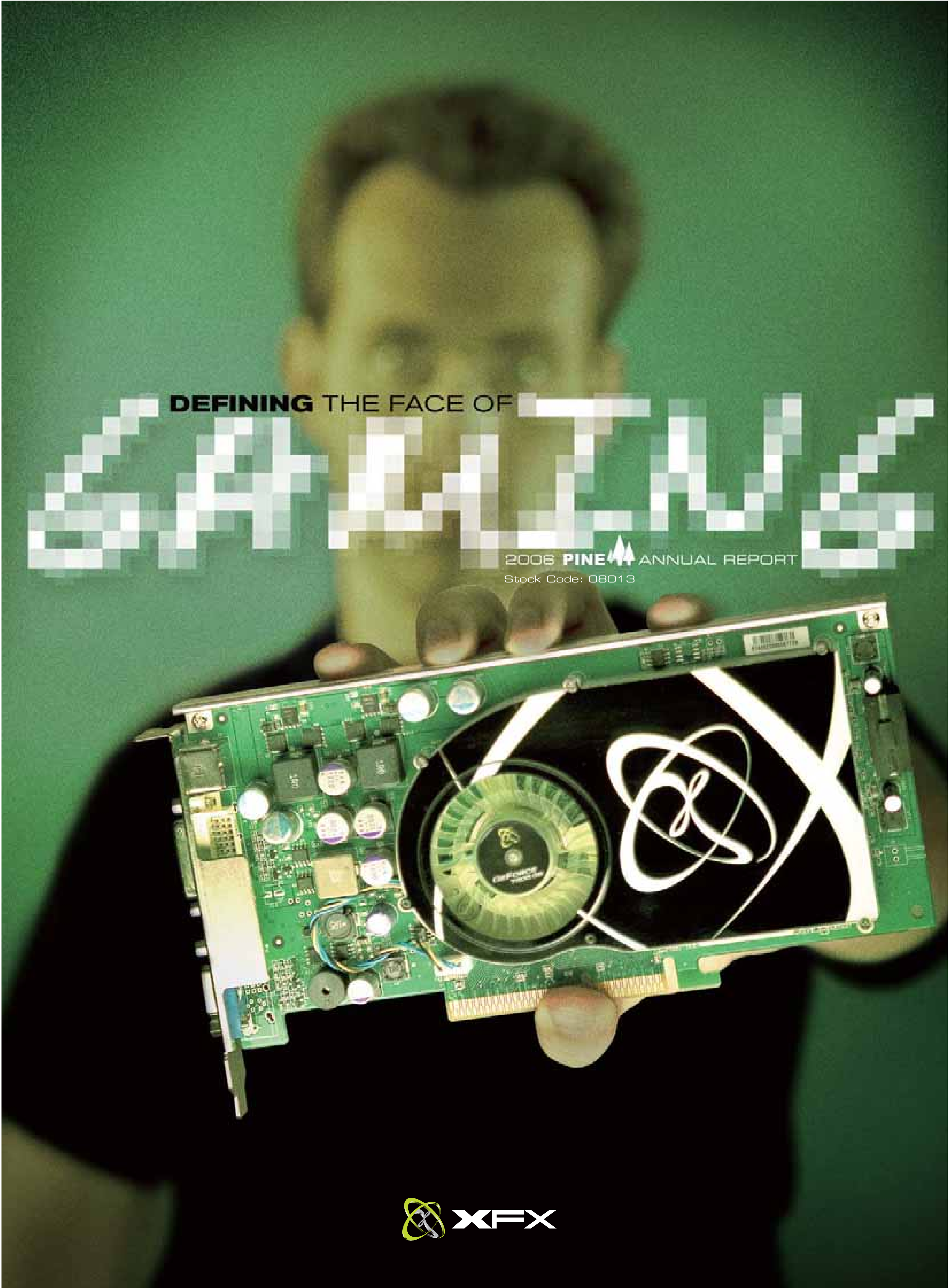


DEFINING THE FACE OF GAMING

2006 PINE ANNUAL REPORT

Stock Code: 08013

XFX

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

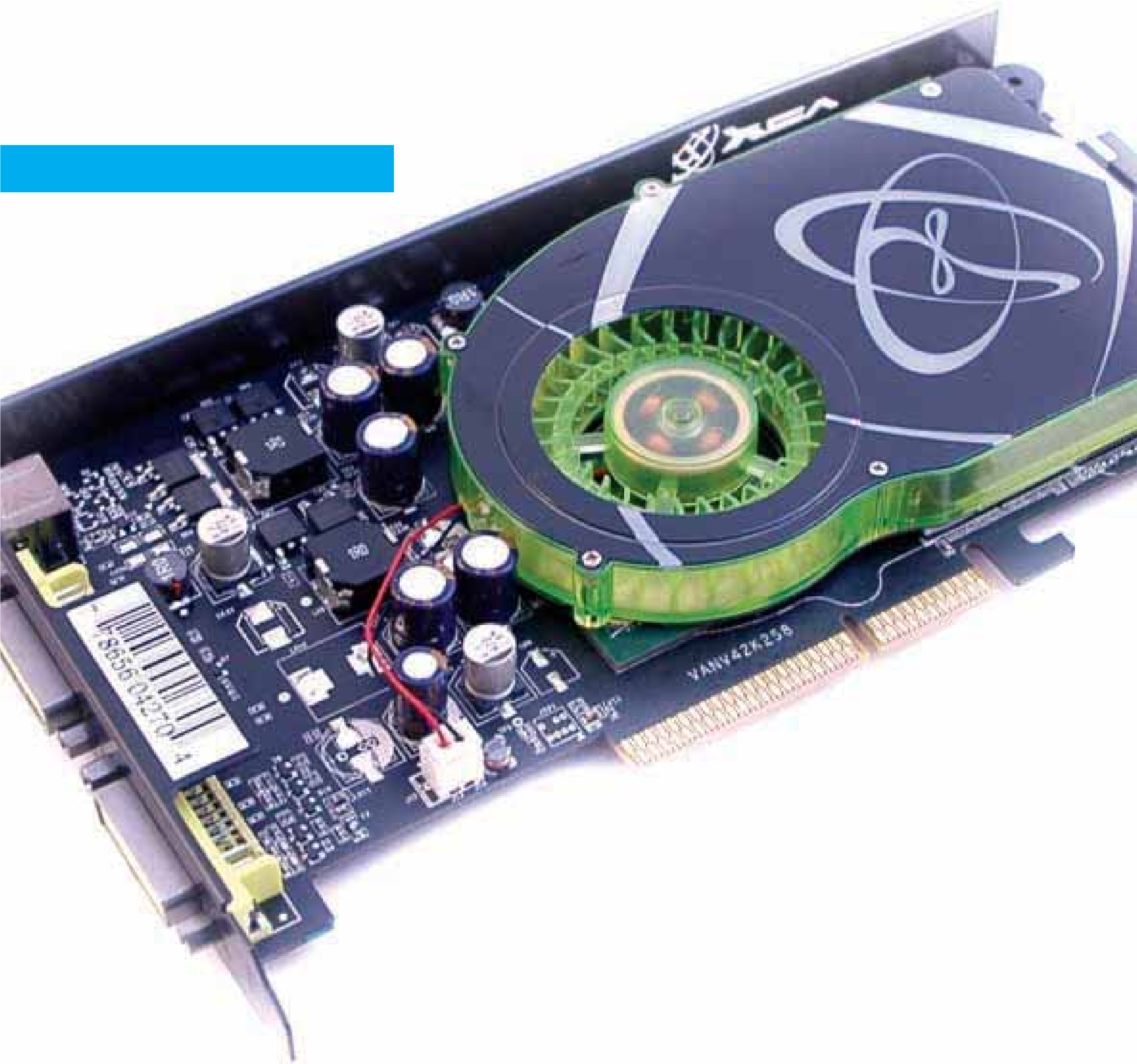

play hard.
XFX
SEE IT · HEAR IT · FEEL IT

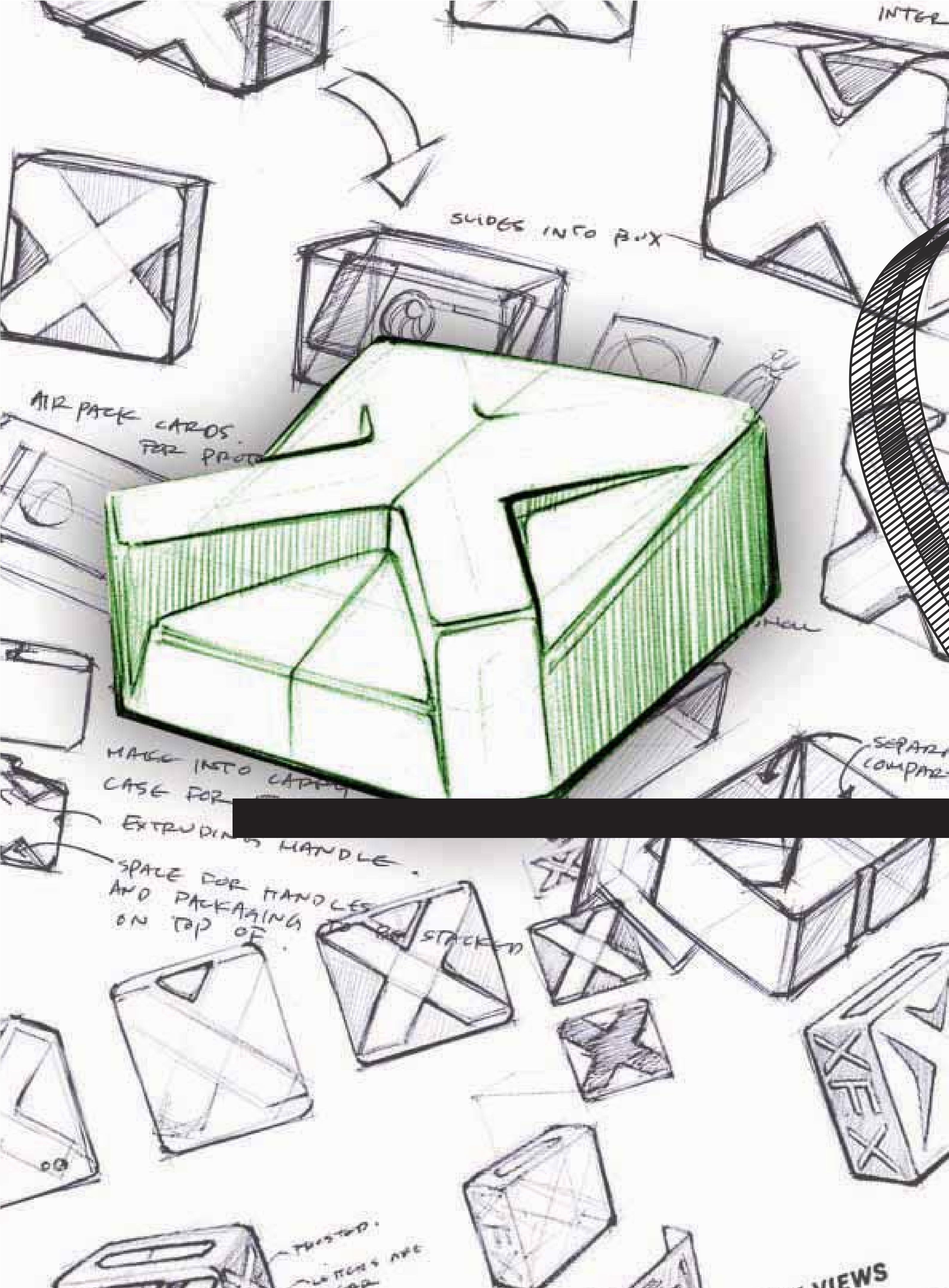
Transforming **XFX** from product to **cultural** icon

Supporting the Professional Gaming **lifestyle**.

Exceeding performance expectations

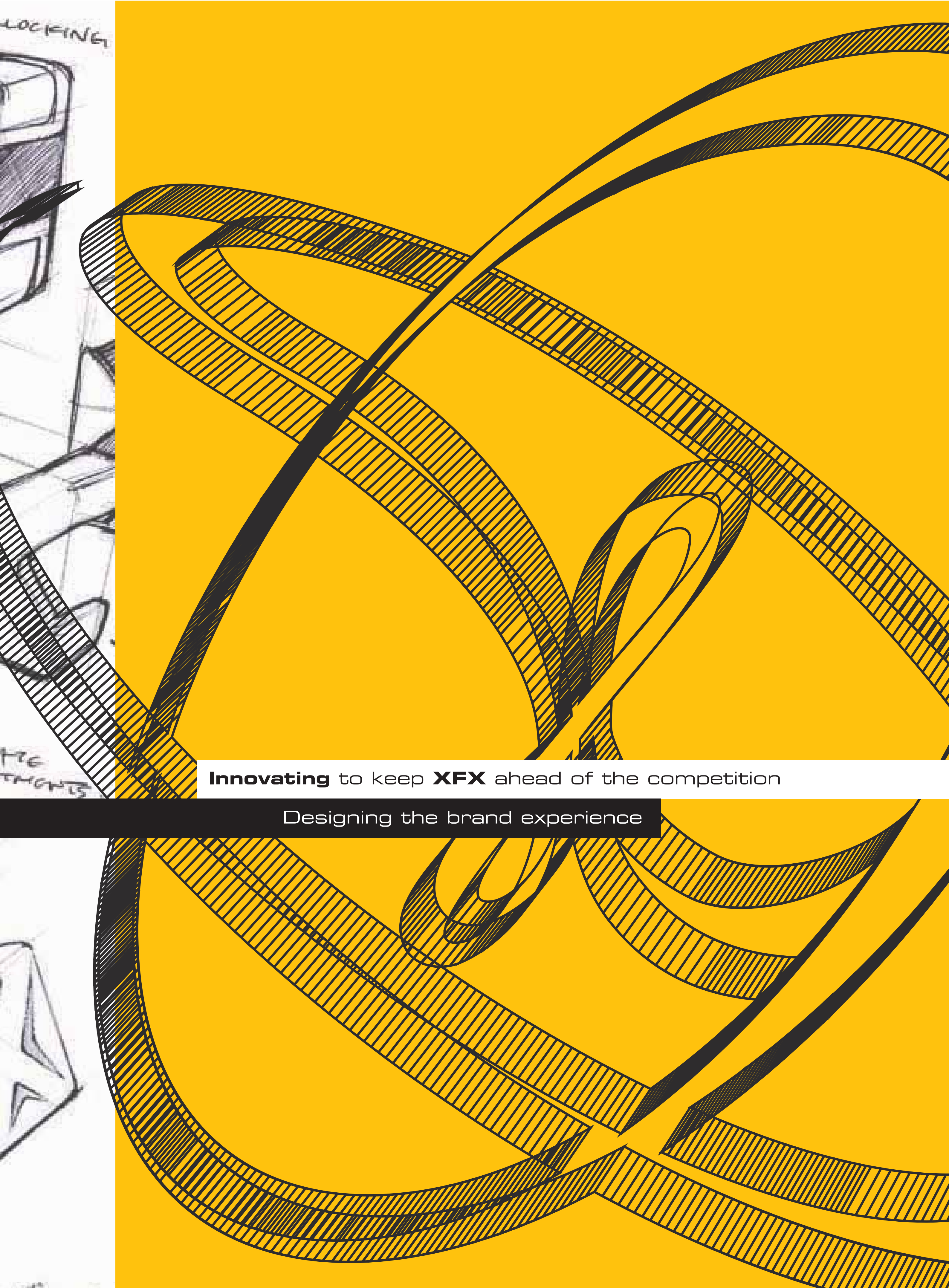
XFX Shatters the **3DMark World Record**




SLIDGE INTO BOX
AIR PACK CARDS
EXTRUDING HANDLE.
SPACE FOR HANDLES
AND PACKAGING
ON TOP OF.
VIEWS

Innovating to keep **XFX** ahead of the competition

Designing the brand experience



Endorsing: XFX gets industries # 1 Celebrity

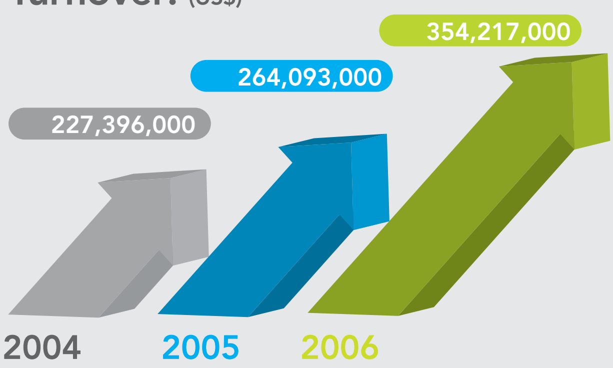
Jonathan “**FATAL1TY**” Wendel

“Jonathan is the Michael Jordan of Gaming”

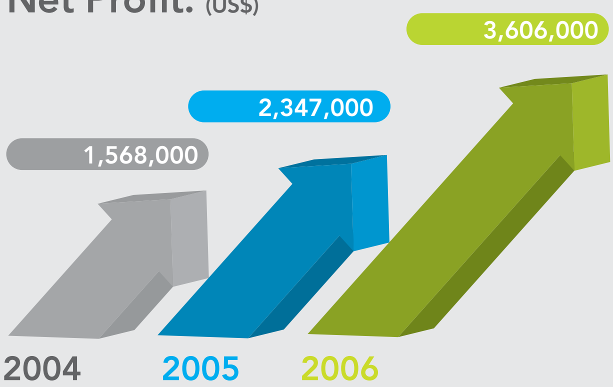
WALL STREET JOURNAL
Wednesday, July 26, 2006

XFX's 2006 Game Stats

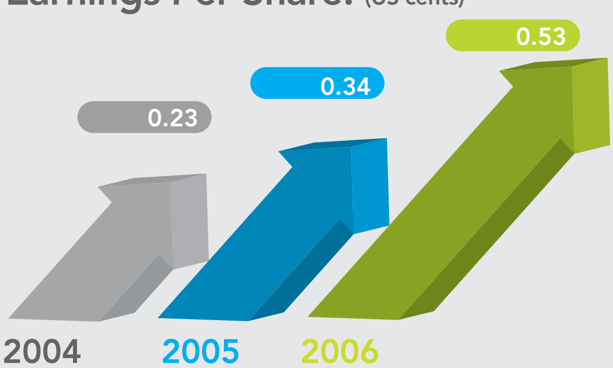
Turnover: (US$)



Net Profit: (US$)



Earnings Per Share: (US cents)




ODE
MACRO
SELECT
START
4
3
CLEAR
TURBO

CONTENTS

Board of Directors

Executive Directors

Mr. Chiu Hang Tai *Chairman*
Mr. Chiu Hang Chin, Samson *Deputy Chairman*

Independent Non-Executive Directors

Mr. Li Chi Chung
Mr. So Hon Cheung, Stephen
Mr. Xu Jian Hua

Compliance Officer

Mr. Chiu Hang Chin, Samson

Company Secretary

Mr. Leung Yiu Ming

Authorised Representative

Mr. Chiu Hang Tai
Mr. Leung Yiu Ming

Qualified Accountant

Mr. Chan Yu Ming

Audit Committee

Mr. Li Chi Chung *Chairman*
Mr. So Hon Cheung, Stephen
Mr. Xu Jian Hua

Remuneration Committee

Mr. So Hon Cheung, Stephen *Chairman*
Mr. Li Chi Chung
Mr. Chiu Hang Tai

Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head Office and Principal Place of Business

Units 5507-10, Hopewell Centre
183 Queen's Road East
Hong Kong

Principal Bankers

Bank of America (Asia) Limited
BNP Paribas (Canada)
DBS Bank (Hong Kong) Limited
Manufacturers Bank
Standard Chartered Bank
United Overseas Bank Group
Wells Fargo Bank
Wing Hang Bank, Ltd.

Principal Share Register and Transfer Office

The Bank of Bermuda Limited
Bank of Bermuda Building
6 Front Street
Hamilton HMII
Bermuda

Hong Kong Branch Share Register and Transfer Office

Secretaries Limited
26th Floor, Tesbury
Centre, 28 Queen's
Road East, Hong Kong

Auditors

Deloitte Touche Tohmatsu
Certified Public Accountants

Legal Advisers

As to Bermuda Law:
Conyers Dill & Pearman

As to Hong Kong Law:
Fairbairn Catley Low & Kong

Stock Quote

8013

Website of the Company

www.pinegroup.com

CORPORATE PROFILE

PINE Technology Holdings Limited ("PINE" or "the Group") is one of the world's leading companies in the design, manufacturing and distribution of PC based products. It has two core business divisions – the XFX division which is focus and specialise in the design and manufacturing of Video Graphic products for the PC and PC upgrade use under the XFX brand; and the Distribution division which distributes a wide range of PC peripherals and accessories of many world class manufacturers through the Company's extensive global distribution network.

The Group's strategy is to continue its success of leveraging on the strong product and our XFX gaming brand positions of its Video Graphic line to further expand our penetration and market shares of the segments of regional distributors, system builders and retailers of the major markets. On the Distribution division, we will continue to work on improving our overhead and operation efficiency while bringing out more services as our major strategy to grow our distribution business especially of our Mass Merchant category.

The Group is headquartered in the Hong Kong Special Administrative Region (Hong Kong SAR) and state-of-the-art manufacturing facilities in mainland China. PINE maintains its research facilities in Asia, as well as a global distribution and service network in USA, Canada, Europe, Asia and China.

Founded in 1989, PINE had revenue reached US$354 million in financial year of 2006. It has been listed on the GEM board of the Hong Kong Stock Exchange (HKGEM: 8013) in 1999.

Fiscal year 2006 was a stellar year for Pine Group. We achieved the revenue of US$354,217,000, a 34.1% increase from last year's revenue of US$264,093,000. The gross profit was US$30,501,000, a 35.2% increase. The gross margin was increased to 8.6% from 8.5%. We achieved a net profit of US$3,606,000, an increase of 53.6% from last year. The stellar performance came from both our XFX graphics division and our Distribution division. XFX's revenue was US$224,131,000, an increase of 45.4% from the previous year. The distribution's revenue was US$130,086,000, an increase of 18.3%.

Overall, we are very pleased with our financial performance, a performance that outpaced the industry average by a wide margin. We are satisfied with the foundation that we laid out in the past three years. We look forward to another exciting year to come, to continue our growth pattern.

Business Review

Over the past year, our XFX graphics division had a phenomenal success in growing its market share on a global basis. In Europe, our business grew by over 50%. In America, Asia, and the Middle East, our business grew by over 30%. Every market that we went in, we were able to grow the business significantly, and won both market share and brand recognition at the same time. This overwhelming success is a testimony of the strong interest and growing demand of our XFX graphics card globally. This is strategically important, given the fact that the global market is characterised by fragmented end user preference and economic conditions, and our XFX graphics card appeals to them all. This is indicative that we have a vast market to further grow our business in the foreseeable future.

CHAIRMAN'S STATEMENT

Our strategic relationship with nVidia, our principal supplier, reached a new height. Our XFX team pulled off the global launch of 17skus of the 7 Series family in March 2006 designed on nVidia's latest GeForce 7900GTX, 7900GT, and 7600GT GPUs. They are designed to deliver the ultra-realistic gaming experience and unparalleled images quality at resolution up to 2560 x 1600. The 7 Series has the horsepower to churn out from 700 million to 1.4 billion vertices per second at the clock rate of 1.45Ghz to 1.8Ghz on GDDR3 memory. We wowed the global gaming community and won their hearts by being among the first to launch such awesome PCI-E graphics cards for the Extreme HD gaming and applications, allowing consumers to experience beyond standard high definition (HD) and move towards to the Extreme High Definition (XHD), ultimate widescreen, ultra-high-resolution PC experience. XHD has over 4x the picture clarity of native 1080i HD televisions and 2x the picture clarity of 1080p HD television on today's hottest PC games. This is as a result of much intense collaboration and teamwork.

Last year's success is a special milestone for Pine Group. Not only have we continued to deliver solid result for three consecutive years and demonstrated the complete turnaround of the company's financial performance, we have also nurtured a highly professional and capable team who are passionate about what they do. We have put in place a simple and effective business model, a fast and flexible operational framework that allows seamless execution. In a nutshell, we have laid a solid foundation and are ready to handle bigger challenges, capture bigger opportunities.

Business Outlook

Looking beyond 2006, we are optimistic about the business outlook of 2007 and 2008. We are particularly excited by the upcoming launch of Microsoft Windows Vista in early 2007. In the long successful history of Microsoft, every release of its new generation Operating Systems heralds a huge opportunity to the whole PC industry. This time it will be most significant to the high-end graphics card companies. Besides the increase in requirement of the processor power and the memory size, Vista requires a high-end graphics engine with 128M Bytes of memory to fully exploit its stunning features, such as the much publicised Aero Graphics effects and the Rolodex Flip 3D feature, on a screen of 1280x1024 resolutions. We are well position to leverage on this business opportunity. Over the years, our unique gamer-centric over-clocking feature, and the cool image of our XFX brand being FGBG (For Gamer By Gamer), makes our graphics cards the #1 choice of the hardcore gamer community. Successful branding and top notch product performance make us the best-of-breed.

The PC industry has been anticipating for the launch of Vista for a while. Vista will boost the sales of new systems and upgrade business. Our Distribution division is at the vantage position to provide all the essential components, such as the powerful duo core CPU, various kind of flash memory and system memory, large capacity hard disk drives, the new Blu-Ray optical drive, the flat panel monitor, and a wide variety of wireless devices, to satisfy the anticipated high demand.

CHAIRMAN'S STATEMENT

Overall, Pine has the right infrastructure, seasoned team members, strong brand equity, and broad global market position. We will continue to partner with our suppliers to wow our customers. We believe our team will execute well to deliver the result again by practicing our motto of Fast, Focus, Flexible, Friendly, and Fun.

Despite the confidence and optimism, we are also very aware of the uncertainties affecting the global economic outlook, especially the potential impact of the high energy cost, the disruption of the regional conflicts and terror activities, the uptrend of the interest rate. These could slow down the USA economy, which could in turn have a domino effect to the global economy and subsequently the PC industry. Therefore, while eyeing for the continual growth, we strive for a disciplinary measure towards the inventory and receivables, to control the overhead expenses and capital investment. Sound business is all about a balanced pursuit of opportunity.

Lastly, on behalf of the Board of Directors, I would like to extend my gratitude and sincere appreciation to our suppliers, customers, and our bankers, for their support. I want to thank our shareholders for their patience. I also want to thank the whole Pine team. Without their dedication and relentless effort, we would not have accomplished it. I am confident that we will deliver another year of stellar performance.

Michael Chiu
Chairman

Hong Kong, 21 September 2006

Liquidity, Financial Resources and Charge of Group Asset

As at 30 June 2006, the Group's borrowings comprised short-term loans of approximately US$48,603,000 (30 June 2005: approximately US$34,443,000) were partially secured by pledged bank deposits, share of available for sale investments or by all assets of certain subsidiaries as floating charges to banks.

As at 30 June 2006, total pledged bank deposits, pledged available for sale investments and all assets of certain subsidiaries as floating charges were amounted approximately US$3,181,000, US$206,000 and US$50,984,000 respectively (30 June 2005: approximately US$2,365,000, US$362,000 and US$43,578,000). The Group continued to maintain a healthy financial and cash position. As at 30 June 2006, the total cash on hand amounted approximately US$10,155,000 (30 June 2005: approximately US$12,807,000).

Capital Structure

The Group's overall treasury policies are prudent, with a focus on risk management.

Significant Investments and Material Acquisitions

The Group had disposed 51% interest of PNS Technology Limited, an investment holding vehicle, holding approximately 68% interest in the JV Company established in People's Republic of China. The disposal would enable the Group to concentrate on its core business and the proceed would provide additional cash flow and working capital for the Group's core operation and business.

The Group beneficially held approximately 9% of shareholding interests in QUASAR Communication Technology Holdings Limited ("QUASAR"), in which approximately 4% shareholding interests of QUASAR were charged to bank for securing banking facilities.

Staff

As at 30 June 2006, the Group maintained similar level of staff, at market remuneration with employee benefits such as medical coverage, insurance plan, pension fund scheme, discretionary bonus and employee share option scheme. Staff cost, including director's emoluments, was approximately US$11.1 million for the year end 30 June 2006 as compared with that of approximately US$9.1 million for the preceding financial year.

Gearing Ratio

As at 30 June 2006, the gearing ratio of the Group based on total liabilities over total assets was approximately 60.1%. (30 June 2005: approximately 56.6%)

Exchange Risk

During the period under review, the Group's major foreign exchange payments arose from the import of components and materials, and repayments of foreign currency loans, that were principally denominated in US dollars, Hong Kong dollars and Canadian dollars. For settlement of import payments and foreign currency loans, the Group maintained its foreign exchange balance by its export revenue, that were principally denominated in US dollars, Canadian dollars and Pound Sterling. The unsecured risk will be foreign currency payables and loan exceeds its foreign currency revenue. The directors believe that the Group will have sufficient foreign exchange to meet its foreign exchange requirement. When necessary, forward exchange contracts will be used to hedge against foreign currency exposures. As at 30 June 2006, the Group has no significant exposure under foreign exchange.

Contingent Liabilities

In November 2004, Samtack Computer Inc., ("Samtack"), a wholly owned subsidiary of the Company, received a notice that the Canadian Private Copying Collective ("CPCC") had filed a lawsuit against Samtack and 1559435 Ontario Inc., ("Ontario") an unrelated entity. CPCC alleges that Samtack Jointly imported blank recording media with Ontario that was subject to copying levies certified by the Copyright Board of Canada and for which CPCC claims it was jointly responsible for and failed to pay. Samtack has filed a counter-claim against Ontario alleging Ontario was the importer and was responsible for payment to CPCC of any applicable private copying tariffs pursuant to the Copyright Act ("Act") as an importer, and for any reporting obligations under the Act, relating to the blank recording media. Should Samtack be unsuccessful in its defence of this claim, it could potentially be liable for US$1,547,000 in outstanding levies. The defendants under this litigation are also potentially liable for penalties of up to five times the outstanding levies.

In the opinion of the directors, it is not probable that the Group will need to pay the potential liabilities and the Group accordingly has not recorded a contingent loss for the damages. Management will review the likelihood of having to pay damages periodically, and record a contingent loss in operations in the period in which it becomes likely that the Group will have to pay to damages and the probable amount of damages can be reasonably estimated.

Segment Information

Group brand products

Revenue growth by 45.4% to US$224,131,000 for the year (2005: US$154,097,000), the segment profit from group brand product surged to US$8,355,000 compared with US$5,274,000 in 2005. With innovative products, raised profile, brand equity, market recognition in its services quality and reliability, we were able to attract and retain high-tier customers to allow us speed up expansions into massive upgrade market and secure stable profitability.

Other brand products

The group has continuously conducted an overhaul of the revenue and profit characteristics of the other brands products for the purpose of optimising the efficiency and profitability of this division. The revenue of other brand products reported at US$130,086,000, a 18.3% growth, the segment profit from other brand product increased to US$1,930,000 compare with US$1,049,000 in 2005.

Executive Directors

Mr. Chiu Hang Tai, aged 46, is the chairman of the Company and co-founder of the Group. He was also appointed as the chief executive officer of the Group in January 2003. He is responsible for overall strategic planning and formulation of corporate strategy of the Company. He holds a bachelor degree of science in economics from Salem State College in the US and a master degree in Business Administration from Northeastern University in the United States. He has over seventeen years of experience in the computer industry and also served as director of 2 health food companies. Chiu was awarded the 1999 Young Industrialist Award of Hong Kong. He is the brother of Mr. Chiu Hang Chin, Samson.

Mr. Chiu Hang Chin, **Samson**, aged 48, is the deputy-chairman of the Company and is the co-founder of the Group. He is responsible for overall strategic planning and formulation of corporate strategy for the Sales and Distribution Division. He holds a bachelor degree in applied science from Queen's University in Canada and a master degree in business administration from York University in Canada. Chiu has over twenty two years of experience in the PC industry. He is the brother of Mr. Chiu Hang Tai.

Independent Non-Executive Directors

Mr. Li Chi Chung, aged 38, is a non-executive director of the Group. Mr. Li is admitted as a solicitor of the Supreme Court of Hong Kong. He is also an independent non-executive director of two companies listed on the Main Board of The Stock Exchange of Hong Kong Limited. He was appointed as an independent non-executive director of the Group in June, 2000.

Mr. So Hon Cheung, Stephen, aged 50, a director of the accounting firm T.M Ho, So & Leung CPA Limited and CCIF CPA Limited, is a fellow member of the Hong Kong Institute of Certified Public Accountants, member of the Canadian Institute of Chartered Accountants, member of the Society of Certified Management Accountants of Canada, member of the Chartered Institute of Management Accountants and a fellow member of the Association of International Accountants. He holds a bachelor in commerce degree from the University of British Columbia, Canada and is now a visiting professor of various universities and colleges in Beijing, Liaoning, Sichuan, Xinjiang, Qinghai and Guangdong of China. He has over twelve years experience in manufacturing, wholesale and trade in the commercial sector and over fourteen years in public practice working for various companies in Hong Kong, China and Canada. A frequent visitor to China on special engagements, Stephen is also acting as independent non-executive director for other listed companies in Hong Kong. In community and professional services, Stephen was the President of the Lions Club of Bayview for 1999-2000, Superintendent of the Road Safety Patrol for 1987-89, and President of the Society of Certified Management Accountants of Canada, Hong Kong Branch for 1989-90. He was appointed as an independent non-executive director of the Group in September, 2002.

Mr. Xu Jian Hua, aged 43, was appointed as an independent non-executive Director in September 2004. He has over sixteen years experience in the commercial sector of the PRC. Except for the directorship in the Company, Mr. Xu does not hold any directorship in other companies listed companies in Hong Kong.

Company Secretary

Mr. Leung Yiu Ming, aged 35, is the Company Secretary of the Company. He holds a bachelor degree in commerce from the Australian National University. He is a member of the Hong Kong Institute of Certified Public Accountants, the CPA Australia, the Hong Kong Institute of Company Secretaries and the Institute of Chartered Secretaries and Administrators. Prior to joining the Group in 1998, he was with a major international accounting firm.

Qualified Accountant

Mr. Chan Yu Ming, aged 35, is the Qualified Accountant of the Group. Mr. Chan joined the Group in March 2005 and is the fellow member of the Association of Chartered Certified Accountants and associate member of the Hong Kong Institute of Certified Public Accountants, He has over 10 years of auditing, finance and IT experiences in various sizeable local and multinational listed companies.

Senior Management

Mr. Ng Khing Fah, **Royson**, aged 47, is responsible for managing the Group's operations in Canada and oversees the development of Mass Merchant Strategies. He holds a masters degree in business administration from the University of Sarasota in the US. He has over thirteen years experience in the PC industry in North America and Canada. Prior to joining the Group in September 1997, he held various management positions in the retail industry.

Mr. Martin Edward Sutton, aged 41, is the vice president for sales (Graphics Division) in Europe. He has over twenty three years' experience in manufacturing, trading, as well as sales and marketing. Before joining the Group in July 1992, he held various senior management positions in manufacturing as well as with import and export companies.

Mr. Eddie Memon, aged 34, is the vice president of XFX USA division. He holds a bachelor degree in management information system from San Jose State University. Eddie currently heads the team of XFX USA with sole purpose of managing the brand to reach new heights of equity of PINE Group. He joined the Group in 1997.

Corporate Governance Practices

The Company recognises the importance of good corporate governance to the Company's healthy growth and has devoted considerable efforts to identifying and formulating corporate governance practices appropriate to the Company's needs.

The Company's corporate governance practices are based on the principles ("Principles"), code provisions ("Code Provisions") as set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 15 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("Stock Exchange") ("GEM Listing Rules").

The Company has applied the principles as set out in the CG Code and complied with all the Code Provisions except for the deviations from Code Provisions A.2.1 and A.4.2, details of which will be explained below.

Compliance of Code for Director's Securities Transactions

The Company has adopted the required standard of dealings set out in rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding directors' securities transactions in securities of the Company. Having made specific enquiry of all directors, all directors have confirmed that during the year ended 30 June 2006, they have fully complied with such code of conduct and the required standard of dealings.

Board of Directors

The Board members for the year ended 30 June 2006 comprises:-

Executive directors:

Mr. Chiu Hang Tai *(Chairman)*
Mr. Chiu Hang Chin, Samson *(Deputy-Chairman)*

Independent non-executive directors:

Mr. Li Chi Chung
Mr. So Hon Cheung, Stephen
Mr. Xu Jian Hua

Mr. Chiu Hang Chin, Samson is the brother of Mr. Chiu Hang Tai

The board of directors (the "Board") is responsible for the Group's corporate policy formulation, business strategies planning, business development, risk management, major acquisitions, disposals and capital transactions. The Board also reviews and approves the quarterly and annual reports of the Group. Daily operations and execution of strategic plans are delegated to management.

Details of backgrounds and qualifications of the directors of the Company are set out in the management profile of the annual report. Each director is suitably qualified for his position and has sufficient experience to hold the position so as to carry out his duties effectively and efficiently.

During the year ended 30th June 2006, the Board at all times met the requirements of the GEM Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

Each of the independent non-executive directors has made an annual confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company is of the view that all independent non-executive directors meet the independence guidelines set out in Rule 5.09 of the GEM Listing Rules and are considered to be independent.

The Board conducts regular scheduled meetings on a quarterly basis. Ad-hoc meetings are convened when circumstances require. The Board had met 14 times during the financial year ended 30th June 2006 to consider, among other things, reviewing and approving the quarterly, interim and annual results of the Group. The directors can attend meetings in person or via telephone conference that are permitted under the bye-laws of the Company. The attendance of each director is set out as follows:

Executive Directors	*Attendance*
Mr. Chiu Hang Tai	14/14
Mr. Chiu Hang Chin, Samson	9/14
Independent Non- Executive Directors	
Mr. Li Chi Chung	5/14
Mr. So Hon Cheung, Stephen	5/14
Mr. Xu Jian Hua	0/14

Under Code Provision A.4.2, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. The Company's Bye-laws provides that one-third of the directors, with the exception of Chairman or Deputy Chairman, Managing Director or joint Managing Director, shall retire from office by rotation at each annual general meeting. Notwithstanding the provisions of the Company's Bye-laws, the Company intends to comply with the Code Provision A.4.2 in the way of having not less than one-third of all directors retiring at each annual general meeting. As such, at the forthcoming 2006 annual general meeting, two out of five directors for the time being shall retire and offer themselves for re-election.

Chairman and Chief Executive Officer

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Mr. Chiu Hang Tai assumes the role of both the Chairman and the Chief Executive Officer of the Group. The Company believes that this structure is conducive to strong and consistent leadership, enabling the Company to formulate and implement strategies efficiently and effectively. Under the supervision of the Board and its independent non-executive directors, a balancing mechanism exists so that the interests of shareholders are adequately and fairly represented. The Company considers that there is no imminent need to change this structure.

Non-Executive Directors

All the independent non-executive directors of the Company are appointed for specific term. Mr. Li Chi Chung and Mr. So Hon Cheung, Stephen were appointed for a term of 2 years expiring on 9 June 2008 and 13 September 2008 respectively. Mr. Xu Jian Hua was appointed for a term of 1 year expiring on 29 September 2007.

Remuneration of Directors

A remuneration committee was established on 30 December 2005 with written terms of reference which are available on request and are now available on the Company's website. The remuneration committee comprises one executive director, namely, Mr. Chiu Hang Tai and two independent non-executive directors, namely, Mr. Li Chi Chung and Mr. So Hon Cheung, Stephen (chairman of the remuneration committee).

The principal responsibilities of the Remuneration Committee include making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and reviewing the specific remuneration packages of all executive Directors and senior management by reference to corporate goals and objectives resolved by the Board from time to time.

During the year under review, a meeting of the Remuneration Committee was held on 30 December 2005 for determining the responsibilities of the members of Remuneration committee. The members of Remuneration Committee also reviewed and discussed the policy for remuneration of Directors and the senior management. The individual attendance record of each Remuneration Committee member is as follow:

Members	*Attendance*
Mr. So Hon Cheung	1/1
Mr. Li Chi Chung	1/1
Mr. Chiu Hang Tai	1/1

Nomination of Directors

The Company has not established a nomination committee. The Board is responsible for reviewing its own size, structure and composition regularly to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the Company. Where vacancies on the Board exist or an additional director is considered necessary, the Chairman will identify suitable candidates and propose the appointment of such candidates to each member of the Board for consideration and each member of the Board will review the qualifications of the relevant candidates for determining the suitability to the Group on the basis of his qualifications, experience and background. The decision of appointing a Director must be approved by the Board.

The Company currently does not have any plan to set up a nomination committee considering the small size of the Board.

Auditor's Remuneration

During the year, the nature of the audit and non-audit services provided by Deloitte Touche Tohmatsu, the auditor of the Company, and the relevant fee paid by the Company for such services are as follows:

Audit services of approximately US$283,000 for the Group; Non-audit services of approximately US$32,000 including:

- tax services for the Group
- agreed upon procedure on Group's annual result announcement

Audit Committee

The Company established an audit committee on 9 November 1999 with written terms of reference which are available on request and are now available on the Company's website. The existing Audit Committee comprises the three independent non-executive directors, namely Messrs. Li Chi Chung, So Hon Cheung, Stephen and Xu Jian Hua. The Chairman of the Audit Committee is Mr. Li Chi Chung.

The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal controls system of the Group and provide advice and comments on the Company's draft annual reports and accounts, half yearly reports and quarterly reports to directors. The Audit Committee had reviewed with management the accounting principles and practices and discussed internal controls and financial reporting matters including a review of audited accounts of the Company and Group for the year ended 30 June 2006.

The Audit Committee held 4 meetings during the year ended 30th June, 2006 to review financial results and reports, financial reporting and compliance procedures and risk management system and the re-appointment of the external auditors. Details of the attendance of the Audit Committee meetings are as follows:

Members	*Attendance*
Mr. Li Chi Chung	4/4
Mr. So Hon Cheung, Stephen	4/4
Mr. Xu Jian Hua	0/4

The Company's annual results for the year ended 30th June, 2006 has been reviewed by the Audit Committee.

Responsibilities in respect of the Financial Statements

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 30th June 2006.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Report of the Auditors" on page 23.

Internal Controls

The Board is responsible for maintaining an adequate internal control system to safeguard shareholder investments and Company assets, and reviewing the effectiveness of such on an annual basis through the Audit Committee.

The Company has maintained a tailored governance structure with defined lines of responsibility and appropriate delegation of responsibility and authority to the senior management.

The Management of the Company is responsible for establishing the Group's internal control framework, covering all material controls including financial, operational and compliance controls. The internal control framework also provides for identification and management of risk.

The Management also conducts periodic independent reviews on the operations of individual divisions to identify any irregularities and risks, develops action plans and recommendations to address the identified risks, and reports to the Audit Committee on any key findings. The Audit Committee, in turn, reports to the Board on any material issues and makes recommendations to the Board.

Investors Relations

The Company has disclosed all necessary information to the Shareholders in compliance with the GEM Listing Rules. The Company also replied to the enquiries from shareholders in a timely manner. The Directors host an annual general meeting each year to meet the shareholders and answer their enquiries.

To promote effective communication, the Company maintains a website at www.pinegroup.com, where extensive information and updates on the Company's business developments and operations, financial information and other information are posted.

DIRECTORS' REPORT

The directors have pleasure in presenting their annual report and the audited financial statements of the Company for the year ended 30 June 2006.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 39 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 30 June 2006, the top five suppliers of the Group together accounted for approximately 33.76% of the Group's total purchases and the largest supplier accounted for approximately 19.51% of the Group's total purchases.

None of the directors, their respective associates or any shareholders of the Company who owns more than 5% of the issued share capital of the Company has any interests in the Group's five largest suppliers during the year.

For the year ended 30 June 2006, the Group's five largest customers accounted for less than 30% of the total sales of the Group.

RESULTS

The results of the Group for the year ended 30 June 2006 are set out in the consolidated income statement on page 24 of the annual report.

The directors of the Company do not recommend the payment of a dividend for the year.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired additional property, plant and equipment at a cost of approximately US$4.7 million for business expansion.

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

SHARE CAPITAL AND SHARE OPTIONS SCHEMES

There was no movement in the Company's authorised and issued share capital during the year. Details of the Company's share capital and share option schemes are set out in notes 28 and 29 to the financial statements respectively.

DIRECTORS

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

Executive directors:

Mr. Chiu Hang Tai – Chairman
Mr. Chiu Hang Chin, Samson – Deputy Chairman

Independent non-executive directors:

Mr. Li Chi Chung
Mr. So Hon Cheung, Stephen
Mr. Xu Jian Hua

In accordance with Clause 111 of the company's Bye-laws, Mr. So Hon Cheung, Stephen and Mr. Xu Jian Hua retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company. All other remaining directors continue in office.

DIRECTORS' SERVICE CONTRACTS

Mr. Li Chi Chung and Mr. So Hon Cheung, Stephen were appointed for a term of 2 years expiring on 9 June 2008 and 13 September 2008 respectively. Mr. Xu Jian Hua was appointed for a term of 1 year expiring on 29 September 2006.

Save as disclosed above, none of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract 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 IN SHARES

At 30 June 2006, the interests and short positions of the directors and their associates in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules") Rule 5.46, were as follows:

LONG POSITIONS:

(a) Ordinary shares of HK$0.1 each of the Company

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Mr. Chiu Hang Tai	Held by controlled corporation *(note)*	131,000,000	19.19%
Mr. Chiu Hang Chin, Samson	Beneficial owner	103,324,732	15.13%

Note: These shares are beneficially owned by and registered in the name of Alliance Express Group Limited. Mr. Chiu Hang Tai beneficially owns the entire issued share capital of Alliance Express Group Limited.

(b) **Share options**

Name of director	Capacity	Number of share options held	Number of shares underlying
Mr. Chiu Hang Tai	Beneficial owner	5,088,000	5,088,000
Mr. Chiu Hang Chin, Samson	Beneficial owner	5,088,000	5,088,000

In addition to the above, Mr. Chiu Hang Tai and Madam Leung Sin Mei, spouse of Mr. Chiu Hang Tai, both beneficially owned 600,000 non-voting deferred shares in Pineview Industries Limited, a subsidiary of the Company as at 30 June 2006. The non-voting deferred shares practically carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of the subsidiary. On winding up, the holders of the deferred shares are entitled to distribution out of the remaining assets of the subsidiary only after the distribution of HK$1,000 million, as specified in the Articles of Association of the subsidiary, to holders of ordinary shares.

Save as disclosed above, and other than certain nominee shares in subsidiaries held by directors in trust for the Company's subsidiaries as at 30 June 2006, none of the directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations.

SHARE OPTIONS

Particulars of the Company's share option schemes are set out in note 29 to the financial statements.

The Company's share option scheme adopted pursuant to a resolution passed on 9 November 1999 (the "Old Scheme") is for the purpose of providing incentives to directors and eligible employees and, unless otherwise cancelled or amended, will expire on 8 November 2009. The Old Scheme was terminated on 16 April 2003 but its terms remain in full force and effect in respect of the outstanding options previously granted.

The Company's new share option scheme adopted by the shareholders pursuant to a resolution passed on 16 April 2003 (the "New Scheme") is for the purpose of providing incentives to directors and eligible employees or any persons who have contributed or will contribute to the Group and, unless otherwise cancelled or amended, will expire on 15 April 2013.

Details of share options outstanding as at 30 June 2006 which have been granted under the Old Scheme and the New Scheme to certain directors to subscribe for shares in the Company is as follows:

Name of director	Date of grant	Exercisable period	Exercise price	Number of share option at 1 July 2005	Lapsed	Number of share options at 30 June 2006
		(both dates inclusive)	HK$			
Old Scheme						
Mr. Chiu Hang Tai	31.1.2000	28.1.2001 to 27.1.2006	1.674	1,088,000	1,088,000	–
	31.1.2000	28.1.2002 to 27.1.2007	1.674	1,088,000	–	1,088,000
Mr. Chiu Hang Chin, Samson	31.1.2000	28.1.2001 to 27.1.2006	1.674	1,088,000	1,088,000	–
	31.1.2000	28.1.2002 to 27.1.2007	1.674	1,088,000	–	1,088,000
New Scheme						
Mr. Chiu Hang Tai	28.9.2004	1.11.2004 to 31.10.2009	0.149	4,000,000	–	4,000,000
Mr. Chiu Hang Chin, Samson	28.9.2004	1.11.2004 to 31.10.2009	0.149	4,000,000	–	4,000,000
				12,352,000	2,176,000	10,176,000

As at 21 September 2006, the number of shares in respect of which options had been granted under the share option schemes was 13,852,000, representing 2.03% of the shares of the Company in issue at that date.

ARRANGEMENT TO ACQUIRE SHARES OF DEBENTURES

Other than the share option schemes disclosed above, at no time during the year was the Company or any of its 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.

SUBSTANTIAL SHAREHOLDERS

Other than those disclosed in directors' interests in shares, as at 30 June 2006, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company.

Name of shareholder	Capacity	Number of issued ordinary shares held (long positions)	Percentage of the issued share capital of the Company
Alliance Express Group Limited	Beneficial owner *(Note 1)*	131,000,000	19.19%
Concept Express Investments Limited	Beneficial owner *(Note 2)*	122,760,000	17.98%
The estate of Mr. Chiu Kwong Chi	Held by controlled corporations *(Note 2)*	122,760,000	17.98%

Notes:

1. These shares are beneficially owned by and registered in the name of Alliance Express Group Limited. Alliance Express Group Limited is incorporated in the BVI and its entire issued share capital is beneficially owned by Mr. Chiu Hang Tai.

2. These shares are beneficially owned by and registered in the name of Concept Express Investments Limited. Concept Express Investments Limited is incorporated in the BVI and its entire issued share capital is beneficially owned as to 47.82 per cent. by the estate of Mr. Chiu Kwong Chi (who passed away on 25 June 2005) and as to 26.09 per cent. by each of Mr. Chiu Hang Tung and Ms. Chiu Man Wah. Mr. Chiu Kwong Chi is the father of Mr. Chiu Hang Tung, Ms. Chiu Man Wah, Mr. Chiu Hang Chin, Samson and Mr. Chiu Hang Tai.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 30 June 2006.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance, to which the Company or any of its subsidiaries was a party and which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

Other than the share options as set out in note 29 to the financial statements, the Company had no other outstanding convertible securities, options, warrants or other similar rights as at 30 June 2006.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 5.09 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited. The Company considers all of the independent non-executive directors are independent.

EMOLUMENT POLICY

The emolument policy regarding the employees of the Group is set up by the board of directors and is based on their merit, qualifications and competence.

The emoluments of the directors and senior management of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the Scheme is set out in note 29 to the financial statements.

PRE-EMPTIVE RIGHTS

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

AUDIT COMMITTEE

The Audit Committee comprised the three independent non-executive directors of the Company, namely, Messrs. Li Chi Chung, So Hon Cheung, Stephen and Xu Jian Hua.

Up to the date of approval of these financial statements, the Audit Committee has held four meetings and has reviewed and commented on the Company's draft quarterly report and annual financial reports.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

AUDITORS

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

On behalf of the Board

Chiu Hang Tai
CHAIRMAN

Hong Kong, 21 September 2006

Deloitte.
德勤

TO THE SHAREHOLDERS OF PINE TECHNOLOGY HOLDINGS LIMITED
松景科技控股有限公司
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of PINE Technology Holdings Limited (the "Company") and its subsidiaries (the "Group") from pages 24 to 73 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

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

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

OPINION

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

21 September 2006

CONSOLIDATED INCOME STATEMENT

(For the year ended 30 June 2006)

	NOTES	**2006**	2005
		US$'000	US$'000
Turnover	*5*	**354,217**	264,093
Cost of sales		**(323,716)**	(241,538)
Gross profit		**30,501**	22,555
Other income		**898**	559
Selling and distribution expenses		**(7,059)**	(4,720)
General and administrative expenses		**(15,894)**	(13,448)
Share of results of an associate		**(142)**	–
Share of results of a jointly controlled entity		**51**	72
Finance costs	*6*	**(3,565)**	(1,805)
Profit before taxation		**4,790**	3,213
Taxation	*9*	**(1,253)**	(701)
Profit for the year	*10*	**3,537**	2,512
Attributable to:			
Equity holders of the parent		**3,606**	2,347
Minority interests		**(69)**	165
		3,537	2,512
Earnings per share	*11*		
Basic (US cents)		**0.53**	0.34
Diluted (US cents)		**0.53**	N/A

CONSOLIDATED BALANCE SHEET

(At 30 June 2006)

	NOTES	2006 US$'000	2005 US$'000
Non-current assets			
Property, plant and equipment	*12*	**7,596**	4,472
Development costs	*13*	**341**	296
Trademarks	*14*	**86**	65
Available-for-sale investments	*15*	**423**	–
Investments in securities	*15*	**–**	744
Interest in an associate	*16*	**–**	–
Interest in a jointly controlled entity	*17*	**–**	5,175
Goodwill	*18*	**–**	–
Deferred taxation	*30*	**148**	263
Deposits for property, plant and equipment		**621**	2,118
		9,215	13,133
Current assets			
Inventories	*19*	**47,938**	31,933
Trade and other receivables	*20*	**64,438**	54,826
Amount due from an associate	*38(b)*	**2,525**	–
Tax recoverable		**86**	–
Pledged bank deposits	*21*	**3,181**	2,365
Bank balances and cash	*22*	**10,155**	12,807
		128,323	101,931
Current liabilities			
Trade and other payables	*23*	**31,495**	25,343
Bills payable	*24*	**1,275**	4,808
Amount due to a jointly controlled entity	*38(c)*	**–**	17
Tax payable		**1,034**	420
Obligations under finance leases	*25*	**74**	16
Bank borrowings – due within one year	*26*	**41,542**	31,335
Other borrowings	*27*	**7,061**	3,108
		82,481	65,047
Net current assets		**45,842**	36,884
		55,057	50,017

CONSOLIDATED BALANCE SHEET

(At 30 June 2006)

	NOTES	2006	2005
		US$'000	US$'000
Capital and reserves			
Share capital	28	**8,790**	8,790
Share premium and reserves		**45,940**	40,899
Equity attributable to equity holders of the parent		**54,730**	49,689
Minority interests		**215**	292
Total equity		**54,945**	49,981
Non-current liability			
Obligations under finance leases	25	**112**	36
		55,057	50,017

The financial statements on pages 24 to 73 were approved and authorised for issue by the Board of Directors on 21 September 2006 and are signed on its behalf by:

Chiu Hang Tai
DIRECTOR

Chiu Hang Chin, Samson
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(For the year ended 30 June 2006)

	Attributable to equity holders of the parent											
	Share capital	Share premium account	Surplus account	Exchange reserve	Goodwill reserve	Capital reserve	Investments revaluation reserve	Share option reserve	Accumulated profits	Total	Minority interests	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
At 1 July 2004	8,790	22,215	2,954	156	(1,578)	67	(115)	-	14,713	47,202	186	47,388
Exchange differences arising on translation of overseas operations	-	-	-	661	-	-	-	-	-	661	(59)	602
Deficit on revaluation on investments in securities	-	-	-	-	-	-	(1,182)	-	-	(1,182)	-	(1,182)
Net income and expense recognised directly in equity	-	-	-	661	-	-	(1,182)	-	-	(521)	(59)	(580)
Profit for the year	-	-	-	-	-	-	-	-	2,347	2,347	165	2,512
Total recognised income and expense for the year	-	-	-	661	-	-	(1,182)	-	2,347	1,826	106	1,932
Impairment loss recognised on goodwill	-	-	-	-	142	-	-	-	-	142	-	142
Impairment loss recognised on investments in securities	-	-	-	-	-	-	519	-	-	519	-	519
At 30 June 2005	8,790	22,215	2,954	817	(1,436)	67	(778)	-	17,060	49,689	292	49,981
Effects of changes in accounting policies *(see Note 2)*	-	-	-	-	1,436	-	-	-	(1,436)	-	-	-
At 1 July 2005 as restated	8,790	22,215	2,954	817	-	67	(778)	-	15,624	49,689	292	49,981
Exchange differences arising on translation of overseas operations	-	-	-	591	-	-	-	-	-	591	(8)	583
Share of exchange reserve of an associate	-	-	-	65	-	-	-	-	-	65	-	65
Deficit on revaluation on available-for-sale investments	-	-	-	-	-	-	(321)	-	-	(321)	-	(321)
Net income and expense recognised directly in equity	-	-	-	656	-	-	(321)	-	-	335	(8)	327
Profit for the year	-	-	-	-	-	-	-	-	3,606	3,606	(69)	3,537
Total recognised income and expense for the year	-	-	-	656	-	-	(321)	-	3,606	3,941	(77)	3,864
Impairment loss recognised on available-for-sale investments	-	-	-	-	-	-	1,099	-	-	1,099	-	1,099
Recognition of equity-settled share-based payment	-	-	-	-	-	-	-	1	-	1	-	1
At 30 June 2006	8,790	22,215	2,954	1,473	-	67	-	1	19,230	54,730	215	54,945

Notes:

(1) The surplus account of the Group represents the difference between the nominal amount of the share capital issued by the Company and the aggregate of the nominal amount of the issued share capital and other reserve accounts of Pine Technology (BVI) Limited, the subsidiary which was acquired by the Company pursuant to the Group Reorganisation.

(2) Capital reserve represents statutory reserves transferred from accumulated profits as required by the relevant laws and regulations applicable to the Company's subsidiaries in the PRC and Republic of China.

CONSOLIDATED CASH FLOW STATEMENT

(For the year ended 30 June 2006)

	NOTES	2006	2005
		US$'000	US$'000
OPERATING ACTIVITIES			
Profit before taxation		**4,790**	3,213
Adjustments for:			
Finance costs		**3,565**	1,805
Share of results of an associate		**142**	–
Share of results of a jointly controlled entity		**(51)**	(72)
Interest income		**(133)**	(35)
Loss on disposal of property, plant and equipment		**31**	204
Allowance for doubtful debts		**844**	754
Allowance for inventories		**1,136**	428
Impairment loss recognised in respect of goodwill arising on acquisition of subsidiaries		**–**	226
Impairment loss recognised on investments in securities		**1,099**	519
Amortisation of development costs		**361**	315
Amortisation of trademarks		**8**	6
Amortisation of goodwill		**–**	11
Depreciation of property, plant and equipment		**1,626**	1,279
Operating cash flow before movements in working capital		**13,418**	8,653
Increase in inventories		**(16,683)**	(5,546)
Increase in trade and other receivables		**(9,612)**	(9,121)
Decrease in amount due from a jointly controlled entity		**–**	264
Increase in trade and other payables		**5,682**	8,826
(Decrease) increase in bills payable		**(3,533)**	2,441
Decrease in amount due to a jointly controlled entity		**(17)**	–
Cash (used in) generated from operations		**(10,745)**	5,517
Interest paid on bank borrowings		**(2,748)**	(1,373)
Interest paid on other borrowings		**(817)**	(432)
Hong Kong Profits tax paid		**(9)**	–
Overseas tax paid		**(594)**	(964)
NET CASH (USED IN) FROM OPERATING ACTIVITIES		**(14,913)**	2,748

CONSOLIDATED CASH FLOW STATEMENT

(For the year ended 30 June 2006)

	NOTES	2006 US$'000	2005 US$'000
INVESTING ACTIVITIES			
Interest received		**133**	35
Proceeds from disposal of property, plant and equipment		**2**	2,352
Proceeds from disposal of partial interest in a subsidiary	*31*	**(3)**	–
Repayment from an associate		**2,627**	–
Purchase of property, plant and equipment		**(3,041)**	(2,283)
Development expenditure incurred		**(402)**	(365)
Acquisition of trademark		**(29)**	(2)
(Increase) decrease in pledged bank deposits		**(816)**	2,674
NET CASH (USED IN) FROM INVESTING ACTIVITIES		**(1,529)**	2,411
FINANCING ACTIVITIES			
New bank borrowings raised		**14,024**	4,646
Other borrowings raised		**3,953**	44
Repayment of bank borrowings		**(4,404)**	(4,769)
Repayment of obligations under finance leases		**(22)**	(12)
NET CASH FROM (USED IN) FINANCING ACTIVITIES		**13,551**	(91)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(2,891)**	5,068
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**12,807**	7,526
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**239**	213
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTING BANK BALANCES AND CASH		**10,155**	12,807

1. GENERAL

The Company is incorporated as an exempted company with limited liability in Bermuda. The shares of the Company are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the section of "Corporate information" set out in the annual report.

The consolidated financial statements are presented in United States dollars, which is the same as the functional currency of the Company.

The Company acts as an investment holding company. Details of the principal activities of the subsidiaries are set out in note 39.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and/or prior accounting years are prepared and presented:

SHARE-BASED PAYMENTS

In the current year, the Group has applied HKFRS 2 *Share-based Payment* which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to directors and employees of the Company, determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1 July 2005. In relation to share options granted before 1 July 2005, the Group chooses not to apply HKFRS 2 with respect to share options granted on or before 7 November 2002 and vested before 1 July 2005. The Group has granted share options to employees during the year and all share options granted before 1 July 2005 were vested before 1 July 2005. Accordingly, no prior year adjustment has been required.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

BUSINESS COMBINATIONS

In the current year, the Group has applied HKFRS 3 *Business Combinations* which is effective for business combinations for which the agreement date is on or after 1 January 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In previous years, goodwill arising on acquisitions prior to 1 July 2001 was held in reserves, and goodwill arising on acquisitions after 1 July 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. Goodwill previously recognised in reserves of US$1,437,000 has been transferred to the Group's accumulated profits on 1 July 2005. With respect to goodwill previously capitalised on the balance sheet, the Group on 1 July 2005 eliminated the carrying amount of the related accumulated amortisation of US$218,000 with a corresponding decrease in the cost of goodwill (see Note 18). The Group has discontinued amortising such goodwill from 1 July 2005 onwards and such goodwill will be tested for impairment at least annually. Goodwill arising on acquisitions after 1 July 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current year. Comparative figures for 2005 have not been restated (see Note 2A for the financial impact).

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions prior to 1 July 2001 was held in reserves. In accordance with the relevant transitional provisions in HKFRS 3, the Group derecognised all negative goodwill on 1 July 2005. A corresponding adjustment to the Group's accumulated profits of US$1,000 has been made.

FINANCIAL INSTRUMENTS

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

Classification and measurement of financial assets and financial liabilities

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

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Equity securities previously accounted for under the alternative treatment of Statement of Standard Accounting Practice ("SSAP") 24

At 30 June 2005, the Group classified and measured its investments in equity securities in accordance with the alternative treatment of SSAP 24. Under SSAP 24, the Group's investments in equity securities are classified as "non-trading securities", which are measured at fair value with unrealised gains or losses reported in equity until the securities are sold or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for that period. From 1 July 2005 onwards, the Group has classified and measured its investments in equity securities in accordance with HKAS 39 as "available-for-sale financial assets". "Available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in equity. This change in accounting policy has had no material impact to the Group's results for the current and prior accounting periods.

Financial assets and financial liabilities other than investments in equity securities

From 1 July 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than investments in equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. This change in accounting policy has had no material impact to the Group's results for the current and prior accounting periods.

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described above on the results for the current and prior years are as follows:

	2006	2005
	US$'000	US$'000
Recognition of share-based payments as expenses (included in general and administrative expenses)	**1**	–

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(Continued)*

The cumulative effects of the application of the new HKFRSs on 30 June 2005 and 1 July 2005 are summarised below:

	At 30 June 2005 (originally stated)	Impact of HKAS 1 and 27	Impact of HKAS 39	Impact of HKFRS 3	At 1 July 2005 (restated)
	US$'000	US$'000	US$'000	US$'000	US$'000
Balance sheet items					
Available-for-sale investments	–	–	744	–	744
Investments in securities	744	–	(744)	–	–
Total effects on assets	744	–	–	–	744
Goodwill reserve	(1,436)	–	–	1,436	–
Accumulated profits	17,060	–	–	(1,436)	15,624
Minority interests	–	292	–	–	292
Total effects on equity	15,624	292	–	–	15,916
Minority interests	292	(292)	–	–	–

The adoption of the new HKFRSs has had no material effect to the Group's equity on 1 July 2004.

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(Continued)*

Potential impact arising on the new accounting standards not yet effective

The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new standards, amendments and interpretations will have no material impact on the results and financial position of the Group.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 30 June each year.

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

INTEREST IN AN ASSOCIATE

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

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

JOINTLY CONTROLLED ENTITIES

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

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

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

REVENUE RECOGNITION

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

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

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

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than freehold land, over their estimated useful lives using the straight-line method.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

PROPERTY, PLANT AND EQUIPMENT *(Continued)*

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

RESEARCH AND DEVELOPMENT COSTS

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

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

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

TRADEMARKS

Trademarks are measured initially at cost and amortised on a straight-line basis over their estimated useful lives.

IMPAIRMENT LOSSES

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

LEASING

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

INVENTORIES

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

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified as loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial assets *(Continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, amount due from an associate, pledged bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as other categories. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in subsequent periods.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including trade and other payables, bills payable, amount due to a jointly controlled entity and bank and other borrowings are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

BORROWING COSTS

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

TAXATION

Taxation represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FOREIGN CURRENCIES

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

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. United States dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

RETIREMENT BENEFITS SCHEMES CONTRIBUTIONS

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

SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share-based payment transactions

Share options granted to employees of the Company

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated profits.

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include available-for-sale investments, trade and other receivables, amount due from an associate, pledged bank deposits, bank balances and cash, trade and other payables, bills payables, amount due to a jointly controlled entity and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

MARKET RISK

(i) *Foreign currency risk*

Certain trade receivables and trade payables of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

(ii) *Other price risk*

The Group's investments in equity instruments are measured at fair values at each balance sheet date. Therefore, the Group is exposed to equity price risk in relation to these investments. The management manages this exposure by reviewing the investments regularly.

INTEREST RATE RISK

The Group's interest rate risk exposure arises mainly from bank and other borrowings, which are at fixed and commercial floating rates, thus exposing the Group to fair value interest rate risk and cash flow interest rate risk. The management will consider hedging significant interest rate exposure should the need arise.

LIQUIDITY RISK

The Group is exposed to minimal liquidity risk as the Group closely monitor its cash flow position.

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

CREDIT RISK

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 30 June 2006 in relation to each class of recognised financial assets is the carrying value of those assets as stated in the consolidated balance sheet.

The Group's credit risk is primarily attributable to trade receivables. The amounts of trade receivables presented in the consolidated balance sheet are net of allowances for doubtful receivables. In order to minimise the credit risk, the management of the Group is responsible for determination of credit limits, credit approvals and other monitoring procedures are carried out to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade and other debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings.

5. TURNOVER AND SEGMENT INFORMATION

TURNOVER

Turnover represents the amounts received and receivable for goods sold by the Group to outside customers during the year.

BUSINESS SEGMENTS

For management purposes, the Group is currently organised into two operating divisions – manufacture and sales of computer components under the Group's brand names ("Group brand products") and distribution of other manufacturers computer peripheral ("Other brand products"). These divisions are the basis on which the Group reports its primary segment information.

5. TURNOVER AND SEGMENT INFORMATION *(Continued)*

BUSINESS SEGMENTS *(Continued)*

Segment information about these businesses is presented below:

2006

	Group brand products US$'000	Other brand products US$'000	Consolidated US$'000
REVENUE			
External sales	224,131	130,086	354,217
RESULT			
Segment result	8,355	1,930	10,285
Unallocated other income			133
Impairment loss recognised on available-for-sale investments			(1,099)
Unallocated corporate expenses			(873)
Share of results of an associate		(142)	(142)
Share of results of a jointly controlled entity		51	51
Finance costs			(3,565)
Profit before taxation			4,790
Taxation			(1,253)
Profit for the year			3,537

Balance Sheet

	Group brand products US$'000	Other brand products US$'000	Consolidated US$'000
ASSETS			
Segment assets	107,016	26,684	133,700
Unallocated corporate assets			3,838
Consolidated total assets			137,538
LIABILITIES			
Segment liabilities	25,814	7,142	32,956
Unallocated corporate liabilities			49,637
Consolidated total liabilities			82,593

5. TURNOVER AND SEGMENT INFORMATION *(Continued)*

BUSINESS SEGMENTS *(Continued)*

Other Information

	Group brand products	**Other brand products**	**Consolidated**
	US$'000	**US$'000**	**US$'000**
Capital expenditure	**4,930**	**190**	**5,120**
Depreciation and amortisation	**1,758**	**237**	**1,995**
Allowance for doubtful debts	**408**	**436**	**844**
Allowance for inventories	**801**	**335**	**1,136**

2005

	Group brand products	Other brand products	Consolidated
	US$'000	US$'000	US$'000
REVENUE			
External sales	154,097	109,996	264,093
RESULT			
Segment result	5,274	1,049	6,323
Unallocated other income			35
Impairment loss recognised on investments in securities			(519)
Unallocated corporate expenses			(893)
Share of results of a jointly controlled entity		72	72
Finance costs			(1,805)
Profit before taxation			3,213
Taxation			(701)
Profit for the year			2,512

5. TURNOVER AND SEGMENT INFORMATION *(Continued)*

BUSINESS SEGMENTS *(Continued)*

Balance Sheet

	Group brand products	Other brand products	Consolidated
	US$'000	US$'000	US$'000
ASSETS			
Segment assets	79,902	26,615	106,517
Interest in a jointly controlled entity		5,175	5,175
Unallocated corporate assets			3,372
Consolidated total assets			115,064
LIABILITIES			
Segment liabilities	23,371	6,849	30,220
Unallocated corporate liabilities			34,863
Consolidated total liabilities			65,083

Other Information

	Group brand products	Other brand products	Consolidated
	US$'000	US$'000	US$'000
Capital expenditure	2,336	378	2,714
Depreciation and amortisation	1,367	244	1,611
Allowance for doubtful debts	–	754	754
Allowance for inventories	318	110	428

5. TURNOVER AND SEGMENT INFORMATION *(Continued)*

GEOGRAPHICAL SEGMENTS

The Group's operations are located in North America, Europe and Asia.

The following is an analysis of the Group sales by geographical market, irrespective of the origin of the goods:

	Turnover by geographical market	
	2006	2005
	US$'000	US$'000
North America	**202,190**	157,033
Europe	**76,539**	50,212
Asia	**69,083**	53,666
Others	**6,405**	3,182
	354,217	264,093

The following is an analysis of the carrying amount of total assets and the capital expenditure, analysed by the geographical area in which assets are located:

	Carrying amount of segment assets		Capital expenditure	
	2006	2005	**2006**	2005
	US$'000	US$'000	**US$'000**	US$'000
North America	**38,476**	36,468	**255**	474
Europe	**12,590**	7,727	**184**	96
Asia	**81,926**	61,772	**4,681**	2,144
Others	**708**	550	**–**	–
	133,700	106,517	**5,120**	2,714

6. FINANCE COSTS

	2006	2005
	US$'000	US$'000
Interest on bank borrowings wholly repayable within five years	**2,748**	1,373
Interest on other borrowings wholly repayable within five years	**817**	432
	3,565	1,805

7. DIRECTORS' REMUNERATION

	2006 US$'000	2005 US$'000
Fees:		
Executive directors	–	–
Independent non-executive directors	48	43
	48	43
Other emoluments to executive directors:		
Basic salaries and other benefits	381	285
Retirement benefits schemes contributions	2	2
	383	287
	431	330

The details of emoluments of the directors are as follows:

	Basic salaries and other benefits		Retirement benefits schemes contributions		Total	
	2006 US$'000	2005 US$'000	2006 US$'000	2005 US$'000	2006 US$'000	2005 US$'000
Executive directors						
Mr. Chiu Hang Tai	240	161	2	2	242	163
Mr. Chiu Hang Chin, Samson	141	124	–	–	141	124
	381	285	2	2	383	287
Independent non-executive directors						
Mr. Li Chi Chung	16	16	–	–	16	16
Mr. So Hon Cheung, Stephen	16	16	–	–	16	16
Mr. Xu Jian Hua	16	11	–	–	16	11
	48	43	–	–	48	43
	429	328	2	2	431	330

8. EMPLOYEES' REMUNERATION

The five highest paid individuals of the Group included two (2005: two) executive directors of the Company, whose emoluments are included in note 7 above. The emoluments of the remaining three (2005: three) individuals are as follows:

	2006	2005
	US$'000	US$'000
Basic salaries and other benefits	**488**	396
Retirement benefits schemes contributions	**13**	–
	501	396

Their emoluments were within the following bands:

	2006	2005
	Number of employees	Number of employees
Nil to US$129,000	**1**	1
US$129,001 to US$193,000	**1**	2
US$193,001 to US$257,000	**1**	–

During each of the two years ended 30 June 2006, no emolument was paid by the Group to the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. No director has waived any emoluments during each of the two years ended 30 June 2006.

9. TAXATION

	2006	2005
	US$'000	US$'000
The charge (credit) comprises:		
Profit for the year		
– Hong Kong	**91**	–
– other region in the People's Republic of China ("PRC")	**158**	426
– other jurisdictions	**888**	438
Overprovision in prior year		
– other jurisdictions	**(6)**	(30)
	1,131	834
Deferred taxation *(note 30)*	**122**	(133)
Taxation attributable to the Company and its subsidiaries	**1,253**	701

9. TAXATION *(Continued)*

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the year. No provision for Hong Kong Profits Tax had been made in prior year as the Group had no assessable profit for that year.

Income tax in United States of America is calculated at 40% of the estimated assessable profit for the year.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Pursuant to the relevant laws and regulations in PRC, the Company's PRC subsidiary, Quality Eagle Technology Dongguan Ltd (品嘉電子(東莞)有限公司) ("QET"), is entitled to an exemption from income tax for two years from its first profitable year of operation, followed by a 50% reduction for the next three years. The first profitable year of QET started from 1 January 2002.

The tax charge for the year can be reconciled to the profit before taxation as follows:

	2006	2005
	US$'000	US$'000
Profit before taxation	**4,790**	3,213
Tax charge at the applicable tax rate of 40% (2005: 40%) *(note)*	**1,916**	1,285
Tax effect of expenses not deductible for tax purpose	**598**	949
Tax effect of income not taxable for tax purpose	**(117)**	(792)
Tax effect of tax losses not recognised	**–**	54
Utilisation of tax losses previously not recognised	**(98)**	(614)
Overprovision in respect of prior year	**(6)**	(30)
Income tax at concessionary tax rate	**(74)**	(89)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(1,032)**	(123)
Effect of share of results of a jointly controlled entity	**(20)**	(29)
Effect of share of results of an associate	**55**	–
Others	**31**	90
Tax charge for the year	**1,253**	701

Note: The tax rate in the jurisdiction where the operation of the Group substantially based is used as the applicable tax rate.

10. PROFIT FOR THE YEAR

	2006 US$'000	2005 US$'000
Profit for the year has been arrived at after charging:		
Allowance for doubtful debts	**844**	754
Allowance for inventories	**1,136**	428
Amortisation charges included in general and administrative expenses:		
Development costs	**361**	315
Trademarks	**8**	6
Goodwill	**–**	11
Auditor's remuneration	**319**	301
Cost of inventories recognised as an expense	**322,580**	241,110
Depreciation of property, plant and equipment	**1,626**	1,279
Exchange loss	**–**	72
Impairment loss recognised in respect of goodwill arising on acquisition of subsidiaries included in general and administrative expenses	**–**	226
Impairment loss recognised on available-for-sale investments/ investments in securities included in general and administrative expenses	**1,099**	519
Loss on disposal of property, plant and equipment	**31**	204
Operating lease rentals in respect of land and buildings	**956**	964
Research and development costs charged for the year	**714**	635
Staff costs including directors' remuneration	**11,056**	9,050
Less: Staff costs capitalised in development costs	**(304)**	(246)
	10,752	8,804
and after crediting:		
Exchange gain	**465**	–
Interest income	**133**	35

11. EARNINGS PER SHARE

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

	2006	2005
	US$'000	US$'000
Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to equity holders of the parent)	3,606	2,347
	'000	'000
Weighted average number of ordinary shares for the purposes of basic earnings per share	682,786	682,786
Effect of dilutive potential ordinary shares:		
Share options	1,229	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	684,015	682,786

The share options had no dilutive effect on ordinary shares for the last year because the exercise prices of the Company's share options were higher than the average market price for shares in that year.

Changes in Group's accounting policies during the year have no significant impact on the amounts reported for earnings per share.

12. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings outside Hong Kong	Leasehold improvements	Plant and machinery	Motor vehicles	Furniture, fixtures and equipment	Computer equipment	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
COST							
At 1 July 2004	2,330	3,374	4,565	64	1,106	1,448	12,887
Exchange adjustments	160	9	35	4	15	26	249
Additions	–	193	1,822	57	66	209	2,347
Disposals	(2,490)	(140)	(400)	(43)	(235)	(23)	(3,331)
At 30 June 2005	–	3,436	6,022	82	952	1,660	12,152
Exchange adjustments	–	77	143	–	5	47	272
Additions	–	1,112	2,905	284	213	175	4,689
Disposals	–	–	(367)	–	(445)	(874)	(1,686)
At 30 June 2006	–	4,625	8,703	366	725	1,008	15,427
DEPRECIATION AND AMORTISATION							
At 1 July 2004	135	1,933	3,080	37	862	1,049	7,096
Exchange adjustments	10	9	25	3	10	23	80
Provided for the year	19	332	620	14	102	192	1,279
Eliminated on disposals	(164)	(137)	(249)	(37)	(167)	(21)	(775)
At 30 June 2005	–	2,137	3,476	17	807	1,243	7,680
Exchange adjustments	–	48	87	–	4	39	178
Provided for the year	–	373	929	38	69	217	1,626
Eliminated on disposals	–	–	(358)	–	(445)	(850)	(1,653)
At 30 June 2006	–	2,558	4,134	55	435	649	7,831
CARRYING VALUES							
At 30 June 2006	–	2,067	4,569	311	290	359	7,596
At 30 June 2005	–	1,299	2,546	65	145	417	4,472

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

The above items of property, plant and equipment are depreciated on a straight-line basis over the following estimated useful lives:

	Estimated useful lives
Buildings	10 years
Leasehold improvements	2-10 years
Plant and machinery	2-6 years
Motor vehicles	4-6 years
Furniture, fixtures and equipment	4-6 years
Computer equipment	4-5 years

The carrying values of motor vehicles and furniture, fixture and equipment include an amount of US$168,000 (2005: Nil) and US$53,000 (2005: US$56,000) respectively in respect of assets held under finance lease.

13. DEVELOPMENT COSTS

	US$'000
COST	
At 1 July 2004	6,672
Exchange adjustments	46
Additions	365
At 30 June 2005	7,083
Exchange adjustments	24
Additions	402
At 30 June 2006	**7,509**
AMORTISATION	
At 1 July 2004	6,426
Exchange adjustments	46
Provided for the year	315
At 30 June 2005	6,787
Exchange adjustments	20
Provided for the year	361
At 30 June 2006	**7,168**
CARRYING VALUES	
At 30 June 2006	**341**
At 30 June 2005	296

The amortisation period adopted for development costs is two years.

14. TRADEMARKS

	US$'000
COST	
At 1 July 2004	108
Addition	2
At 30 June 2005	110
Addition	29
At 30 June 2006	**139**
AMORTISATION	
At 1 July 2004	39
Provided for the year	6
At 30 June 2005	45
Provided for the year	8
At 30 June 2006	**53**
CARRYING VALUES	
At 30 June 2006	**86**
At 30 June 2005	65

15. AVAILABLE-FOR-SALE INVESTMENTS/INVESTMENTS IN SECURITIES

	2006	2005
	US$'000	US$'000
Listed equity securities in Hong Kong, at fair value:		
Available-for-sale investments	**423**	–
Investments in securities	**–**	744
	423	744

As at the balance sheet date, all available-for-sale investments are stated at fair value, which have been determined by reference to bid prices quoted in active markets. Upon the application of HKAS 39 on 1 July 2005, investments in securities were reclassified to available-for-sale investments (see Note 2 for details).

The Group has pledged the available-for-sale investments/investments in securities with an aggregate carrying amount of approximately US$206,000 (2005: US$362,000) to secure general banking facilities granted to the Group.

16. INTEREST IN AN ASSOCIATE

	2006	2005
	US$'000	US$'000
Cost of unlisted investment in an associate	77	–
Share of post-acquisition losses and reserve	(77)	–
	–	–

PNS Technology Ltd. ("PNS") was a wholly owned subsidiary of the Group in 2005. During the year, the Group disposed of a 51% equity interest and accordingly PNS became an associate of the Group.

Details of the Group's associate at 30 June 2006 are as follows:

Name of associate	Place of incorporation and operation	Proportion of nominal value of issued capital held by the Group	Proportion of voting power held	Principal activity
PNS Technology Ltd.	Samoa/PRC	49%	49%	Investment holding

The summarised financial information as at 30 June 2006 in respect of the Group's associate is set out below:

	US$'000
Total assets	7,773
Total liabilities	(7,923)
Net liabilities	(150)
Group's share of net assets of an associate	–
Revenue	12,006
Loss for the year	(430)
Group's share of result of an associate for the year	(142)

The Group has discontinued recognition of its share of losses of the associate. The unrecognised share of losses for the year and the accumulated unrecognised share of losses amounted to US$69,000 (2005: Nil).

17. INTEREST IN A JOINTLY CONTROLLED ENTITY

	2006	2005
	US$'000	US$'000
Cost of unlisted investment in a jointly controlled entity	–	5,140
Share of post-acquisition profits	–	35
	–	5,175

成都景豐嘉訊科技有限公司 ("景豐") was held by PNS, a wholly owned subsidiary of the Group in 2005. During the year, the Group disposed 51% equity interest in PNS and accordingly 景豐 is no longer accounted for as a jointly controlled entity of the Group.

As at 30 June 2005, the Group had an interest in the following jointly controlled entity:

Name of jointly controlled entity	**Place of registration/ operation**	**Contributed capital**	**Proportion of registered capital held by the Group**	**Principal activities**
			%	
成都景豐嘉訊科技有限公司	PRC	RMB100,000,000	42.50	Manufacturing and distribution of computer components

18. GOODWILL

	US$'000
COST	
At 1 July 2004 and 1 July 2005	218
Elimination of accumulated amortisation upon the application of HKFRS 3 *(see Note 2)*	(218)
At 30 June 2006	–
AMORTISATION AND IMPAIRMENT	
At 1 July 2004	123
Provided for the year	11
Impairment loss recognised in the income statement	84
At 1 July 2005	218
Elimination of accumulated amortisation and impairment upon the application of HKFRS 3	(218)
At 30 June 2006	–
CARRYING VALUES	
At 30 June 2005 and 30 June 2006	–

Until 30 June 2005, goodwill had been amortised over its estimated useful life of twenty years.

At 30 June 2005, the directors of the Company considered that the recoverable amount of goodwill was less than its carrying amount. Accordingly, impairment loss had been recognised to reduce the carrying amount to its recoverable amount.

19. INVENTORIES

	2006	2005
	US$'000	US$'000
Raw materials	**17,349**	10,033
Work in progress	**6,992**	5,284
Finished goods	**23,597**	16,616
	47,938	31,933

20. TRADE AND OTHER RECEIVABLES

The Group allows a credit period of 1 to 180 days to its trade customers. The following is an aged analysis of accounts receivable at the balance sheet date:

	2006	2005
	US$'000	US$'000
Current	**39,111**	35,314
1 to 30 days	**9,416**	9,240
31 to 60 days	**2,718**	1,725
61 to 90 days	**4,214**	1,380
Over 90 days	**3,558**	3,215
Trade receivables	**59,017**	50,874
Deposits, prepayments and other receivables	**5,421**	3,952
	64,438	54,826

The fair value of the Group's trade and other receivables at 30 June 2006 approximates to the corresponding carrying amount.

21. PLEDGED BANK DEPOSITS

The pledged bank deposits have been placed in designated bank accounts in favour of the banks as part of the security for the short term banking facilities granted to the Group.

The pledged bank deposits, which carry fixed interest rates ranging from 2.5% to 4.1% (2005: 1.2% to 2.6%), will be released upon settlement of relevant bank borrowings. The fair value of the deposits at 30 June 2006 approximates to its carrying amount.

22. BANK BALANCES AND CASH

Bank balances and cash comprise certain short-term bank deposits at interest rates ranging from 2.7% to 3% (2005: 0.3% to 3%). The fair value of the Group's bank balances and cash at 30 June 2006 approximates to its carrying amount.

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

	United States Dollar
	'000
As at 30 June 2006	3,071
As at 30 June 2005	3,732

23. TRADE AND OTHER PAYABLES

The following is an aged analysis of accounts payable at the balance sheet date:

	2006	2005
	US$'000	US$'000
Current	**18,143**	13,426
1 to 30 days	**4,495**	3,824
31 to 60 days	**717**	1,746
61 to 90 days	**521**	253
Over 90 days	**1,056**	559
Trade payables	**24,932**	19,808
Deposits in advance, accruals and other payables	**6,563**	5,535
	31,495	25,343

The fair value of the Group's trade and other payables at 30 June 2006 approximates to the corresponding carrying amount.

24. BILLS PAYABLE

At the balance sheet date, bills payable, with maturity date of 30 days, aged within 1 to 30 days. The fair value of the Group's bills payable approximates to its carrying amount.

25. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2006	2005	**2006**	2005
	US$'000	US$'000	**US$'000**	US$'000
Amounts payable under finance leases				
Within one year	**83**	22	**74**	16
In more than one year but not more than two years	**81**	37	**76**	36
In more than two years but not more than three years	**37**	–	**36**	–
	201	59	**186**	52
Less: future finance charges	**(15)**	(7)	**N/A**	N/A
Present value of lease obligations	**186**	52	**186**	52
Less: Amount due for settlement within 12 months (shown under current liabilities)			**(74)**	(16)
Amount due for settlement after 12 months			**112**	36

It is Group's policy to lease certain of its fixtures and equipment under finance leases. The average lease term is three years. Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 3.2% to 14%. No arrangement have been entered into for contingent rental payments.

The fair values of the Group's finance lease obligations are not significantly different from their carrying amounts.

26. BANK BORROWINGS

	2006	2005
	US$'000	US$'000
Secured bank borrowings comprise the following:		
Trust receipts and import loans	**23,764**	14,299
Other bank loans	**17,778**	17,036
	41,542	31,335

26. BANK BORROWINGS *(Continued)*

The above bank borrowings are repayable within one year.

The Group's variable-rate borrowings carry interest at Prime rate. The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's bank borrowings are as follows:

	2006	2005
Effective interest rate:		
Fixed-rate borrowings	**6% – 7.8%**	6% – 6.8%
Variable-rate borrowings	**8%**	6%

The fair value of the Group's fixed-rate borrowings is not significantly different from its carrying amount.

The fair value of the Group's variable-rate bank borrowings, which are arranged at floating rates, approximates to its carrying amount.

27. OTHER BORROWINGS

Other borrowings, which are secured by certain of the Group's trade receivables and inventories, bear interest ranging from 6% to 8.1% (2005: 6% to 8.1%) and are repayable within one year. Details of the pledge of assets are set out in note 33.

28. SHARE CAPITAL

Details of the share capital of the Company were as follows:

	Number of shares	**Value**	**United States dollars equivalent**
		HK$'000	US$'000
Ordinary shares of HK$0.1 each:			
Authorised			
At 1 July 2004, 30 June 2005 and 30 June 2006	2,000,000,000	200,000	25,747
Issued and fully paid			
At 1 July 2004, 30 June 2005 and 30 June 2006	682,786,000	68,279	8,790

29. SHARE OPTIONS

The Company's share option scheme adopted pursuant to a resolution passed on 9 November 1999 (the "Old Scheme") is for the purpose of providing incentives to directors and eligible employees and, unless otherwise cancelled or amended, will expire on 8 November 2009. Under the Old Scheme, the Board of Directors of the Company may grant options to eligible employees, including executive directors of the Company or any of its subsidiaries, to subscribe for shares in the Company.

The Old Scheme was terminated on 16 April 2003 but its terms remain in full force and effect in respect of the outstanding options previously granted.

The Company's new share option scheme adopted by the shareholders pursuant to a resolution passed on 16 April 2003 (the "New Scheme") is for the purpose of providing incentives to directors and eligible employees and, unless otherwise cancelled or amended, will expire on 15 April 2013. Under the New Scheme, the Board of Directors of the Company may grant options to eligible employees, including executive directors of the Company, any of its subsidiaries, or any persons who have contributed or will contribute to the Group, to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the New Scheme and any other schemes is not permitted to exceed 10% of the shares of the Company in issue at the date of shareholders' approval of the New Scheme (the "Scheme Mandate Limit") or, if such 10% limit is refreshed, at the date of shareholders' approval of the renewal of the Scheme Mandate Limit. The maximum aggregate number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share option schemes, must not exceed 30% of the total number of shares of the Company in issue from time to time. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company then in issue, without prior approval from the Company's shareholders. Each grant of options to any director, chief executive or substantial shareholder must be approved by independent non-executive directors. Where any grant of options to a substantial shareholder or an independent non-executive director or any of their respective associates would result in the shares of the Company issued and to be issued upon exercise of options already granted and to be granted in excess of 0.1% of the Company's issued share capital and with a value in excess of HK$5,000,000 in the 12-month period up to the date of grant, then the grant must be approved in advance by the Company's shareholders.

Options granted must be taken up within 21 days from the date of grant, upon payment of HK$1 per option. An option may be exercised in accordance with the terms of the New Scheme at any time during the effective period of the New Scheme to be notified by the board of directors which shall not be later than 10 years from the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the highest of the closing price of the Company's share on the date of grant, the average closing price of the share on the Stock Exchange for the five business days immediately preceding the date of grant, and the nominal value.

29. SHARE OPTIONS *(Continued)*

Details of the share options granted under the Old Scheme and the New Scheme during the two years ended 30 June 2006 to subscribe for the shares in the Company are as follows:

2006

Granted to	Date of grant	Vesting period	Exercisable period	Exercise price	Number of share options at 1 July 2005	Granted	Lapsed	Number of share options at 30 June 2006
			(both dates inclusive)	HK$				
Old Scheme								
Directors	31.1.2000	31.1.2000 – 27.1.2001	28.1.2001 – 27.1.2006	1.674	2,176,000	–	2,176,000	–
	31.1.2000	31.1.2000 – 27.1.2002	28.1.2002 – 27.1.2007	1.674	2,176,000	–	–	2,176,000
					4,352,000	–	2,176,000	2,176,000
Senior management	31.1.2000	31.1.2000 – 27.1.2001	28.1.2001 – 27.1.2006	1.674	546,000	–	546,000	–
	31.1.2000	31.1.2000 – 27.1.2002	28.1.2002 – 27.1.2007	1.674	546,000	–	–	546,000
	10.7.2000	10.7.2000 – 9.7.2001	10.7.2001 – 9.7.2005	1.056	214,000	–	214,000	–
	12.4.2001	12.4.2001 – 30.9.2001	1.10.2001 – 30.9.2006	0.335	800,000	–	–	800,000
					2,106,000	–	760,000	1,346,000
Others	31.1.2000	31.1.2000 – 27.1.2001	28.1.2001 – 27.1.2006	1.674	388,000	–	388,000	–
	31.1.2000	31.1.2000 – 27.1.2002	28.1.2002 – 27.1.2007	1.674	330,000	–	–	330,000
	10.7.2000	10.7.2000 – 9.7.2001	10.7.2001 – 9.7.2005	1.056	186,000	–	186,000	–
	12.4.2001	12.4.2001 – 15.5.2001	16.5.2001 – 15.5.2006	0.335	4,000,000	–	4,000,000	–
					4,904,000	–	4,574,000	330,000
					11,362,000	–	7,510,000	3,852,000
New Scheme								
Directors	28.9.2004	28.9.2004 – 31.10.2004	1.11.2004 – 31.10.2009	0.149	8,000,000	–	–	8,000,000
Senior management	21.6.2006	21.6.2006 – 31.12.2007	1.1.2008 -31.12.2010	0.196	–	2,000,000	–	2,000,000
					19,362,000	2,000,000	7,510,000	13,852,000
Exercisable at the end of the year								11,852,000

29. SHARE OPTIONS *(Continued)*

2005

Granted to	Date of grant	Vesting period	Exercisable period (both dates inclusive)	Exercise price HK$	Number of share options at 1 July 2004	Granted	Lapsed	Cancelled	Number of share options at 30 June 2005
Old Scheme									
Directors	31.1.2000	31.1.2000 – 27.1.2001	28.1.2001 – 27.1.2006	1.674	2,176,000	–	–	–	2,176,000
	31.1.2000	31.1.2000 – 27.1.2002	28.1.2002 – 27.1.2007	1.674	2,176,000	–	–	–	2,176,000
					4,352,000	–	–	–	4,352,000
Senior management	31.1.2000	31.1.2000 – 27.1.2001	28.1.2001 – 27.1.2006	1.674	546,000	–	–	–	546,000
	31.1.2000	31.1.2000 – 27.1.2002	28.1.2002 – 27.1.2007	1.674	546,000	–	–	–	546,000
	10.7.2000	10.7.2000 – 9.7.2001	10.7.2001 – 9.7.2004	1.056	214,000	–	214,000	–	–
	10.7.2000	10.7.2000 – 9.7.2001	10.7.2001 – 9.7.2005	1.056	214,000	–	–	–	214,000
	10.7.2000	10.7.2000 – 9.7.2001	10.7.2001 – 9.7.2004	1.240	484,000	–	484,000	–	–
	12.4.2001	12.4.2001 – 30.9.2001	1.10.2001 – 30.9.2006	0.335	800,000	–	–	–	800,000
					2,804,000	–	698,000	–	2,106,000
Others	31.1.2000	31.1.2000 – 27.1.2001	28.1.2001 – 27.1.2006	1.674	432,000	–	–	44,000	388,000
	31.1.2000	31.1.2000 – 27.1.2002	28.1.2002 – 27.1.2007	1.674	360,000	–	–	30,000	330,000
	10.7.2000	10.7.2000 – 9.7.2001	10.7.2001 – 9.7.2004	1.056	144,000	–	144,000	–	–
	10.7.2000	10.7.2000 – 9.7.2001	10.7.2001 – 9.7.2005	1.056	186,000	–	–	–	186,000
	10.7.2000	10.7.2000 – 9.7.2001	10.7.2001 – 9.7.2004	1.240	3,094,000	–	3,094,000	–	–
	12.4.2001	12.4.2001 – 15.5.2001	16.5.2001 – 15.5.2006	0.335	4,000,000	–	–	–	4,000,000
					8,216,000	–	3,238,000	74,000	4,904,000
					15,372,000	–	3,936,000	74,000	11,362,000
New Scheme									
Directors	28.9.2004	28.9.2004 – 31.10.2004	1.11.2004 – 31.10.2009	0.149	–	8,000,000	–	–	8,000,000
					15,372,000	8,000,000	3,936,000	74,000	19,362,000
Exercisable at the end of the year									19,362,000

During the year ended 30 June 2006, options were granted on 21 June 2006. The estimated fair values of the options granted on that date is US$33,000.

29. SHARE OPTIONS *(Continued)*

The fair value was calculated using The Black-Scholes option pricing model. The inputs into the model were as follows:

	2006
Weighted average share price	**US$0.196**
Exercise price	**US$0.196**
Expected volatility	**80.5%**
Expected life	**4.5 years**
Risk-free rate	**4.85%**
Expected dividend yield	**Nil**

Expected volatility was determined by using the historical volatility of the Company's share price over the previous seven years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

The Group recognised the total expense of US$1,000 for the year ended 30 June 2006 in relation to share options granted by the Company.

30. DEFERRED TAXATION

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

	Accelerated tax depreciation	Tax losses	Others	Total
	US$'000	US$'000	US$'000	US$'000
At 1 July 2004	41	(35)	(130)	(124)
(Credit) charge to income statement for the year	26	22	(181)	(133)
Exchange differences	(4)	(1)	(1)	(6)
At 1 July 2005	63	(14)	(312)	(263)
Charge (credit) to income statement for the year	(8)	11	119	122
Exchange differences	(4)	–	(3)	(7)
At 30 June 2006	**51**	**(3)**	**(196)**	**(148)**

30. DEFERRED TAXATION *(Continued)*

At 30 June 2006, the Group has unutilised estimated tax losses of approximately US$761,000 (2005: US$1,067,000) available for offset against future profits. A deferred tax asset has been recognised in respect of US$17,000 (2005: US$79,000) of such losses. No deferred tax asset has been recognised in respect of the remaining estimated tax losses of US$744,000 (2005: US$988,000) due to the unpredictability of future profit streams.

At 30 June 2006, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was US$4,156,000 (2005: US$3,575,000). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

31. DISPOSAL OF PARTIAL INTEREST IN A SUBSIDIARY

On 13 December 2005, the Group disposed 51% equity interest in PNS. The net assets of PNS at the date of disposal were as follows:

	US$'000
NET ASSETS DISPOSED OF	
Interest in a jointly controlled entity	5,226
Bank balances and cash	8
Amount due to former immediate holding company	(5,152)
	82
Cost of interest in an associate	(77)
Total consideration	5
Satisfied by:	
Cash	5
Net cash outflow arising on disposal:	
Cash consideration	5
Bank balances and cash disposed of	(8)
	(3)

32. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into finance leases arrangements in respect of assets with a total capital value at inception of the leases of US$151,000 (2005: US$64,000).

33. PLEDGE OF ASSETS

In addition to the freehold land and buildings, available-for-sale investments/investments in securities and pledged bank deposits as disclosed in notes 12, 15 and 21, the Group has also pledged assets of certain subsidiaries as floating charges to banks and credit institution for facilities of US$47,187,000 (2005: US$37,691,000) granted to the Group at 30 June 2006. The total facilities secured by such floating charges and utilised by the Group as at 30 June 2006 amounted to US$23,094,000 (2005: US$19,118,000). Details of the assets that have been pledged to banks under such floating charges are as follows:

	2006	2005
	US$'000	US$'000
Property, plant and equipment	**643**	590
Inventories	**18,451**	14,168
Trade and other receivables	**29,926**	24,909
Bank balances and cash	**1,964**	3,911
	50,984	43,578

34. OPERATING LEASE ARRANGEMENTS

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

	2006	2005
	US$'000	US$'000
Within one year	**778**	666
In the second to fifth years inclusive	**1,009**	1,352
	1,787	2,018

Leases are negotiated for terms ranging from one to twelve years and rentals are fixed for an average of three years.

35. CAPITAL COMMITMENTS

	2006	2005
	US$'000	US$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**452**	2,106

36. CONTINGENT LIABILITIES

In November 2004, Samtack Computer Inc., ("Samtack"), a wholly owned subsidiary of the Company, received notice that the Canadian Private Copying Collective ("CPCC") had filed a lawsuit against Samtack and 1559435 Ontario Inc. ("Ontario"), an unrelated entity. CPCC alleges that Samtack jointly imported blank recording media with Ontario that was subject to copying levies certified by the Copyright Board of Canada and for which CPCC claims it was jointly responsible for, and failed to pay. Samtack has filed a counter-claim against Ontario alleging Ontario was the importer and was responsible for payment to CPCC of any applicable private copying tariffs pursuant to the Copyright Act ("Act") as an importer, and for any reporting obligations under the Act, relating to the blank recording media. Should Samtack be unsuccessful in its defence of this claim, it could potentially be liable for US$1,547,000 in outstanding levies. The defendants under this litigation are also potentially liable for penalties of up to five times the outstanding levies.

In the opinion of the directors, it is not probable that the Group will need to pay the potential liabilities and the Group accordingly has not recorded a contingent loss for the damages. Management will review the likelihood of having to pay damages periodically, and record a contingent loss in operations in the period in which it becomes likely that the Group will have to pay to damages and the probable amount of the damages can be reasonably estimated.

37. RETIREMENT BENEFITS SCHEMES

During the year, the Group operated defined contribution retirement benefits schemes in various regions outside Hong Kong for all qualifying employees and the Group also operated a defined contribution scheme for its qualifying employees in Hong Kong prior to 1 December 2000 (collectively "Defined Contribution Schemes"). The assets of the Defined Contribution Schemes are held separately from those of the Group in funds under the control of independent trustees.

Where there are employees who leave the Defined Contribution Schemes prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

With effect from 1 December 2000, the Group joined a Mandatory Provident Fund Scheme ("MPF Scheme") for all employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of independent trustees.

37. RETIREMENT BENEFITS SCHEMES *(Continued)*

Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect of the MPF Scheme is to make the required contributions under the scheme.

The retirement benefits schemes contributions in respect of the Defined Contribution Schemes and the MPF Scheme charged to the income statement represent contributions payable to the funds by the Group at rates specified in the rules of the schemes.

The details of retirement benefits schemes contributions for the Group's employees, net of forfeited contributions, which have been dealt with in the income statement of the Group are as follows:

	2006	2005
	US$'000	US$'000
Gross retirement benefits schemes contributions	**163**	91
Less: Forfeited contributions for the year	**(1)**	(8)
Net retirement benefits schemes contributions	**162**	83

At the balance sheet date, the Group had no significant forfeited contributions available to reduce the contributions payable by the Group in the future years.

38. RELATED PARTY TRANSACTIONS

(a) At 30 June 2006, Mr. Chiu Hang Chin, Samson had assigned his life insurance policy with a face value of not less than US$2,000,000 (2005: US$2,000,000) to a bank to secure general banking facilities granted to the Group amounting to US$20,000,000 (2005: US$15,000,000). The facilities utilised at 30 June 2006 amounted to US$12,409,000 (2005: US$8,568,000).

(b) During the year, the Group received subcontracting income and rental income from the associate amounting to US$306,000 (2005: Nil) and US$8,500 (2005: Nil) respectively.

The amount due from the associate at 30 June 2006 was US$2,525,000. The balance is unsecured, interest-free and is repayable on demand. The fair value of the amount due from an associate at 30 June 2006 approximates to its carrying amount.

(c) During the year, the Group received subcontracting income and rental income from the jointly controlled entity amounting to US$597,000 (2005: US$936,000) and US$8,500 (2005: US$17,000) respectively.

The amount owed to the jointly controlled entity at 30 June 2005 was US$17,000. The balance was unsecured, interest-free and had a credit period of 30 days. At 30 June 2005, US$17,000 fell into the age groups of overdue 1 to 30 days.

38. RELATED PARTY TRANSACTIONS *(Continued)*

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

	2006	2005
	US$'000	US$'000
Basic salaries and other benefits	**869**	681
Retirement benefits schemes contributions	**14**	2
Share-based payment	**1**	–
	884	683

39. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries at 30 June 2006 were as follows:

Name of subsidiary	Place of incorporation or registration/ operation	Issued and fully paid share capital/ contributed capital*	Proportion of nominal value of issued capital/ registered capital held by the Company	Principal activities
			%	
Advance Always Limited	British Virgin Islands	US$1	100	Investment holding
All Advance Limited	British Virgin Islands	US$1	100	Investment holding
E23 Inc.	Samoa/PRC	US$10,000	100	Wholesaling and distribution of computer components
Eagle Technology Inc.	Samoa	US$1	100	Investment holding
Eastcom (Alternate names: Pine Technology Inc., Samtack USA Inc. and XFX Technology)	United States of America	US$1,000	100	Wholesaling and distribution of computer components
Gold View Group Limited	Samoa	US$10	100	Investment holding
i. Concept Inc.	Samoa	US$1	100	Investment holding
Interactive Group Limited	British Virgin Islands	US$1	100	Investment holding
Pan Eagle Limited	British Virgin Islands	US$100	100	Investment holding

39. PARTICULARS OF SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation or registration/ operation	Issued and fully paid share capital/ contributed capital*	Proportion of nominal value of issued capital/ registered capital held by the Company	Principal activities
			%	
Pine Global Limited	Samoa/PRC	US$10,000	100	Wholesaling and distribution of computer components
Pine Group Hong Kong Limited	Hong Kong	HK$2	100	Investment holding
Pine Group Limited	British Virgin Islands	US$10,000 Common Shares US$2,995,729 Class A shares	100	Investment holding
Pine Group (North America) Limited	United Kingdom	GBP100	100	Investment holding
Pine Group UK Limited	United Kingdom	GBP35,100	100	Investment holding
Pine Technology and Components Limited	United Kingdom	GBP100	100	Trademarks holding
Pine Technology Korea Ltd	South Korea	WON50,000,000	100	Inactive
Pine Technology Limited	Hong Kong	HK$3	100	Trading of computer components
Pine Technology Netherlands B.V.	Netherlands	EUR18,200	100	Wholesaling and distribution of computer components
Pine Technology (BVI) Limited	British Virgin Islands	US$10,000	100	Investment holding
Pineview Industries Limited	Hong Kong	HK$1,000 Ordinary HK$2,400,000 Non-voting 5% deferred shares *(Note b)*	100	Provision of production and other facilities to group companies

39. PARTICULARS OF SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation or registration/ operation	Issued and fully paid share capital/ contributed capital*	Proportion of nominal value of issued capital/ registered capital held by the Company	Principal activities
			%	
Pro Team Computer Corporation	Taiwan	NT79,300,000	90.08	Inactive
Quality Eagle Limited	Samoa	US$1	100	Investment holding
Quality Eagle Technology Dongguan Ltd (品嘉電子(東莞)有限公司)	PRC	HK$14,993,898*	100 *(Note c)*	Manufacturing of electronics and computer digital audio device
Samtack Computer Inc.	Canada	CAD5 Common shares CAD2,041,250 Class A shares	100	Wholesaling and distribution of computer components
Samtack Computers USA Inc.	United States of America	US$10,000	100	Inactive
Westcom Technology Limited	United Kingdom	GBP50,000	100	Wholesaling and distribution of computer components
XFX Creation Inc.	British Virgin Islands	US$1	100	Trademarks holding
松景科技股份有限公司	Taiwan	NT51,000,000	55.4277	Inactive

Notes:

(a) The Company directly holds the entire interest in Pine Technology (BVI) Limited. The interests of all other companies are indirectly held by the Company.

(b) Deferred shares of the company amounting to HK$1,800,000 are not held by the Group. The deferred shares practically carry no right to dividend or to receive notice of or to attend or vote at any general meeting of the company. On winding up, the holders of the deferred shares are entitled to distribution out of the remaining assets of the company only after the distribution of HK$1,000 million, as specified in the Articles of Association, to holders of ordinary shares.

(c) Subsidiary in the PRC is a wholly foreign owned enterprise.

None of the subsidiaries had any debt securities outstanding at 30 June 2006 or at any time during the year.

	Year ended 30 June				
	2002	2003	2004	2005	**2006**
	US$'000	US$'000	US$'000	US$'000	**US$'000**
RESULTS					
Turnover	238,259	226,910	227,396	264,093	**354,217**
Cost of sales	(217,086)	(209,284)	(207,432)	(241,538)	**(323,716)**
Gross profit	21,173	17,626	19,964	22,555	**30,501**
Other income	803	1,116	254	559	**898**
Selling and distribution expenses	(4,021)	(3,792)	(3,554)	(4,720)	**(7,059)**
General and administrative expenses	(16,084)	(13,329)	(13,271)	(13,448)	**(15,894)**
Loss on disposal of a subsidiary	(31)	–	–	–	**–**
Share of results of an associate	–	–	–	–	**(142)**
Share of results of a jointly controlled entity	–	(52)	5	72	**51**
Finance costs	(1,642)	(2,235)	(1,559)	(1,805)	**(3,565)**
Profit (loss) before taxation	198	(666)	1,839	3,213	**4,790**
Taxation	(43)	(215)	(145)	(701)	**(1,253)**
Profit (loss) for the year	155	(881)	1,694	2,512	**3,537**
Attributable to:					
Equity holders of the parent	403	(887)	1,568	2,347	**3,606**
Minority interests	(248)	6	126	165	**(69)**
	155	(881)	1,694	2,512	**3,537**

	As at 30 June				
	2002	2003	2004	2005	**2006**
	US$'000	US$'000	US$'000	US$'000	**US$'000**
ASSETS AND LIABILITIES					
Total assets	104,671	103,542	100,225	115,064	**137,538**
Total liabilities	(56,141)	(56,477)	(52,837)	(65,083)	**(82,593)**
	48,530	47,065	47,388	49,981	**54,945**
Equity attributable to equity holders of the parent	48,476	47,007	47,202	49,689	**54,730**
Minority interests	54	58	186	292	**215**
	48,530	47,065	47,388	49,981	**54,945**

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松景科技控股有限公司
(Incorporated in Bermuda with limited liability)
(於百慕達註冊成立之有限公司)

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