



SINOTRONICS HOLDINGS LIMITED

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



INTERIM REPORT
2005-06

INTERIM REPORT

For the six months ended 31 December 2005

HIGHLIGHTS

- Turnover of the Group for the six months ended 31 December 2005 amounted to approximately RMB223.4 million, representing an increase of about 40.4% as compared with the corresponding period in 2004;
- Profit from operations for the six months ended 31 December 2005 amounted to approximately RMB72.1 million, representing an increase of about 27.8% as compared with the corresponding period in 2004;
- Net profit attributable to shareholders for the six months ended 31 December 2005 amounted to approximately RMB50.6 million, representing an increase of about 23.0% as compared with the corresponding period in 2004;
- Earnings per share was RMB11 cents for the six months ended 31 December 2005;
- Shareholders' equity reached approximately RMB629.5 million.

RESULTS

The board (the “Board”) of directors (the “Directors”) of Sinotronics Holdings Limited (“Sinotronics” or the “Company”) is pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 31 December 2005 together with the comparative figures for the corresponding six months ended 31 December 2004 as follows:

Condensed Consolidated Income Statement

For the six months ended 31 December 2005

(Express in Renminbi)

		(Unaudited)	
		Six months ended	
		31 December	
		2005	2004
	<i>Notes</i>	RMB'000	<i>RMB'000</i>
			(restated)
Turnover	3	223,386	159,121
Cost of sales		(134,974)	(87,154)
Gross profit		88,412	71,967
Other revenue	4	1,247	944
Other net income		—	699
Distribution costs		(5,748)	(4,400)
Administrative expenses		(10,086)	(9,672)
Other operating expenses		(1,761)	(3,163)
Profit from operations		72,064	56,375
Finance costs	5(a)	(6,886)	(3,467)
Share of profits less losses of associates		—	1,096
Profit from ordinary activities before taxation	5	65,178	54,004
Taxation	6	(11,561)	(9,693)
Profit from ordinary activities after taxation		53,617	44,311
Attributable to:			
Equity holders of the parent		50,602	41,134
Minority interests		3,015	3,177
Profit after taxation		53,617	44,311
Earnings per share	7		
Basic		11 cents	9 cents
Diluted		9 cents	9 cents

Condensed Consolidated Balance Sheet

As at 31 December 2005

(Express in Renminbi)

		(Unaudited) As at 31 December 2005 RMB'000	(Audited) As at 30 June 2005 RMB'000
Non-current assets			
Property, plant and equipment	9	302,948	193,529
Interest in leasehold land held for own use under operating lease		2,588	2,653
Purchase deposits of property, plant and equipment		31,316	9,123
Deferred tax assets		2,905	2,905
		<u>339,757</u>	<u>208,210</u>
Current assets			
Trading securities		300	192
Inventories		22,642	21,237
Trade and other receivables	10	138,014	180,110
Pledged bank deposit	11	—	5,329
Cash and cash equivalents		520,028	540,915
		<u>680,984</u>	<u>747,783</u>
Current liabilities			
Trade and other payables	12	134,774	101,139
Short-term bank loans		117,167	110,657
Obligations under finance leases	13	10,714	9,899
Taxation		5,430	6,359
		<u>268,085</u>	<u>228,054</u>
Net current assets		<u>412,899</u>	<u>519,729</u>
Total assets less current liabilities		<u>752,656</u>	<u>727,939</u>
Non-current liabilities			
Non-current bank loans		16,325	33,134
Obligations under finance leases	13	8,864	3,083
Convertible bonds	14	69,934	69,228
		<u>95,123</u>	<u>105,445</u>
NET ASSETS		<u>657,533</u>	<u>622,494</u>

Condensed Consolidated Balance Sheet (Continued)

As at 31 December 2005

(Express in Renminbi)

	(Unaudited) As at 31 December 2005 <i>RMB'000</i>	(Audited) As at 30 June 2005 <i>RMB'000</i>
Capital and reserves		
Share capital	49,568	49,568
Reserves	579,978	547,078
Total equity attributable to equity holders of the parent	629,546	596,646
Minority interests	27,987	25,848
TOTAL EQUITY	657,533	622,494

Condensed Consolidated Statement of Changes in Equity — Unaudited
For the six months ended 31 December 2005
(Express in Renminbi)

	Attributable to equity holders of the parent								
	Share capital	Share premium	Share-based compensation reserve	Convertible Bonds Reserve	Capital reserve	Retained profits	Total	Minority Interest	Total equity
At 1 July 2004									
— As previously reported	49,568	159,175	—	—	46,115	252,742	507,600	34,354	541,954
— Prior period adjustments in respect of:									
— leasehold land	—	—	—	—	—	(1,328)	(1,328)	(147)	(1,475)
At 1 July 2004 (as restated)	49,568	159,175	—	—	46,115	251,414	506,272	34,207	540,479
Dilution arising from capital injected by the Group	—	—	—	—	—	13,913	13,913	(13,913)	—
Employee share option benefit	—	—	1,496	—	—	—	1,496	—	1,496
Other share-based compensation	—	—	144	—	—	—	144	—	144
Convertible bonds issued	—	—	—	11,743	—	—	11,743	—	11,743
Dividend approved in respect of the previous year	—	—	—	—	—	(17,349)	(17,349)	(837)	(18,186)
Profit for the year	—	—	—	—	—	41,134	41,134	3,177	44,311
At 31 December 2004	<u>49,568</u>	<u>159,175</u>	<u>1,640</u>	<u>11,743</u>	<u>46,115</u>	<u>289,112</u>	<u>557,353</u>	<u>22,634</u>	<u>579,987</u>
At 1 July 2005	49,568	159,175	1,453	11,743	46,115	328,592	596,646	25,848	622,494
Lapse/cancellation of employee share option	—	—	(1,309)	—	—	1,309	—	—	—
Dividend approved in respect of the previous year	—	—	—	—	—	(17,702)	(17,702)	(876)	(18,578)
Profit for the year	—	—	—	—	—	50,602	50,602	3,015	53,617
At 31 December 2005	<u>49,568</u>	<u>159,175</u>	<u>144</u>	<u>11,743</u>	<u>46,115</u>	<u>362,801</u>	<u>629,546</u>	<u>27,987</u>	<u>657,533</u>

Condensed Consolidated Cash Flow Statement — Unaudited

For the six months ended 31 December 2005

(Express in Renminbi)

	2005 <i>RMB'000</i>	2004 <i>RMB'000</i>
Net cash generated from operating activities	123,902	23,472
Net cash used in investing activities	(135,296)	(52,130)
Net cash used in financing activities	(9,493)	(5,169)
Net (decrease)/increase in cash and cash equivalents	(20,887)	(33,827)
Cash and cash equivalents at 1 July	540,915	314,027
Cash and cash equivalents at 31 December	520,028	280,200
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	520,028	280,200

Notes to Condensed Accounts

For the six months ended 31 December 2005

(Express in Renminbi)

1. BACKGROUND OF THE COMPANY

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

2. BASIS OF PREPARATION

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

The unaudited interim financial report has been prepared in accordance with the same accounting policies adopted in the 2005 annual financial statements.

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

3. 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.

4. OTHER REVENUE

	Six months ended 31 December	
	2005	2004
	RMB'000	RMB'000
Other revenue		
Interest income from banks	1,199	638
Others	48	306
	<u>1,247</u>	<u>944</u>

5. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

	Six months ended 31	
	December	
	2005	2004
	RMB'000	RMB'000
		(restated)
(a) Finance costs:		
Interest on bank loans wholly repayable within five years	3,043	3,212
Finance charges on obligations under finance leases	577	255
Interest on convertible bonds wholly repayable within five years	3,128	—
Other borrowing costs	138	—
Total borrowing costs	<u>6,886</u>	<u>3,467</u>
(b) Staff costs:		
Contributions to defined contribution plans	24	377
Employees share option benefits	—	1,496
Salaries, wages and other benefits	9,445	7,696
	<u>9,469</u>	<u>9,569</u>
(c) Other items:		
Cost of inventories	134,974	87,154
Amortisation of negative goodwill	—	(699)
Amortisation of positive goodwill included in share of profits less losses of associates	—	2,269
Amortisation of interest in leasehold land held for own use under operating lease	65	65
Depreciation		
— owned fixed assets	8,838	5,786
— assets held for use under finance lease	1,267	703
Provision for bad and doubtful debts	1,790	—
Net exchange (gain)/loss	<u>(902)</u>	<u>355</u>

6. TAXATION

Taxation in the consolidated income statement represents:

	Six months ended 31	
	December	
	2005	2004
	RMB'000	RMB'000
		(restated)
Current tax — Overseas		
Provision for PRC enterprise income tax (see note (iii) below)	<u>11,561</u>	<u>9,693</u>

Notes:

(i) *Overseas income tax*

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

(ii) *Hong Kong profits tax*

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

(iii) *PRC enterprise income tax*

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

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 31 December 2005 and have not yet started their tax holiday.

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

7. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 31 December 2005 was based on the unaudited consolidated profit attributable to shareholders of approximately RMB50,602,000 (2004 (restated): RMB41,134,000) and the weighted average number of 467,625,000 (2004: 467,625,000) ordinary shares in issue during the period.

(b) Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 31 December 2005 was based on the unaudited consolidated profit attributable to shareholders of approximately RMB48,988,000 (2004 (restated): RMB41,134,000) as adjusted for interest on convertible bonds of RMB1,614,000 and the weighted average number of 561,150,000 (2004: 467,652,015) ordinary shares in issue during the period after adjusting for the effect of all dilutive potential ordinary shares.

8. SEGMENT REPORTING

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

(a) Business segment

Throughout the six months ended 31 December 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.

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.

	Six months ended 31	
	December	
	2005	2004
	RMB'000	RMB'000
		(restated)
Segment revenue		
— PRC, excluding Hong Kong and Taiwan	181,623	126,503
— Hong Kong	8,202	1,434
— Australia	19,241	23,435
— United States of America	935	519
— Germany	2,903	1,823
— Others	10,482	5,407
Total revenue from external customers	223,386	159,121
Other revenue		
— PRC, excluding Hong Kong and Taiwan	371	745
— Hong Kong	876	199
Total other revenue	1,247	944
Total operating revenue	224,633	160,065
Segment assets		
— PRC, excluding Hong Kong and Taiwan	937,672	735,419
— Others	83,069	68,325
	1,020,741	803,744
Capital expenditures		
— PRC, excluding Hong Kong and Taiwan	119,523	70,764
— Others	—	—
	119,523	70,764

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.

9. PROPERTY, PLANT AND EQUIPMENT

For the six months ended 31 December 2005, the Group acquired property, plant and equipment amounting to approximately RMB119,523,000 (six months ended 31 December 2004: RMB70,764,000).

At 31 December 2005, net book value of fixed assets held by the Group under finance leases amounted to approximately RMB34,093,000 (six months ended 31 December 2004: RMB24,426,000).

10. TRADE AND OTHER RECEIVABLES

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

	As at 31 December 2005 RMB'000	As at 30 June 2005 RMB'000
Invoice date:		
Within 3 months	110,265	128,848
3 to 6 months	28,794	39,111
6 to 12 months	455	3,643
More than 12 months	<u>4,151</u>	<u>1,668</u>
	143,665	173,270
Less: Provision for bad and doubtful debts	<u>(19,690)</u>	<u>(17,900)</u>
	<u>123,975</u>	<u>155,370</u>

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.

11. PLEDGED BANK DEPOSIT

	As at 31 December 2005 RMB'000	As at 30 June 2005 RMB'000
Maturing after three months from placement	<u>—</u>	<u>5,329</u>

This bank deposit is pledged to a bank for a bank loan granted to the Group.

12. TRADE AND OTHER PAYABLES

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

	As at 31 December 2005 RMB'000	As at 30 June 2005 RMB'000
Due within 6 months or on demand	51,412	47,777
Due after 6 months but within 1 year	<u>4,475</u>	<u>542</u>
	<u>55,887</u>	<u>48,319</u>

13. OBLIGATIONS UNDER FINANCE LEASES

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

	As at 31 December 2005 RMB'000	As at 30 June 2005 RMB'000
Due within 1 year	10,714	9,899
Due after 1 year but within 5 years	<u>8,864</u>	<u>3,083</u>
	<u>19,578</u>	<u>12,982</u>

14. CONVERTIBLE BONDS

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

	As at 31 December 2005 RMB'000	As at 30 June 2005 RMB'000
Liability component on initial recognition at 27 April 2005	68,138	68,138
Accrued interest capitalised	2,563	949
Amortisation of transaction costs	539	141
Exchange adjustments	<u>(1,306)</u>	<u>—</u>
Liability component carried forward	<u>69,934</u>	<u>69,228</u>

15. COMMITMENTS

- (a) Capital commitments outstanding at 31 December 2005 not provided for in the consolidated financial statements were as follows:

	As at 31 December 2005 RMB'000	As at 30 June 2005 RMB'000
Contracted for	53,906	15,638
Authorised but not contracted for	<u>5,560</u>	<u>—</u>
	<u>59,466</u>	<u>15,638</u>

- (b) As at 31 December 2005, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	As at 31 December 2005 RMB'000	As at 30 June 2005 RMB'000
Within 1 year	1,728	761
After 1 year but within 5 years	<u>1,658</u>	<u>886</u>
	<u>3,386</u>	<u>1,647</u>

16. MATERIAL RELATED PARTY TRANSACTIONS

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

	Six months ended 31 December	
	2005 RMB'000	2004 RMB'000
Lease rental charged by He Yu Zhu (<i>note (i)</i>)	171	211
Sales to Beijing Orient Top Victory Electronics Co., Ltd. (<i>note (ii)</i>)	21,531	N/A
Sales to TPV Electronics (Fujian) Company Limited (<i>note (iii)</i>)	3,029	N/A
Sales to Top Victory Electronics (Fujian) Company Limited (<i>note (iii)</i>)	1,213	N/A
Sales to TPV Technology (Wuhan) Co., Ltd. (<i>note (iii)</i>)	<u>1,183</u>	<u>N/A</u>

Note:

- (i) During the year, the Group entered into a lease arrangement with Ms He Yu Zhu, the spouse of Mr Lin Wan Qaing who is the controlling shareholder and a director of the Company, for leasing of an office premises in Fuzhou, the PRC. Office rentals are payable at a pre-determined amount per month by reference to market rates in accordance with the terms of the tenancy agreement signed by the Group and Ms He Yu Zhu.
- (ii) During the year, the Group sold goods to Beijing Orient Top Victory Electronics Co., Ltd., a subsidiary of BOE Technology Group Co., Ltd. (“BOE”), which Mr. Chen Yan Shun is the executive Director and executive vice president of BOE. Mr. Chen Yan Shun was appointed as the executive Director of the Group on 17 September 2004.

As at 31 December 2005, the Group had an trade receivable from Beijing Orient Top Victory Electronics Co., Ltd. of approximately RMB1,997,000 and such amount is unsecured, non-interest bearing and repayable within one year.

- (iii) During the year, the Group sold goods to TPV Electronics (Fujian) Company Limited, Top Victory Electronics (Fujian) Company Limited and TPV Technology (Wuhan) Co., Ltd., associates of BOE, 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 31 December 2005, the Group had trade receivables from these associates of BOE of approximately RMB15,636,000 and such amounts are unsecured, non-interest bearing and repayable within one year.

17. CHANGE IN ACCOUNTING POLICIES

Summary of the effect of changes in accounting policies

Effect of change in the accounting policies on consolidated income statement

Six months ended 31 December 2004

	Share based payment HKFRS 2 RMB'000	Presentation of financial statements HKAS 1 RMB'000	Leasehold land and buildings HKAS 17 RMB'000	Total RMB'000
Increase in staff cost and related expenses	(1,496)	—	—	(1,496)
Decrease in taxation	—	28	—	28
Decrease in share of profits less losses of associates	—	(28)	—	(28)
Decrease in amortisation expense	—	—	33	33
	<u>(1,503)</u>	<u>—</u>	<u>33</u>	<u>(1,463)</u>

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

18. COMPARATIVE FIGURES

Certain comparative amounts have been reclassified and restated to comply with the HKFRSs' requirements and confirm with the current period's presentation.

19. REVIEW OF INTERIM FINANCIAL STATEMENTS

The Company's Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing control and financial reporting matters including the review of the Group's unaudited interim results for the six months ended 31 December 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the six months ended 31 December 2005, the Group recorded an unaudited consolidated turnover of RMB223,386,000 (2004: RMB159,121,000), representing a growth of 40.4% compared with the corresponding period last year. During the period under review, profit attributable to shareholders was RMB50,602,000 (2004: RMB41,134,000), up 23.0% compared with the corresponding period last year.

Since 2003, China has become the second largest country in the world in terms of Printed Circuit Board (PCB) production volume with a stunning growth rate of over 30% in the past few years, and is expected to replace Japan as the largest production country in the near term. In addition, the trend of outsourcing of Electronics Manufacturing Service (EMS) to low-cost regions such as China and other South East Asia countries by multi-national electronics conglomerates has provided immense business potential to the EMS and PCB industry. As a pioneer in one-stop EMS, the Group has been seizing the blossoming business opportunity in the PCB industry and committed to expand its business so as to consolidate its leading position in the market.

Benefited from these favorable market factors, all of the Group's production plants continued to deliver solid growth with positive order bookings during the review period. The utilization rate of Fuqing Plant in Fujian Province has reached a high level of 90% with the production lines operating close to full capacity. The Huizhou Plant specializing in flexible PCB production has further expanded its production capability of multi-layer PCBs, and its average utilization rate has gradually increased. On the other hand, Huizhou Plant has also commenced the development work of mass production of Rigid-Flex PCB, making itself well-prepared for the final stage of production. During the period under review, the Mawei Plant in Fuzhou City installed two new production lines, which is now equipped with four Surface-Mount Technology (SMT) production lines and two MI lines in total and these production lines have reached full capacity operations. Recently, the Mawei Plant has also perfected its flexible PCB Automatic fabrication technique, aiming to provide a one-stop solution ranging from flexible PCB production to fabrication to the clients of Huizhou Plant.

In the area of customer base, the Group has been actively securing new clients to diversify the risk of over-concentration. During the review period, the Group has been accredited by various international renowned companies to provide services for them, some of which include Sankyo Seiki Mfg. Co., Ltd., Malata (Fujian) Co., Ltd., Truly Semiconductors Ltd., Sau Kwang Electronics Co., Ltd.,

BBK Communication Equipment Corp. Ltd., etc. The Group will affirm its commitment to deliver comprehensive, high-quality EMS solution for the clients, and build up a close and long-term business partnership with them.

Apart from its corporate development, the Group has also endeavored to make contribution to the development of Fuqing City, which is evident by the accreditation of “Overseas Chinese Investor Contribution Award” (華僑投資大戶貢獻獎) and “Major Taxpayer of Overseas Chinese Enterprise Contribution Award” (僑資企業納稅大戶貢獻獎) accolade by National Fuqing Municipal Committee and Fuqing Municipal Government to the Group’s subsidiary, “Fujian Fuqiang Delicate Circuit Plate Co., Ltd.” (“Fuqiang”). The awards aim to express gratitude towards the investment and honest tax payment made by Fuqiang to the Fuqing City, and hope the Group continue to achieve solid performance in the forthcoming years so as to have further contribution to the economic development in Fuqing City.

Prospect

Looking forward to year 2006, the global PCB market will remain its robust growth by the stimulation of rapid development of consumer electronics products. The Group will seize this golden opportunity to further diversify its existing PCB business and implement the following three development strategies, namely enlargement of its one-stop EMS supply capacity, reinforcement of mass production capacity of new products, and expansion of its existing production capabilities.

For the one-stop EMS supply, the Group will focus on expanding its SMT production capability. As such, the Group will add 2 to 4 SMT production lines to match up with the production capability of both the Huizhou Plant and Fuqing Plant (especially the flexible PCB fabrication capability). At the same time, the Group planned to build a product assembly workshop in Mawei Plant, in order to expand into the downstream business of product assembly capability. According to the market analysis, the compound annual growth rate of the SMT industry in China between year 2005 and 2009 will reach 57.2%, by then China will become one of the most important SMT device production bases in the world. To grab this favorable market opportunity, the Group will be well-equipped itself to further develop its SMT business.

On the other hand, the Group will also strengthen its mass production capability for new products. The new rigid PCB production facilities will be installed in the Huizhou Plant to commence the lot production of rigid-flex PCB, aiming to broaden the Group’s product portfolio and provide more choices in the PCB products for its customers. Furthermore, the Group will establish a new PCB

production plant next to the existing Fuqing Plant to further expand its overall production capacity and achieve economy of scale, which will in turn lower the production cost.

With its rapid development of EMS and PCB industry, China has become a spotlight of the global EMS industry. Leveraging on the Group's solid business foundation and management expertise, the management is optimistic in the Group's business development and performance in the future, and they are also confident that the Group will achieve a sustainable business growth throughout the fiscal year.

Financial Performance

The Group's financial performance for the six months ended 31 December 2005 recorded a steady upward growth with a double-digit increase in turnover. During the period under review, turnover of the Group amounted to RMB223,386,000 (2004: RMB159,121,000), representing an increase of approximately 40.4% as compared to the corresponding period last year. The Group managed to achieve satisfactory results during the year primarily due to the global economic recovery, and the incessant growth in market demand for consumer electronic products which stimulated the overall strong demand for electronic products parts and accessories. This greatly benefited the Group as a PCB manufacturer. In addition, the Group installed technologically-advanced production facilities and leased a new manufacturing plant during the year, so as to expand its scope of operations and attain even greater economies of scale.

The gross profit for the year under review reached approximately RMB88,412,000 as compared to approximately RMB71,967,000 for previous year. The gross profit margin was decreased due to the increase in raw material prices and the incurrence of pre-operation expenses resulting from the commencement of trial production of the two subsidiaries. Operating profit and profit attributable to shareholders were RMB72,064,000 (2004 (restated): RMB56,375,000) and RMB50,602,000 (2004 (restated): RMB41,134,000) respectively, representing an increases of approximately 27.8% and 23.0% respectively as compared to the corresponding period last year. Earnings per share was RMB11 cents (2004 (restated): RMB9 cents).

Segmental Information

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

Throughout the six months ended 31 December 2005 and 2004, the Group has been primarily operating in the manufacturing and sale of printed circuit boards.

Geographically, sales within the PRC (excluding Hong Kong and Taiwan) remained the largest segment in which approximately 81.3% (2004: 79.5%) of the Group's turnover was generated, while approximately 8.6% (2004: 14.7%) was attributable to the sales to Australia for the year under review. The balance of approximately 10.1% of the Group's turnover (2004: 5.8%) was taken up by the US, Germany, Hong Kong, Taiwan and other countries.

Key products manufactured by the Group during the year under review were single and double-sided PCBs, multilayer PCBs as well as flexible PCBs, and the Group also provided PCBA services. Details of the individual products are as follows:

Single and Double-sided PCBs

During the period under review, the sales of single and double-sided PCBs amounted to approximately RMB83,845,000 (2004: RMB72,657,000), representing approximately 37.5% of the Group's total turnover. Operating profit contributed by this business segment was approximately RMB26,988,000 (2004: RMB20,822,000), up approximately 29.6% as compared with that of the preceding year.

Multilayer PCBs

Total sales of multilayer PCBs was approximately RMB113,838,000 (2004: RMB86,464,000), which made up approximately 51.0% of the Group's total turnover during the year under review. Operating profit reached approximately RMB45,756,000 (2004: RMB35,553,000), an approximate increase of 28.7% as compared to the preceding year.

Flexible PCBs and PCBA

Turnover contributed by flexible PCBs and PCBA amounted to approximately RMB25,703,000 (2004: Nil), accounting for approximately 11.5% of the Group's total sales, and associated operating loss was approximately RMB680,000 (2004: Nil).

Liquidity and Financial Resources and Capital Structure

For the six months ended 31 December 2005, the Group's working capital requirement was principally financed by its internal resources and banking facilities and convertible bonds.

As at 31 December 2005, the Group had cash and cash equivalents, net current assets and total assets less current liabilities of RMB520,028,000 (30 June 2005: RMB540,915,000), RMB412,899,000 (30 June 2005: RMB519,729,000) and RMB752,656,000 (30 June 2005: RMB727,939,000) respectively.

As at 31 December 2005, the Group had total borrowings (excluding obligations under finance leases) of RMB203,426,000 (30 June 2005: RMB213,019,000), comparing utilised bank loan facilities of RMB133,492,000 (30 June 2005: RMB143,791,000) from several banks and convertible bonds of RMB69,934,000 (30 June 2005: 69,228,000), of the total utilised bank loans of RMB117,167,000 (30 June 2005: RMB110,657,000) for short term and the remainder of RMB16,325,000 (30 June 2005: RMB33,134,000) for long term. Included in these short term loans of RMB84,800,000 were secured by corporate guarantees given by the Company. The remaining balance of the short term loan of RMB32,367,000 and the long term loan of RMB16,325,000 were unsecured. Besides, the Group had obligations under finance leases of RMB19,578,000 (30 June 2005: RMB12,982,000) denominated in Hong Kong Dollars. The total borrowings were mainly for business expansion, capital expenditure and working capital purposes. The Group's short term and long term borrowings were mainly denominated in Renminbi and US Dollars. Loan facilities were granted to the Group at the normal market interest rates.

The shareholders' equity of the Group as at 31 December 2005 increased by RMB32,900,000 to RMB629,546,000 (30 June 2005: RMB596,646,000). The gearing ratio (calculated as the ratio of current liabilities plus non-current liabilities: equity holders of the parent) of the Group as at 31 December 2005 was approximately 0.58 (30 June 2005: 0.56).

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

Significant Investments

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

Acquisition and Disposal of Subsidiaries and Associated Companies

During the six months ended 31 December 2005, the Group had no material acquisition and disposals of subsidiaries and affiliated companies.

Employment Information

As at 31 December 2005, the Group employed a total of 1,177 (2004: 1,145) employees. It is a policy of the Group to review its employee's pay levels and performance bonus system regularly to ensure that the remuneration policy is competitive within the relevant industry. During the six months ended 31 December 2005, the employment cost (including directors' emoluments) amounted to approximately RMB9,469,000. In order to align the interests of consultants with the Group, share options were granted to consultants under the Company's 2003 share option scheme ("2003 Scheme"). Shares options granted to eligible employees, directors and consultant for 28,000,000 shares and 4,000,000 shares in 2004 and 2005 under the 2003 scheme were lapsed and remained outstanding respectively.

Charge on Assets

As at 31 December 2005 there were no charges on group assets.

Future Plans for Material Investments and Expected Sources of Funding

Save as disclosed elsewhere on the Management Discussion and Analysis, as at 31 December 2005, the Group had no other future plans for material investments.

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

Exposure to Fluctuations in Exchange Rates

During the six months ended 31 December 2005, the Group experienced only immaterial exchange rate fluctuations as most of the Group's monetary assets and liabilities are denominated in Hong Kong Dollars, US Dollars and Renminbi, and the Group also conducted its business transactions principally in Hong Kong Dollars, US Dollars and Renminbi, all of which were relatively stable during the period under review. The Group considered that as the exchange rate risks of the Group is considered to be minimal, the Group did not employ any financial instruments for hedging purposes.

Capital Commitment

As at 31 December 2005, in respect of capital expenditures, the Group had contracted but not provided for and authorised but not contracted for capital commitment in the financial statements amounted to approximately RMB53,906,000 and RMB5,560,000 respectively.

Contingent Liabilities

As at 31 December 2005, the Group had no material contingent liabilities.

DIVIDENDS

The Board did not recommend the payment of any interim dividend for the six months ended 31 December 2005 (2004: Nil).

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2005, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executive of the Company were deemed or taken to have under such provisions of the SFO), or which were recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Names	Capacity	Type of interests	Number of shares	Approximate % of the issued share capital
Lin Wan Qaing	Beneficial owner	Personal	272,583,780	58.29%

Saved as disclosed above, as at 31 December 2005, none of the Directors nor the chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO) or which were

required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Listing Rules, to be notified to the Company and the Stock Exchange.

SHARE OPTIONS

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

Name or category of participant	Date of grant	Outstanding as at 1 July 2005	Granted during the period	Exercised during the period	Cancelled during the period	Lapsed during the period	Outstanding as at 31 December 2005	Exercisable period	Exercise price HK\$
<i>(a) Directors</i>									
Lin Wan Qaing	17 December 2004	4,000,000	—	—	—	4,000,000	—	17 December 2004 – 17 December 2005	0.890
Chen Yan Shun	17 December 2004	2,500,000	—	—	—	2,500,000	—	17 December 2004 – 17 December 2005	0.890
Liu Zhao Cai	17 December 2004	2,500,000	—	—	—	2,500,000	—	17 December 2004 – 17 December 2005	0.890
Xiang Song	17 December 2004	2,500,000	—	—	—	2,500,000	—	17 December 2004 – 17 December 2005	0.890
Tong Yiu On	17 December 2004	2,500,000	—	—	—	2,500,000	—	17 December 2004 – 17 December 2005	0.890
<i>(b) Eligible Employees</i>	17 December 2004	14,000,000	—	—	—	14,000,000	—	17 December 2004 – 17 December 2005	0.890
<i>(c) Consultants</i>	27 April 2005	4,000,000	—	—	—	—	4,000,000	27 April 2005 – 27 April 2008	1.172
		<u>32,000,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>28,000,000</u>	<u>4,000,000</u>		

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 31 December 2005, according to the register of members kept by the Company pursuant to section 336 of the SFO and so far as is known to, or can be ascertained after reasonable enquiry by the Directors, the following director/entity had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly, or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote on all circumstances at general meetings of the Company:

Name	Capacity	Number of shares (Note)	Approximate % of the issued share capital
Lin Wan Qaing	Beneficial owner	272,583,780(L)	58.29%
FMR Corp.	Investment manager	23,448,000(L)	5.01%

Note:

The letter “L” denotes the person’s/entity’s long position in the shares.

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

DIRECTORS’ RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Save as disclosed above under the section headed “Share Options” above, at no time during the period was the Company or any of its subsidiaries, its holding company, or any of its fellow subsidiaries a party to any arrangement to enable the Company’s directors or chief executives of the Company (including their spouses or children under 18 years of age) to acquire benefits by means of acquisition of shares in or debentures of, the Company or any other body corporate.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 31 December 2005, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

CORPORATE GOVERNANCE

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

Code Provision A.4.1

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

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

MODEL CODE

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

REMUNERATION COMMITTEE

The Board of the Company has established a remuneration committee. The remuneration committee, currently comprising executive director Mr. Lin Wan Qaing, and independent non-executive directors Mr. Pan Chang Chi and Mr. Cai Xun Shan, is responsible for advising the Board on the remuneration policy and framework of the Company’s directors and senior management, as well as review and determine the remuneration of all executive directors and senior management with reference to the Company’s objectives from time to time.

AUDIT COMMITTEE

The Company has established an audit committee on 8 May 2001 with written terms of reference revised, during the period, to substantially the same as the provision as set out in the Code on Corporate Governance Practices which became effective for accounting periods commencing on or after 1 January 2005. The duties of the audit committee include reviewing the Group’s annual report and accounts and half-year report and to provide advise and comments thereon to the board of directors. The audit committee is also responsible for reviewing and supervising the Group’s financial reporting and internal control.

The audit committee comprised three Independent Non-executive Directors, namely Mr. Pan Chang Chi, Mr. Cai Xun Shan and Mr. Cheung Chuen. As at the date of this report, the audit committee had met to review interim results of the Group.

On behalf of the Board
Lin Wan Qaing
Chairman

Hong Kong, 16 March 2006