(Expressed in Renminbi)

1. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements of the Company for the year ended 30 June 2005 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

(a) Statement of compliance

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

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. The Board of Directors has determined the accounting policies to be adopted, in the preparation of the Group's annual financial statements for the year ended 30 June 2005, on the basis of HKFRSs currently in issue. A summary of the significant accounting policies adopted by the Group is set out below.

Early adoption of HKFRSs

The Group has early adopted all HKFRSs issued up to 30 June 2005 pertinent to its operations. The applicable HKFRSs are set out below and the financial statements for the year ended 30 June 2004 have been restated in accordance with the relevant requirements.

Number	Topic
HKAS 1	Presentation of financial statements
HKAS 2	Inventories
HKAS 7	Cash flow statements
HKAS 8	Accounting policies, changes in accounting policies and errors
HKAS 10	Events after balance sheet date
HKAS 12	Income taxes
HKAS 14	Segment reporting

(Expressed in Renminbi)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Statement of compliance (continued)

Number	Topic
HKAS 16	Property, plant and equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee benefits
HKAS 21	The effects of changes in foreign exchange rates
HKAS 23	Borrowing costs
HKAS 24	Related party disclosures
HKAS 26	Accounting and reporting by retirement benefit plans
HKAS 27	Consolidated and separate financial statements
HKAS 28	Investments in associates
HKAS 32	Financial instruments: Disclosure and presentation
HKAS 33	Earnings per share
HKAS 36	Impairment of assets
HKAS 37	Provisions, contingent liabilities and contingent assets
HKAS 39	Financial instruments: Recognition and measurements
HKFRS 2	Share-based payment
HKFRS 3	Business combination
HK(SIC)-15	Operating leases — Incentives

The adoption of the above new HKFRSs has the following impacts on the Group's accounting policies:

— HKAS 1 affects certain presentation and disclosure of the financial statements;

— HKASs 2, 8, 16 and 27 affect certain disclosure of the financial statements;

— HKASs 7, 10, 12, 14, 18, 19, 21, 23, 24, 26, 28, 33, 37 and HK(SIC)-15 do not have any impact as the Group's accounting policies already comply with those standards; and

— the impact of the early adoption of other new and revised HKFRSs is set out in note 32.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of preparation of the financial statements

The financial statements are in Renminbi, rounded to the nearest thousand. The measurement basis used in the preparation of the financial statements is historical cost except that the following assets are stated at their fair value as explained in the accounting policies for leasehold land and building, of which the fair values cannot be allocated reliably between the leasehold land and building at the inception of the lease and the entire lease is classified as finance lease (see note 1(h)) and trading securities (see note 1(f)).

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

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

The accounting policies have been applied consistently by Group entities.

(c) Subsidiaries

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Subsidiaries (continued)

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

(d) Associates

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of the associate's net assets. The consolidated income statement reflects the Group's share of the post-acquisition results of the associate for the year. When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of future losses is discounted except to the extent that the Group has incurred obligations in respect of the associate.

Unrealised profits and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the income statement.

(e) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's share of fair value of the identifiable assets and liabilities acquired on acquisitions of subsidiaries, associates and jointly controlled entities.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortised but is tested annually for impairment (see note 1(j)). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Negative goodwill arising on acquisitions of controlled subsidiaries, associates and jointly controlled entities represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition. Negative goodwill is recognised immediately in the income statement as it arises.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Trading securities

(i) Trading securities are stated in the balance sheets at fair value. Changes in fair value are recognised in the income statement as they arise. Securities are presented as trading securities when they were acquired principally for the purpose of generating a profit from short term fluctuations in price or dealer's margin.

(ii) Profits or losses on disposal of trading in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the securities and are accounted for in the income statement as they arise.

(g) Property, plant and equipment

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

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

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

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

(ii) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group and the cost of the item can be measured reliably. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(iii) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal.

Notes to the Financial Statements

For the year ended 30 June 2005
(Expressed in Renminbi)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Leased assets

Leases of assets under which the lessee assumes substantially all the risks and benefits of ownership are classified as finance leases. Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

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

(i) Depreciation

(i) No depreciation is provided on construction-in-progress until the construction work is completed.

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

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Impairment of assets

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

— property, plant and equipment;

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

— goodwill;

— investments in subsidiaries; and

— interests in associates.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised in the income statement whenever the carrying amount of an asset exceeds its recoverable amount.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

(i) *Calculation of recoverable amount*

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

(ii) *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

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

Notes to the Financial Statements

For the year ended 30 June 2005
(Expressed in Renminbi)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Lease prepayments

Lease prepayments represent the amount of land use rights paid to the People's Republic of China ("PRC") land bureau. Land use rights are carried at cost less accumulated amortisation and impairment losses (see note 1(j)). Amortisation is calculated on a straight-line basis over the respective periods of the rights.

(l) Inventories

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

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

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

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

(m) Cash equivalents

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Convertible bonds

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

(o) Interest-bearing borrowings

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

(p) Employee benefits

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

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

(iii) Pursuant to the 2003 Scheme, the Board may offer certain employees of the Group options to subscribe for such number of shares in the Company. The fair value of options granted is recognised as an expense in the income statement, or as an asset, if the cost qualifies for recognition as an asset under the Group's accounting policies. A corresponding increase is recognised in a capital reserve within equity.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Employee benefits (continued)

Where the employees are required to meet vesting conditions before they become entitled to the options, the Group recognises the fair value of the options granted over the vesting period. Otherwise, the Group recognises the fair value in the period in which the options are granted.

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

(q) Income tax

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

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Income tax (continued)

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

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

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

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

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

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

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

— the same taxable entity; or

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Provisions and contingent liabilities

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

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

(s) Revenue recognition

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

(i) *Sales of goods*

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

(ii) *Interest income*

Interest income is accrued on a time-apportioned basis by reference to the principal outstanding and the interest rate applicable.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Research and development costs

Research costs are written off as incurred. Development costs are charged against income in the period in which they are incurred, except for those incurred for specific projects which are deferred where recoverability can be foreseen with reasonable assurance and which comply with the following criteria: (i) the costs attributable to the product or process can be separately identified and measured reliably; (ii) the technical feasibility of the product or process can be demonstrated; (iii) there is an intention to produce and market, or use, the product or process; (iv) the ability to produce or use the product or process can be demonstrated; (v) the existence of a market for the product or process or, if it is to be used internally rather than sold, its usefulness, can be demonstrated; and (vi) adequate resources exist, or their availability can be demonstrated, to complete the project and market or use the product or process. Deferred development costs are amortised on a straight-line basis over the period in which the related products or processes are expected to be sold or used, starting from the commencement of sales or the utilisation of the product or process. No development costs were deferred as at 30 June 2005 and 2004.

(u) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset.

(v) Translation of foreign currencies

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

The results of foreign enterprises are translated into Renminbi at the average exchange rates for the year; balance sheet items are translated into Renminbi at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

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

Notes to the Financial Statements

For the year ended 30 June 2005
(Expressed in Renminbi)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Borrowing costs

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

(x) Dividends

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

(y) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(z) Segment reporting

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

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

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

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

2. TURNOVER

The Company acts as an investment holding company and the Group is principally engaged in the provision of electronic manufacturing services and the manufacture and sale of electronic products.

Turnover represents the sales value of goods supplied to customers, which excludes value-added tax and is stated after deduction of all goods returns and trade discounts.

3. OTHER REVENUE

	The Group	
	2005	2004
	RMB'000	*RMB'000*
Other revenue		
Interest income from banks	**2,642**	1,823
Others	**306**	37
	2,948	1,860

4. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

		The Group	
		2005	2004
		RMB'000	*RMB'000*
			(restated)
(a)	Finance costs:		
	Interest on bank loans wholly repayable within five years	**6,939**	4,147
	Finance charges on obligations under finance leases	**659**	—
	Interest on convertible bonds wholly repayable within five years *(note 25)*	**1,090**	—
	Other borrowing costs	**99**	2,896
	Total borrowing costs	**8,787**	7,043

4. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION (CONTINUED)

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

	The Group	
	2005	2004
	RMB'000	*RMB'000*
		(restated)
(b) Staff costs:#		
Contributions to defined contribution plans	**1,800**	572
Employees share option benefits	**1,496**	—
Salaries, wages and other benefits	**14,527**	12,804
	17,823	13,376

Number of employees of the Group as at 30 June 2005 was about 1,200 (2004: 648).

	2005	2004
(c) Other items:		
Cost of inventories #	**222,783**	164,906
Amortisation of positive goodwill included in share of profits less losses of associates	**—**	4,537
Amortisation of interest in leasehold land held for own use under operating lease #	**131**	131
Depreciation #		
— owned fixed assets	**16,064**	10,205
— assets held for use under finance lease	**60**	—
Operating lease rentals for premises #	**663**	1,337
Research and development costs	**673**	576
Auditors' remuneration	**1,435**	594
Provision for bad and doubtful debts	**3,513**	5,800
Bad debts written off	**743**	162
Loss derived from trading securities	**8**	—
Net exchange (gain)/loss	**(6)**	265

Cost of inventories includes RMB27,483,000 (2004: RMB15,523,000) relating to staff cost, depreciation expenses, operating lease charges and amortisation of interest in leasehold land held for own used under operating lease, which amount is also included in the respective total amounts disclosed separately above or in note 4(b) for each of these types of expenses.

5. TAXATION

(a) Taxation in the consolidated income statement represents:

	The Group	
	2005	2004
	RMB'000	*RMB'000*
		(restated)
Current tax — Overseas		
Provision for PRC enterprise income tax (see note (iii) below)	21,464	14,700
Overprovision in respect of prior years	(285)	—
	21,179	14,700
Deferred tax		
Origination and reversal of temporary differences	(2,905)	—
	18,274	14,700

Notes:

(i) Overseas income tax

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

(ii) Hong Kong profits tax

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

(iii) PRC enterprise income tax

The Group's subsidiaries in the PRC are subject to PRC enterprise income tax at a preferential rate of 15%. In accordance with the relevant tax rules and regulations in the PRC, all subsidiaries in the PRC are fully exempted from PRC enterprise income tax for two years starting from the first year of profitable operations after offsetting prior year's tax losses, followed by a 50% reduction of PRC income tax for the next three years.

Fujian Fuqiang Delicate Circuit Plate Co., Ltd was chargeable to PRC enterprise income tax at 7.5% for the period from 1 January 2003 to 31 December 2003 and at 15% since 1 January 2004. While the remaining subsidiaries in the PRC sustained loss for taxation purposes until 30 June 2005 and have not yet started their tax holiday.

5. TAXATION (CONTINUED)

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

	The Group	
	2005	2004
	RMB'000	*RMB'000*
		(restated)
Profit before tax	**105,092**	103,356
Notional tax on profit before tax, calculated at the rates applicable to profits in the countries concerned	**15,177**	14,760
Tax effect of non-deductible expenses	**3,071**	3,798
Tax effect of non-taxable revenue	**(89)**	(13)
Tax effect of unused tax losses not recognised	**2,808**	92
Tax effect of reduced tax rates	**—**	(3,937)
Deferred tax assets previously not recognised	**(2,408)**	—
Over-provision in prior years	**(285)**	—
Actual tax expenses	**18,274**	14,700

6. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

Directors' and senior management's remuneration disclosed pursuant to Listing Rules is as follows:

	The Group									
	Fees		Salaries and other emoluments		Retirement scheme contributions		Employee share option benefits		Total	
Name	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Executive directors:										
Lin Wan Qaing	—	—	817	809	14	14	187	—	1,018	823
Chen Yan Shun	—	—	996	—	—	—	117	—	1,113	—
Liu Zhao Cai	—	—	360	381	1	1	117	—	478	382
Xiang Song	—	—	504	488	1	1	117	—	622	489
Tong Yiu On	—	—	816	852	13	13	117	—	946	865
Independent non-executive directors:										
Pan Chang Chi	11	11	—	—	—	—	—	—	11	11
Cai Xun Shan	10	10	—	—	—	—	—	—	10	10
Cheung Chuen	24	—	—	—	—	—	—	—	24	—
Lam Ming Yung	—	—	—	—	—	—	—	—	—	—
Senior management:										
Lin Wan Xin	—	—	144	96	—	—	93	—	237	96
Wang Song Qing	—	—	42	60	—	—	—	—	42	60
Hu Zhao Rui	—	—	84	72	—	—	93	—	177	72
	45	21	3,763	2,758	29	29	841	—	4,678	2,808

7. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, five (2004: four) are directors whose emoluments are disclosed in note 6. The aggregate of the emoluments in respect of the other one individual in 2004 were as follows:

	The Group	
	2005 RMB'000	2004 RMB'000
Salaries and other emoluments	—	276
Retirement scheme contributions	—	13
	—	289

7. INDIVIDUALS WITH HIGHEST EMOLUMENTS (CONTINUED)

During the years ended 30 June 2005 and 2004, no emoluments were paid to the five highest paid individuals (including directors and other employees) as inducement to join or upon joining the Group or as compensation for loss of office.

The emoluments of the one individual in 2004 with the highest emoluments were within the following band:

	The Group	
	Number of individuals 2005	Number of individuals 2004
Nil — RMB1,060,000 (equivalent to approximately nil — HK$1,000,000)	**—**	1

8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a loss of approximately RMB12,776,000 (2004: RMB12,493,000) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's profit for the year:

	The Company	
	2005 ***RMB'000***	2004 *RMB'000*
Amount of consolidated loss attributable to shareholders dealt with in the Company's financial statements	**(12,776)**	(12,493)
Final dividends from subsidiaries attributable to the profits of the previous financial year, declared and received during the year	**15,921**	16,960
Company's profit for the year *(note 27(b))*	**3,145**	4,467

9. DIVIDENDS

(a) Dividends attributable to the year

	The Group	
	2005	2004
	RMB'000	*RMB'000*
Final dividend proposed after the balance sheet date of HK$0.035 (equivalent to approximately RMB0.0371) per ordinary share (2004: HK$0.035 (equivalent to approximately RMB0.0371) per ordinary share)	**17,349**	17,349

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

(b) Dividends attributable to the previous financial year, approved and paid during the year

	The Group	
	2005	2004
	RMB'000	*RMB'000*
Final dividend of HK$0.035 (equivalent to approximately RMB0.0371) per ordinary share (2004: HK$0.04 (equivalent to approximately RMB0.0424) per ordinary share) in respect of the previous financial year, approved and paid during the year	**17,349**	17,410

10. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of approximately RMB80,427,000 (2004: RMB81,214,000) and the weighted average number of 467,625,000 (2004: 432,977,000) ordinary shares in issue during the year.

(Expressed in Renminbi)

10. EARNINGS PER SHARE (CONTINUED)

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to shareholders of approximately RMB79,478,000 as adjusted for interest on convertible bonds of RMB949,000 and the weighted average number of 486,702,000 ordinary shares in issue during the year after adjusting for the effect of all dilutive potential shares. There were no dilutive potential ordinary shares in existence during the year ended 30 June 2004.

	2005 *thousand*	2004 *thousand*
Weighted average number of ordinary shares used in calculating basic earnings per share	467,625	432,977
Deemed issue of ordinary share as a result of conversion of convertible bonds for no consideration	19,077	—
	486,702	432,977

11. SEGMENT REPORTING

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

(a) Business segment

Throughout the years ended 30 June 2005 and 2004, the Group has been primarily involved in the manufacture and sales of printed circuit boards.

(b) Geographical segment

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

11. SEGMENT REPORTING (CONTINUED)

(b) Geographical segment (continued)

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

	The Group	
	2005 *RMB'000*	2004 *RMB'000* (restated)
Segment revenue		
— PRC, excluding Hong Kong and Taiwan	**307,006**	250,521
— Hong Kong	**2,219**	3,183
— Taiwan	**16,603**	11,147
— Australia	**39,144**	31,562
— United States of America	**1,132**	1,097
— Germany	**3,300**	3,691
— Others	**383**	54
Total revenue from external customers	**369,787**	301,255
Other revenue		
— PRC, excluding Hong Kong and Taiwan	**2,502**	1,824
— Hong Kong	**446**	36
Total other revenue	**2,948**	1,860
Total operating revenue	**372,735**	303,115
Segment assets		
— PRC, excluding Hong Kong and Taiwan	**856,890**	656,487
— Others	**99,103**	73,127
	955,993	729,614
Capital expenditures		
— PRC, excluding Hong Kong and Taiwan	**92,830**	13,957
— Others	**—**	—
	92,830	13,957

There is no major disparity in the ratios between turnover and profit in relation to the above geographical locations, hence no analysis is given of the profit contributions from the above geographical locations.

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12. PROPERTY, PLANT AND EQUIPMENT

(a) The Group

Year 2003/2004

	Buildings held for own use RMB'000	Machinery RMB'000	Furniture and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost or valuation:						
At 1 July 2003						
— as previously report	39,727	74,945	2,866	3,249	18,717	139,504
— prior period adjustment	(4,513)	—	—	—	—	(4,513)
— as restated	35,214	74,945	2,866	3,249	18,717	134,991
Additions	4,364	10,863	395	298	1,222	17,142
Reclassifications	7,431	8,740	—	—	(16,171)	—
Disposals	—	—	—	(185)	(3,000)	(3,185)
At 30 June 2004	47,009	94,548	3,261	3,362	768	148,948
Representing:						
Cost (restated)	12,065	94,548	3,261	3,362	768	114,004
Valuation (restated)	34,944	—	—	—	—	34,944
	47,009	94,548	3,261	3,362	768	148,948
Aggregate depreciation:						
At 1 July 2003						
— as previously report	1,060	25,902	1,828	2,514	—	31,304
— prior period adjustment	(256)	—	—	—	—	(256)
— as restated	804	25,902	1,828	2,514	—	31,048
Depreciation charge for the year (restated)	1,832	7,349	569	590	—	10,340
Written back on disposals	—	—	—	(93)	—	(93)
At 30 June 2004	2,636	33,251	2,397	3,011	—	41,295
Net book value:						
At 30 June 2004						
— as previously report	48,632	61,297	864	351	768	111,912
— as restated	44,373	61,297	864	351	768	107,653
At 30 June 2003						
— as previously report	38,667	49,043	1,038	735	18,717	108,200
— as restated	34,410	49,043	1,038	735	18,717	103,943

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(a) The Group (continued)

Year 2004/2005

	Buildings held for own use *RMB'000*	Machinery *RMB'000*	Furniture and equipment *RMB'000*	Motor vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
Cost or valuation:						
At 1 July 2004						
— as previously reported	51,522	94,548	3,261	3,362	768	153,461
— prior period adjustment	(4,513)	—	—	—	—	(4,513)
— as restated	47,009	94,548	3,261	3,362	768	148,948
Additions	38,596	51,567	2,042	672	9,154	102,031
Reclassifications	5,216	51	—	—	(5,267)	—
Disposals	—	—	(33)	—	—	(33)
At 30 June 2005	90,821	146,166	5,270	4,034	4,655	250,946
Representing:						
Cost (restated)	55,877	146,166	5,270	4,034	4,655	216,002
Valuation (restated)	34,944	—	—	—	—	34,944
	90,821	146,166	5,270	4,034	4,655	250,946
Aggregate depreciation:						
At 1 July 2004						
— as previously report	2,890	33,251	2,397	3,011	—	41,549
— prior period adjustment	(254)	—	—	—	—	(254)
— as restated	2,636	33,251	2,397	3,011	—	41,295
Depreciation charge for the year	4,103	11,699	229	93	—	16,124
Written back on disposals	—	—	(2)	—	—	(2)
At 30 June 2005	6,739	44,950	2,624	3,104	—	57,417
Net book value:						
At 30 June 2005	84,082	101,216	2,646	930	4,655	193,529
At 30 June 2004	44,373	61,297	864	351	768	107,653

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(b) The Company

	Furniture and equipment *RMB'000*
Year 2003/2004	
Cost:	
At 1 July 2003 and 30 June 2004	125
Aggregate depreciation:	
At 1 July 2003	53
Depreciation charge for the year	25
At 30 June 2004	78
Net book value:	
At 30 June 2004	47
At 30 June 2003	72
Year 2004/2005	
Cost:	
At 1 July 2004 and 30 June 2005	125
Aggregate depreciation:	
At 1 July 2004	78
Depreciation charge for the year	14
At 30 June 2005	92
Net book value:	
At 30 June 2005	33
At 30 June 2004	47

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(c) All the Group's buildings are located in the PRC. The Group's land and buildings were revalued at 31 October 2002 by an independent firm of surveyors, Sallmanns who have among their staff Fellows of Hong Kong Institute of Surveyors and Fellows of Royal Institution of Chartered Surveyors, on an open market value basis.

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

At 30 June 2005, the net book value of machineries held under finance leases of the Group was RMB25,968,000 (2004: Nil).

(e) The Group is in process of obtaining the land use right certificate and building ownership for land and buildings situated in the PRC of RMB35,046,000 (2004: Nil) from the relevant PRC government authorities.

(f) The carrying amount of the land and buildings held for own use of the Group and the Company at 30 June 2005 would have been RMB34,235,000 (2004: RMB35,958,000).

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

The amount represents land use rights in respect of land located in the PRC granted in the PRC for a period of 25 years up to 2025.

14. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2005 *RMB'000*	2004 *RMB'000*
Unlisted shares, at cost	93,974	93,974

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14. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Details of the subsidiaries as at 30 June 2005 were as follows:

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

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

During the year ended 30 June 2005, the Group made an additional capital injection of RMB46 million of Fuqiang and the Group's effective interest in Fuqiang increased from 90% to 95% subsequently. In this connection, the minority shareholder's interest in Fuqiang was then diluted by RMB13,913,000.

15. INTERESTS IN ASSOCIATES

	The Group	
	2005 *RMB'000*	2004 *RMB'000*
Share of net assets	—	12,978
Goodwill	—	37,432
	—	50,410

Details of the associates as at 30 June 2004 were as follows:

Name of associate	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital	Percentage of ownership interest: Group's effective interest	held by the Company	held by subsidiary	Principal activities
Floret Industries Limited	Incorporated	British Virgin Islands/ Hong Kong	US$100	49.00%	—	49.00%	Investment holding
福州威美電子有限公司	Sino-foreign equity joint venture	PRC	HK$6,000,000	49.00%	—	49.00%	Investment holding and trading of electronic components
福州天方科技有限公司	Sino-foreign equity joint venture	PRC	RMB3,000,000	40.67%	—	40.67%	R & D, manufacture, sale of products and ancillary services
Sail Information Science and Technology Co., Ltd. ("福州啓帆信息科技有限公司")	Sino-foreign equity joint venture	PRC	RMB1,000,000	30.05%	—	30.05%	Not yet commenced business

On 27 May 2005, the Group disposed of its entire interests in associates for a consideration of RMB52 million to an independent third party, resulting in a loss of approximately RMB5,065,000 which has been recognised in the consolidated income statement.

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16. LOAN RECEIVABLE

	The Group	
	2005 *RMB'000*	2004 *RMB'000*
Loan advanced to an independent third party	—	30,000

The loan was unsecured, carried interest at 8% per annum and was originally repayable in March 2009. Such loan has been fully repaid in March 2005.

17. INVENTORIES

	The Group	
	2005 *RMB'000*	2004 *RMB'000*
Raw materials	15,757	8,188
Work-in-progress	2,629	2,190
Finished goods	2,851	1,696
	21,237	12,074

Inventories as at 30 June 2005 and 2004 were stated net of general provision in order to state the inventories at their net realisable value.

18. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2005 *RMB'000*	2004 *RMB'000*	**2005** *RMB'000*	2004 *RMB'000*
Amounts due from subsidiaries	—	—	214,990	157,454
Trade receivables	155,370	128,395	—	—
Advances and deposits to suppliers	10,404	17,138	—	—
Rental and other deposits	263	220	—	—
Advances to employees	883	864	—	—
Prepayments	1,197	1,400	—	—
Others	11,993	746	—	—
	180,110	148,763	214,990	157,454

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

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

18. TRADE AND OTHER RECEIVABLES (CONTINUED)

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

	The Group	
	2005	2004
	RMB'000	*RMB'000*
Invoice date:		
Within 3 months	**128,848**	113,633
3 to 6 months	**39,111**	17,459
6 to 12 months	**3,643**	7,696
More than 12 months	**1,668**	4,548
	173,270	143,336
Less: Provision for bad and doubtful debts	**(17,900)**	(14,941)
	155,370	128,395

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

19. PLEDGED BANK DEPOSITS

	The Group	
	2005	2004
	RMB'000	*RMB'000*
Maturing after three months from placement	**5,329**	5,329

This bank deposit has been pledged to a bank against a bank loan granted to the Group (note 22).

20. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Deposits with banks and other financial institutions	**101,694**	43,640	**95,698**	41,340
Cash at bank and in hand	**439,221**	270,387	**1,420**	32,539
	540,915	314,027	**97,118**	73,879

At 30 June 2005, cash and cash equivalents of RMB436,725,000 (2004: RMB234,974,000) of the Group are subject to exchange control in the PRC.

21. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade payables	**35,445**	14,211	**—**	—
Bills payable	**12,874**	3,728	**—**	—
Customers' deposits	**—**	648	**—**	—
Other payables and accruals	**9,841**	12,577	**2,650**	791
Other tax payable	**4,755**	4,430	**—**	—
Payable for purchase of property, plant and equipment	**16,049**	—	**—**	—
Staff welfare payable	**7,852**	3,931	**—**	—
Utility and rental payable	**1,727**	844	**—**	—
Dividend payable to a minority shareholder	**—**	1,894	**—**	—
Amounts due to subsidiaries	**—**	—	**10,498**	—
Amount due to a related party	**1,000**	—	**—**	—
Amount due to a director	**11,596**	12,307	**47**	50
	101,139	54,570	**13,195**	841

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

21. TRADE AND OTHER PAYABLES (CONTINUED)

All of the trade and other payables are expected to be settled within one year.

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

	The Group	
	2005	2004
	RMB'000	*RMB'000*
Due within 6 months or on demand	**47,777**	16,706
Due after 6 months but within 1 year	**542**	1,233
	48,319	17,939

22. BANK LOANS

At 30 June 2005, the bank loans were repayable as follows:

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	**RMB'000**	RMB'000
Within 1 year or on demand				
— short-term bank loan denominated in RMB	**85,915**	70,300	**—**	—
— current portion of long-term bank loan denominated in US$	**24,742**	—	**24,742**	—
	110,657	70,300	**24,742**	—
Long-term bank loan, denominated in US$, due:				
— after 1 year but within 2 years	**8,247**	24,742	**8,247**	24,742
— after 2 years but within 5 years	**24,887**	33,134	**24,887**	33,134
	33,134	57,876	**33,134**	57,876
	143,791	128,176	**57,876**	57,876

22. BANK LOANS (CONTINUED)

At 30 June 2005, the bank loans were secured as follows:

	The Group		The Company	
	2005 *RMB'000*	2004 *RMB'000*	**2005** **RMB'000**	2004 RMB'000
Secured by bank deposit *(note (i))*	**4,500**	4,500	**—**	—
Unsecured *(note (ii))*	**139,291**	123,676	**57,876**	57,876
	143,791	128,176	**57,876**	57,876

Notes:

(i) Bank deposit of RMB5,329,000 (2004: RMB5,329,000) was pledged to a bank against a bank loan of RMB4,500,000 (2004: RMB4,500,000) granted to the Group.

(ii) A corporate guarantee is issued by the Company in respect of bank loans of RMB81,415,000 (2004: RMB65,800,000) granted to a subsidiary.

(iii) The Group's weighted average interest rate per annum on short-term loans were 6.06% (2004: 4.95%).

(iv) The Group's and the Company's weighted average interest rate per annum on long-term loans were 3.94% (2004: 3.10%).

(v) At 30 June 2005, the Group had available RMB8,385,000 (2004: Nil) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

23. OBLIGATIONS UNDER FINANCE LEASES

At 31 December 2005, the obligations under finance leases were repayable as follows:

	The Group		
	Present value of the minimum lease payments *RMB'000*	**Interest expense relating to future periods** *RMB'000*	**Total minimum lease payments** *RMB'000*
Within 1 year	9,899	560	10,459
After 1 year but within 5 years	3,083	48	3,131
	12,982	608	13,590

23. OBLIGATIONS UNDER FINANCE LEASES (CONTINUED)

At 30 June 2005, the finance leases liabilities carried fixed effective interest rates ranging from 6% to 7% (2004: Nil) per annum.

24. INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the balance sheet represents:

	The Group	
	2005	2004
	RMB'000	*RMB'000*
Provision for PRC enterprise income tax for the year	**21,464**	14,700
Provisional PRC enterprise income tax paid	**(15,105)**	(8,311)
	6,359	6,389

(b) Deferred tax assets recognised:

The deferred tax assets recognised in the consolidated balance sheet arising from general provision and the movements during the year are as follows:

	The Group
	RMB'000
Deferred tax arising from:	
At 1 July 2003 and 30 June 2004	—
At 1 July 2004	—
Credited to consolidated income statement	(2,905)
At 30 June 2005	(2,905)

(c) Deferred tax assets not recognised:

At 30 June 2005, the Group has not recognised deferred tax assets in respect of tax losses of approximately RMB19,334,000 (2004: RMB614,000) respectively as it is not probable that taxable profit will be available against which the tax losses can be utilised.

At 30 June 2005, the Group's tax losses of approximately RMB18,720,000 (2004: RMB614,000) and RMB614,000 (2004: Nil) will expire in five years and four years respectively.

25. CONVERTIBLE BONDS

On 27 April 2005, the Company issued convertible bonds at a nominal value of US$10,000,000 (approximately RMB82,680,000). The bonds bear interest at 2% interest rate per annum and have a three-year term ("conversion period") from the date of issue.

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

— fixed conversion price being HK$0.9017; or

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

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

The fair values of the liability component and the equity conversion component were determined at issuance of the bonds.

The fair value of the liability component, included in long-term borrowings, was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion component, is included in equity.

The convertible bonds recognised in the balance sheets are calculated as follows:

	The Group and the Company	
	2005	2004
	RMB'000	*RMB'000*
Face value of convertible bonds issued on 27 April 2005	**82,680**	—
Transaction costs	**(2,799)**	—
Net proceeds	**79,881**	—
Equity component *(notes 27(a) and (b))*	**(11,743)**	—
Liability component on initial recognition at 27 April 2005	**68,138**	—
Accrued interest capitalised	**949**	—
Amortisation of transaction costs	**141**	—
Liability component at 30 June 2005	**69,228**	—

25. CONVERTIBLE BONDS (CONTINUED)

The amount of the convertible bonds classified as equity of RMB11,743,000 is net of attributable transaction costs of RMB411,000.

Interest expense on the bonds is calculated using the effective interest method by applying the effective interest rate of 7.678% per annum to the liability component.

26. SHARE CAPITAL

	The Group and the Company			
	2005		2004	
	Number of shares *'000*	**Amount** *RMB'000*	Number of shares *'000*	Amount *RMB'000*
Authorised:				
Ordinary shares of HK$0.10 (equivalent to approximately RMB0.106) each	**1,000,000**	**106,000**	1,000,000	106,000
Issued and fully paid:				
Ordinary shares of HK$0.10 (equivalent to approximately RMB0.106) each				
At 1 July	**467,625**	**49,568**	402,625	42,678
Shares issued under share option scheme *(note (a))*	**—**	**—**	8,000	848
Shares issued under private placement *(note (b))*	**—**	**—**	57,000	6,042
At 30 June	**467,625**	**49,568**	467,625	49,568

Notes:

(a) During September 2003, options were exercised to subscribe for 8,000,000 ordinary shares in the Company at a consideration of approximately RMB8,438,000, of which RMB848,000 was credited to share capital and the balance of approximately RMB7,590,000 was credited to the share premium.

(b) On 16 January 2004, the Company entered into a placing and subscription agreement with Mr Lin Wan Qaing, under which Mr Lin Wan Qaing, the controlling shareholder of the Company, placed 57,000,000 ordinary shares of the Company at a price of HK$1.40 (equivalent to RMB1.48) per ordinary share and subscribed for 57,000,000 ordinary shares of the Company at a price of HK$1.40 (equivalent to RMB1.48) per ordinary share. The net proceeds of approximately HK$76,578,000 (equivalent to RMB81,173,000) were used as general working capital of the Group and for the further development of the Group's printed circuit board fabrication capacity.

Notes to the Financial Statements

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27. RESERVES

(a) The Group

	Attributable to equity holders of the parent							
	Share premium *RMB'000*	**Share-based compensation reserve** *(note (i))* *RMB'000*	**Convertible Bonds Reserve** *(note (ii))* *RMB'000*	**Capital reserve** *(note (iii))* *RMB'000*	**Retained profits** *RMB'000*	**Total** *RMB'000*	**Minority interest** *RMB'000*	**Total equity** *RMB'000*
At 1 July 2003								
— As previously reported	76,454	—	—	46,115	188,940	311,509	28,807	340,316
— Prior period adjustments in respect of:								
— leasehold land	—	—	—	—	(1,330)	(1,330)	(147)	(1,477)
At 1 July 2003 (as restated)	76,454	—	—	46,115	187,610	310,179	28,660	338,839
Premium on shares issued under share option scheme *(note 26(a))*	7,590	—	—	—	—	7,590	—	7,590
Premium on shares issued under private placement *(note 26(b))*	78,546	—	—	—	—	78,546	—	78,546
Share issuance expenses	(3,415)	—	—	—	—	(3,415)	—	(3,415)
Dividends approved in respect of the previous year *(note 9(b))*	—	—	—	—	(17,410)	(17,410)	(1,895)	(19,305)
Profit for the year (as restated)	—	—	—	—	81,214	81,214	7,442	88,656
At 30 June 2004 (as restated)	159,175	—	—	46,115	251,414	456,704	34,207	490,911

27. RESERVES (CONTINUED)

(a) The Group (continued)

	Attributable to equity holders of the parent							
	Share premium RMB'000	Share-based compensation reserve *(note (i))* RMB'000	Convertible Bonds Reserve *(note (ii))* RMB'000	Capital reserve *(note (iii))* RMB'000	Retained profits RMB'000	Total RMB'000	Minority interest RMB'000	Total equity RMB'000
At 1 July 2004								
— As previously reported	159,175	—	—	46,115	252,742	458,032	34,354	492,386
— Prior period adjustments in respect of:								
— leasehold land	—	—	—	—	(1,328)	(1,328)	(147)	(1,475)
At 1 July 2004 (as restated)	159,175	—	—	46,115	251,414	456,704	34,207	490,911
Dilution arising from capital injected by the Group	—	—	—	—	13,913	13,913	(13,913)	—
Employee share option benefit	—	1,496	—	—	—	1,496	—	1,496
Lapse/cancellation of employee share option	—	(187)	—	—	187	—	—	—
Other share-based compensation	—	144	—	—	—	144	—	144
Convertible bonds issued *(note 25)*	—	—	11,743	—	—	11,743	—	11,743
Dividend approved in respect of the previous year *(note 9(b))*	—	—	—	—	(17,349)	(17,349)	(837)	(18,186)
Profit for the year	—	—	—	—	80,427	80,427	6,391	86,818
At 30 June 2005	159,175	1,453	11,743	46,115	328,592	547,078	25,848	572,926

27. RESERVES (CONTINUED)

(b) The Company

	Share premium RMB'000	Share-based compensation reserves *(note (i))* RMB'000	Convertible bonds reserve *(note (ii))* RMB'000	Contributed surplus *(note (iv))* RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 July 2003	76,454	—	—	81,064	(10,227)	147,291
Premium on shares issued under share option scheme *(note 26(a))*	7,590	—	—	—	—	7,590
Premium on shares issued under private placement *(note 26(b))*	78,546	—	—	—	—	78,546
Share issuance expenses *(note 26(b))*	(3,415)	—	—	—	—	(3,415)
Dividend approved in respect of the previous year *(note 9(b))*	—	—	—	(17,410)	—	(17,410)
Profit for the year	—	—	—	—	4,467	4,467
At 30 June 2004	159,175	—	—	63,654	(5,760)	217,069
At 1 July 2004	159,175	—	—	63,654	(5,760)	217,069
Employees share option benefit	—	1,496	—	—	—	1,496
Lapsed/cancellation of employee share options	—	(187)	—	—	187	—
Other share-based compensations	—	144	—	—	—	144
Convertible bonds issued	—	—	11,743	—	—	11,743
Dividend approved in respect of the previous year *(note 9(b))*	—	—	—	(17,349)	—	(17,349)
Profit for the year	—	—	—	—	3,145	3,145
At 30 June 2005	159,175	1,453	11,743	46,305	(2,428)	216,248

Included in the retained profits of the Group as at 30 June 2004 was an amount of approximately RMB11,349,000, being the retained profits attributable to associates.

Notes:

(i) Share-based compensation reserve represents the value of share options granted to the holder the right to subscribe ordinary shares of the Company (note 29).

(ii) Convertible bonds reserve represents the excess of the issue proceeds over the present value of the future interest and principal payments of the convertible bonds, discounted at the market rate of interest applicable to similar liabilities that do not have a conversion option (note 25).

27. RESERVES (CONTINUED)

(b) The Company (continued)

Notes: (continued)

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

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

(v) As stipulated by rules and regulations in the PRC, Fuqiang is required to appropriate part of its after-tax profit (after offsetting prior year losses) to a general reserve fund and enterprise expansion reserve fund at rates as determined by the board of directors. During the year ended 30 June 2005, the boards of directors of Fuqiang determined not to make any appropriation to the general reserve fund and enterprise expansion fund (2004: Nil).

(vi) According to the relevant rules and regulations in the PRC, Gemini and Shuangxiang are required to appropriate 10% after-tax profit (after offsetting prior year losses), based on the PRC statutory financial statements prepared in accordance with the relevant accounting principles and financial regulations applicable to foreign investment enterprises in the PRC, to a general reserve fund until the balance of the reserve reaches 50% of their respective registered capital. Thereafter, any further appropriations can be made at the directors' discretion. The general reserve fund can be utilised to offset prior year losses, or be utilised for issuance of bonus shares on condition that the general reserve fund shall be maintained at a minimum of 25% of the registered capital after such issuance. During the years ended 30 June 2005 and 2004, no appropriation was made to the general reserve fund as Gemini and Shuangxiang sustained losses or not yet set up.

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

As at 30 June 2005, the Company's reserves available for distribution to shareholders amounted to approximately RMB216,248,000 (2004: RMB217,069,000) computed in accordance with the Companies Law (Revised) of the Cayman Islands and the Company's Articles of Association. This includes the Company's share premium, contributed surplus, share-based compensation reserves and convertible bonds reserve of approximately RMB159,175,000 (2004: RMB159,175,000), RMB46,305,000 (2004: RMB63,634,000), RMB1,453,000 (2004: Nil) and RMB11,743,000 (2004: Nil), respectively, less accumulated losses of approximately RMB2,428,000 (2004: RMB5,760,000), which is available for distribution provided that immediately following the date on which the dividend is proposed, the Company will be able to pay off its debts as they fall due in the ordinary course of business.

28. EMPLOYEE RETIREMENT BENEFITS

Hong Kong

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

PRC, other than Hong Kong

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

The Group does not have any other pension schemes for its employees in respect of the subsidiaries outsides Hong Kong and PRC. In the opinion of the directors of the Company, the Group did not have any significant contingent liabilities as at 30 June 2005 in respect of the retirement benefits of its employees.

(Expressed in Renminbi)

29. EQUITY COMPENSATION BENEFIT

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

(a) Movements in share options

	Number of options	
	2005	2004
At 1 July	—	15,000,000
Granted	36,000,000	—
Exercised	—	(8,000,000)
Lapsed	(3,000,000)	—
Cancelled	(1,000,000)	—
Expired	—	(7,000,000)
At 30 June	32,000,000	—
Options vested at 30 June	32,000,000	—

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

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

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

(Expressed in Renminbi)

29. EQUITY COMPENSATION BENEFIT (CONTINUED)

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

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

(d) Fair value of share options and assumptions

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

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

The expected volatility is based on the historical share price of the Company over the 260 trading days immediately before the valuation date.

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

30. COMMITMENTS

(a) Capital commitments outstanding at 30 June 2005 not provided for in the financial statements were as follows:

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Contracted for				
— acquisition of fixed assets	**15,638**	—	**—**	—

(b) At 30 June 2005, the total future minimum lease payments in respect of buildings under non-cancellable operating leases are payable as follows:

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 1 year	**761**	1,110	**—**	—
After 1 year but within 5 years	**886**	538	**—**	—
	1,647	1,648	**—**	—

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

31. CONTINGENT LIABILITIES

As at 30 June 2005, there were contingent liabilities in respect of bank loans drawn by a PRC subsidiary and guaranteed by the Company totalling RMB81,415,000 (2004: RMB65,800,000).

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32. CHANGE IN ACCOUNTING POLICIES

(a) Summary of the effect of changes in accounting policies

(i) *Effect of change in the accounting policies on consolidated income statement*

Year 2003/2004

	Share based payment HKFRS 2 *(note (b))* *RMB'000*	Business combination HKFRS 3 *(note (c))* *RMB'000*	Presentation of financial statements HKAS 1 *(note (d))* *RMB'000*	Leasehold land and buildings HKAS 17 *(note (e))* *RMB'000*	Convertible bonds HKAS 39 *(note (f))* *RMB'000*	Total *RMB'000*
Decrease in amortisation expenses	—	—	—	(2)	—	(2)
Decrease in share of profits less losses of associates	—	—	(49)	—	—	(49)
Decrease in taxation	—	—	49	—	—	49
	—	—	—	(2)	—	(2)

32. CHANGE IN ACCOUNTING POLICIES (CONTINUED)

(a) Summary of the effect of changes in accounting policies (continued)

(i) *Effect of change in the accounting policies on consolidated income statement (continued)*

Year 2004/2005

	Share based payment HKFRS 2 *(note (b))* *RMB'000*	Business combination HKFRS 3 *(note (c))* *RMB'000*	Presentation of financial statements HKAS 1 *(note (d))* *RMB'000*	Leasehold land and buildings HKAS 17 *(note (e))* *RMB'000*	Convertible bonds HKAS 39 *(note (f))* *RMB'000*	Total *RMB'000*
Increase in staff cost and related expenses	(1,496)	—	—	—	—	(1,496)
Increase in interest expenses	—	—	—	—	(632)	(632)
Increase in finance cost	(7)	—	—	—	—	(7)
Decrease in taxation	—	—	(55)	—	—	(55)
Increase in share of profits less losses of associates	—	4,159	55	—	—	4,214
Increase in loss on disposal of associates	—	(4,159)	—	—	—	(4,159)
Decrease in amortisation expense	—	—	—	65	—	65
	(1,503)	—	—	65	(632)	(2,070)

The change in accounting policies adopted by the Group has no material effect on the basic and diluted earnings per share in 2004 and 2005.

Notes to the Financial Statements

For the year ended 30 June 2005
(Expressed in Renminbi)

32. CHANGE IN ACCOUNTING POLICIES (CONTINUED)

(a) Summary of the effect of changes in accounting policies (continued)

(ii) *Effect of change in the accounting policies on consolidated balance sheets*

	Share Based Payment HKFRS 2 *(note (b))* *RMB'000*	Leasehold land and buildings HKAS 17 *(note (e))* *RMB'000*	Convertible bonds HKAS 39 *(note (f))* *RMB'000*	Total *RMB'000*
At 1 July 2003				
(Equity only)				
Decrease in equity				
Retained earnings	—	(1,477)	—	(1,477)
At 30 June 2004				
(Decrease)/increase in assets				
Property, plant and equipment	—	(4,259)	—	(4,259)
Interest in leasehold land	—	2,784	—	2,784
Decrease in equity				
Retained earnings	—	(1,475)	—	(1,475)
At 30 June 2005				
(Decrease)/increase in assets				
Property, plant and equipment	—	(4,063)	—	(4,063)
Interest in leasehold land	—	2,653	—	2,653
Decrease/(increase) in liabilities/ equities				
Convertible bond	116	—	11,132	11,248
Convertible bond reserves	21	—	(11,764)	(11,743)
Share based compensation reserve	(1,453)	—	—	(1,453)
Retained earnings	1,316	(1,406)	632	542
Minority interests	—	(4)	—	(4)

32. CHANGE IN ACCOUNTING POLICIES (CONTINUED)

(b) Employee share option scheme (HKFRS 2, Share-based payment)

In prior years, no amounts were recognised when employees (which term includes directors) were granted share options over shares in the Company. If employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

With effect from 1 July 2004, in order to comply with HKFRS 2, the Group recognises the fair value of such share options as an expense in the income statement, or as an asset, if the cost qualifies for recognition as an asset under the Group's accounting policies. A corresponding increase is recognised in share-based compensation reserve within equity.

Where the employees are required to meet vesting conditions before they become entitled to the options, the Group recognises the fair value of the options granted over the vesting period. Otherwise, the Group recognises the fair value in the period in which the options are granted.

If an employee chooses to exercise options, the equity base compensation reserve is transferred to share capital and share premium, together with the exercise price. If the options lapse unexercised the equity base compensation reserve is transferred directly to retained earnings.

The new accounting policy has been applied retrospectively with comparatives restated in accordance with HKFRS 2, except that the Group has taken advantage of the transitional provisions set out in paragraph 53 of HKFRS 2 under which the new recognition and measurement policies have not been applied to the following grants of options:

(a) all options granted to employees on or before 7 November 2002; and

(b) all options granted to employees after 7 November 2002 but which had vested before 1 July 2004.

No adjustments to the opening balances as at 1 July 2003 are required as no options existed at that time which were unvested at 1 July 2004.

The amount charged to the income statement as a result of the change of policy increased staff cost and related expenses and finance cost for the year ended 30 June 2005 by RMB1,496,000 and RMB7,000 respectively (2004: Nil), with the corresponding amounts credited to the capital reserve.

Details of the employee share option scheme can be found in note 29.

32. CHANGE IN ACCOUNTING POLICIES (CONTINUED)

(c) Amortisation of positive and negative goodwill (HKFRS 3, Business combinations and HKAS 36, Impairment of assets)

In prior years:

— positive or negative goodwill which arose prior to 1 January 2001 was taken directly to reserves at the time it arose, and was not recognised in the income statement until disposal or impairment of the acquired business;

— positive goodwill which arose on or after 1 January 2001 was amortised on a straight line basis over its useful life and was subject to impairment testing when there were indications of impairment; and

— negative goodwill which arose on or after 1 January 2001 was amortised over the weighted average useful life of the depreciable/amortisable non-monetary assets acquired, except to the extent it related to identified expected future losses as at the date of acquisition. In such cases it was recognised in the income statement as those expected losses were incurred.

With effect from 1 July 2004, in accordance with HKFRS 3 and HKAS 36, the Group no longer amortises positive goodwill. Such goodwill is tested annually for impairment, including in the year of its initial recognition, as well as when there are indications of impairment. Impairment losses are recognised when the carrying amount of the cash generating unit to which the goodwill has been allocated exceeds its recoverable amount.

Also with effect from 1 July 2004 and in accordance with HKFRS 3, if the fair value of the net assets acquired in a business combination exceeds the consideration paid (i.e. an amount arises which would have been known as negative goodwill under the previous accounting policy), the excess is recognised immediately in the income statement as it arises.

The new policy in respect of positive goodwill has been applied prospectively in accordance with the transitional arrangements under HKFRS 3. As a result, comparative amounts have not been restated, the cumulative amount of amortisation as at 1 July 2004 has been offset against the cost of the goodwill and no amortisation charge for goodwill has been recognised in the income statement for the year ended 30 June 2005. This does not affect the Group's profit after tax for the year ended 30 June 2005 as the Group has disposed of its interests in associates and the positive goodwill has been included in the calculation of the gain/loss on disposal of associates.

Also in accordance with the transitional arrangements under HKFRS 3, goodwill which had previously been taken directly to reserves (i.e. goodwill which arose before 1 January 2001) will not be recognised in the income statement on disposal or impairment of the acquired business, or under any other circumstances.

32. CHANGE IN ACCOUNTING POLICIES (CONTINUED)

(d) Minority interests (HKAS 1, Presentation of financial statements and HKAS 27, Consolidated and separate financial statements)

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as a deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the income statement as a deduction before arriving at the profit attributable to shareholders.

With effect from 1 July 2004, in order to comply with HKAS 1 and HKAS 27, minority interests at the balance sheet date are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the parent, and minority interests in the results of the Group for the period are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the period between the minority interests and the equity holders of the parent.

The presentation of minority interests in the consolidated balance sheet, income statement and statement of changes in equity for the comparative year has been restated accordingly.

(e) Leasehold land and buildings held for own use (HKAS 17, Leases)

In prior years, leasehold land and buildings held for own use were stated at revalued amounts less accumulated depreciation and accumulated impairment losses. Movements of revaluation surpluses or deficits were normally taken to the land and buildings revaluation reserve.

With the adoption of HKAS 17 as from 1 July 2004, the leasehold interest in the land held for own use is accounted for as being held under an operating lease where the fair value of the interest in any buildings situated on the leasehold land could be separately identified from the fair value of the leasehold interest in the land at the time the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

Such leasehold land will no longer be revalued. Instead, any pre-paid land premiums for acquiring the land leases, or other lease payments, are amortised on a straight line basis over the lease term. If the property is in the course of development or re-development, or the property is otherwise being used in the production of inventory, the amortisation charge is included as part of the costs of the property under development or other inventory. In all other cases the amortisation charge for the year is recognised in the income statement immediately.

32. CHANGE IN ACCOUNTING POLICIES (CONTINUED)

(e) Leasehold land and buildings held for own use (HKAS 17, Leases) (continued)

Any buildings held for own use which are situated on such land leases continue to be presented as part of property, plant and equipment.

The new accounting policies have been adopted retrospectively, with the opening balances of retained profits and the comparative information adjusted for the amounts relating to prior periods as disclosed in note 32(a) and the consolidated statement of changes in equity.

(f) Financial instruments (HKAS 32, Financial instruments: Disclosure and presentation and HKAS 39, Financial instruments: Recognition and measurement)

In prior years, the accounting policies for convertible bonds issued were stated at amortised cost (including transaction costs).

With effect from 1 July 2004, and in accordance with HKAS 39, the following new accounting policies are adopted for convertible bonds. Convertible bonds issued are split into their liability and equity components at initial recognition by recognising the liability component at its fair value and attributing to the equity component the difference between the proceeds from the issue and the fair value of the liability component. The liability component is subsequently carried at amortised cost. The equity component is recognised in the capital reserve until the bond is either converted (in which case it is transferred to share premium) or the bond is redeemed (in which case it is released directly to retained profits).

As a result of this new policy, profit for the year ended 30 June 2005 has decreased by RMB632,000 and there are no effect to the opening balance of the retained profit as at 1 July 2004 since the Group first issued convertible bonds on 27 April 2005.

33. MATERIAL RELATED PARTY TRANSACTIONS

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

	The Group	
	2005	2004
	RMB'000	*RMB'000*
Transportation fee charged by Fujian Furi Container Freight Transport Company *(note (i))*	**—**	319
Lease rental charged by He Yu Zhu *(note (ii))*	**343**	422
Sales to Beijing Orient Top Victory Electronics Co., Ltd. *(note (iii))*	**3,147**	N/A
Sales to TPV Electronics (Fujian) Company Limited *(note (iv))*	**25,031**	N/A
Sales to Top Victory Electronics (Fujian) Company Limited *(note (iv))*	**1,115**	N/A
Sales to TPV Technology (Wuhan) Co., Ltd. *(note (iv))*	**593**	N/A

Notes:

(i) Fujian Furi Container Freight Transport Company is owned by Fujian Furi Group Company, the holding company of Fujian Furi Electronics Co., Ltd., a minority shareholder of a PRC subsidiary.

As at 30 June 2005, the Group had an amount due to Fujian Furi Container Freight Transport Company of approximately RMB31,000 (2004: RMB428,000), arising from transportation fee charged by this related company as if trades with other customers included in trade payables. Such amount is unsecured, non-interest bearing and without pre-determined repayment terms.

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

(iii) During the year, the Group sold goods to Beijing Orient Top Victory Electronics Co., Ltd., a subsidiary of BOE Technology Group Co., Ltd. ("BOE"), which Mr. Chen Yan Shun is the executive Director and executive vice president of BOE. Mr. Chen Yan Shun was appointed as the executive Director of the Group on 17 September 2004.

As at 30 June 2005, the Group had an trade receivable from Beijing Orient Top Victory Electronics Co., Ltd. of approximately RMB1,441,000 and such amount is unsecured, non-interest bearing and repayable within one year.

(iv) During the year, the Group sold goods to TPV Electronics (Fujian) Company Limited, Top Victory Electronics (Fujian) Company Limited and TPV Technology (Wuhan) Co., Ltd., associates of BOE, which Mr. Chen Yan Shun is the executive Director and executive vice president of BOE. Mr. Chen Yan Shun was appointed as the executive Director of the Group on 17 September 2004.

As at 30 June 2005, the Group had trade receivables from these associates of BOE of approximately RMB13,078,000 and such amounts are unsecured, non-interest bearing and repayable within one year.

(v) During the year, the Group received advances of RMB1,000,000 from a company controlled by Ms He Yu Zhu. The advance is unsecured, non-interest bearing and repayable on demand.

34. FINANCIAL INSTRUMENTS

Credit risk

Deposits with banks and other financial institutions

The major concentration of credit risk arises from exposures to major financial institution operating in one geographical region, the PRC.

Trade and other receivable

For year ended 30 June 2005, the largest and the five largest customers of the Group in aggregate accounted for approximately 18% and 67% of the Group's total sales, evidencing a significant reliance and credit risk on the Group's largest customers.

Interest rate risk

The interest rates and maturity information of the Group's bank loan, finance lease obligations and convertible bonds are disclosed in notes 22, 23 and 25 respectively.

Foreign currency risk

As most of the Group's monetary assets and liabilities are denominated in Hong Kong Dollars, US Dollars and Renminbi, and the Group conducted its business transactions principally in Hong Kong Dollars, US Dollars and Renminbi, all of which were relatively stable during the year under review, the Group experiences only immaterial exchange rate fluctuations. The Group considers that as the exchange rate risk of the Group is not significant, the Group did not employ any financial instruments for hedging purposes.

Estimation of fair values

The estimation of fair values of convertible bonds and share-based compensation are disclosed in notes 25 and 29 respectively.

Reliance on major suppliers

For year ended 30 June 2005, the largest and the five largest suppliers of the Group in aggregate accounted for approximately 27% and 73% respectively of the Group's total purchases, evidencing a significant reliance on the Group's largest supplier for the year ended 30 June 2005. The Group maintains several vendors for each major supply in order to diversify its vendor base. During the year ended 30 June 2005 under review, the Group does not encounter any material disruption of supply of raw materials and components used in the Group's manufacture of PCBs.

35. COMPARATIVE FIGURES

Certain comparative figures have been adjusted as a result of the changes in accounting policies for leases, details of which are set out in note 32. In addition, certain comparative figures have been reclassified to conform with the current year's presentation.

36. POST BALANCE SHEET EVENTS

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