



**SINOTRONICS HOLDINGS LIMITED**

*(Incorporated in the Cayman Islands with limited liability)*  
(Stock Code : 1195)

The background of the page is a blurred image of a green printed circuit board (PCB) with various electronic components. Overlaid on this is a network of white circuit traces that form a grid-like pattern. The word 'SINOTRONICS' is written in a large, bold, white, sans-serif font with a slight shadow effect, positioned horizontally across the middle of the circuit traces.

**SINOTRONICS**

Interim Report **2006-07**

# INTERIM REPORT

For the six months ended 31 December 2006

## HIGHLIGHTS

- Turnover of the Group for the six months ended 31 December 2006 amounted to approximately RMB344.5 million, representing an increase of about 54.2% as compared with the corresponding period in 2005;
- Profit from operations for the six months ended 31 December 2006 amounted to approximately RMB89.2 million, representing an increase of about 23.8% as compared with the corresponding period in 2005;
- Net profit attributable to shareholders of the Company for the six months ended 31 December 2006 amounted to approximately RMB65.9 million, representing an increase of about 30.2% as compared with the corresponding period in 2005;
- Earnings per share was RMB12 cents for the six months ended 31 December 2006;
- Shareholders' equity reached approximately RMB838.9 million.

## **CORPORATE INFORMATION**

### **DIRECTORS**

Liu Zhao Cai (*Chairman*)  
Xiang Song (*Chief Executive Officer*)  
Lin Wan Qaing  
Hu Zhao Rui (appointed on 1 January 2007)  
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**

Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman  
KY1-1111  
Cayman Islands

## **HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS**

Room 1805, 18th Floor  
Harbour Centre  
25 Harbour Road  
Wanchai  
Hong Kong

## **PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE**

Butterfield Fund Services (Cayman) Limited  
Butterfield House  
68 Fort Street  
P.O. Box 705  
George Town  
Grand Cayman  
Cayman Islands

## **HONG KONG BRANCH REGISTRAR AND TRANSFER OFFICE**

Hong Kong Registrars Limited  
Shops 1712–1716, 17th Floor  
Hopewell Centre  
183 Queen's Road East  
Wanchai, Hong Kong

## **TRADING CODE ON THE STOCK EXCHANGE OF HONG KONG LIMITED**

1195

## **WEBSITE**

[www.sinotronics.com.cn](http://www.sinotronics.com.cn)

## RESULTS

The board (the "Board") of directors (the "Directors") of Sinotronics Holdings Limited ("Sinotronics" or the "Company") is pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 31 December 2006 together with the comparative figures for the corresponding six months ended 31 December 2005 as follows:

### Condensed Consolidated Income Statement

For the six months ended 31 December 2006

(Express in Renminbi )

		<b>(Unaudited)</b>	
		<b>Six months ended</b>	
		<b>31 December</b>	
		<b>2006</b>	2005
	<i>Notes</i>	<b>RMB'000</b>	<i>RMB'000</i>
<b>Turnover</b>	3	<b>344,503</b>	223,386
Cost of sales		<b>(234,633)</b>	(134,974)
<b>Gross profit</b>		<b>109,870</b>	88,412
Other revenue	4	<b>2,798</b>	1,247
Distribution costs		<b>(5,030)</b>	(5,748)
Administrative expenses		<b>(10,831)</b>	(10,086)
Other operating expenses		<b>(7,602)</b>	(1,761)
<b>Profit from operations</b>		<b>89,205</b>	72,064
Finance costs	5(a)	<b>(8,974)</b>	(6,886)
<b>Profit from ordinary activities before taxation</b>	5	<b>80,231</b>	65,178
Taxation	6	<b>(11,152)</b>	(11,561)
<b>Profit from ordinary activities after taxation</b>		<b>69,079</b>	53,617
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>65,904</b>	50,602
Minority interests		<b>3,175</b>	3,015
Profit for the period		<b>69,079</b>	53,617
<b>Earnings per share</b>	7		
Basic		<b>12 cents</b>	11 cents
Diluted		<b>12 cents</b>	9 cents

## Condensed Consolidated Balance Sheet

As at 31 December 2006

(Express in Renminbi)

		<b>(Unaudited)</b>	(Audited)
		<b>As at</b>	As at
		<b>31 December</b>	30 June
		<b>2006</b>	2006
Notes		<b>RMB'000</b>	<b>RMB'000</b>
<b>Non-current assets</b>			
Property, plant and equipment	9	<b>356,833</b>	331,957
Interest in leasehold land held for own use under operating lease		<b>18,414</b>	17,616
Purchase deposits of property, plant and equipment		<b>2,154</b>	1,765
Deferred tax assets		<b>3,430</b>	3,430
		<b>380,831</b>	354,768
<b>Current assets</b>			
Trading securities		<b>102</b>	102
Inventories		<b>26,337</b>	28,464
Trade and other receivables	10	<b>261,693</b>	240,219
Cash and cash equivalents		<b>607,643</b>	572,803
		<b>895,775</b>	841,588
<b>Current liabilities</b>			
Trade and other payables	11	<b>202,164</b>	175,729
Short-term bank loans		<b>186,897</b>	199,391
Obligations under finance leases	12	<b>3,422</b>	6,257
Taxation		<b>10,101</b>	5,499
Convertible bonds	13	<b>—</b>	71,326
		<b>402,584</b>	458,202
<b>Net current assets</b>		<b>493,191</b>	383,386
<b>Total assets less current liabilities</b>		<b>874,022</b>	738,154

## Condensed Consolidated Balance Sheet (Continued)

As at 31 December 2006

(Express in Renminbi)

		<b>(Unaudited)</b>	(Audited)
		<b>As at</b>	As at
		<b>31 December</b>	30 June
		<b>2006</b>	2006
	<i>Notes</i>	<b>RMB'000</b>	<b>RMB'000</b>
<b>Non-current liabilities</b>			
Non-current bank loans		<b>30,000</b>	30,000
Obligations under finance leases	12	<b>5,102</b>	6,878
		<b>35,102</b>	36,878
		<b>838,920</b>	701,276
<b>NET ASSETS</b>			
<b>Capital and reserves</b>			
Share capital	14	<b>58,123</b>	49,568
Reserves		<b>780,797</b>	620,465
<b>Total equity attributable to equity holders of the parent</b>			
Minority interests	15	<b>—</b>	31,243
<b>TOTAL EQUITY</b>			
		<b>838,920</b>	701,276



# Condensed Consolidated Statement of Changes in Equity — Unaudited

For the six months ended 31 December 2006  
(Express in Renminbi)

	Attributable to equity shareholders of the parent										
	Share capital	Share premium	Share-based compensation reserve	Convertible bonds reserve	Capital reserve	Exchange reserve	Building valuation reserve	Retained profits	Total	Minority interest	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
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	—	—	—	(11,743)	—	—	—	—	(11,743)	—	(11,743)
Dividend approved in respect of the previous year	—	—	—	—	—	—	—	(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
Exchange difference on translation of financial statements of overseas subsidiaries	—	—	—	—	—	8,719	—	—	8,719	—	8,719
Arising upon conversion of convertible bonds into new shares	8,555	85,652	—	—	—	—	—	—	94,207	—	94,207
Dividend approved in respect of the previous year	—	—	—	—	—	—	—	(19,361)	(19,361)	—	(19,361)
Acquisition of equity interest in a subsidiary company	—	—	—	—	—	—	—	19,418	19,418	(34,418)	(15,000)
Profit for the year	—	—	—	—	—	—	—	65,904	65,904	3,175	69,079
At 31 December 2006	58,123	244,827	144	—	46,115	9,016	39	480,656	838,920	—	838,920
At 1 July 2005	49,568	159,175	1,453	11,743	46,115	—	—	328,592	596,646	25,848	622,494
Lapse/cancellation of employee share option	—	—	(1,309)	—	—	—	—	1,309	—	—	—
Dividend approved in respect of the previous year	—	—	—	—	—	—	—	(17,702)	(17,702)	(876)	(18,578)
Profit for the year	—	—	—	—	—	—	—	50,602	50,602	3,015	53,617
As 31 December 2005	49,568	159,175	144	11,743	46,115	—	—	362,801	629,546	27,987	657,533
At 1 July 2006	49,568	159,175	144	—	46,115	297	39	414,695	670,033	31,243	701,276

## Condensed Consolidated Cash Flow Statement — Unaudited

For the six months ended 31 December 2006

(Express in Renminbi)

	<b>2006</b> <b>RMB'000</b>	2005 <i>RMB'000</i>
Net cash generated from operating activities	<b>98,056</b>	123,902
Net cash used in investing activities	<b>(48,860)</b>	(135,296)
Net cash used in financing activities	<b>(11,486)</b>	(9,493)
Net increase/(decrease) in cash and cash equivalents	<b>37,710</b>	(20,887)
Cash and cash equivalents at 1 July	<b>572,803</b>	540,915
Effect of foreign exchange rate changes	<b>(2,870)</b>	—
Cash and cash equivalents at 31 December	<b>607,643</b>	520,028
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	<b>607,643</b>	520,028

## Notes to Condensed Accounts

For the six months ended 31 December 2006  
(Express in Renminbi)

### 1. BACKGROUND OF THE COMPANY

The Company was incorporated in the Cayman Islands on 29 September 2000 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. Its shares had been listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 17 May 2001. On 20 January 2003, the Company withdrew the listing of its shares on the GEM and on the same date, the Company's shares were listed on the Main Board of the Stock Exchange by way of introduction.

### 2. BASIS OF PREPARATION

This unaudited interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (HKAS) 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants (HKICPA).

The unaudited interim financial report has been prepared in accordance with the same accounting policies adopted in the 2006 annual financial statements.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the group since the 2006 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with HKFRSs.

The financial information relating to the financial year ended 30 June 2006 that is included in the interim financial report as being previously reported information does not constitute the company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 30 June 2006 are available from the company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 19 October 2006.

### 3. 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"), 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 period is as follows:

	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2006</b>	2005
	<b>RMB'000</b>	RMB'000
Sales of PCBs	<b>266,501</b>	207,445
Sales of PCBs assembling products	<b>63,261</b>	15,941
SMT processing service income	<b>14,741</b>	—
	<b><u>344,503</u></b>	<u>223,386</u>

#### 4. OTHER REVENUE

	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2006</b>	2005
	<b>RMB'000</b>	RMB'000
Other revenue		
Interest income from banks	<b>2,378</b>	1,199
Others	<b>420</b>	48
	<b><u>2,798</u></b>	<u>1,247</u>

#### 5. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2006</b>	2005
	<b>RMB'000</b>	RMB'000
(a) Finance costs:		
Interest on bank loans wholly repayable within five years	<b>7,928</b>	3,043
Finance charges on obligations under finance leases	<b>389</b>	577
Interest on convertible bonds wholly repayable within five years	<b>—</b>	3,128
Other borrowing costs	<b>657</b>	138
	<b><u>8,974</u></b>	<u>6,886</u>
(b) Staff costs:		
Contributions to defined contribution plans	<b>382</b>	24
Salaries, wages and other benefits	<b>6,923</b>	9,445
	<b><u>7,305</u></b>	<u>9,469</u>

	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2006</b>	2005
	<b>RMB'000</b>	RMB'000
(c) Other items:		
Cost of inventories	<b>234,633</b>	134,974
Amortisation of interest in leasehold land held for own use under operating lease	<b>193</b>	65
Depreciation		
— owned fixed assets	<b>8,957</b>	8,838
— assets held for use under finance lease	<b>1,269</b>	1,267
Operating lease rentals for premises	<b>829</b>	—
Impairment losses of trade and other receivables	<b>—</b>	1,790
Bad debts written off	<b>118</b>	—
Net exchange (gain)/loss	<b>6,739</b>	902

## 6. TAXATION

Taxation in the consolidated income statement represents:

	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2006</b>	2005
	<b>RMB'000</b>	RMB'000
<b>Current tax — Overseas</b>		
Provision for PRC enterprise income tax (see note (iii) below)	<b>11,152</b>	11,561

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 periods.

(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, all subsidiaries in the PRC are fully exempted from PRC enterprise income tax for two years starting from the first year of profitable operations after offsetting prior year's tax losses, followed by a 50% reduction of PRC income tax for the next three years.

There is no significant unprovided deferred taxation for both interim periods.

## 7. EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 31 December 2006 was based on the unaudited consolidated profit attributable to equity shareholders of the Company of approximately RMB65,904,000 (2005: RMB50,602,000) and the weighted average number of 544,800,000 (2005: 467,625,000) ordinary shares in issue during the period.

### (b) Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 31 December 2006 was based on the unaudited consolidated profit attributable to equity shareholders of the Company of approximately RMB65,904,000 (2005 (restated): RMB51,991,000) and the weighted average number of 553,516,000 (2005: 561,150,000) ordinary shares in issue during the period after adjusting for the effect of all dilutive potential ordinary shares.

## 8. 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.

### 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

	PCBs		PCBs assembling products		SMT Processing		Inter-segment elimination		Unallocated		Consolidated	
	Six months ended 31 December		Six months ended 31 December		Six months ended 31 December		Six months ended 31 December		Six months ended 31 December		Six months ended 31 December	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers	266,501	207,445	63,261	15,941	14,741	—	—	—	—	—	344,503	223,386
Inter-segment revenue	105	575	—	—	—	—	(105)	(575)	—	—	—	—
<b>Total</b>	<b>266,606</b>	<b>208,020</b>	<b>63,261</b>	<b>15,941</b>	<b>14,741</b>	<b>—</b>	<b>(105)</b>	<b>(575)</b>	<b>—</b>	<b>—</b>	<b>344,503</b>	<b>223,386</b>
Segment result	91,809	72,799	6,653	1,019	2,309	—	—	—	—	—	100,771	73,818
Unallocated operating income & expenses											(11,566)	(1,754)
Profit from operations											89,205	72,064
Finance costs											(8,974)	(6,886)
Taxation											(11,152)	(11,561)
Minority interests											(3,175)	(3,015)
<b>Profit after taxation</b>											<b>65,904</b>	<b>50,602</b>
Depreciation & amortisation	9,281	8,730	811	—	282	1,425	—	—	45	15	10,419	10,170
Segment assets	1,084,936	912,187	206,822	—	71,780	168,185	(129,322)	(142,700)	42,390	83,069	1,276,606	1,020,741
Segment liabilities	314,112	274,160	116,963	—	40,593	64,821	(129,322)	(142,700)	95,340	166,927	437,686	363,208
Capital expenditure	12,565	54,646	16,721	—	5,803	64,877	—	—	13	—	35,102	119,523

## 9. PROPERTY, PLANT AND EQUIPMENT

For the six months ended 31 December 2006, the Group acquired property, plant and equipment amounting to approximately RMB35,102,000 (six months ended 31 December 2005: RMB119,523,000).

At 31 December 2006, net book value of fixed assets held by the Group under finance leases amounted to approximately RMB13,564,000 (six months ended 31 December 2005: RMB34,093,000).

## 10. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade debtors with the following aging analysis:

	<b>As at 31 December 2006 RMB'000</b>	As at 30 June 2006 RMB'000
Invoice date:		
— Within 3 months	<b>179,734</b>	170,281
— 3 to 6 months	<b>52,248</b>	58,042
— 6 to 12 months	<b>2,684</b>	1,218
— More than 12 months	<b>4,354</b>	4,499
	<b>239,020</b>	234,040
Less: Impairment losses	<b>(11,649)</b>	(11,649)
	<b>227,371</b>	222,391

Normally, these receivables are due within 90 to 180 days from the date of billing. Debtors with balances that are more than 6 months overdue are requested to settle all outstanding balances before any further credit is granted.

## 11. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade creditors with the following aging analysis:

	<b>As at 31 December 2006 RMB'000</b>	As at 30 June 2006 RMB'000
Due within 6 months or on demand	<b>66,996</b>	79,506
Due after 6 months but within 1 year	<b>14,541</b>	2,394
Due after 1 year	<b>2,678</b>	284
	<b>84,215</b>	82,184



## 12. OBLIGATIONS UNDER FINANCE LEASES

At 31 December 2006, the obligations under finance leases were repayable as follows:

	(Unaudited) As at 31 December 2006			(Audited) As at 30 June 2006		
	Present value of the minimum lease payments <i>RMB'000</i>	Interest expense relating to future periods <i>RMB'000</i>	Total minimum lease payments <i>RMB'000</i>	Present value of the minimum lease payments <i>RMB'000</i>	Interest expense relating to future periods <i>RMB'000</i>	Total minimum lease payments <i>RMB'000</i>
Within 1 year	3,422	444	3,866	6,257	700	6,957
After 1 year but within 2 years	3,153	245	3,398	3,247	402	3,649
After 2 years but within 5 years	1,949	57	2,006	3,631	182	3,813
	5,102	302	5,404	6,878	584	7,462
	8,524	746	9,270	13,135	1,284	14,419

## 13. CONVERTIBLE BONDS

On 18 July 2006, the Company received a conversion notice in respect of the conversion of the convertible bonds in the principal amount of US\$10,000,000 (equivalent to approximately HK\$77,762,000) at the conversion price of HK\$0.909 per share, being the floating conversion price calculated based on 90% of the average of four consecutive closing prices per share during the 30 consecutive business days immediately prior to the date on which a conversion notice is received by the Company. As a result of the conversion, on 19 July 2006 (i) 85,544,000 conversion shares were allotted and issued; and (ii) a cash payment of an amount of HK\$2,798.06 for the odd lot of 2,754 conversion shares. There are no convertible bonds remained outstanding and the total number of issued shares of the Company as at 31 December 2006 is 533,169,000.

## 14. SHARES CAPITAL

	Number of shares <i>'000</i>	Amount <i>RMB'000</i>
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1 July 2006 and 31 December 2006	1,000,000	106,000
Issue and fully paid:		
At 1 July 2006	467,625	49,568
Arising upon conversion of convertible bonds into new shares	85,544	8,555
<b>At 31 December 2006</b>	<b>553,169</b>	<b>58,123</b>

## 15. MINORITY INTERESTS

On 28 December 2006, the Group acquired of 5% equity interest in a subsidiary Company, Fujian Fuqiang Delicate Circuit Plate Co., Ltd, at a consideration of RMB15 million to a third party independent of the Group and connected person of the Group, resulting in a discount of approximately RMB19,418,000, which would be recognised directly in the parent shareholders' equity.

## 16. COMMITMENTS

- (a) Capital commitments outstanding at 31 December 2006 not provided for in the consolidated financial statements were as follows:

	<b>As at 31 December 2006 RMB'000</b>	As at 30 June 2006 RMB'000
Contracted for	<u>91,067</u>	<u>100,702</u>

- (b) As at 31 December 2006, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	<b>As at 31 December 2006 RMB'000</b>	As at 30 June 2006 RMB'000
Within 1 year	<u>1,263</u>	1,743
After 1 year but within 5 years	<u>371</u>	<u>1,139</u>
	<u>1,634</u>	<u>2,882</u>

## 17. MATERIAL RELATED PARTY TRANSACTIONS

During the year, particulars of significant transactions between the Group and related parties were as follow:

	<b>Six months ended 31 December 2006 RMB'000</b>	
		2005 RMB'000
Lease rental charged by He Yu Zhu ( <i>note (i)</i> )	<u>171</u>	171
Sales to Beijing Orient Top Victory Electronics Co., Ltd.	<u>—</u>	21,531
Sales to TPV Electronics (Fujian) Company Limited	<u>—</u>	3,029
Sales to Top Victory Electronics (Fujian) Company Limited	<u>—</u>	1,213
Sales to TPV Technology (Wuhan) Co., Ltd.	<u>—</u>	<u>1,183</u>

*Note:*

- (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.

## **18. COMPARATIVE FIGURES**

Comparative figures of diluted earnings per share and related information in note 7(b) have been adjusted as a result of adjustment of inadvertent mistakes.

## **19. REVIEW OF INTERIM FINANCIAL STATEMENTS**

The Company's Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing control and financial reporting matters including the review of the Group's unaudited interim results for the six months ended 31 December 2006.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Results

The Group's financial performance for the six months ended 31 December 2006 recorded a steady upward growth with a double-digit increase in both turnover and net profit. During the period under review, turnover of the Group amounted to RMB344,503,000 (2005: RMB223,386,000), representing an increase of approximately 54.2% as compared to the corresponding period last year. The Group managed to achieve satisfactory results during the period 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 period under review reached approximately RMB109,870,000 as compared to approximately RMB88,412,000 for previous period. Operating profit and profit attributable to equity shareholders of the Company were RMB89,205,000 (2005: RMB72,064,000) and RMB65,904,000 (2005: RMB50,602,000) respectively, representing increases of 23.8% and 30.2% respectively as compared to previous period. Earnings per share was RMB12 cents (2005: RMB11 cents).

### Business Review

The Group is principally engaged in the manufacturing and sale of rigid printed circuit boards ("PCBs") and flexible printed circuit boards ("FPCBs"). It also provides printed circuit board assembly ("PCBA") and sub-contracting services. The products are widely applied in consumer electronics products, including liquid crystal displays ("LCDs"), Playstation3 ("PS3"), multi-media products and mobile phones. During the period, except sales of rigid PCBs decreased by 1.2%, sales of FPCBs and PCBA services and surface mounting technology ("SMT") processing services increased by 628.6% and 389.3% respectively. The strong results in the period are mainly attributed to strong orders from clients driven by the high demand for consumer electronics products in China.

Rigid PCBs remains the core business of the Group. It continued to receive strong orders from clients during the period. The utilization rate of the PCB production plant, however, has reached its full capacity.

Since the global trend of outsourcing Electronic Manufacturing Services ("EMS") to low-cost countries has become more feverish, the FPCB industry has been steadily moving to China and the Group has greatly benefited. The FPCB business recorded an enormous number of orders in the period. At the same time, the Group increased the utilization

rate of the FPCB production plant from 60% in June 2006 to 80% in December 2006 to cope with the surging demand. As a result, sales of FPCBs achieved a growth of 628.6% to RMB71,124,000.

As a pioneer of one-stop EMS provider, the Group provides integrated services ranging from manufacturing to assembly services. It shortens the production cycle and product delivery time. The Group started PCBA and SMT services in 2004 to provide comprehensive EMS solutions. In the period, the Group's downstream PCBA and SMT services recorded strong revenue growth of 389.3% to RMB78,002,000. This proved the success of the Group's strategy in trying to become a leading one-stop EMS provider in the sector.

## **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 it is more relevant to the Group in making operational and financial decisions.

### *Rigid PCBs*

During the period under review, PCBs sales amounted to RMB195,377,000 (2005: RMB197,683,000), representing approximately 56.7% of the Group's total revenue. Operating profit of this business segment was RMB78,324,000 (2005 (restated): RMB74,472,000), an increase of 5.2% compared with the same period in the preceding year.

### *FPCBs*

Sales of FPCBs in the period reached approximately RMB71,124,000 (2005: RMB9,762,000), accounting for 20.6% of the Group's total revenue. Operating profit was approximately RMB13,485,000 (2005 (restated): RMB(1,673,000)).

### *PCBA*

Revenue from PCBA services during the period was approximately RMB63,261,000 (2005: RMB15,941,000), or 18.4% of the Group's total revenue. Operating profit was approximately RMB6,653,000 (2005 (restated): RMB1,019,000), an increase of 552.9% from the same period last year.

### *Provision of SMT processing services*

This business segment recorded a revenue of approximately RMB14,741,000 (2005: Nil), representing 4.3% of the Group's total sales. Operating profit was RMB2,309,000 (2005: Nil).

Geographically, sales within the PRC (excluding Hong Kong and Taiwan) remained the largest segment, generating 80.8% (2005: 81.3%) of the Group's turnover. About 9.0% (2005: 8.6%) was attributed to sales to Australia for the period under review. The balance of approximately 10.2% of the Group's turnover (2005: 10.1%) was taken up by Germany, Hong Kong, Taiwan and other countries or regions.

### **Manufacturing Facilities**

#### *Fuqing Plant, Fujian Province*

The manufacturing facility in Fuqing, Fujian Province focuses on the production of rigid PCBs including double-sided and multilayer PCBs. It covers an area of 55 Chinese acres, or about 36,669 square meters. Thanks to the strong orders from clients, the Fuqing plant reached full production capacity in 2006. The Group has purchased a new plot of land covering 33 Chinese acres, or about 22,001 square meters as part of the expansion plan for the Fuqing plant. The new plant is expected to complete by the end of 2007, and production is expected to kick off in 2008. As a result, total production capacity of rigid PCBs will rise by 50% to 60,000 square meters per month in 2008.

#### *Shuangxiang Electronics ("Mawei Plant"), Fujian Province*

The production plant located in Mawei, Fuzhou city, is involved with PCBA and SMT processing services. In January 2006, the plant owned 4 SMT production lines, and the number rose to 6 within 6 months. The Group will further expand the Mawei plant in order to cope with the growth in demand for its PCBA and SMT business. The Group purchased a site with an area of 53 Chinese acres, or about 35,335 square meters, in an area adjacent to the factory. The site is currently under construction and is expected to complete by April 2007. Upon completion, the PCBA and SMT facilities will move from the current rental site to a self-owned production plant with a total of 8 SMT production lines. The number of lines is expected to climb to 14–16 within 2–3 years.

## *Gemini Electronics, Guangdong Province*

Gemini Electronics is located in Huizhou, Guangdong Province, and focuses on the manufacturing of FPCBs. The site covers 70 Chinese acres, or approximately 46,669 square meters. Due to the surging demand for FPCBs, the utilization rate of the plant has been on the rise. It climbed from 40% in January 2006 to 60% in June 2006 and 80% in December 2006. The utilization rate is expected to reach its full gear in March or April 2007. The Group plans to add more equipment to raise production capacity by 50% to 15,000 square meters per month to meet the demand for FPCBs.

### **Prospect**

The demand for electronics products will continue to surge in the future. BPA Consulting expects PCB demand in China to enjoy an annual growth rate of 15.2%, from US\$6.85 billion in 2003 to US\$13.88 billion in 2008. It also estimates that the China market, the largest in the world, will account for approximately one-third of global demand by then. International Data Corporation has forecast that the EMS industry saw significant revenue growth during 2005 and the first half of 2006 as demand surged, outsourcing increased and new market segments opened up for EMS firms. As a well-established one-stop solution provider in the industry, the Group is confident of achieving further growth.

According to IPC Association Connecting Electronics Industries (formerly known as Institute of Interconnecting and Packaging Electronics Circuits), the global production value of FPCBs will grow by 13–15% annually thanks largely to their thin and light feature. The Group will continue to expand its production capacity in the FPCB plant to seize the opportunities in the flourishing market. Meanwhile, the Group is developing Flexible-Rigid PCBs and plans to expand production in the future. The continuous expansion of its production will further boost the Group's revenue.

The Group is also taking advantage of the rapidly developing automotive business in the PRC. As a luxury consumer item, the automotive provides a high margin for manufacturers. Seizing the golden opportunity, the Group is developing PCBs which can be applied to automotive components. The move is in line with market trends and will further boost the Group's manufacturing business and enhance profit margin.

In addition, the Group's FPCB business has achieved various environmental protection standards during the period. The rigid PCB business has also obtained all ISO certifications. All these help to further ensure the quality of the Group's products.

With the positive outlook for the consumer electronics products market and higher demand for PCBs, management is confident of the Group's future. The Group will continue to seek opportunities to enhance revenue growth and maximize returns for shareholders.

## **Liquidity and Financial Resources and Capital Structure**

For the six months ended 31 December 2006, the Group's working capital requirement was principally financed by its internal resources and banking facilities and convertible bonds.

As at 31 December 2006, the Group had cash and cash equivalents, net current assets and total assets less current liabilities of RMB607,643,000 (30 June 2006: RMB572,803,000), RMB493,191,000 (30 June 2006: RMB383,386,000) and RMB874,022,000 (30 June 2006: RMB738,154,000) respectively.

As at 31 December 2006, the Group had total borrowings (excluding obligations under finance leases) of RMB216,897,000 (30 June 2006: RMB300,717,000), comparing utilised bank loan facilities of RMB216,897,000 (30 June 2006: RMB229,391,000) from several banks and no convertible bonds (30 June 2006: RMB71,326,000), of the total utilised bank loans of RMB186,897,000 (30 June 2006: RMB199,391,000) for short term and the remainder of RMB30,000,000 (30 June 2006: RMB30,000,000) for long term. Included in these utilised bank loans, RMB177,800,000 were secured by corporate guarantees given by the Company and the remaining balance RMB39,097,000 were unsecured. Besides, the Group had no available undrawn committed borrowing facilities (30 June 2006: RMB40,000,000) in respect of which all condition precedent had been met and had obligations under finance leases of RMB8,524,000 (30 June 2006: RMB13,135,000) 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.

On 18 July 2006, the Company received a conversion notice in respect of the conversion of the convertible bonds in the principal amounts of US\$10,000,000 (equivalent to approximately HK\$77,762,000) at the conversion price of HK\$0.909 per share, being the floating conversion price calculated based on 90% of the average of four consecutive closing prices per share during the 30 consecutive business days immediately prior to the date on which a conversion notice is received by the Company. As a result of the conversion, on 19 July 2006 (i) 85,544,000 conversion shares were allotted and issued; and (ii) a cash payment of



an amount of HK\$2,798.06 for the odd lot of 2,754 conversion shares was paid. As a result, there are no convertible bonds remained outstanding and the total number of issued shares of the Company as at 31 December 2006 is 553,169,000.

The shareholders' equity of the Group as at 31 December 2006 increased by RMB168,887,000 to RMB838,920,000 (30 June 2006: RMB670,033,000). The gearing ratio (calculated as the ratio of current liabilities plus non-current liabilities: equity holders of the parent) of the Group as at 31 December 2006 was approximately 0.52 (30 June 2006: 0.74).

Saved as disclosed elsewhere on the Management Discussion and Analysis, there is no change in the Company's share capital.

### **Significant Investments**

Saved as disclosed elsewhere on the Management Discussion and Analysis, the Group had no other significant investment held during the six months ended 31 December 2006.

### **Acquisition and Disposal of Subsidiaries and Associated Companies**

On 28 December 2006, the Group entered into the acquisition agreement with a third party independent of the Group and connected person of the Group in relation to the acquisition of 5% equity interest in Fujian Fuqiang Delicate Circuit Plate Co., Ltd. (the "Acquisition") at a consideration of RMB15,000,000 (the "Consideration") such that the Group's equity interest in Fujian Fuqiang Delicate Circuit Plate Co., Ltd. ("Fujian Fuqiang") will be increased from 95% to 100%. The Consideration will be payable in cash by the Purchaser to the Vendor by instalments. Following the Acquisition, Fujian Fuqiang will become an indirect wholly-owned subsidiary of the Company.

Following the completion of the Acquisition, a discount of approximately RMB19,418,000 would be recognised directly in the parent shareholders' equity for the six months ended 31 December 2006. The discount is calculated based on the difference between the consideration of the Acquisition and the unaudited carrying amount of interest in Fujian Fuqiang of RMB691,359,000 in the Group's accounts as at 31 December 2006.

Saved as disclosed elsewhere on the Management Discussion and Analysis, during the six months ended 31 December 2006, the Group had no other material acquisition and disposals of subsidiaries and affiliated companies.

## **Employment Information**

As at 31 December 2006, the Group employed a total of 1,776 (2005: 1,177) 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 six months ended 31 December 2006, the employment cost (including directors' emoluments) amounted to approximately RMB7,305,000. In order to align the interests of staff, directors and consultants with the Group, share options would be granted to staffs, directors and consultants under the Company's 2003 share options schemes ("2003 Scheme"). As at 31 December 2006, there are 16,000,000 share options outstanding under the 2003 Scheme.

## **Charges on Group Assets**

As at 31 December 2006, there were no charges on group assets.

## **Future Plans for Material Investments and Expected Sources of Funding**

Save as disclosed elsewhere in 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 six months ended 31 December 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 Hong Kong Dollars, US Dollars and Renminbi, all of which were relatively stable during the period 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 31 December 2006, in respect of capital expenditures, the Group had contracted but not provided for capital commitment in the financial statements amounted to approximately RMB91,067,000.

## Contingent Liabilities

As at 31 December 2006, the Group did not have any material contingent liabilities.

## DIVIDENDS

The Board did not recommend the payment of any interim dividend for the six months ended 31 December 2006 (2005: Nil).

## DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 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 of Hong Kong Limited (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 executive 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 Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Names	Capacity	Type of Interests	Number of shares held	Number of underlying shares held	Approximate % of the issued share capital
Lin Wan Qaing	Beneficial Owner	Personal	282,283,780	—	51.03
Liu Zhao Cai	Beneficial Owner	Personal	—	1,500,000	0.27
Xiang Song	Beneficial Owner	Personal	—	1,500,000	0.27
Hu Zhao Rui	Beneficial Owner	Personal	—	1,000,000	0.18
Tong Yiu On	Beneficial Owner	Personal	—	1,500,000	0.27

Saved as disclosed above, as at 31 December 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 Listing Rules, to be notified to the Company and the Stock Exchange.

## SHARE OPTIONS

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

Name or category of participant	Date of grant	Outstanding as at 1 July 2006	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Outstanding as at 31 December 2006		Exercise price HK\$	Market value per share at date of grant of options HK\$	
						Exercisable Period				
<i>(a) Directors</i>										
Liu Zhao Cai	4 September 2006	—	1,500,000	—	—	1,500,000	4 September 2006 to 3 September 2009	1.038	1.03	
Xiang Song	4 September 2006	—	1,500,000	—	—	1,500,000	4 September 2006 to 3 September 2009	1.038	1.03	
Hu Zhao Rui	4 September 2006	—	1,000,000	—	—	1,000,000	4 September 2006 to 3 September 2009	1.038	1.03	
Tong Yiu On	4 September 2006	—	1,500,000	—	—	1,500,000	4 September 2006 to 3 September 2009	1.038	1.03	
<i>(b) Eligible Employees</i>	4 September 2006	—	6,500,000	—	—	6,500,000	4 September 2006 to 3 September 2009	1.038	1.03	
<i>(c) Consultants</i>	27 April 2005	4,000,000	—	—	—	4,000,000	27 April 2005 to 26 April 2008	1.172	0.86	
		<u>4,000,000</u>	<u>12,000,000</u>	<u>—</u>	<u>—</u>	<u>16,000,000</u>				

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 31 December 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 director/ entity had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly, or 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:

Name	Capacity	Number of shares (Note)	Approximate % of the issued share capital
Lin Wan Qaing	Beneficial Owner	282,283,780 (L)	51.03
Atlantis Investment Management Ltd	Investment Manager	40,000,000 (L)	7.23

Note: The letter "L" denotes the person's/entity's long position in the shares.

Same 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 31 December 2006.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Save as disclosed above under the section headed "Share Options" and "Directors' Interests in Securities" above, at no time during the period was the Company or any of its subsidiaries, its holding company, 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 acquire benefits by means of acquisition of shares in or debentures of, the Company or any other body corporate.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 31 December 2006, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## CORPORATE GOVERNANCE

In the opinion of the Board, the Company has complied with the code provisions in Code of Corporate Governance Practices (the “CG Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (“Listing Rules”) except the following major deviations:

### Code Provision A.4.1

This code stipulates that non-executive directors should be appointed for a specific term and subject to re-election.

All independent non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation in accordance with the Articles of Association of the Company.

### Code Provision E.1.2

Under the code provision E.1.2 of CG Code, the chairman of the board should attend, and the chairmen of the audit and remuneration committees should be available to answer questions at, the annual general meeting of the Company.

The chairman of the Board (also as the chairman of the remuneration committee) and the chairman of the audit committee were unable to attend the annual general meeting of the Company held on 22 December 2006 in person, but the chairmen of the Board, remuneration committee and audit committee have already delegated to one of the executive directors of the Company to chair the meeting and answer questions at the annual general meeting on their behalf.

## MODEL CODE

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors (the “Model Code”). Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code for the period under review.

## REMUNERATION COMMITTEE

The remuneration committee, currently comprising executive director Mr. Lin Wan Qiang, and independent non-executive directors Mr. Pan Chang Chi and Mr. Cai Xun Shan, 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 all executive directors and senior management with reference to the Company's objectives from time to time.

## **AUDIT COMMITTEE**

The Company has established an audit committee in 8 May 2001 with written terms of reference. 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 comprised three Independent Non-executive Directors, namely Mr. Pan Chang Chi, Mr. Cai Xun Shan and Mr. Cheung Chuen. The audit committee had met to review the interim results of the Group for the six months ended 31 December 2006.

On behalf of the Board  
**Liu Zhao Cai**  
*Chairman*

Hong Kong, 22 March 2007