

Corporate Governance Report

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

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

A. SECURITIES TRANSACTIONS BY DIRECTORS

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

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

B. BOARD OF DIRECTORS

1. Composition of the Board of Directors

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

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

2. Functions of the Board of Directors

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

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

3. Board Meetings and Board Practices

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

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

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

4. Independent Non-executive Directors

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

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

5. Chairman and Chief Executive Officer

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

6. Appointment, Re-election and Removal of Directors

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

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

7. Nomination of Directors

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

C. BOARD COMMITTEE

1. Remuneration Committee

The Company established a remuneration committee in November 2005 with terms of reference no less exacting terms than the CG Code. The remuneration committee is responsible for advising the Board on the remuneration policy and framework of the Company’s directors and senior management, as well as review and determine the

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remuneration of directors and senior management, including benefits in kinds, pension rights and compensation payments, with reference to the Company's objectives from time to time.

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

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

2. Audit Committee

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

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

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

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D. ACCOUNTABILITY AND AUDIT

1. Directors' Responsibility for the Consolidated Financial Statements

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

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

2. Internal Controls

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

3. Auditors' Remuneration

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

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

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E. INVESTOR AND SHAREHOLDERS RELATIONS

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

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

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

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