total number of shares which may be issued upon exercise of all options to be granted under the 2003 Scheme will be 40,262,500 shares, representing 10% of the shares in issue as at the adoption date. On 23 December 2005, an ordinary resolution was passed at the annual general meeting to refresh the number of shares available for issue up to 10% of the shares in issue as at the resolution date, representing 46,762,500 shares. The maximum number of shares to be issued upon the exercise of all outstanding options granted and yet to be exercised under the 2003 Scheme must not in aggregate exceed 30% of the relevant shares of the Company in issue from time to time.

As at 30 June 2006, a total of 51,000,000 options have been granted since the adoption of the 2003 Scheme. With a total of 8,000,000 options exercised, 36,000,000 options lapsed, 3,000,000 options cancelled, and 4,000,000 options remained outstanding, representing approximately 0.86% of the total issued number of shares of the Company as at 30 June 2006.

(d) *Maximum entitlement of each participant*

The maximum number of shares in respect of which options may be granted to any individual in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point of time. Any further grant of options in excess of this 1% limit shall be subject to the issue of a circular by the Company and the approval of the shareholders in general meeting.

(e) *Option period*

Option may be exercised after it has vested at any time during the year to be notified by the Board at the time of the grant of the option but shall end in any event not later than 10 years from the offer date, subject to the provisions for early termination of the 2003 Scheme.

(f) *Payment on acceptance of option*

Options granted must be taken up within 21 days from the offer date, upon payment of HK$1.00 per grant.

(g) *Basis of determining the subscription price*

The subscription price per share under the 2003 Scheme is determined by the Board, save that such price must not be less than the highest of (a) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of offer to grant option, which must be a business day; (b) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of offer to grant option; and (c) the nominal value of the share of the Company.

(h) *Remaining life of the 2003 Scheme*

The 2003 Scheme will remain valid until 8 January 2013.

Share options

The following table discloses movements in the Company's share options of the 2003 Scheme during the year:

Name or category of participant	Date of grant	Number of share options: Outstanding as at 1 July 2005	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 30 June 2006	Exercisable period	Exercise price per share HK$	Market value per share at date of grant of options HK$
(a) **Directors**									
Lin Wan Qaing	17 December 2004	4,000,000	—	—	(4,000,000)	—	17 December 2004 to 17 December 2005	0.89	0.88
Chen Yan Shun	17 December 2004	2,500,000	—	—	(2,500,000)	—	17 December 2004 to 17 December 2005	0.89	0.88
Liu Zhao Cai	17 December 2004	2,500,000	—	—	(2,500,000)	—	17 December 2004 to 17 December 2005	0.89	0.88
Tong Yiu On	17 December 2004	2,500,000	—	—	(2,500,000)	—	17 December 2004 to 17 December 2005	0.89	0.88
Xiang Song	17 December 2004	2,500,000	—	—	(2,500,000)	—	17 December 2004 to 17 December 2005	0.89	0.88
(b) **Eligible employees**	17 December 2004	14,000,000	—	—	(14,000,000)	—	17 December 2004 to 17 December 2005	0.89	0.88
(c) **Consultants**	27 April 2005	4,000,000	—	—	—	4,000,000	27 April 2005 to 27 April 2008	1.172	0.86
Total		32,000,000	—	—	(28,000,000)	4,000,000			

Information on the accounting policy for share options granted and the weighted average value per option is provided in notes 1(p)(iii) and 26 to the financial statements.

Apart from the foregoing, at no time during the year was the Company, any of its subsidiaries or fellow subsidiaries a party to any arrangement 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.

RETIREMENT BENEFITS SCHEMES

Details of the Group's retirement benefits schemes for the year ended 30 June 2006 are set out in note 25 to the financial statements.

CONNECTED TRANSACTIONS

On 1 February 1999, the Group entered into a lease agreement with Ms. He Yu Zhu, the spouse of Mr. Lin Wan Qaing, pursuant to which the Group agreed to pay a monthly rental of RMB35,200 in respect of the Group's occupation of 15 level, Zhong Mei Building, No. 107 Gu Tian Road, Fuzhou City, Fujian Province, PRC for a term of five years commencing on 1 February 1999 and the lease agreement has been extended to 30 January 2009 with a revised monthly rental of RMB28,575. In the opinion of the independent non-executive Directors of the Company, the rental is based on normal commercial terms and is conducted in the ordinary and usual course of business of the Group. This transaction constitutes a de minimus on-going connected transaction in accordance with Rule 14.24(5) of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

DIRECTORS

The Directors of the Company during the year and up to the date of this report are:

Executive Directors

Mr. Lin Wan Qaing *(Chairman)*
Mr. Chen Yan Shun *(Vice-chairman)* (resigned on 1 April 2006)
Mr. Liu Zhao Cai *(Vice-chairman)*
Mr. Xiang Song *(Chief Executive Officer)*
Mr. Tong Yiu On

Independent Non-executive Directors

Mr. Pan Chang Chi
Mr. Cai Xun Shan
Mr. Cheung Chuen

In accordance with clauses 87(1) and 87(2) of the Company's articles of association, Mr. Lin Wan Qaing, Mr. Tong Yiu On and Mr. Cai Xun Shan will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE AGREEMENTS

Each of the executive Directors listed below has entered into a service agreement with the Company for a term of three years, with a fixed term of one year, except for service agreement of Mr. Chen Yan Shun, the term of which is one year. The commencement dates of the agreements with each of the executive Directors are as follows:

Mr. Lin Wan Qaing	8 May 2004
Mr. Chen Yan Shun	17 September 2005
Mr. Liu Zhao Cai	22 April 2006
Mr. Xiang Song	8 May 2004
Mr. Tong Yiu On	18 December 2002

Except Mr. Chen Yan Shun and Mr. Tong Yiu On, supplementary agreements had been entered into between each of executive Directors and the Company, which will be terminated by either party giving the other not less than six months prior written notice after the expiration of the said fixed term. The service agreement of Mr. Tong Yiu On shall continue after expiry date unless and until terminated by either party giving the other not less than six months prior written notice after the expiration of the said fixed term. Termination of service agreement with Mr. Chen Yan Shun was effective on 1 April 2006.

Each of Independent Non-executive Directors of the Company has not entered into a service agreement with the Company and is not appointed for a specific term but is subject to retirement by rotation and re-election at the annual general meeting in accordance with the articles of association of the Company.

Save as disclosed above, none of the Directors of the Company has a service agreement with the Company or any of its subsidiaries, which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2006, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executives of the Company were deemed or taken to have under such provisions of the SFO), or which were recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for the Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

Long positions in the shares of the Company

Name	Capacity	Type of interests	Number of shares held	Approximate % of the issued share capital
Lin Wan Qaing	Beneficial owner	Personal	282,739,780	60.46

Save as disclosed above, as at 30 June 2006, none of the Directors nor the chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2006, according to the register of members kept by the Company pursuant to Section 336 of the SFO and so far as is known to, or can be ascertained after reasonable enquiry by the Directors, the following person/entity (other than the Directors or chief executives of the Company) had an interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which would fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO, or be directly and indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote on all circumstances at general meetings of the Company:

Long positions in the shares of the Company

Name	Capacity	Number of shares	Approximate % of the issued share capital
FMR Corporation	Investment manager	23,448,000	5.01

Save as disclosed above, the Company has not been notified of any other interests or short positions representing 5% or more of the issued share capital of the Company and recorded in the register maintained under Section 336 of the SFO as at 30 June 2006.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Other than as disclosed under the sections "Share option scheme", "Share options" and "Directors' interests and short positions in shares, underlying shares and debentures" above, at no time during the year was the Company or any of its subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executives of the Company or their respective associates (as defined in the Listing Rules) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 30 to the financial statements, there was no contract, commitment or agreement of significance in relation to the Company's business, to which the Company or any of its subsidiaries was a party and in which any of the Directors had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' Report

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors or the management shareholders or the substantial shareholders of the Company, or any of their respective associates (as defined in the Listing Rules) had any material interest in a business that competes or may compete with the business of the Group.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its independent non-executive Directors written confirmation of their independent pursuant to Rule 3.13 of the Listing Rules. Based upon the said confirmations, the Company considers that Mr. Pan Chang Chi, Mr. Cai Xun Shan and Mr. Cheung Chuen are independent.

MANAGEMENT CONTRACT

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 92 of the annual report.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 30 June 2006, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

AUDIT COMMITTEE

The Company has established an audit committee since 8 May 2001 with written terms of reference and the duties of the audit committee include reviewing the Company's annual reports and interim reports and providing advice and comments to the Directors. The audit committee is also responsible for reviewing and supervising the financial reporting and internal control procedures of the Group.

As at the date of this report, the audit committee comprises three independent non-executive Directors, namely, Mr. Pan Chang Chi, Mr. Cai Xun Shan and Mr. Cheung Chuen. During the year ended 30 June 2006, the audit committee has met twice to review the interim and annual results of the Group.

SUFFICIENT OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company as at the date of this annual report, the Company has maintained the prescribed public float under the Listing Rules.

AUDITORS

KPMG were first appointed as auditors of the Company in 2005 upon the retirement of CCIF CPA Limited.

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By Order of the Board

Lin Wan Qaing
Chairman
Hong Kong, 19 October 2006

Auditors' Report

Auditors' report to the shareholders of
Sinotronics Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 31 to 91 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 financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and the Company's circumstances, 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 financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2006 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
Hong Kong, 19 October 2006

Consolidated Income Statement

For the year ended 30 June 2006
(Expressed in Renminbi)

	Note	2006 RMB'000	2005 RMB'000
Turnover	2	525,953	369,787
Cost of sales		(339,663)	(222,783)
Gross profit		186,290	147,004
Other revenue	3	8,731	2,948
Distribution costs		(6,499)	(3,901)
Administrative expenses		(24,994)	(27,599)
Other operating expenses		(977)	(6,163)
Profit from operations		162,551	112,289
Finance costs	4(a)	(33,239)	(8,787)
Share of profits less losses of associates		—	6,655
Loss on disposal of associates		—	(5,065)
Profit before taxation	4	129,312	105,092
Income tax	5(a)	(21,225)	(18,274)
Profit for the year		108,087	86,818
Attributable to:			
Equity shareholders of the Company		101,816	80,427
Minority interests		6,271	6,391
Profit for the year		108,087	86,818
Dividends attributable to the year:	9		
Final dividend proposed after the balance sheet date		19,942	17,349
Earnings per share	10		
Basic		22 cents	17 cents
Diluted (2005: restated)		21 cents	17 cents

The notes on pages 38 to 91 form part of these financial statements.

Consolidated Balance Sheet

At 30 June 2006
(Expressed in Renminbi)

	Note	2006 RMB'000	2005 RMB'000
Non-current assets			
Property, plant and equipment	12	331,957	193,529
Interest in leasehold land held for own use under operating lease	13	17,616	2,653
Purchase deposits of property, plant and equipment		1,765	9,123
Deferred tax assets	22(b)	3,430	2,905
		354,768	208,210
Current assets			
Trading securities		102	192
Inventories	15	28,464	21,237
Trade and other receivables	16	240,219	180,110
Pledged bank deposit	17	—	5,329
Cash and cash equivalents	18	572,803	540,915
		841,588	747,783
Current liabilities			
Trade and other payables	19	175,729	101,139
Short-term bank loans	20	199,391	110,657
Obligations under finance leases	21	6,257	9,899
Taxation	22(a)	5,499	6,359
Convertible bonds	23	71,326	—
		458,202	228,054
Net current assets		383,386	519,729
Total assets less current liabilities		738,154	727,939
Non-current liabilities			
Non-current bank loans	20	30,000	33,134
Obligations under finance leases	21	6,878	3,083
Convertible bonds	23	—	69,228
		36,878	105,445
NET ASSETS		701,276	622,494

Consolidated Balance Sheet

At 30 June 2006
(Expressed in Renminbi)

	Note	2006 RMB'000	2005 RMB'000
Capital and reserves	*24*		
Share capital		**49,568**	49,568
Reserves		**620,465**	547,078
Total equity attributable to equity shareholders of the parent		**670,033**	596,646
Minority interests	*24*	**31,243**	25,848
TOTAL EQUITY		**701,276**	622,494

Approved and authorised for issue by the board of directors on 19 October 2006.

Lin Wan Qaing
Director

Xiang Song
Director

The notes on pages 38 to 91 form part of these financial statements.

Balance Sheet

At 30 June 2006
(Expressed in Renminbi)

	Note	2006 RMB'000	2005 RMB'000
Non-current assets			
Property, plant and equipment	12	16	33
Investments in subsidiaries	14	93,975	93,974
		93,991	94,007
Current assets			
Other receivables	16	240,353	214,990
Cash and cash equivalents	18	55,475	97,118
		295,828	312,108
Current liabilities			
Other payables	19	38,239	13,195
Short-term bank loans	20	56,298	24,742
Convertible bonds	23	71,326	—
		165,863	37,937
Net current assets		129,965	274,171
Total assets less current liabilities		223,956	368,178
Non-current liabilities			
Non-current bank loans	20	—	33,134
Convertible bonds	23	—	69,228
		—	102,362
NET ASSETS		223,956	265,816
Capital and reserves	24		
Share capital		49,568	49,568
Reserves		174,388	216,248
TOTAL EQUITY		223,956	265,816

Approved and authorised for issue by the board of directors on 19 October 2006.

Lin Wan Qaing
Director

Xiang Song
Director

The notes on pages 38 to 91 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2006
(Expressed in Renminbi)

	Note	2006 RMB'000	2005 RMB'000
Total equity at 1 July		622,494	540,479
Net income recognised directly in equity:			
Exchange differences on translation of financial statements of overseas subsidiaries		297	—
Surplus on revaluation of buildings held for own use, net of deferred tax		39	—
Gain on dilution arising from capital injection to a subsidiary by the Group	14	—	13,913
Convertible bonds — equity component	23	—	11,743
Redesignation of conversion rights as derivative liabilities	24(b)(ii)	(11,743)	—
Employee share option scheme	26(a)	—	1,496
Other share-based compensation	26(a)	—	144
		(11,407)	27,296
Net profit for the year		108,087	86,818
Attributable to:			
Equity shareholders of the Company		101,816	80,427
Minority interests		6,271	6,391
		108,087	86,818
Dividends approved and paid during the year	9(b)	(17,022)	(17,349)
Movements in minority interests			
Dilution arising from capital injection to a subsidiary by the Group	14	—	(13,913)
Dividend paid to minority interests during the year		(876)	(837)
		(876)	(14,750)
Total equity at 30 June		701,276	622,494

The notes on pages 38 to 91 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 30 June 2006
(Expressed in Renminbi)

	Note	2006 RMB'000	2005 RMB'000
Operating activities			
Profit before taxation		129,312	105,092
Adjustments for:			
— Depreciation		18,953	16,124
— Amortisation of interest in leasehold land held for own used under operating lease		276	131
— Share of profits less losses of associates		—	(6,655)
— Interest expense		18,056	8,128
— Interest element of finance lease		1,217	659
— Interest income		(6,272)	(2,642)
— Impairment losses of trade and other receivables		2,087	3,513
— Reversal of impairment losses of trade and other receivables		(2,940)	—
— Bad debts written off		—	743
— Fair value adjustment of derivatives liabilities		13,966	—
— Foreign exchange gain		(733)	—
— (Gain)/loss derived from trading securities		(10)	8
— Loss on disposal of associates		—	5,065
— Employee share option benefits		—	1,496
Operating profit before changes in working capital		173,912	131,662
Increase in inventories		(7,227)	(9,163)
Increase in trade and other receivables		(59,192)	(35,603)
Increase in trade and other payables		43,205	47,280
Cash generated from operations		150,698	134,176
Tax paid			
— PRC enterprise income tax paid		(22,616)	(21,209)
Net cash from operating activities		128,082	112,967

Consolidated Cash Flow Statement

For the year ended 30 June 2006
(Expressed in Renminbi)

	Note	2006 RMB'000	2005 RMB'000
Investing activities			
Decrease in deposits for purchase of property, plant and equipment		7,358	49,451
Payment for purchase of property, plant and equipment		(155,583)	(102,000)
Payment for purchase of land use rights		(15,239)	—
Proceeds from disposal of associates		—	52,000
Repayment from an independent third party		—	30,000
Decrease in pledged bank deposits		5,329	—
Payment for purchase of trading securities		(208)	(200)
Proceeds from disposal of trading securities		308	—
Interest received		6,272	2,642
Net cash generated from investing activities		(151,763)	31,893
Financing activities			
Proceeds from new bank loans		247,195	85,915
Repayment of short-term bank loans		(160,657)	(70,300)
Proceeds from finance leases		12,133	19,738
Capital element of finance lease rentals paid		(11,612)	(6,756)
Interest element of finance lease rentals paid		(1,217)	(659)
Increase/(decrease) in amount due to a director		3,132	(711)
Interest paid		(13,162)	(8,121)
Dividend paid		(17,022)	(17,349)
Dividend paid to minority shareholders of subsidiaries		(876)	(837)
Net proceeds from the issue of convertible bonds		—	81,108
Net cash generated from financing activities		57,914	82,028
Net increase in cash and cash equivalents		34,233	226,888
Cash and cash equivalents at 1 July		540,915	314,027
Effect of foreign exchange rate changes		(2,345)	—
Cash and cash equivalents at 30 June	18	572,803	540,915

The notes on pages 38 to 91 form part of these financial statements.

Notes to the Financial Statements

For the year ended 30 June 2006
(Expressed in Renminbi)

1. SIGNIFICANT ACCOUNTING POLICIES

Sinotronics Holdings Limited (the "Company") is a company incorporated in the Cayman Islands.

The consolidated financial statements of the Company for the year ended 30 June 2006 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong ("HKGAAP") and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

Up to the date of issue of these financial statements, the HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2006 and which have not been adopted in these financial statements. Information on the possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ended 30 June 2006 is provided in note 33. For new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005, the Group had early adopted for the financial statements for the year ended 30 June 2005. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the financial statements

The financial statements are in Renminbi, rounded in the nearest thousand. The measurement basis used in the preparation of the financial statements is historical cost except that the following assets are stated at their fair value as explained in the accounting policies set out below:

— buildings held for own use (see note 1(f)(i));

— trading securities (see note 1(d)); and

— derivative financial instruments (see note 1(e)).

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of preparation of the financial statements (continued)

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 29.

The accounting policies have been applied consistently by group entities.

(c) Subsidiaries

A subsidiary is a company in which the Group, directly or indirectly, holds more than half of the issued share capital or controls more than half of the voting power or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Subsidiaries (continued)

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(i)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.

(d) Trading securities

Investments in securities held for trading are classified as current assets and are initially stated at fair value. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in the income statement.

Investments are recognised/derecognised on the date the Group and/or the Company commits to purchase/sell the investments or they expire.

(e) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is charged immediately to the income statement.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Property, plant and equipment

(i) Property, plant and equipment are carried in the balance sheets on the following bases:

— buildings held for own use are stated in the balance sheets at revalued amount less accumulated depreciation (see note 1(h)) and impairment losses (see note 1(i)). The cost of self-constructed assets includes the cost of materials, direct labour, the initial estimates, where relevant, of the cost of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads;

— machinery and other fixed assets are stated in the balance sheets at cost less accumulated depreciation (see note 1(h)) and impairment losses (see note 1(i)); and

— construction-in-progress represents buildings under construction and machinery pending for installation. It is stated at cost, which includes construction expenditures incurred, cost of machinery, and other direct costs capitalised during the construction and installation period.

(ii) Revaluations are performed with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair values at the balance sheet date.

(iii) Changes arising on the revaluation of buildings held for own use are generally dealt with in reserves. The only exceptions are as follows:

— when a deficit arises on revaluation, it will be charged to the income statement to the extent that it exceeds the amount held in the reserve in respect of that same asset immediately prior to the revaluation; and

— when a surplus arises on revaluation, it will be credited to the income statement to the extent that a deficit on revaluation in respect of that same asset had previously been charged to the income statement.

(iv) Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in the income statement on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Leased assets

(i) *Classification of assets leased to the Group*

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) *Assets acquired under finance leases*

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets in equal annual amounts over the term of the relevant lease or, where it is likely the Company or Group will obtain ownership of the asset, the life of the asset, as set out in note 1(h). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(i). Finance charges implicit in the lease payments are charged to the income statement over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are written off as an expense during the accounting period in which they are incurred.

(iii) *Operating lease charges*

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Depreciation

(i) No depreciation is provided on construction-in-progress until it is available for use.

(ii) Depreciation is calculated to write off the cost or valuation of property, plant and equipment less estimated residual value over their estimated useful lives as follows:

— buildings held for own use are depreciated on a straight-line basis over the shorter of their estimated useful lives, being 25 years from the date of completion, and the remaining terms of the leases; and

— other property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

Machinery	10 years
Furniture and equipment	5 years
Motor vehicles	5 years

(i) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;

— interests in leasehold land held for own use under operating lease; and

— investments in subsidiaries.

If any such indication exists, the asset's recoverable amount is estimated.

(i) *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Impairment of assets (continued)

(ii) *Recognition of impairment losses*

An impairment loss is recognised in the income statement whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (group of units) on a pro rata basis.

(iii) *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(j) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period in which the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

Impairment losses for bad and doubtful debts are measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted where the effect of discounting is material.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(m) Convertible bonds

Convertible bonds that can be converted to share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds. At initial recognition the liability component of the convertible notes is calculated as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. The liability component is subsequently carried at amortised costs. The interest expense recognised in the income statement is calculated using the effective interest rate method.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

(o) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(p) Employee benefits

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance and mandatory central pension schemes organised by the PRC government are recognised as an expense in the income statement as incurred, except to the extent that they are included in the cost of inventory not yet recognised as an expense.

(iii) Pursuant to the 2003 Scheme, the Board may offer certain employees of the Group options to subscribe for such number of shares in the Company. The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at the grant date using the Black-Scholes-Merton Option Pricing Model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Employee benefits (continued)

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On the vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve). The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

However, no employee benefit cost or obligation is recognised at the date of grant for options granted to employees which had vested before 1 July 2004.

(q) Income tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Income tax (continued)

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Income tax (continued)

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

— the same taxable entity; or

— different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(r) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and cost, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) *Sales of goods*

Revenue is recognised when goods are delivered and title has passed. Revenue excludes value-added tax and is stated after deduction of any trade discounts.

(ii) *Processing service income*

Processing service income are recognised when services are rendered.

(iii) *Interest income*

Interest income is recognised as it accrues using the effective interest method.

(t) Research and development costs

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Because of the nature of the Group's research and development activities, the criteria for the recognition of such costs as an asset are generally not met until late in the development stage of the project when the remaining development costs are immaterial. Hence both research costs and development costs are generally recognised as expenses in the period in which they are incurred.

(u) Translation of foreign currencies

Foreign currency transactions during the year are translated into Renminbi at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Translation of foreign currencies (continued)

The results of foreign enterprises are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of transactions. Balance sheet items are translated into Renminbi at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

On disposal of a foreign enterprise, the cumulative amount of the exchange differences which relate to that foreign enterprise is included in the calculation of the profit or loss on disposal.

(v) Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred.

(w) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(x) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(y) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Notes to the Financial Statements

For the year ended 30 June 2006
(Expressed in Renminbi)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) Segment reporting (continued)

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographic segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses.

2. TURNOVER

The Company acts as an investment holding company and the Group is principally engaged in the manufacture and sales of printed circuit boards ("PCBs") and PCBs assembling products, and provision for surface mount technology ("SMT") processing service.

Turnover represents the sales value of goods supplied to customers, which excludes value-added tax and is stated after deduction of all goods returns and trade discounts, and service income from SMT processing service. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2006 *RMB'000*	2005 *RMB'000*
Sales of PCBs	454,784	360,855
Sales of PCBs assembling products	45,363	8,932
SMT processing service income	25,806	—
	525,953	369,787

3. OTHER REVENUE

	2006 RMB'000	2005 RMB'000
Other revenue		
Interest income	6,272	2,642
Others	2,459	306
	8,731	2,948

4. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

		2006 RMB'000	2005 RMB'000
(a)	Finance costs:		
	Interest on bank loans wholly repayable within five years	11,923	6,939
	Finance charges on obligations under finance leases	1,217	659
	Interest on convertible bonds wholly repayable within five years	6,002	1,090
	Fair value adjustments on derivative financial instruments	13,966	—
	Other borrowing costs	131	99
	Total borrowing costs	33,239	8,787
(b)	Staff costs:#		
	Contributions to defined contribution plans	3,434	1,800
	Employees share option benefits	—	1,496
	Salaries, wages and other benefits	25,414	14,527
		28,848	17,823

Notes to the Financial Statements

For the year ended 30 June 2006
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4. PROFIT BEFORE TAXATION (CONTINUED)

		2006 *RMB'000*	2005 *RMB'000*
(c)	Other items:		
	Cost of inventories#	**339,663**	222,783
	Amortisation of interest in leasehold land held for own use under operating lease#	**276**	131
	Depreciation#		
	— owned fixed assets	**15,695**	16,064
	— assets held for use under finance lease	**3,258**	60
	Operating lease rentals for premises#	**1,787**	663
	Research and development costs	**—**	673
	Auditors' remuneration		
	— audit service	**1,980**	1,435
	— other services	**50**	—
	Impairment losses of trade and other receivables	**2,087**	3,513
	Reversal of impairment losses of trade and other receivables	**(2,940)**	—
	Bad debts written off	**—**	743
	(Gain)/loss derived from trading securities	**(10)**	8

\# Cost of inventories includes RMB38,510,000 (2005: RMB27,483,000) relating to staff cost, depreciation expenses, operating lease charges and amortisation of interest in leasehold land held for own use under operating lease, which amount is also included in the respective total amounts disclosed separately above or in note 4(b) for each of these types of expenses.

5. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2006 *RMB'000*	2005 *RMB'000*
Current tax — Overseas		
Provision for PRC enterprise income tax	**21,756**	21,464
Overprovision in respect of prior years	**—**	(285)
	21,756	21,179
Deferred tax		
Origination and reversal of temporary differences	**(531)**	(2,905)
	21,225	18,274

5. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (CONTINUED)

(a) Taxation in the consolidated income statement represents: (continued)

Notes:

(i) Overseas income tax

The Company is incorporated in the Cayman Islands and is exempted from taxation in the Cayman Islands until 2019. The Company's subsidiaries in the British Virgin Islands are incorporated under the International Business Companies Acts of the British Virgin Islands and, accordingly, are exempt from British Virgin Islands income taxes.

(ii) Hong Kong profits tax

No provision for Hong Kong profits tax has been made as the Group did not generate any income subject to Hong Kong profits tax during the years presented.

(iii) PRC enterprise income tax

The Group's subsidiaries in the PRC are subject to PRC enterprise income tax at a preferential rate of 15%. In accordance with the relevant tax rules and regulations in the PRC, two subsidiaries in the PRC are fully exempted from PRC enterprise income tax until 31 December 2007. Thereafter, they will be entitled to a 50% reduction of PRC income tax for the next three years.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2006	2005
	RMB'000	*RMB'000*
Profit before tax	**129,312**	105,092
Notional tax on profit before tax, calculated at the rates applicable to profits in the countries concerned	**18,703**	15,177
Tax effect of non-deductible expenses	**6,228**	3,071
Tax effect of non-taxable revenue	**(1,124)**	(89)
Tax effect of prior year's tax loss utilised this year	**(2,405)**	—
Tax effect of unused tax losses not recognised	**—**	2,808
Tax effect of net income under tax holiday	**(177)**	—
Deferred tax assets previously not recognised	**—**	(2,408)
Over-provision in prior years	**—**	(285)
Actual tax expenses	**21,225**	18,274

6. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Listing Rules is as follows:

	Fees		Salaries and other emoluments		Retirement scheme contributions		Employee share option benefits		Total	
Name	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Executive directors:										
Lin Wan Qaing	—	—	1,084	817	12	14	—	187	1,096	1,018
Chen Yan Shun	—	—	93	996	—	—	—	117	93	1,113
Liu Zhao Cai	—	—	370	360	—	1	—	117	370	478
Xiang Song	—	—	370	504	—	1	—	117	370	622
Tong Yiu On	—	—	621	816	12	13	—	117	633	946
Independent non-executive directors:										
Pan Chang Chi	10	11	—	—	—	—	—	—	10	11
Cai Xun Shan	10	10	—	—	—	—	—	—	10	10
Cheung Chuen	47	24	—	—	—	—	—	—	47	24
	67	45	2,538	3,493	24	29	—	655	2,629	4,222

7. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2005: five) are directors whose emoluments are disclosed in note 6. The aggregate of the emoluments in respect of the remaining one individual in 2006 were as follows:

	2006 RMB'000	2005 RMB'000
Salaries and other emoluments	296	—
Retirement scheme contributions	12	—
	308	—

During the years ended 30 June 2006 and 2005, no emoluments were paid to the five highest paid individuals (including directors and other employees) as inducement to join or upon joining the Group or as compensation for loss of office.

7. INDIVIDUALS WITH HIGHEST EMOLUMENTS (CONTINUED)

The emoluments of the one individual in 2006 with the highest emoluments were within the following band:

	Number of individuals 2006	Number of individuals 2005
Nil–RMB1,030,000 (equivalent to approximately nil–HK$1,000,000)	**1**	—

8. (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a loss of approximately RMB29,655,000 (2005: RMB12,776,000) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's (loss)/profit for the year:

	2006 ***RMB'000***	2005 *RMB'000*
Amount of loss attributable to shareholders dealt with in the Company's financial statements	**(29,655)**	(12,776)
Final dividends from subsidiaries attributable to the profits of the previous financial year, declared and received during the year	**16,560**	15,921
Company's (loss)/profit for the year *(note 24(b))*	**(13,095)**	3,145

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9. DIVIDENDS

(a) Dividends payable to equity shareholders of the Company attributable to the year

	2006 *RMB'000*	2005 *RMB'000*
Final dividend proposed after the balance sheet date of HK$0.035 (equivalent to approximately RMB0.03605) per ordinary share (2005: HK$0.035 (equivalent to approximatelyRMB0.0371) per ordinary share)	19,942	17,349

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2006 *RMB'000*	2005 *RMB'000*
Final dividend of HK$0.035 (equivalent to approximately RMB0.0364 per ordinary share (2005: HK$0.035 (equivalent to approximately RMB0.0371) per ordinary share) in respect of the previous financial year, approved and paid during the year	17,022	17,349

10. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of approximately RMB101,816,000 (2005: RMB80,427,000) and the weighted average number of 467,625,000 (2005: 467,625,000) ordinary shares in issue during the year.

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10. EARNINGS PER SHARE (CONTINUED)

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to shareholders of approximately RMB118,863,000 (2005 (restated): RMB81,400,000) as adjusted for interest and exchange gain on convertible bonds and fair value adjustments on derivative financial instruments of RMB17,047,000 (2005 (restated): RMB973,000) and the weighted average number of 561,150,000 (2005 (restated): 484,280,000) ordinary shares in issue during the year after adjusting for the effect of all dilutive potential shares.

	2006 *thousand*	2005 *thousand* *(restated)*
Weighted average number of ordinary shares used in calculating basic earnings per share	467,625	467,625
Deemed issue of ordinary shares as a result of conversion of convertible bonds for no consideration	93,525	16,655
	561,150	484,280

11. SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group in making operating and financial decisions.

(a) Business segment

The Group comprises the following main business segments:

PCBs	:	the manufacture and sale of PCBs
PCBs assembling products	:	the manufacture and sale of PCBs assembling products
SMT processing	:	the provision for service mount technology processing service

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11. SEGMENT REPORTING (CONTINUED)

(a) Business segment (continued)

	PCBs		PCBs assembling products		SMT Processing		Inter-segment elimination		Unallocated		Consolidated	
	2006 *RMB'000*	2005 *RMB'000*	**2006** *RMB'000*	2005 *RMB'000*	**2006** *RMB'000*	2005 *RMB'000*	**2006** *RMB'000*	2005 *RMB'000*	**2006** *RMB'000*	2005 *RMB'000*	**2006** *RMB'000*	2005 *RMB'000*
Revenue from external customers	**454,784**	360,855	**45,363**	8,932	**25,806**	—	**—**	—	**—**	—	**525,953**	369,787
Inter-segment revenue	**809**	90	**—**	—	**9**	—	**(818)**	(90)	**—**	—	**—**	—
Total	**455,593**	360,945	**45,363**	8,932	**25,815**	—	**(818)**	(90)	**—**	—	**525,953**	369,787
Segment result	**165,202**	127,350	**1,316**	(4,330)	**2,879**	—	**—**	—	**—**	—	**169,397**	123,020
Unallocated operating income and expenses											**(6,846)**	(10,731)
Profit from operations											**162,551**	112,289
Finance costs											**(33,239)**	(8,787)
Share of profits less losses of associates	**—**	—	**—**	—	**—**	—	**—**	—	**—**	6,655	**—**	6,655
Loss on disposal of associates	**—**	—	**—**	—	**—**	—	**—**	—	**—**	(5,065)	**—**	(5,065)
Taxation											**(21,225)**	(18,274)
Minority interests											**(6,271)**	(6,391)
Profit after taxation											**101,816**	80,427
Depreciation and amortisation for the year	**17,608**	15,386	**480**	794	**1,051**	—	**—**	—	**90**	75	**19,229**	16,255
Segment assets	**1,044,274**	777,679	**74,757**	88,771	**159,134**	—	**(138,867)**	(9,560)	**57,058**	99,103	**1,196,356**	955,993
Segment liabilities	**312,168**	224,837	**75,557**	52,467	**159,449**	—	**(138,867)**	(9,560)	**86,773**	65,755	**495,080**	333,499
Capital expenditure	**81,655**	84,761	**29,991**	8,065	**65,581**	—	**—**	—	**—**	4	**177,227**	92,830

11. SEGMENT REPORTING (CONTINUED)

(b) Geographical segment

In presenting information on the basis of geographical segments, segment revenue is based on geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

The Group's business is principally managed in the PRC, and the Group's customers are mainly located in the PRC (including Hong Kong and Taiwan), Australia and Germany.

	The Group	
	2006	2005
	RMB'000	*RMB'000*
Segment revenue		
— PRC, excluding Hong Kong and Taiwan	**440,976**	307,006
— Australia	**42,197**	39,144
— Hong Kong	**12,808**	2,219
— Germany	**6,498**	3,300
— Taiwan	**—**	16,603
— Others	**23,474**	1,515
Total revenue from external customers	**525,953**	369,787
Segment assets		
— PRC, excluding Hong Kong and Taiwan	**1,139,298**	856,890
— Others	**57,058**	99,103
	1,196,356	955,993
Capital expenditures		
— PRC, excluding Hong Kong and Taiwan	**177,227**	92,830
— Others	**—**	—
	177,277	92,830

12. PROPERTY, PLANT AND EQUIPMENT

(a) The Group

Year 2004/2005

	Buildings held for own use *RMB'000*	Machinery *RMB'000*	Furniture and equipment *RMB'000*	Motor vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
Cost or valuation:						
At 1 July 2004	47,009	94,548	3,261	3,362	768	148,948
Additions	38,596	51,567	2,042	672	9,154	102,031
Reclassifications	5,216	51	—	—	(5,267)	—
Disposals	—	—	(33)	—	—	(33)
At 30 June 2005	90,821	146,166	5,270	4,034	4,655	250,946
Representing:						
Cost	55,877	146,166	5,270	4,034	4,655	216,002
Valuation	34,944	—	—	—	—	34,944
	90,821	146,166	5,270	4,034	4,655	250,946
Aggregate depreciation:						
At 1 July 2004	2,636	33,251	2,397	3,011	—	41,295
Depreciation charge for the year	4,103	11,699	229	93	—	16,124
Written back on disposals	—	—	(2)	—	—	(2)
At 30 June 2005	6,739	44,950	2,624	3,104	—	57,417
Net book value:						
At 30 June 2005	84,082	101,216	2,646	930	4,655	193,529

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(a) The Group (continued)

Year 2005/2006

	Buildings held for own use *RMB'000*	Machinery *RMB'000*	Furniture and equipment *RMB'000*	Motor vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
Cost or valuation:						
At 1 July 2005	90,821	146,166	5,270	4,034	4,655	250,946
Additions	3,713	25,222	492	119	127,794	157,340
Reclassifications	54,094	72	1,081	—	(55,247)	—
Fair value adjustment	46	—	—	—	—	46
Less: Elimination of accumulated depreciation	(10,383)	—	—	—	—	(10,383)
Exchange adjustments	—	—	(13)	—	—	(13)
At 30 June 2006	138,291	171,460	6,830	4,153	77,202	397,936
Representing:						
Cost	—	171,460	6,830	4,153	77,202	259,645
Valuation	138,291	—	—	—	—	138,291
	138,291	171,460	6,830	4,153	77,202	397,936
Aggregate depreciation:						
At 1 July 2005	6,739	44,950	2,624	3,104	—	57,417
Depreciation charge for the year	3,644	14,256	852	201	—	18,953
Elimination on revaluation	(10,383)	—	—	—	—	(10,383)
Exchange adjustments	—	—	(8)	—	—	(8)
At 30 June 2006	—	59,206	3,468	3,305	—	65,979
Net book value:						
At 30 June 2006	138,291	112,254	3,362	848	77,202	331,957

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(b) The Company

	Furniture and equipment	
	2006	2005
	RMB'000	*RMB'000*
Cost:		
At 1 July	**125**	125
Aggregate depreciation:		
At 1 July	**92**	78
Depreciation charge for the year	**17**	14
At 30 June	**109**	92
Net book value:		
At 30 June	**16**	33

(c) All the Group's buildings are located in the PRC. The Group's buildings were revalued at 30 June 2006 by an independent firm of surveyors, BMI Appraisals Limited who has among their staff Fellows of Hong Kong Institute of Surveyors, on an open market value basis.

(d) The Group leases certain machineries under finance leases for two to four years. At the end of the lease term the Group has the option to purchase the machineries at a price deemed to be a bargain purchase option. None of the leases includes contingent rentals.

At 30 June 2006, the net book value of machineries held under finance leases of the Group was RMB35,290,000 (2005: RMB25,968,000).

(e) Had the buildings held for own use of the Group been carried at cost less accumulated depreciation, the carrying amount would have been RMB138,245,000 (2005: 84,082,000).

13. INTEREST IN LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASE

The analysis of net book value of leasehold land held for own use is as follows:

	The Group	
	2006	2005
	RMB'000	*RMB'000*
Outside Hong Kong		
— long leases	**15,094**	—
— medium-term leases	**2,522**	2,653
	17,616	2,653

14. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2006	2005
	RMB'000	*RMB'000*
Unlisted shares, at cost	**93,975**	93,974

(Expressed in Renminbi)

14. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Details of the subsidiaries as at 30 June 2006 were as follows:

Name of company	Place of incorporation and/or operations	Particulars of issued and fully paid capital	Proportion of ownership interest: Group's effective interest	held by the Company	held by subsidiary	Principal activities
Superford Holding Limited	British Virgin Islands ("BVI")/Hong Kong	10,001 shares of US$1 each	100%	100%	—	Investment holding
Artic Hong Kong Limited	Hong Kong	2 shares of HK$1 each	100%	100%	—	Provision of administrative services to the Group
Dynamic Fortune Technology Limited	BVI/Hong Kong	100 shares of US$1 each	100%	100%	—	Investment holding
China Electronic Holdings Limited	Hong Kong	2 shares of HK$1 each	100%	100%	—	Not yet commenced business
Tempest Trading Limited	BVI/Hong Kong	1 share of US$1 each	100%	100%	—	Investment holding
Winrise International Limited	BVI/Hong Kong	100 shares of US$ 1 each	100%	100%	—	Investment holding
Herowin Limited	BVI	100 shares of US$1 each	100%	100%	—	Investment holding
Fujian Fuqiang Delicate Circuit Plate Co., Ltd. ("Fuqiang")*	PRC	RMB92,000,000	95%	—	95%	Manufacturing and trading of printed circuit boards ("PCBs")
Gemini Electronics (Huizhou) Co., Ltd. ("Gemini")*	PRC	US$5,970,435	100%	—	100%	Manufacturing and trading of PCBs
Shuangxiang (Fujian) Electronics Limited ("Shuangxiang")*	PRC	RMB40,633,800	100%	—	100%	Manufacturing and trading of PCBs assembling products and provision for surface mount technology processing service
Fuqing Haichuang Electron Technology Co., Ltd. ("Haichuang")*	PRC	US$11,950,000	100%	—	100%	Not yet commenced business

* Registered under the laws of the PRC as foreign investment enterprise.

15. INVENTORIES

	The Group	
	2006	2005
	RMB'000	*RMB'000*
Raw materials	**14,795**	15,757
Work-in-progress	**6,888**	2,629
Finished goods	**6,781**	2,851
	28,464	21,237

The carrying amount of inventories sold in 2006 was RMB339,663,000 (2005: RMB222,783,000).

16. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Amounts due from subsidiaries	**—**	—	**240,096**	214,990
Bills receivable	**12,487**	—	**—**	—
Trade receivables	**209,904**	155,370	**—**	—
Advances and deposits to suppliers	**1,938**	10,404	**—**	—
Rental and other deposits	**526**	263	**—**	—
Advances to employees	**668**	883	**—**	—
Amounts due from a related party	**6,800**	—	**—**	—
Prepayments	**3,542**	1,197	**257**	—
Others	**4,354**	11,993	**—**	—
	240,219	180,110	**240,353**	214,990

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment.

All of the trade and other receivables, apart from rental and other deposits, are expected to be recovered within one year.

16. TRADE AND OTHER RECEIVABLES (CONTINUED)

Included in trade and other receivables are trade receivables and bills receivable with the following ageing analysis:

	The Group	
	2006	2005
	RMB'000	*RMB'000*
Invoice date:		
— Within 3 months	**170,281**	128,848
— 3 to 6 months	**58,042**	39,111
— 6 to 12 months	**1,218**	3,643
— More than 12 months	**4,499**	1,668
	234,040	173,270
Less: Impairment losses	**(11,649)**	(17,900)
	222,391	155,370

The Group's credit policy is set out in note 27(a). Bills discounted to banks with recourse totalling RMB8,293,000 (2005: Nil) were included in the bills receivable at 30 June 2006 (note 20).

Included in trade and other receivables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2006	2005	**2006**	2005
	'000	*'000*	***'000***	*'000*
United States Dollars	**USD2,670**	USD2,998	**USD—**	USD—
Hong Kong Dollars	**HKD622**	HKD1,007	**HKD250**	HKD—
Euros	**EUR287**	EUR121	**EUR—**	EUR—

17. PLEDGED BANK DEPOSITS

	The Group	
	2006	2005
	RMB'000	*RMB'000*
Maturing after three months from placement	**—**	5,329

The bank deposit was pledged to a bank against a bank loan granted to the Group (note 20).

18. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Deposits with banks and other financial institutions	**55,673**	101,694	**49,634**	95,698
Cash at bank and in hand	**517,130**	439,221	**5,841**	1,420
	572,803	540,915	**55,475**	97,118

At 30 June 2006, cash and cash equivalents of RMB515,045,000 (2005: RMB436,725,000) of the Group were subject to exchange control in the PRC.

Included in cash and cash equivalents in the balance sheets are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2006	2005	**2006**	2005
	'000	*'000*	***'000***	*'000*
United States Dollars	**USD6,696**	USD9,008	**USD6,526**	USD9,008
Hong Kong Dollars	**HKD3,666**	HKD22,585	**HKD2,803**	HKD21,255

19. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade payables	**62,737**	35,445	**—**	—
Bills payable	**19,447**	12,874	**—**	—
Other payables and accruals	**17,884**	9,841	**4,550**	2,650
Other tax payable	**4,028**	4,755	**—**	—
Payable for purchase of property, plant and equipment	**17,806**	16,049	**—**	—
Staff welfare payable	**10,586**	7,852	**—**	—
Utility and rental payable	**1,804**	1,727	**—**	—
Derivative financial instruments	**25,709**	—	**25,709**	—
Amounts due to subsidiaries	**—**	—	**5,256**	10,498
Amount due to a related party	**1,000**	1,000	**—**	—
Amount due to a director	**14,728**	11,596	**2,724**	47
	175,729	101,139	**38,239**	13,195

Amounts due to a related party and a director are unsecured, non-interest bearing and have no fixed terms of repayment.

Included in trade and other payables are trade payables and bills payable with the following ageing analysis:

	The Group	
	2006	2005
	RMB'000	*RMB'000*
Due within 6 months or on demand	**79,506**	47,777
Due after 6 months but within 1 year	**2,394**	542
Due after 1 year	**284**	—
	82,184	48,319

19. TRADE AND OTHER PAYABLES (CONTINUED)

Included in trade and other payables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2006	2005	**2006**	2005
	'000	*'000*	***'000***	*'000*
United States Dollars	**USD326**	USD190	**USD—**	USD—
Hong Kong Dollars	**HKD5,590**	HKD8,089	**HKD4,417**	HKD2,500
Euros	**EUR60**	EUR—	**EUR—**	EUR—

20. BANK LOANS

At 30 June 2006, the bank loans were repayable as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 1 year or on demand	**199,391**	110,657	**56,298**	24,742
After 1 year but within 2 years	**—**	8,247	**—**	8,247
After 2 years but within 5 years	**30,000**	24,887	**—**	24,887
	30,000	33,134	**—**	33,134
	229,391	143,791	**56,298**	57,876

An amount of US$7,008,000 (2005: US$7,000,000) was included in bank loans of the Group and the Company.

20. BANK LOANS (CONTINUED)

At 30 June 2006, the bank loans were secured as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Secured by bank deposit *(note (i))*	**—**	4,500	**—**	—
Secured by bills receivable	**8,293**	—	**—**	—
Unsecured *(note (ii))*	**221,098**	139,291	**56,298**	57,876
	229,391	143,791	**56,298**	57,876

Notes:

(i) At 30 June 2005, a bank deposit of RMB5,329,000 was pledged to a bank against a bank loan of RMB4,500,000 granted to the Group.

(ii) A corporate guarantee is issued by the Company in respect of bank loans of RMB144,800,000 (2005: RMB81,415,000) granted to a subsidiary.

(iii) The Group's weighted average interest rate per annum on short-term loans were 6.36% (2005: 6.06%).

(iv) The Group's and the Company's weighted average interest rate per annum on long-term loans were 5.85% (2005: 3.94%).

(v) At 30 June 2006, the Group had undrawn committed borrowing facilities of RMB40,000,000 (2005: RMB8,385,000) in respect of which all conditions precedent had been met.

(vi) Certain banking facilities of the Group are subject to the fulfilment of covenants relating to certain of the Group's balance sheet ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 27(b). As at 30 June 2006, none of the covenants relating to drawn down facilities had been breached (2005: nil).

21. OBLIGATIONS UNDER FINANCE LEASES

At 30 June 2006, the obligations under finance leases were repayable as follows:

	The Group					
	2006			2005		
	Present value of the minimum lease payments *RMB'000*	Interest expense relating to future periods *RMB'000*	Total minimum lease payments *RMB'000*	Present value of the minimum lease payments *RMB'000*	Interest expense relating to future periods *RMB'000*	Total minimum lease payments *RMB'000*
Within 1 year	6,257	700	6,957	9,899	560	10,459
After 1 year but within 2 years	3,247	402	3,649	3,083	48	3,131
After 2 years but within 5 years	3,631	182	3,813	—	—	—
	6,878	584	7,462	3,083	48	3,131
	13,135	1,284	14,419	12,982	608	13,590

22. INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the balance sheet represents:

	The Group	
	2006 *RMB'000*	2005 *RMB'000*
Provision for PRC enterprise income tax for the year	21,756	21,464
Provisional PRC enterprise income tax paid	(16,257)	(15,105)
	5,499	6,359

22. INCOME TAX IN THE BALANCE SHEET (CONTINUED)

(b) Deferred tax assets recognised:

The components of deferred tax assets recognised in the consolidated balance sheet and the movements during the year are as follows:

	The Group		
	General provision	Others	Total
	RMB'000	*RMB'000*	*RMB'000*
Deferred tax arising from:			
At 1 July 2004	—	—	—
Credited to consolidated income statement	(2,905)	—	(2,905)
At 30 June 2005	(2,905)	—	(2,905)
At 1 July 2005	(2,905)	—	(2,905)
Charged/(credited) to consolidated income statement	22	(554)	(532)
Charged to reserves	—	7	7
At 30 June 2006	(2,883)	(547)	(3,430)

(c) Deferred tax assets not recognised:

At 30 June 2006, the Group had not recognised deferred tax assets in respect of tax losses of approximately RMB3,303,000 (2005: RMB19,334,000) as it is not probable that the tax losses can be utilised after the tax holiday. At 30 June 2006, the Group's tax losses of approximately RMB3,303,000 will expire on 31 December 2009 (2005: RMB19,334,000 and RMB614,000 would expire on 31 December 2009 and 2008 respectively).

23. CONVERTIBLE BONDS

On 27 April 2005, the Company issued convertible bonds at a nominal value of US$10,000,000 (approximately RMB80,340,000). The bonds bear interest at 2% interest rate per annum and have a three-year term ("conversion period") from the date of issue.

The bonds can be converted into new ordinary shares at any time during the conversion period at either:

— fixed conversion price being 130% of HK$0.9017; or

— floating conversion price being 90% of the average of any four consecutive closing prices per share as selected by the bondholders during the 30 consecutive business days immediately prior to the date on which the conversion notice is received by the Company.

The Company may redeem any bond during the conversion period if the closing price per the Company's ordinary share is less than or equal to HK$0.5861. Since the date of issue, there has been no conversion or redemption. The entire convertible bonds were converted in July 2006.

24. CAPITAL AND RESERVES

(a) The Group

	Attributable to equity shareholders of the parent										
	Share capital *RMB'000*	Share premium *RMB'000*	Share-based compensation reserve *(note (i))* *RMB'000*	Convertible bonds reserve *(note (ii))* *RMB'000*	Capital reserve *(note (iii))* *RMB'000*	Exchange reserve *(note (iv))* *RMB'000*	Building valuation reserve *(note (v))* *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*	Minority interests *RMB'000*	Total equity *RMB'000*
At 1 July 2004	49,568	159,175	—	—	46,115	—	—	251,414	506,272	34,207	540,479
Dilution arising from capital injected by the Group	—	—	—	—	—	—	—	13,913	13,913	(13,913)	—
Employee share option benefit	—	—	1,496	—	—	—	—	—	1,496	—	1,496
Lapse/cancellation of employee share option	—	—	(187)	—	—	—	—	187	—	—	—
Other share-based compensation	—	—	144	—	—	—	—	—	144	—	144
Convertible bonds issued *(note 23)*	—	—	—	11,743	—	—	—	—	11,743	—	11,743
Dividend approved in respect of the previous year *(note 9(b))*	—	—	—	—	—	—	—	(17,349)	(17,349)	(837)	(18,186)
Profit for the year	—	—	—	—	—	—	—	80,427	80,427	6,391	86,818
At 30 June 2005	49,568	159,175	1,453	11,743	46,115	—	—	328,592	596,646	25,848	622,494
At 1 July 2005	49,568	159,175	1,453	11,743	46,115	—	—	328,592	596,646	25,848	622,494
Lapse employee share option	—	—	(1,309)	—	—	—	—	1,309	—	—	—
Exchange difference on translation of financial statements of overseas subsidiaries	—	—	—	—	—	297	—	—	297	—	297
Surplus on revaluation of buildings held for own use, net of deferred tax	—	—	—	—	—	—	39	—	39	—	39
Redesignation of convertible bonds reserve *(note (ii))*	—	—	—	(11,743)	—	—	—	—	(11,743)	—	(11,743)
Dividend approved in respect of the previous year *(note 9(b))*	—	—	—	—	—	—	—	(17,022)	(17,022)	(876)	(17,898)
Profit for the year	—	—	—	—	—	—	—	101,816	101,816	6,271	108,087
At 30 June 2006	49,568	159,175	144	—	46,115	297	39	414,695	670,033	31,243	701,276

24. CAPITAL AND RESERVES (CONTINUED)

(b) The Company

	Share capital *RMB'000*	Share premium *RMB'000*	Share-based compensation reserve *(note (i))* *RMB'000*	Convertible bonds reserve *(note (ii))* *RMB'000*	Contributed surplus *(note (vi))* *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
At 1 July 2004	49,568	159,175	—	—	63,654	(5,760)	266,637
Employees share option benefit	—	—	1,496	—	—	—	1,496
Lapsed/cancellation of employee share options	—	—	(187)	—	—	187	—
Other share-based compensations	—	—	144	—	—	—	144
Convertible bonds issued	—	—	—	11,743	—	—	11,743
Dividend approved in respect of the previous year *(note 9(b))*	—	—	—	—	(17,349)	—	(17,349)
Profit for the year	—	—	—	—	—	3,145	3,145
At 30 June 2005	49,568	159,175	1,453	11,743	46,305	(2,428)	265,816
At 1 July 2005	49,568	159,175	1,453	11,743	46,305	(2,428)	265,816
Lapsed of employee share options	—	—	(1,309)	—	—	1,309	—
Redesignation of convertible bonds reserve *(note (ii))*	—	—	—	(11,743)	—	—	(11,743)
Dividend approved in respect of the previous year *(note 9(b))*	—	—	—	—	(17,022)	—	(17,022)
Loss for the year	—	—	—	—	—	(13,095)	(13,095)
At 30 June 2006	49,568	159,175	144	—	29,283	(14,214)	223,956

Notes:

(i) Share-based compensation reserve represents the value of share options granted to the option holders the right to subscribe for ordinary shares of the Company (note 26).

(ii) Convertible bonds reserve represents the excess of the issue proceeds over the present value of the future interest and principal payments of the convertible bonds, discounted at the market rate of interest applicable to similar liabilities that do not have a conversion option (note 23). During the current year, the Group has redesignated the entire reserve as derivative financial liabilities (note 19).

24. CAPITAL AND RESERVES (CONTINUED)

(b) The Company (continued)

Notes: (continued)

(iii) The capital reserve of the Group represents (i) capital reserve of a subsidiary and (ii) the difference between the nominal value of the ordinary shares issued by the Company and the aggregate of the share capital and share premium of a subsidiary acquired through an exchange of shares pursuant to the group reorganisation in 2001.

(iv) The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 1(u).

(v) The revaluation reserve has been set up and is dealt with in accordance with the accounting policies adopted for land and buildings in note 1(f)(ii).

(vi) The contributed surplus of the Company represents the difference between the nominal value of the ordinary shares issued by the Company and the net asset value of subsidiaries acquired through an exchange of shares pursuant to the group reorganisation in 2001.

(vii) As stipulated by rules and regulations in the PRC, Fuqiang is required to appropriate part of its after-tax profit determined in accordance with (after offsetting prior year losses) to a general reserve fund and enterprise expansion reserve fund at rates as determined by the board of directors. During the year ended 30 June 2006, the board of directors of Fuqiang determined that no appropriation was made to the general reserve fund and enterprise expansion fund (2005: Nil).

(viii) According to the relevant rules and regulations in the PRC, Gemini, Shuangxiang and Haichuang are required to appropriate 10% after-tax profit (after offsetting prior year losses), based on the PRC statutory financial statements prepared in accordance with the relevant accounting principles and financial regulations applicable to foreign investment enterprises in the PRC, to a general reserve fund until the balance of the reserve reaches 50% of their respective registered capital. Thereafter, any further appropriations can be made at the directors' discretion. The general reserve fund can be utilised to offset prior year losses, or be utilised for issuance of bonus shares on condition that the general reserve fund shall be maintained at a minimum of 25% of the registered capital after such issuance. During the years ended 30 June 2006 and 2005, no appropriation was made to the general reserve fund as Gemini and Shuangxiang have accumulated losses and Haichuang has not yet commenced business or not yet set up.

Under the Companies Law (Revised) of the Cayman Islands, share premium and contributed surplus are distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of share premium and contributed surplus if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital account.

As at 30 June 2006, the Company's reserves available for distribution to shareholders amounted to approximately RMB174,537,000 (2005: RMB216,248,000) computed in accordance with the Companies Law (Revised) of the Cayman Islands and the Company's Articles of Association.

24. CAPITAL AND RESERVES (CONTINUED)

(c) Authorised and issued share capital

	The Group and the Company			
	2006		2005	
	Number of shares	Amount	Number of shares	Amount
	'000	*RMB'000*	*'000*	*RMB'000*
Authorised:				
Ordinary shares of HK$0.10 (equivalent to approximately RMB0.106) each	**1,000,000**	**106,000**	1,000,000	106,000
Ordinary shares issued and fully paid:				
At 1 July and 30 June	**467,625**	**49,568**	467,625	49,568

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

25. EMPLOYEE RETIREMENT BENEFITS

Hong Kong

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement scheme administered by an independent approved trustee. Under the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the MPF Scheme vest immediately.

PRC, other than Hong Kong

The PRC subsidiaries of the Group participates in a mandatory central pension scheme organised by the PRC government for certain of its employees, the assets of which are held separately from those of the Group. Contributions made are based on a percentage of the eligible employees' salaries and are charged to the income statement as they became payable, in accordance with the rules of the scheme. The employers' contributions vest fully once they are made. Under this scheme, retirement benefits of existing and retired employees are payable by the relevant scheme administrators and the Group has no further obligations beyond the annual contributions.

(Expressed in Renminbi)

25. EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

PRC, other than Hong Kong (continued)

The Group does not have any other pension schemes for its employees in respect of the subsidiaries outside Hong Kong and PRC. In the opinion of the directors of the Company, the Group did not have any significant liabilities beyond the above contributions in respect of the retirement benefits of its employees.

26. EQUITY COMPENSATION BENEFIT

The Company adopted a share option scheme for a period of 10 years commencing from 9 January 2003. Under the terms of this scheme, the exercise price of options will be determined by the board of directors of the Company and should not be less than the highest of (i) the nominal value of the Company's ordinary shares, (ii) the closing price of the ordinary shares on the Main Board of the Stock Exchange on the date of grant and (iii) the average closing price of the ordinary shares on the Main Board of the Stock Exchange for the five business days immediately preceding the date of grant. Each option gives the holder the right to subscribe for one ordinary share.

(a) Movements in share options

	Number of options	
	2006	2005
At 1 July	**32,000,000**	—
Granted	**—**	36,000,000
Lapsed	**(32,000,000)**	(3,000,000)
Cancelled	**—**	(1,000,000)
At 30 June	**—**	32,000,000
Options vested at 30 June	**—**	32,000,000

(Expressed in Renminbi)

26. EQUITY COMPENSATION BENEFIT (CONTINUED)

(b) Details of share options granted during the year, all of which were granted at a consideration of HK$1

Exercise period	Exercise price HK$	Number of options 2006	2005
Options grants to directors and eligible employees 17 December 2004 to 17 December 2005	0.89	—	32,000,000
Options grants to consultant 27 April 2005 to 27 April 2008	1.172	4,000,000	4,000,000
		4,000,000	36,000,000

In respect of the issuance of convertible bonds in April 2005, the Company issued 4,000,000 share options to a consultant as part of the compensation to the professional services provided.

(c) Terms of unexpired and unexercised share options at balance sheet date

Date of grant	Exercise period	Exercise price HK$	Number of options 2006	2005
17 December 2004	17 December 2004 to 17 December 2005	0.89	—	28,000,000
27 April 2005	27 April 2005 to 27 April 2008	1.172	4,000,000	4,000,000
			4,000,000	32,000,000

(Expressed in Renminbi)

26. EQUITY COMPENSATION BENEFIT (CONTINUED)

(d) Fair value of share options and assumptions

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on Black-Scholes-Merton Option Pricing Model as follows:

	Option granted on 17 December 2004	**Option granted on 27 April 2005**
Fair value at measurement date	HK$0.044461	HK$0.034091
Exercise price	HK$0.89	HK$1.172
Risk fee rate	0.783%	2.850%
Nature of the share options	Call	Call
Expected life	1 year	3 years
Volatility	38.250%	33.090%
Expected dividend yield	5.89%	6.00%

The expected volatility is based on the historical share price of the Company over the 260 trading days immediately before the valuation date. Changes in the subjective input assumptions could materially affect the fair value estimate.

The above calculation is based on the assumption that there is no material difference between the expected volatility over the whole life of the options and the historical volatility of the ordinary shares as set out above.

27. FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to deposits with banks and other financial institutions and trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

27. FINANCIAL INSTRUMENTS (CONTINUED)

(a) Credit risk (continued)

In respect of trade and other receivables, credit evaluations are performed on all customers requiring credit over a certain amount. Normally, these receivables are due within 90 days to 180 days from the date of billing. Debtors with balances that are more than six months overdue are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The major concentration of credit risk arises from exposures to deposits placed in financial institutions operating in one geographical region, the PRC. The Group only places deposits with the major financial institutions in the PRC.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheets.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of surplus cash and the raising of loans to cover expected cash requirements, subject to approval by the Company's board when the borrowings exceed certain predetermined levels of authority. The Group regularly monitors current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

Notes to the Financial Statements

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27. FINANCIAL INSTRUMENTS (CONTINUED)

(c) Interest rate risk

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rate at the balance sheet date and the periods in which they reprice or the maturity dates, if earlier.

The Group

	2006					
	Effective interest rate %	Total *RMB'000*	1 year or less *RMB'000*	1–2 years *RMB'000*	2–5 years *RMB'000*	More than 5 years *RMB'000*
Repricing dates for assets/(liabilities) which reprice before maturity						
Cash and cash equivalents	0.74	523,169	523,169	—	—	—
Finance lease liabilities	7.18	(13,135)	(13,135)	—	—	—
Bank loans	6.75	(86,298)	(86,298)	—	—	—
		423,736	423,736	—	—	—
Maturity dates for assets/(liabilities) which do not reprice before maturity						
Cash and cash equivalents	4.49	49,634	49,634	—	—	—
Bank loans	6.13	(143,093)	(143,093)	—	—	—
Convertible bonds	8.78	(71,326)	(71,326)	—	—	—
		(164,785)	(164,785)	—	—	—

	2005					
	Effective interest rate %	Total *RMB'000*	1 year or less *RMB'000*	1–2 years *RMB'000*	2–5 years *RMB'000*	More than 5 years *RMB'000*
Repricing dates for assets/(liabilities) which reprice before maturity						
Pledged bank deposit	0.72	5,329	5,329	—	—	—
Cash and cash equivalents	0.72	444,217	444,217	—	—	—
Finance lease liabilities	7.00	(12,982)	(12,982)	—	—	—
Bank loans	4.85	(57,876)	(57,876)	—	—	—
		378,688	378,688	—	—	—
Maturity dates for assets/(liabilities) which do not reprice before maturity						
Cash and cash equivalents	2.82	96,698	96,698	—	—	—
Bank loans	6.13	(85,915)	(85,915)	—	—	—
Convertible bonds	7.68	(69,228)	—	—	(69,228)	—
		(58,445)	10,783	—	(69,228)	—

27. FINANCIAL INSTRUMENTS (CONTINUED)

(c) Interest rate risk (continued)

The Company

	2006					
	Effective interest rate %	Total *RMB'000*	1 year or less *RMB'000*	1–2 years *RMB'000*	2–5 years *RMB'000*	More than 5 years *RMB'000*
Repricing dates for assets/(liabilities) which reprice before maturity						
Cash and cash equivalents	2.51	5,840	5,840	—	—	—
Bank loans	7.30	(56,298)	(56,298)	—	—	—
		(50,458)	(50,458)	—	—	—
Maturity dates for assets/(liabilities) which do not reprice before maturity						
Cash and cash equivalents	4.49	49,635	49,635	—	—	—
Convertible bonds	8.78	(71,326)	(71,326)	—	—	—
		(21,691)	(21,691)	—	—	—

	2005					
	Effective interest rate %	Total *RMB'000*	1 year or less *RMB'000*	1–2 years *RMB'000*	2–5 years *RMB'000*	More than 5 years *RMB'000*
Repricing dates for assets/(liabilities) which reprice before maturity						
Cash and cash equivalents	1.29	1,420	1,420	—	—	—
Bank loans	4.85	(57,876)	(57,876)	—	—	—
		(56,456)	(56,456)	—	—	—
Maturity dates for assets/(liabilities) which do not reprice before maturity						
Cash and cash equivalents	2.85	95,698	95,698	—	—	—
Convertible bonds	7.68	(69,228)	—	—	(69,228)	—
		26,470	95,698	—	(69,228)	—

Notes to the Financial Statements

For the year ended 30 June 2006
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27. FINANCIAL INSTRUMENTS (CONTINUED)

(d) Foreign currency risk

The Group has foreign currency risk as certain financial assets and liabilities are denominated in foreign currencies principally in US dollars and Hong Kong dollars. The Group does not expect any appreciation or depreciation of the Renminbi against foreign currency which might materially affects the Group's result of operations.

(e) Fair values

Other than the fair value of share-based compensation reserve as at 30 June 2006, which is RMB272,000, all financial instruments are carried at amounts not materially different from their fair values as at 30 June 2006 and 2005.

(f) Reliance on major suppliers

For year ended 30 June 2006, the largest and the five largest suppliers of the Group in aggregate accounted for approximately 20% and 57% respectively of the Group's total purchases, evidencing a significant reliance on the Group's largest supplier for the year ended 30 June 2006. The Group maintains several vendors for each major supply in order to diversify its vendor base. During the year ended 30 June 2006, the Group had not encountered any material disruption of supply of raw materials and components used in the Group's manufacture of PCBs.

28. COMMITMENTS

(a) Capital commitments outstanding at 30 June 2006 not provided for in the financial statements were as follows:

	The Group	
	2006	2005
	RMB'000	RMB'000
Contracted for	**100,702**	15,638

28. COMMITMENTS (CONTINUED)

(b) At 30 June 2006, the total future minimum lease payments in respect of buildings under non-cancellable operating leases are payable as follows:

	The Group		The Company	
	2006 *RMB'000*	2005 *RMB'000*	**2006** *RMB'000*	2005 *RMB'000*
Within 1 year	**1,743**	761	**—**	—
After 1 year but within 5 years	**1,139**	886	**—**	—
	2,882	1,647	**—**	—

The Group leases a number of properties under operating leases. The leases typically run for an initial period of two to five years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

29. ACCOUNTING ESTIMATES AND JUDGMENTS

Key sources of estimation uncertainty

Notes 26 and 27 contain information about the assumptions and their risk factors relating to fair value of share options granted and financial instruments. Other key sources of estimation uncertainty are as follows:

Impairment loss for doubtful accounts

The Group maintains impairment loss for doubtful accounts based upon evaluation of the recoverability of the trade receivables and other receivables at each balance sheet date. The estimates are based on the ageing of the trade receivables and other receivables balances and the historical write-off experience, net of recoveries. If the financial condition of the customers were to deteriorate, additional impairment may be required.

Impairment loss for property, plant and equipment

The Group reviews the impairment loss of property, plant and equipment at least annually or whenever events or changes in circumstances have indicated that their carrying amounts may not be recoverable. If any such indication exists, the recoverable amount is estimated. The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset, which requires significant judgment relating to level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

29. ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

Key sources of estimation uncertainty (continued)

Depreciation

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives. The Group reviews the estimated useful lives and residual values of the assets annually in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives and residual values are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

30. MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions:

		The Group	
		2006	2005
	Note	***RMB'000***	*RMB'000*
Lease rental charged by He Yu Zhu	(i)	**343**	343
Sales to Beijing Orient Top Victory Electronics Co., Ltd.	(ii)	**4,175**	3,147
Sales to TPV Electronics (Fujian) Company Limited	(iii)	**1,479**	25,031
Sales to Top Victory Electronics (Fujian) Company Limited	(iii)	**1,220**	1,115
Sales to TPV Technology (Wuhan) Co., Ltd.	(iii)	**1,019**	593
Remuneration for key management personnel			
— short-term employee benefit	(v)	**3,238**	3,837
— share-based payment		**—**	841

Notes:

(i) During the year, the Group entered into a lease arrangement with Ms. He Yu Zhu, the spouse of Mr. Lin Wan Qaing who is the controlling shareholder and a director of the Company, for leasing of an office premises in Fuzhou, the PRC. Office rentals are payable at a pre-determined amount per month by reference to market rates in accordance with the terms of the tenancy agreement signed by the Group and Ms. He Yu Zhu.

(ii) During the year, the Group sold goods to Beijing Orient Top Victory Electronics Co., Ltd., a subsidiary of BOE Technology Group Co., Ltd. ("BOE"), which Mr. Chen Yan Shun is the executive director and executive vice president of BOE. Mr. Chen Yan Shun was an executive director of the Group and he resigned on 1 April 2006.

30. MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

Notes: (continued)

(iii) During the year, the Group sold goods to TPV Electronics (Fujian) Company Limited, Top Victory Electronics (Fujian) Company Limited and TPV Technology (Wuhan) Co., Ltd., associates of BOE.

(iv) During the year, the Group provided advances of RMB6,800,000 to a company controlled by Ms. He Yu Zhu. The advances are unsecured, non-interest bearing and repayable on demand.

(v) Remuneration for key management personnel includes amounts paid to the Company's directors as disclosed in note 6. Total remuneration is included in staff cost (see note 5(b)).

31. POST BALANCE SHEET EVENTS

(a) Subsequent to the balance sheet date, all convertible bonds were converted into 85,544,000 ordinary shares of the Company.

(b) After the balance sheet date, the directors proposed a final dividend. Further details are disclosed in note 9.

(c) On 4 September 2006, the directors granted share options to Eligible Participants to subscribe for an aggregate of 12,000,000 ordinary shares with value of approximately RMB2 million.

32. COMPARATIVE FIGURES

Comparative figures of diluted earnings per share and related information in note 10(b) have been adjusted as a result of adjustment of inadvertent mistakes.

(Expressed in Renminbi)

33. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 30 JUNE 2006

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the period ended 30 June 2006 and which have not been adopted in these financial statements:

		Effective for accounting periods beginning on or after
HK(IFRIC) 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds	1 January 2006
HK(IFRIC) 6	Liabilities arising from participating in a specific market — Waste electrical and electronic equipment	1 December 2005
Amendments to HKAS 39	Financial instruments:	
	Recognition and measurement:	
	— Cash flow hedge accounting of forecast intragroup transactions	1 January 2006
	— The fair value option	1 January 2006
	— Financial guarantee contracts	1 January 2006
Amendments, as a consequence of the Hong Kong Companies (Amendment) Ordinance 2005, to:		
— HKAS 1	Presentation of financial statements	1 January 2006
— HKAS 27	Consolidated and separate financial statements	1 January 2006
— HKFRS 3	Business combinations	1 January 2006
HKFRS 7	Financial instruments: disclosures	1 January 2007
Amendment to HKAS 1	Presentation of financial statements: capital disclosures	1 January 2007

33. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 30 JUNE 2006 (CONTINUED)

In addition, the Hong Kong Companies (Amendment) Ordinance 2005 came into effect on 1 December 2005 and would be first applicable to the Group's financial statements for the period beginning 1 July 2006.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them may result in new or amended disclosure, it is unlikely to have a significant impact on the Group's results of operations and financial position.

Financial Summary

	Years ended 30th June				
	2006	2005	2004	2003	2002
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
			(restated)	(restated)	(restated)
Results					
Turnover	**525,953**	369,787	301,255	241,543	204,142
Profit from operations	**162,551**	112,289	107,716	88,302	82,916
Finance costs	**(33,239)**	(8,787)	(7,043)	(2,567)	(3,567)
Share of results of associates	**—**	6,655	2,683	793	—
Loss on disposal of associates	**—**	(5,065)	—	—	—
Profit from ordinary activities before taxation	**129,312**	105,092	103,356	86,528	79,349
Taxation	**(21,225)**	(18,274)	(14,700)	(3,874)	(6,656)
Profit from ordinary activities after taxation	**108,087**	86,818	88,656	86,654	72,693
Attributable to:					
Equity holders of the parent	**101,816**	80,427	81,214	72,903	64,847
Minority interest	**6,271**	6,391	7,442	9,751	7,846
	108,087	86,818	88,656	82,654	72,693
Dividends	**19,942**	17,349	17,349	17,410	12,804
Assets and liabilities					
Property, plant and equipment	**331,957**	193,529	107,653	103,808	89,110
Interest in associates	**—**	—	50,410	47,727	—
Other non-current assets	**22,811**	14,681	91,358	7,637	32,754
Net current assets	**383,386**	519,729	348,934	222,345	191,328
Total assets less current liabilities	**738,154**	727,939	598,355	381,517	313,192
Convertible bonds	**—**	(69,228)	—	—	—
Other non-current liabilities	**(36,878)**	(36,217)	(57,876)	—	—
	701,276	622,494	540,479	381,517	313,192
Equity					
Share capital	**49,568**	49,568	49,568	42,678	42,678
Reserves	**620,465**	547,078	456,704	310,180	250,148
Minority interest	**31,243**	25,848	34,207	28,659	20,366
	701,276	622,494	540,479	381,517	313,192
Earnings per share — basic	**RMB22 cents**	RMB17 cents	RMB19 cents	RMB18 cents	RMB18 cents
— diluted	**RMB21 cents**	RMB17 cents	RMB19 cents	RMB18 cents	RMB18 cents