Annual Report 2007

SINOTRONICS HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 1195

CONTENTS

Corporate Information

Directors

Liu Zhao Cai *(Chairman)*
Xiang Song *(Chief Executive Officer)*
Lin Wan Qaing
Hu Zhao Rui
Tong Yiu On
Lin Wan Xin
Pan Chang Chi*
Cai Xun Shan*
Cheung Chuen*

* *Independent Non-executive Directors*

Qualified Accountant & Company Secretary

Tong Yiu On, *FCCA, CPA*

Authorised Representatives

Lin Wan Qaing
Tong Yiu On, *FCCA, CPA*

Audit Committee

Pan Chang Chi
Cai Xun Shan
Cheung Chuen

Remuneration Committee

Lin Wan Qaing
Pan Chang Chi
Cai Xun Shan

Legal Adviser for Cayman Islands Law

Conyers Dill & Pearman

Principal Bankers

Bank of China
The China Construction Bank
Xiamen International Bank
China Merchants Bank
Standard Chartered Bank

Auditors

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Trading Code on the Stock Exchange of Hong Kong Limited

1195

Website

www.sinotronics.com.cn

Financial Highlights

Turnover for the year ascended to approximately RMB695.9 million.

Gross profit margin for the year was approximately 31.5%.

Profit for the year was approximately RMB118.3 million.

Profit attributable to equity shareholders for the year was approximately RMB115.1 million.

Net profit margin (excluding profit attributable to minority interests) for the year was approximately 16.5%.

Earnings per share was approximately RMB21 cents.

Total equity reached RMB886.8 million.

Chairman's Statement

Dear Shareholders,

On behalf of the board of directors (the "Board") of Sinotronics Holdings Limited ("Sinotronics" or the "Company"), I am pleased to present the financial report of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 30 June 2007.

During the year under review, the continuous growth in market demand for consumer electronics products stimulated the overall strong demand for electronics products parts and accessories. Being benefited by this favorable business environment, the Group continued to record a growth of 32.3% in turnover to approximately RMB695,936,000. Profit attributable to equity shareholders of the Company increased 13.0% from RMB101,816,000 to RMB115,085,000, resulting in a basic earnings per share of RMB21 cents.

In view of the surging market demand, Sinotronics has actively expanded its production facilities, which was crucial to the Group's achievement of outstanding results for the year. The Group installed additional equipment in its Huizhou plant, boosting flexible printed circuit board ("FPCBs") production capacity, which resulted in the turnover of the FPCBs business breaking the RMB100 million mark for the first time in the Group's history. In addition, the Group has completed construction of the new printed circuit board assembly ("PCBA") and surface mounting technology ("SMT") plant in Fujian, which enabled doubled turnover attributable to the PCBA business during the year.

Looking forward, it is predicted that the Chinese printed circuit board ("PCB") industry will continue to maintain rapid growth, especially demand for FPCBs. FPCBs are widely applied to electronics products, such as notebook and mobile handsets. According to BPA Consulting, the forecasted global demand for FPCBs will reach US$9.77 billion in 2008, which represents a Compound Annual Growth Rate ("CAGR") of 12.3% from 2003 to 2008. The production of FPCBs in China is anticipated to grow from US$622 million in 2003 to US$2.01 billion in 2008 at a CAGR of 26.4%. To cater for this rapid growth, the Group has expanded its production facilities and believes that the FPCBs business will continue to become one of the core revenue drivers for the Group in the coming years.

Finally, I would like to present my heartfelt thanks to the Board, management and staff for their diligent work in the past year. I would also like to express my greatest gratitude to our customers, suppliers, business partners and shareholders for their continuous support and trust. I will continue to put in all efforts to lead the management and staff in driving the development of our business, so as to deliver enhanced shareholders' value.

Liu Zhao Cai
Chairman

Hong Kong, 24 October 2007

Management Discussion and Analysis

Results

The Group's financial performance for the year ended 30 June 2007 recorded a steady upward growth with an increase in both turnover and net profit. During the year, turnover of the Group amounted to RMB695,936,000 (2006: RMB525,953,000), representing an increase of approximately 32.3% as compared to the corresponding period last year. The Group managed to achieve satisfactory results during the year primarily due to the increased utilization rate and production capacity of two subsidiary companies, so as to expand its scope of operations and attain even greater economies of scale.

The gross profit for the year reached approximately RMB219,044,000 as compared to approximately RMB186,290,000 for last year. The decrease in overall gross profit margin was due to the increase in raw material prices and changes in products mix. Operating profit and profit attributable to equity shareholders were RMB191,917,000 (2006: RMB162,551,000) and RMB115,085,000 (2006: RMB101,816,000) respectively, representing increases of approximately 18.1% and 13.0% respectively as compared to the corresponding period last year. Basic earnings per share was RMB21 cents (2006: RMB22 cents).

Loss arising from changes in fair value of the derivative financial instruments amounted to approximately RMB38,959,000 (2006: NIL). Ignoring the effect of such loss, the net profit attributable to equity shareholders for the year would be reached RMB154,044,000 representing an increase of 51.3% as compared to last year.

Business Review

The Group is principally engaged in the manufacturing and sale of rigid printed circuit boards ("PCBs") and flexible printed circuit boards ("FPCBs") and also provides printed circuit boards assembly ("PCBA") and surface mounting technology ("SMT") processing services. The products are widely applied in consumer electronics products, including liquid crystal displays, Playstation3, multi-media products and mobile phones. During the year, turnover of PCBs, FPCBs, PCBA and SMT increased by 2.2%, 107.9% and 117.3% respectively. The strong results in the year are mainly attributable to the strong orders from clients driven by the high demand for consumer electronics products in China.

During the year, PCBs continued to receive strong orders from clients. However, as the utilization rate of the PCBs production plant has reached full capacity, turnover attributable to this business only recorded a slight growth of 2.2%.

As the global trend of outsourcing Electronics Manufacturing Services ("EMS") to low-cost countries has become more feverish, the FPCBs industry has been steadily moving to China and the Group has been greatly benefited. The FPCBs business achieved an impressive performance during the year, with turnover reaching RMB150,249,000, representing a growth of 107.9% as compared to the corresponding period last year. To cope with the surging demand, the Group increased the monthly production capacity of FPCBs from 10,000 square meters in June 2006 to 12,000 square meters in June 2007. Due to the improvement in the quality control and higher utilization, the Group was able to achieve higher gross margin in this segment. During the year, the Group also gained important new clients, such as Shanghai Hong Ri International Electronics Co., Ltd. (上海虹日國際電子有限公司), an international trading company, which is a supplier to Panasonic, and OMRON, which is a global leader in automation, sensing and control technology.

As a pioneer of one-stop EMS provider, the Group provides integrated services ranging from manufacturing to assembly services. It shortens the production cycle and product delivery time. The Group started PCBA and SMT services in 2004 to provide comprehensive EMS solutions. During the year, the Group's downstream PCBA and SMT services recorded strong turnover growth of 117.3% to RMB154,662,000. In particular, the robust growth for PCBA and SMT services was aided by the surge in demand for set-top boxes, as manufacturers prepare for the nation-wide conversion to digital television broadcasting in 2008.

Segmental Information

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

PCBs

During the year, sales of PCBs amounted to RMB391,025,000 (2006: RMB382,498,000), representing approximately 56.2% of the Group's total turnover. Operating profit of this business segment was RMB159,549,000 (2006: RMB157,080,000), representing a growth of 1.6% compared with that of the preceding year.

FPCBs

Sales of FPCBs reached approximately RMB150,249,000 (2006: RMB72,286,000), which accounts for approximately 21.6% of the Group's total turnover during the year. Operating profit reached approximately RMB30,614,000 (2006: RMB8,122,000), representing a growth of 276.9% compared with that of the previous year. The significant increase in operating profit in FPCB sector was mainly due to the continuous strong demands from downstream, such as consumer electronics products, the increasing orders from existing clients and the new client orders.

PCBA

Turnover from PCBA services during the year amounted to approximately RMB147,806,000 (2006: RMB45,363,000), or 21.2% of the Group's total turnover. Operating profit was approximately RMB15,723,000 (2006: RMB1,316,000), representing an increase of 1,094.8% compared with that of the preceding year.

SMT PROCESSING SERVICES

Turnover contributed by SMT services recorded approximately RMB6,856,000 (2006: RMB25,806,000), accounting for 1.0% of the Group's total turnover. Operating profit was RMB729,000 (2006: RMB2,879,000), representing a decrease by 74.7% compared with that of the previous year.

Geographically, sales within the PRC (excluding Hong Kong and Taiwan) remained the largest segment, generating 81.2% (2006: 83.8%) of the Group's turnover. About 7.0% (2006: 8.0%) was attributed to sales to Australia for the year. The balance of approximately 11.8% of the Group's turnover (2006: 8.2%) was taken up by Germany, Hong Kong, Taiwan and other countries.

Manufacturing Facilities

The Group currently operates three manufacturing facilities in the PRC, located in Fujian and Guangdong provinces. Details of the individual facilities are as follows:

FUQING PLANT, FUJIAN PROVINCE

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

SHUANGXIANG ELECTRONICS ("MAWEI PLANT"), FUJIAN PROVINCE

The production plant located in Mawei, Fuzhou city, Fujian province, is involved with PCBA and SMT processing services. In order to cope with the growth in demand for its PCBA and SMT solutions, the Group will further expand the Mawei Plant and has purchased a site with an area of 53 Chinese acres, or about 35,335 square meters, in an area adjacent to the current factory. The first phase of construction has been completed, as a result, production capability for PCBA services has been doubled, and SMT production capacity has increased by 25%. Upon completion of the expansion plan, the PCBA and SMT facilities will move from the current rental site to a self-owned production plant with a total of 8 SMT productions lines. The number of lines is expected to climb to 14-16 within 2-3 years.

GEMINI ELECTRONICS ("HUIZHOU PLANT"), GUANGDONG PROVINCE

The manufacturing facility in Huizhou city, Guangdong Province focuses on the production of FPCBs. The site covers 70 Chinese acres, or approximately 46,669 square meters. Due to the surging demand for FPCBs, the utilization rate of the plant has been rising and has reached full utilization during the year. The Group added additional equipment to increase production capacity to 12,000 square meters per month by June of 2007 to meet the surging demand for FPCBs.

Future Prospect

China continues to maintain its rapid economic growth, and the country's consumer product industry is booming, especially for computers, electronics products and communication products. Special events such as the 2008 Beijing Olympic Games will also help to drive this growth. The national-wide migration from analog to digital television broadcasting by 2008 will create unprecedented demand for electronics products, especially television set-top boxes. These factors present the Group with a robust driver to continue building upon its PCBs, FPCB and PCBA businesses.

Robust global market demand for electronics products and the rapid development of the communications industry combine to fuel the demand for PCB products. According to BPA Consulting, it is estimated that global PCB demand is expected to increase from US$28.83 billion in 2003 to approximately US$41.94 billion in 2008, representing a CAGR of 7.8%. China will continue to be the largest market, accounting for approximately one-third of global demand in 2008. PCB demand in China is expected to increase from US$6.85 billion to US$13.88 billion, at a CAGR of 15.2%.

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

In view of the strong market demand, the Group will continue to enhance its production capacity and increase its turnover. By September 2007, Huizhou Plant has expanded its production capacity by adding an additional production site of 2,000 square meters. In relation to the PCBA business, the Group has moved into the new self-owned site in Mawei, Fujian in September this year. The Group is confident that PCBA and SMT services will provide further contribution to the Group's growth in the future.

As part of the Group's general management duties, the Group's management periodically formulates broad, medium to long term business directions for the Group's further developments, which includes (without limitations) general strategic planning and preliminary budgeting for a three-year period. Under the Group's three-year strategic planning at present, it is intended that the Group to continue its strategy to expand the aforementioned three plants through further upgrade the production facilities for rigid PCBs, FPCBs fabrication and PCB assembly, and that the Group intended to allow a budget of not more than RMB350 million of resources for the aforementioned strategy at present.

Leveraging on the rosy economic environment in China, it is the present intention of the Group to allocate not more than RMB200 million for potential merger and acquisition opportunities in the near future to speed up the growth process. With the Group's technical expertise and expanded production capacity, the management believes that the Group is well-positioned to capture opportunities to further enhance turnover growth and maximize returns for its shareholders.

Liquidity and Financial Resources and Capital Structure

For the year ended 30 June 2007, the Group's working capital requirement was principally financed by its internal resources, banking facilities and derivative financial instruments.

As at 30 June 2007, the Group had cash and cash equivalents, net current assets and total assets less current liabilities of RMB728,432,000 (2006: RMB572,803,000), RMB635,815,000 (2006: RMB383,386,000) and RMB1,026,745,000 (2006: RMB738,154,000) respectively.

As at 30 June 2007, the Group had total bank borrowings (excluding obligations under finance leases) of RMB283,037,000 (2006: RMB229,391,000), included in these utilized bank loans, RMB146,498,000 were short term with weighted average annual interest rate of 6.38% (2006: 6.36%) and RMB136,539,000 were long term with weighted average annual interest rate of 7.05% (2006: 5.85%). All of the utilized bank loans were secured by either corporate guarantees given by the Company, equity interest in operating subsidiaries and, interest in leasehold land given by subsidiary company. Besides, the Group had available RMB70,000,000 (2006: RMB40,000,000) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met and had obligations under finance leases of RMB6,478,000 (2006: RMB13,135,000) denominated in Hong Kong Dollars.

On 18 July 2006, the Company received a conversion notice in respect of the conversion of the convertible bonds in the principal amount of US$10,000,000 (equivalent to approximately HK$77,762,000) at the conversion price of HK$0.909 per share, being the floating conversion price calculated based on 90% of the average of four consecutive closing prices per share during the 30 consecutive business days immediately prior to the date on which a conversion notice is received by the Company. As a result of the conversion, on 19 July 2006 (i) 85,544,000 conversion shares were allotted and issued; and (ii) a cash payment of an amount HK$2,798.06 for the odd lot of 2,754 conversion shares. There are no convertible bonds remained outstanding and the total number of issued shares of the Company as at 30 June 2007 is 553,169,000.

The Group had entered into two structured financial instruments (the "Instruments") with maturity in 2012 with a commercial bank, under which total upfront payments of approximately RMB113,490,000 were received at the inception of the Instruments. As at 30 June 2007, the fair value of the Instruments was RMB151,280,000. The total bank borrowings and structural financial instruments of the Group were mainly for business expansion, capital expenditure and working capital purposes and were mainly denominated in Renminbi and US Dollars.

Total equity attributable to equity shareholders of the Company as at 30 June 2007 increased by RMB185,511,000 to RMB886,787,000 (2006: RMB701,276,000). The gearing ratio (calculated as the ratio of current liabilities plus non-current liabilities: equity shareholders of the Company) of the Group as at 30 June 2007 was approximately 0.68 (2006: 0.71).

Significant Investments

Saved as disclosed elsewhere on the Management Discussion and Analysis, the Group had no other significant investment held during the year ended 30 June 2007.

Acquisition and disposal of Subsidiaries and Associated Companies

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

Following the completion of the Acquisition, a discount of approximately RMB19,418,000 would be recognised directly in the parent shareholders' equity for the six months ended 31 December 2006. The discount is calculated based on the difference between the consideration of the Acquisition and the unaudited carrying amount of interest in Fuqiang of RMB688,355,000 in the Group's accounts as at 31 December 2006.

Saved as disclosed elsewhere on the Management Discussion and Analysis, during the year ended 30 June 2007, the Group had no other material acquisition and disposal of subsidiaries and affiliated companies.

Employment Information

As at 30 June 2007, the Group employed a total of 1,917 (2006: 1,550) 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 year ended 30 June 2007, the employment cost (including directors' emoluments) amounted to approximately RMB41,948,000. In order to align the interests of staffs, directors and consultants with the Group, share options may be granted to staffs, directors and consultants under the Company's 2003 share options scheme ("2003 Scheme"). During the year ended 30 June 2007, the Group had granted 12,000,000 share options to the directors and staffs under the 2003 Scheme and there are 16,000,000 share options outstanding under the 2003 Scheme as at 30 June 2007.

Charges on Group Assets

As at 30 June 2007, a bank loan of US$15,000,000 (equivalent to RMB113,490,000) granted to the Company was secured by its entire equity interest in Superford, Tempest, Winrise and Herowin (the "BVI subsidiaries"). The BVI subsidiaries are the immediate holding companies of Fuqiang, Gemini, Shuangxiang and Haichuang, respectively (the "PRC subsidiaries"). The PRC subsidiaries are the operating subsidiaries of the Group. Total net asset value of the BVI and PRC subsidiaries as at 30 June 2007 was approximately RMB720,528,000.

Future Plans for Material Investments and Expected Sources of Funding

Save as disclosed elsewhere on the Management Discussion and Analysis, the Group had no future plans for material investments as at 30 June 2007.

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

The Group has foreign currency risk as certain financial assets and liabilities are denominated in foreign currencies principally in US dollars and Hong Kong dollars. The Group does not expect any appreciation or depreciation of the Renminbi against foreign currency which might materially affects the Group's result of operations. The Group did not employ any financial instruments for hedging purposes.

Capital Commitment

As at 30 June 2007, in respect of capital expenditures, the Group had contracted for but not provided in and authorized but not contract for capital commitment in the financial statements amounted to approximately RMB48,301,000 and RMB52,166,000 respectively.

Contingent Liabilities

As at 30 June 2007, the Group did not have any material contingent liabilities.

Biographical Information of Directors and Senior Management

Directors

EXECUTIVE DIRECTORS

Mr. Liu Zhao Cai (劉兆才), aged 65, is an executive director and the chairman of the Company. Mr. Liu graduated from the Xidian University (西安電子科技大學) (formerly known as Northwestern Telecommunication Engineering Institute (西北電訊工程學院)). Mr. Liu was the president of Fujian Province Science and Technology Commission (福建省科學技術委員會) in 1998 for a term of three years, and the president of the 36th research institute of the Department of Electronics Industry (電子工業部) of the PRC during the period from 1987 to 1995. Mr. Liu became an independent non-executive director on 8 May 2001 and was redesignated as an executive director on 22 April 2002 and chairman of the Company on 1 January 2007 respectively. Mr. Liu is responsible for overall the strategic planning of the Group.

Mr. Xiang Song (項松), aged 36, is an executive director and the chief executive officer of the Company. Mr. Xiang graduated with a bachelor's degree in mechanical engineering from the University of Science and Technology of Beijing (北京科技大學) in 1993. Prior to joining the Group in July 1998, Mr. Xiang had gained substantial management experience when he served as the plant general manager and engineer of Guangzhou Printronics Circuit Corp. (廣州普林電路公司). He has more than 12 years of management experience in the PCB industry. Mr. Xiang was appointed as an executive director in September 2000 and he is principally responsible for the supervision of the Group's technology, production and quality control.

Mr. Lin Wan Qaing (林萬強), aged 53, is the founder of the Group and an executive director of the Company. He is also the compliance officer of the Group. Mr. Lin is a Cousin of Mr. Lin Wan Xin, executive Director of the Company. Prior to founding the Group in March 1996, Mr. Lin had gained more than 16 years of entrepreneurial and management experience. Mr. Lin was the deputy chairman and general manager of the Fujian Province Shenlong Enterprise Group Company Limited (福建省神龍企業集團有限公司) ("Shenlong") in 1992 up to 1994. He was appointed as the executive of the standing committee of Young Entrepreneur Association of Fujian Province (福建省青年企業家協會) in May 1999 and has been elected as the vice-president of Electronics Industry Branch of Fujian Province of China International Commerce Association (中國國際商會福建電子行業商會) since November 1997.

Mr. Hu Zhao Rui (胡兆瑞), aged 50, is an executive director of the Company. Mr. Hu is a director of Fuqiang, a subsidiary of the Company. Mr. Hu is responsible for the daily financial management of the Company. He graduated from Fuzhou Technical Institute (福州工業學校), majoring in finance and is a certified public accountant in the PRC. Prior to joining the Company and its group companies in June 1998, he worked as the financial manager of several companies including Fujian Minjiang Shipping Company (福建省閩江航運總公司) and Fujian Fuqing Rongqiao Wharf Co., Ltd. (福建福清融僑碼頭港務有限公司), Fujiang Mingjiang Wu Yi Cement Transportation Company Limited (福建閩江武夷散裝水泥聯運公司) and Fujiang Hong Feng Investment & Development Company Limited (福建鴻豐投資發展有限公司). Mr. Hu has gained more than 21 years' experience in accounting and financial management.

Mr. Tong Yiu On (唐耀安), aged 41, is an executive director of the Company, qualified accountant and the company secretary of the Company. He is responsible for the financial reporting and management and regulatory compliance of the Company. He holds a fellow membership of the Association of Chartered Certified Accountants and is a certified public accountant of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group in September 2000, Mr. Tong was the financial controller of a wholly owned subsidiary of a Hong Kong listed company, and has gained 9 years of experience from an international accounting firm and a wholly owned subsidiary of a company listed on the Australia stock exchange in auditing and financial management for various industries.

Mr. Lin Wan Xin (林萬新), aged 53, is an executive director of the Company. Mr. Lin is the chairman and executive president of Fuqiang. Mr. Lin is a cousin of Mr. Lin Wan Qaing, executive director of the Company. He graduated from Fujian Teachers University (福建師範大學) and has gained extensive administration experience as the production director, administration director and vice-president of the general administration department of Fujian Teachers University (福建師範大學). Mr. Lin is currently a member of the 11th and 12th Political Consultative Standing Committee of Fuqing City in Fujian Province and a council member of the Printed Circuit Industry Association respectively. He joined the Group in March 1998 and was one of the founding members.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Pan Chang Chi (潘昌馳), aged 55, is an independent non-executive director of the Company. Mr. Pan has had the experience as a senior economist. He graduated from Xiamen University (廈門大學) in1998 with a master's degree in law. He has extensive experience in financial management while working as a senior economist in the Fuqing branch of the Bank of China. He is currently employed by Fujian International Corporation Limited (福建省國際投資有限公司). He has been appointed as an independent non-executive director of the Company since May 2001.

Mr. Cai Xun Shan (蔡訓善), aged 65, is an independent non-executive director of the Company. He studied in the Astronomy and Geography Department (天文大地系) of the Surveying Institution of the People's Liberation Army of the PRC (中國人民解放軍測繪學院) and obtained his graduation certificate in 1962. He was appointed as the deputy manager of the Electronics Industrial Company of Fuzhou City (福州市電子工業公司) in 1984. Mr. Cai obtained a certificate from the Fujian Province Human Resources Bureau (福建省人事局) in 1989 certifying that Mr. Cai is qualified to be appointed as an economist. On 23 May 1997, Mr. Cai was appointed as the Fuzhou Municipal People's Government's deputy secretary and officer of its Beijing representative office (福州市人民政府副秘書長兼駐北京辦事處主任). He has been appointed as an independent non-executive director of the Company since December 2002.

Mr. Cheung Chuen (張全), aged 33, is an independent non-executive director of the Company. He is a certified public accountant practicing in the United States of America and Hong Kong. Mr. Cheung graduated from Hong Kong Shue Yan College (now known as Hong Kong Shue Yan University) in 1999 with majoring in accounting and obtained a master degree in professional accounting from the Hong Kong Polytechnic University in 2004. He is a member of the American Institute of Certified Public Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Cheung has over the years gained extensive experience in accounting and auditing. He has been appointed as an independent non-executive director of the Company since September 2004. Mr. Cheung currently is an independent non-executive director of Broad Intelligence International Pharmaceutical Holdings Limited, a listed company in Hong Kong.

Senior Management

Mr. Li Fei (李飛), aged 50, the chairman of Gemini Electronics (Huizhou) Co. Ltd, with tertiary education qualification. Prior to joining the Group, Mr. Li worked as senior executive in production and sales department in a PRC listed company. Mr. Li joined the Group in 2002, and has been appointed as chairman of Gemini Electronics (Huizhou) Co. Ltd in early 2004.

Mr. Li Jia Quan (李加全), aged 33, is the chief engineer of Gemini Electronics (Huizhou) Co. Ltd, and he is mainly responsible for the aspects in technology, research and development. He graduated from Chongqing University (重慶大學) majoring in Material Science and Engineering. Prior to joining the Group in 2005, Mr. Li worked as senior executive in a Hong Kong listed company which focuses on flexible printed circuit boards production, and therefore has accumulated over 11 years' manufacturing and managerial experience in flexible printed circuit boards industry.

Mr. Wen Song Tang (文松堂), aged 34, is the director and financial manager of Gemini Electronics (Huizhou) Co. Ltd. He graduated from South-Central University For Nationalities (中南民族大學), majoring in Accountancy, and obtained a bachelor degree in Economics. Mr. Wen had worked in financial department of Guangdong Province Zhanjiang Farming (廣東省湛江農墾集團). He joined the Group in 2001 and has been assigned by the Group to Gemini Electronics (Huizhou) Co. Ltd in early 2004.

Mr. Lin Wei Sheng (林偉生), aged 40, is the chief operation officer of the Group. Mr. Lin graduated from the Electronics and Information Engineering Department of Huazhong University of Science and Technology (華中科技大學) with a bachelor degree in engineering and obtained a Master of Business Administration from Canada Kingston College (加拿大京士頓學院). He worked in Fujian Province People's Government (福建省人民政府), and was responsible for the planning and management of key project's investment and working process. Mr. Lin has accumulated 9 years managerial experience in administration and engineering. Prior to joining the Group, Mr. Lin worked as engineer and technical supervisor in Canada ATI Technology INC and STIM Canada INC, mainly responsible for quality control of electronic products; he has extensive knowledge and experience in electronic industry. Mr. Lin has been appointed as the chief operation officer of the Group in 2006.

Mr. Jiang Wei Tao (江偉濤), aged 37, is the chairman of Shuangxiang (Fujian) Electronics Limited. He graduated from Fuzhou University (福州大學) and worked as marketing manager in Fujian Fuhui Jewelry (福建福輝珠寶). He joined the Group in 1996 as the regional manager in marketing department of Fuqiang and accumulated extensive managerial experience.

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 2007, except the following major deviations:

CODE PROVISION A.4.1

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

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

CODE PROVISION E.1.2

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

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

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 of the Company (the "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 2007, the Board consisted of five Executive Directors, namely, Mr. Liu Zhao Cai (Chairman), Mr. Xiang Song (Chief Executive Officer), Mr. Lin Wan Qaing, Mr. Hu Zhao Rui and Mr. Tong Yiu On, and three Independent Non-executive Directors, namely, Mr. Pan Chang Chi, Mr. Cai Xun Shan and Mr. Cheung Chuen. Each of Directors' respective biographical details is set out in the "Biographical information of directors and senior management" of this annual report.

The composition of the Board 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, save as disclosed in the section of "Biographical information of directors and senior management" of this annual report, 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.

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

During the year ended 30 June 2007, the Board conducts five meetings a year and the Board will meet on other occasions when a board-level decision on a particulars matter is required. The attendance records of those meetings held are set out below:

Directors' Attendance at Board Meetings	No. of attendance
Executive Directors	
Mr. Liu Zhao Cai *(Chairman)*	
(re-designated from Vice-Chairman to Chairman on 1 January 2007)	5/5
Mr. Xiang Song *(Chief Executive Officer)*	5/5
Mr. Lin Wan Qaing (ceased to be the Chairman on 1 January 2007)	5/5
Mr. Hu Zhao Rui (appointed on 1 January 2007)	3/3
Mr. Tong Yiu On	5/5
Independent Non-executive Directors	
Mr. Pan Chang Chi	5/5
Mr. Cai Xun Shan	5/5
Mr. Cheung Chuen	4/5

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. 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.

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. Liu Zhao Cai (for the period started from 1 January 2007) and Mr. Lin Wan Qaing (for the period ended from 1 January 2007), 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 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. During the year ended 30 June 2007, the Board has assessed the independence of the Independent Non-executive Directors and selected a candidate being the Director.

C. Board Committee

1. REMUNERATION COMMITTEE

The Company established a remuneration committee in November 2005 with written 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 Directors and senior management, as well as review and determine the 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.

During the year ended 30 June 2007, the remuneration committee consisted of three members, comprising 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. During the Year, 2 times meeting were held to review the remuneration package of the Board and the senior management, and discuss the remuneration package of the newly appointed Director. The attendance records of the remuneration committee meeting held are set out below:

Directors' Attendance at Remuneration Committee Meetings	No. of attendance
Mr. Lin Wan Qaing	2/2
Mr. Pan Chang Chi	2/2
Mr. Cai Xun Shan	2/2

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 2007.

During the year ended 30 June 2007, the audit committee consisted three members and they are all the Independent Non-executive Directors, namely, Mr. Pan Chang Chi, Mr. Cai Xun Shan and Mr. Cheung Chuen. Mr. Pan Chang Chi is the chairman of the audit committee. During the Year, 2 times meeting were held to review the audited financial statements for the year ended 30 June 2006 and the unaudited financial statement for the six months ended 31 December 2006 with the recommendations to the Board for approval; and has reviewed the accounting principals and policies adopted by the Group and its system of internal control. The attendance records of the audit committee meetings held are set out below:

Directors' Attendance at Audit Committee Meetings	No. of attendance
Mr. Pan Chang Chi	2/2
Mr. Cai Xun Shan	1/2
Mr. Cheung Chuen	2/2

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 covering all material controls, including financial, operation, compliance control, etc. 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** *RMB'000*
Audit services	1,940
Non-audit services	—
Total:	1,940

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.

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

Mr. Lin Wan Qaing, the ex-chairman of the Board (also as the chairman of the remuneration committee) and the chairman of the audit committee were unable to attend the annual general meeting of the Company held on 22 December 2006 in person, but they have already delegated one of the executive Directors to chair the meeting and answer questions at the annual general meeting on their behalf.

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.

The Directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 30 June 2007.

Principal activities

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries are set out in note 15 to the financial statements.

The analysis of the principal activities and geographical locations of the operations of the Company and its subsidiaries (collectively "the Group") during the financial year are set out in note 12 to the financial statements.

Major customers and suppliers

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total	
	Sales	**Purchases**
The largest customer	24%	
Five largest customers in aggregate	54%	
The largest supplier		27%
Five largest suppliers in aggregate		66%

At no time during the year have the Directors, their associates or any shareholders of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

Financial statements

The profit of the Group for the year ended 30 June 2007 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 32 to 89.

Dividends

The Board recommended the payment of a final dividend of HK$0.035 (equivalent to approximately RMB0.03375) (2006: HK$0.035 (equivalent to approximately RMB0.03605)) per share for the year ended 30 June 2007. The final dividend, subject to shareholders' approval at the forthcoming annual general meeting to be held on 21 December 2007, will be payable to the shareholders whose names appear on the Register of Members of the Company on 21 December 2007 and will be paid on or around 18 January 2008.

Share capital

Details of movements in share capital of the Company during the year are set out in note 26 to the financial statements.

There were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries during the year.

Transfer to reserves

Profits attributable to equity shareholders, before dividends, of RMB115,085,000 (2006: RMB101,816,000) have been transferred to reserves.

Distributable reserves

Details of the movements in reserves of the Group and the Company during the year are set out in note 26 to the financial statements.

As at 30 June 2007, the distributable reserves of the Company available for distribution to shareholders amounted to approximately RMB215,125,000 (2006: RMB174,388,000) computing 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 and share-based compensation reserves of approximately RMB244,971,000 (2006: RMB159,175,000), RMB10,009,000 (2006: RMB29,283,000) and RMB3,209,000 (2006: RMB144,000), respectively, less accumulated losses and exchange reserve of approximately RMB39,367,000 (2006: RMB14,214,000) and RMB3,697,000 (2006: Nil) respectively, 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 of the Company.

Subsidiaries

Particulars of the Company's subsidiaries as at 30 June 2007 are set out in note 15 to the financial statements.

Property, plant and equipment

Details of the movements in property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

Banking facilities

Particulars of the banking facilities of the Company as at 30 June 2007 are set out in note 21 to the financial statements.

Charitable donations

Charitable donations made by the Group during the year amounted to RMB651,600 (2006: RMB96,900).

Convertible bonds

Details of the convertible bonds are set out in note 25 to the financial statements.

Commitments

Particulars of the commitments of the Group as at 30 June 2007 are set out in note 30 to the financial statements.

Share option scheme

At the extraordinary general meeting of the Company held on 9 January 2003, an ordinary resolution was passed to adopt a share option scheme (the "2003 Scheme").

Summary of the 2003 Scheme

(A) PURPOSE OF THE 2003 SCHEME

The purpose of the 2003 Scheme is to provide incentives and rewards to Eligible Participants (as defined hereinafter) who contribute to the success of the Group.

(B) PARTICIPANTS OF THE 2003 SCHEME

Pursuant to the 2003 Scheme, the Board may offer eligible participants (being employees (whether full time or part time) or executives or officers of the Company or any of its subsidiaries (including executive and non-executive Directors of the Company or any of its subsidiaries) and business consultants, agents, legal or financial advisers who the Board considers, in its sole discretion, will contribute or have contributed to the Company or any of its subsidiaries) ("Eligible Participants") options to subscribe for such number of shares in the Company.

(C) TOTAL NUMBER OF SHARES AVAILABLE FOR ISSUE UNDER THE 2003 SCHEME

The total number of shares which may be issued upon exercise of all options to be granted under the 2003 Scheme will be 40,262,500 shares, representing 10% of the shares in issue as at the adoption date. On 23 December 2005 and 22 December 2006, an ordinary resolution was passed at each of that annual general meeting to refresh the number of shares available for issue up to 10% of the shares in issue as at the resolution date, representing 46,762,500 and 55,316,900 shares respectively. The maximum number of shares to be issued upon the exercise of all outstanding options granted and yet to be exercised under the 2003 Scheme must not in aggregate exceed 30% of the relevant shares of the Company in issue from time to time.

As at 30 June 2007, a total of 63,000,000 options have been granted since the adoption of the 2003 Scheme. With a total of 8,000,000 options exercised, 36,000,000 options lapsed, 3,000,000 options cancelled, and 16,000,000 options remained outstanding, representing approximately 2.89% of the total issued number of shares of the Company as at 30 June 2007.

(D) MAXIMUM ENTITLEMENT OF EACH PARTICIPANT

The maximum number of shares in respect of which options may be granted to any individual in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point of time. Any further grant of options in excess of this 1% limit shall be subject to the issue of a circular by the Company and the approval of the shareholders in general meeting.

(E) OPTION PERIOD

Option may be exercised after it has vested at any time during the year to be notified by the Board at the time of the grant of the option but shall be in any event not later than 10 years from the offer date, subject to the provisions for early termination of the 2003 Scheme.

(F) PAYMENT ON ACCEPTANCE OF OPTION

Options granted must be taken up within 21 days from the offer date, upon payment of HK$1.00 per grant.

(G) BASIS OF DETERMINING THE SUBSCRIPTION PRICE

The subscription price per share under the 2003 Scheme is determined by the Board, save that such price must not be less than the highest of (a) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of offer to grant option, which must be a business day; (b) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of offer to grant option; and (c) the nominal value of the share of the Company.

(H) REMAINING LIFE OF THE 2003 SCHEME

The 2003 Scheme will remain valid until 8 January 2013.

Share options

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

Name or category of participant	Date of grant	Number of share options: Outstanding as at 1 July 2006	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 30 June 2007	Exercisable period	Exercise price per share HK$	Market value per share at date of grant of options HK$
(a) Directors									
Liu Zhao Cai	4 September 2006	—	1,500,000	—	—	1,500,000	4 September 2006 to 3 September 2009	1.038	1.03
Xiang Song	4 September 2006	—	1,500,000	—	—	1,500,000	4 September 2006 to 3 September 2009	1.038	1.03
Hu Zhao Rui *(Note)*	4 September 2006	—	1,000,000	—	—	1,000,000	4 September 2006 to 3 September 2009	1.038	1.03
Tong Yiu On	4 September 2006	—	1,500,000	—	—	1,500,000	4 September 2006 to 3 September 2009	1.038	1.03
(b) Eligible employees	4 September 2006	—	6,500,000	—	—	6,500,000	4 September 2006 to 3 September 2009	1.038	1.03
(c) Consultants	27 April 2005	4,000,000	—	—	—	4,000,000	27 April 2005 to 26 April 2008	1.172	0.86
		4,000,000	12,000,000	—	—	16,000,000			

Note: As Mr. Hu Zhao Rui, who was an eligible employee of the Company, has been appointed as Executive Director on 1 January 2007, then the share options granted to Mr. Hu Zhao Rui have accordingly been relocated to under the category of "Directors" in the above table.

Information on the accounting policy for share options granted and the weighted average value per option is provided in notes 1(p)(iii) and 28 to the financial statements.

Apart from the foregoing, at no time during the year was the Company, any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Retirement benefits schemes

Details of the Group's retirement benefits schemes for the year ended 30 June 2007 are set out in note 27 to the financial statements.

Connected transactions

On 1 February 1999, the Group entered into a lease agreement with Ms. He Yu Zhu, the spouse of Mr. Lin Wan Qaing, pursuant to which the Group agreed to pay a monthly rental of RMB35,200 in respect of the Group's occupation of 15 level, Zhong Mei Building, No. 107 Gu Tian Road, Fuzhou City, Fujian Province, PRC for a term of five years commencing on 1 February 1999 and the lease agreement has been extended to 30 January 2009 with a revised monthly rental of RMB28,575. In the opinion of the independent non-executive Directors of the Company, the rental is based on normal commercial terms and is conducted in the ordinary and usual course of business of the Group. This transaction constitutes a de minimus on-going connected transaction in accordance with Rule 14.24(5) of the Listing Rules.

Directors

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

EXECUTIVE DIRECTORS

Mr. Liu Zhao Cai	*(Chairman)*
Mr. Xiang Song	*(Chief Executive Officer)*
Mr. Lin Wan Qaing	
Mr. Hu Zhao Rui	(appointed on 1 January 2007)
Mr. Tong Yiu On	
Mr. Lin Wan Xin	(appointed on 24 October 2007)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Pan Chang Chi
Mr. Cai Xun Shan
Mr. Cheung Chuen

In accordance with articles 87(1) and 87(2) of the Company's articles of association, Mr. Xiang Song, Mr. Pan Chang Chi and Mr. Cheung Chuen shall retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

In accordance with article 86(3) of the Company's articles of association, Mr. Hu Zhao Rui and Mr. Lin Wan Xin shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Directors' service agreements

Each of the executive Directors listed below has entered into a service agreement with the Company for a term of three years, with a fixed term of one year. The commencement dates of the agreements with each of the executive Directors are as follows:

Mr. Liu Zhao Cai	22 April 2006
Mr. Xiang Song	8 May 2007
Mr. Lin Wan Qaing	8 May 2007
Mr. Hu Zhao Rui	1 January 2007
Mr. Tong Yiu On	18 December 2002
Mr. Lin Wan Xin	24 October 2007

Except Mr. Tong Yiu On, each of executive Directors has entered into a service agreement with the Company for a term of three years, with a fixed term of one year, which shall be terminated by either party giving the other not less than six months prior written notice after the expiration of the said fixed term. The service agreement of Mr. Tong Yiu On shall continue after expiry date unless and until terminated by either party giving the other not less than six months prior written notice after the expiration of the said fixed term.

Each of Independent Non-executive Directors has not entered into a service agreement with the Company and is not appointed for a specific term but is subject to retirement by rotation and re-election at the annual general meeting in accordance with the articles of association of the Company.

Save as disclosed above, none of the Directors has a service agreement with the Company or any of its subsidiaries, which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

Director's interests and short positions in shares, underlying shares and debentures

As at 30 June 2007, 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 pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executives 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 Model Code for the Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:

LONG POSITIONS IN THE SHARES OF THE COMPANY

Name	Capacity	Type of interests	Number of issued ordinary shares held	Number of underlying shares held pursuant to share options	Approximate % of the issued share capital
Lin Wan Qaing	Beneficial owner	Personal	228,283,780	—	41.27
Liu Zhao Cai	Beneficial owner	Personal	—	1,500,000	0.27
Xiang Song	Beneficial owner	Personal	—	1,500,000	0.27
Hu Zhao Rui	Beneficial owner	Personal	—	1,000,000	0.18
Tong Yiu On	Beneficial owner	Personal	—	1,500,000	0.27

Save as disclosed above, as at 30 June 2007, 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 Model Code, to be notified to the Company and the Stock Exchange.

Shareholders' interests and short positions in the shares and underlying shares of the Company

As at 30 June 2007, 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 person/entity (other than the Directors or chief executives of the Company) had an interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which would fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO, or be directly and 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:

LONG POSITIONS IN THE SHARES OF THE COMPANY

Name	Capacity	Number of shares	Total Number of shares	Total Approximate % of the issued share capital
Atlantis Investment Management Limited	Investment manager	90,000,000	90,000,000	16.27
Webb David Michael	Beneficial owner	4,002,000		
	Interest of corporation controlled *(Note)*	23,782,000	27,784,000	5.02

Note: Pursuant to a notice filed under Part XV of the SFO, 23,782,000 shares in the Company were held by Preferable Situation Assets Limited, which was wholly-owned by Mr. Webb David Michael. Accordingly, Mr. Webb David Michael was deemed to be interested in 23,782,000 shares in the Company. Mr. Webb David Michael had an aggregate interest in 27,784,000 shares.

Save as disclosed above, the Company has not been notified of any other interests or short positions representing 5% or more of the issued share capital of the Company and recorded in the register maintained under Section 336 of the SFO as at 30 June 2007.

Directors' rights to acquire shares or debt securities

Other than as disclosed under the sections "Share option scheme", "Share options" and "Directors' interests and short positions in shares, underlying shares and debentures" above, at no time during the year was the Company or any of its subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executives of the Company or their respective associates (as defined in the Listing Rules) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

Director's interests in contracts

Save as disclosed in note 32 to the financial statements, there was no contract, commitment or agreement of significance in relation to the Company's business, to which the Company or any of its subsidiaries was a party and in which any of the Directors had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

Director's interests in competing business

None of the Directors or the management shareholders or the substantial shareholders of the Company, or any of their respective associates (as defined in the Listing Rules) had any material interest in a business that competes or may compete with the business of the Group.

Management contract

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

Financial summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set our on page 90 of the annual report.

Purchase, sale or redemption of listed securities

During the year ended 30 June 2007, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Pre-emptive rights

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

Audit committee

The Company has established an audit committee since 8 May 2001 with written terms of reference and the duties of the audit committee include reviewing the Company's annual reports and interim reports and providing advice and comments to the Directors. The audit committee is also responsible for reviewing and supervising the financial reporting and internal control procedures of the Group.

As at the date of this report, the audit committee comprises three independent non-executive Directors, namely, Mr. Pan Chang Chi, Mr. Cai Xun Shan and Mr. Cheung Chuen. During the year ended 30 June 2007, the audit committee has met twice to review the interim and annual results of the Group.

Sufficiency of public float

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained the prescribed public float under the Listing Rules.

Auditors

KPMG were first appointed as auditors of the Company in 2005 upon the retirement of CCIF CPA Limited.

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By Order of the Board

Liu Zhao Cai
Chairman

Hong Kong, 24 October 2007

Report of the Independent Auditor

Independent auditor's report to the shareholders of
Sinotronics Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Sinotronics Holdings Limited ("the Company") set out on pages 32 to 89, which comprise the consolidated and company balance sheets as at 30 June 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

24 October 2007

Consolidated Income Statement

For the year ended 30 June 2007

(Expressed in Renminbi)

	Note	2007 RMB'000	2006 RMB'000
TURNOVER	3	**695,936**	525,953
Cost of sales		**(476,892)**	(339,663)
GROSS PROFIT		**219,044**	186,290
Other revenue	4	**8,061**	7,124
Other net income	4	**8,623**	1,607
Distribution costs		**(7,827)**	(6,499)
Administrative expenses		**(34,102)**	(24,994)
Other operating expenses		**(1,882)**	(977)
PROFIT FROM OPERATIONS		**191,917**	162,551
Finance costs	5(a)	**(49,962)**	(33,239)
PROFIT BEFORE TAXATION	5	**141,955**	129,312
Income tax	6(a)	**(23,695)**	(21,225)
PROFIT FOR THE YEAR		**118,260**	108,087
ATTRIBUTABLE TO:			
Equity shareholders of the Company		**115,085**	101,816
Minority interests		**3,175**	6,271
PROFIT FOR THE YEAR		**118,260**	108,087
DIVIDENDS PAYABLE TO EQUITY SHAREHOLDERS OF THE COMPANY ATTRIBUTABLE TO THE YEAR:	10		
Final dividend proposed after the balance sheet date		**18,838**	19,942
EARNINGS PER SHARE	11		
Basic		**21 cents**	22 cents
Diluted		**20 cents**	21 cents

The notes on pages 39 to 89 form part of these financial statements.

Consolidated Balance Sheet

At 30 June 2007

(Expressed in Renminbi)

	Note	2007 RMB'000	2006 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13(a)	358,242	331,957
Interests in leasehold land held for own use under operating lease	14	17,159	17,616
Purchase deposits of property, plant and equipment		11,557	1,765
Purchase deposits of leasehold land		1,916	—
Deferred tax assets	23(b)	2,056	3,430
		390,930	354,768
CURRENT ASSETS			
Trading securities		—	102
Inventories	16	36,100	28,464
Trade and other receivables	17	262,691	240,219
Fixed deposits	18	75,660	—
Cash and cash equivalents	19	728,432	572,803
		1,102,883	841,588
CURRENT LIABILITIES			
Trade and other payables	20	159,815	175,729
Short-term bank loans	21	146,498	199,391
Obligations under finance leases	22	3,059	6,257
Taxation	23(a)	6,416	5,499
Derivative financial instruments	24	151,280	—
Convertible bonds	25	—	71,326
		467,068	458,202
NET CURRENT ASSETS		635,815	383,386
TOTAL ASSETS LESS CURRENT LIABILITIES		1,026,745	738,154
NON-CURRENT LIABILITIES			
Non-current bank loans	21	136,539	30,000
Obligations under finance leases	22	3,419	6,878
		139,958	36,878
NET ASSETS		886,787	701,276

Consolidated Balance Sheet (Continued)

At 30 June 2007

(Expressed in Renminbi)

	Note	2007 RMB'000	2006 RMB'000
CAPITAL AND RESERVES	*26(a)*		
Share capital		58,123	49,568
Reserves		828,664	620,465
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		886,787	670,033
MINORITY INTERESTS	*26(a)*	–	31,243
TOTAL EQUITY		886,787	701,276

Approved and authorised for issue by the board of directors on 24 October 2007

Liu Zhao Cai
Director

Xiang Song
Director

The notes on pages 39 to 89 form part of these financial statements.

Balance Sheet

At 30 June 2007

(Expressed in Renminbi)

	Note	2007 RMB'000	2006 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13(b)	13	16
Investments in subsidiaries	15	93,975	93,975
		93,988	93,991
CURRENT ASSETS			
Other receivables	17	344,482	240,353
Fixed deposits	18	75,660	—
Cash and cash equivalents	19	50,122	55,475
		470,264	295,828
CURRENT LIABILITIES			
Other payables	20	10,487	38,239
Short-term bank loans	21	22,698	56,298
Derivative financial instruments	24	151,280	—
Convertible bonds	25	—	71,326
		184,465	165,863
NET CURRENT ASSETS		285,799	129,965
TOTAL ASSETS LESS CURRENT LIABILITIES		379,787	223,956
NON-CURRENT LIABILITIES			
Non-current bank loans	21	106,539	—
NET ASSETS		273,248	223,956
CAPITAL AND RESERVES	26(b)		
Share capital		58,123	49,568
Reserves		215,125	174,388
TOTAL EQUITY		273,248	223,956

Approved and authorised for issue by the board of directors on 24 October 2007

Liu Zhao Cai
Director

Xiang Song
Director

The notes on pages 39 to 89 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2007

(Expressed in Renminbi)

	Note	2007 RMB'000	2006 RMB'000
TOTAL EQUITY AT 1 JULY		701,276	622,494
NET INCOME FOR THE YEAR RECOGNISED DIRECTLY IN EQUITY:			
Exchange differences on translation of financial statements of subsidiaries outside PRC	26(a)	1,704	297
Surplus on revaluation of buildings held for own use, net of deferred tax	26(a)	3,991	39
Redesignation of conversion rights as derivative liabilities	26(a)	—	(11,743)
		5,695	(11,407)
NET PROFIT FOR THE YEAR		118,260	108,087
TOTAL RECOGNISED INCOME FOR THE YEAR		123,955	96,680
ATTRIBUTABLE TO:			
Equity shareholders of the Company		120,780	90,409
Minority interests		3,175	6,271
		123,955	96,680
MOVEMENTS IN EQUITY ARISING FROM CAPITAL TRANSACTIONS:			
Minority interests acquired by the Group	26(a)	(32,832)	—
Discount on acquisition of minority interests	26(a)	17,832	—
Equity settled share-based transactions	26(a)	3,065	—
Issue of shares upon conversion of convertible bonds	26(a)	94,351	—
		82,416	—
Dividends declared or approved during the year	26(a)	(20,860)	(17,898)
TOTAL EQUITY AT 30 JUNE		886,787	701,276

The notes on pages 39 to 89 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 30 June 2007

(Expressed in Renminbi)

	Note	2007 RMB'000	2006 RMB'000
OPERATING ACTIVITIES			
Profit before taxation		141,955	129,312
Adjustments for:			
— Loss on sale of property, plant and equipment		62	—
— Depreciation		23,085	18,953
— Amortisation of interest in leasehold land held for own used under operating lease		457	276
— Interest expense		17,797	18,056
— Interest element of finance lease		668	1,217
— Interest income		(6,745)	(6,272)
— Impairment losses of trade and other receivables		721	2,087
— Reversal of impairment losses of trade and other receivables		(9,732)	(2,940)
— Fair value adjustments			
— Embedded call option attached to convertible bonds		(2,496)	13,966
— Derivative financial instruments		38,959	—
— Gain on disposal of trading securities		(98)	(10)
— Equity-settled share-based payment expenses		3,065	—
OPERATING PROFIT BEFORE CHANGES IN WORKING CAPITAL		207,698	174,645
Increase in inventories		(7,636)	(7,227)
Increase in trade and other receivables		(13,805)	(59,925)
Increase in trade and other payables		30,917	43,205
CASH GENERATED FROM OPERATIONS		217,174	150,698
Tax paid			
— PRC enterprise income tax paid		(22,079)	(22,616)
NET CASH FROM OPERATING ACTIVITIES		195,095	128,082
INVESTING ACTIVITIES			
(Increase)/decrease in deposits for purchase of property, plant and equipment		(11,708)	7,358
Payment for purchase of property, plant and equipment		(56,641)	(155,583)
Proceeds from sale of property, plant and equipment		46	—
Payment for purchase of land use rights		—	(15,239)
Payment for acquisition of additional equity interest in a subsidiary		(15,000)	—
Decrease in pledged bank deposits		—	5,329
Payment for purchase of trading securities		(100)	(208)
Proceeds from disposal of trading securities		300	308
Interest received		7,089	6,272
Increase in fixed deposits with maturity over three months at acquisition		(75,660)	—
NET CASH USED IN INVESTING ACTIVITIES		(151,674)	(151,763)

Consolidated Cash Flow Statement (Continued)

For the year ended 30 June 2007
(Expressed in Renminbi)

	Note	2007 RMB'000	2006 RMB'000
FINANCING ACTIVITIES			
Proceeds from new bank loans		367,637	247,195
Repayment of short-term bank loans		(312,351)	(160,657)
Upfront payments from derivative financial instruments		113,490	—
Proceeds from finance leases		—	12,133
Capital element of finance lease rentals paid		(5,892)	(11,612)
Interest element of finance lease rentals paid		(668)	(1,217)
(Decrease)/increase in amount due to a director		(10,369)	3,132
Interest paid		(16,505)	(13,162)
Dividend paid		(19,274)	(17,022)
Dividend paid to minority shareholders of subsidiaries		(1,586)	(876)
NET CASH GENERATED FROM FINANCING ACTIVITIES		114,482	57,914
NET INCREASE IN CASH AND CASH EQUIVALENTS		157,903	34,233
CASH AND CASH EQUIVALENTS AT 1 JULY		572,803	540,915
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		(2,274)	(2,345)
CASH AND CASH EQUIVALENTS AT 30 JUNE	19	728,432	572,803

Significant non-cash transaction:

On 19 July 2006, convertible bonds totalling RMB94,351,000 (2006: RMB Nil) were converted into ordinary shares of the Company (note 25).

The notes on pages 39 to 89 form part of these financial statements.

1 Significant accounting policies

(a) STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong 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. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on the changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements of the Company for the year ended 30 June 2007 comprise the Company and its subsidiaries (together referred to as the "Group").

The functional currencies of the Company and its subsidiaries in the People's Republic of China ("PRC") are Hong Kong dollars and Renminbi ("RMB") respectively. For the purpose of presenting the consolidated financial statements, the Group adopted RMB as its presentation currency. The measurement basis used in the preparation of the financial statements is historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

— buildings held for own use (see note 1(f)(i));

— trading securities (see note 1(d)); and

— derivative financial instruments (see note 1(e)).

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, 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.

1 Significant accounting policies (continued)

(b) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 31.

(c) SUBSIDIARIES

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. 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.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1(i)).

(d) TRADING SECURITIES

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

1 Significant accounting policies (continued)

(e) DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is charged immediately to profit or loss.

(f) 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 revalued amount less accumulated depreciation (see note 1(h)) and impairment losses (see note 1(i)). The cost of self-constructed buildings 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 and borrowing cost (see note 1(u));

— other items of plant and equipment are stated in the balance sheets at cost less accumulated depreciation (see note 1(h)) and impairment losses (see note 1(i)); 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) Revaluations are performed with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair values at the balance sheet date.

(iii) Changes arising on the revaluation of buildings held for own use are generally dealt with in reserves. The only exceptions are as follows:

— when a deficit arises on revaluation, it will be charged to profit or loss to the extent that it exceeds the amount held in the reserve in respect of that same asset immediately prior to the revaluation; and

— when a surplus arises on revaluation, it will be credited to profit or loss to the extent that a deficit on revaluation in respect of that same asset had previously been charged to profit or loss.

(iv) Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits.

1 Significant accounting policies (continued)

(g) LEASED ASSETS

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) *Classification of assets leased to the Group*

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, except that land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

(ii) *Assets acquired under finance 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 property, plant and equipment 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 over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 1(h). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(i). Finance charges implicit in the lease payments are charged to profit or loss 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 charged to profit or loss in the accounting period in which they are incurred.

(iii) *Operating lease charges*

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss 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. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

1 Significant accounting policies (continued)

(h) DEPRECIATION

(i) No depreciation is provided on construction-in-progress until it is available for use.

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

— buildings held for own use situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being 25 years from the date of completion.

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

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(i) 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 (other than properties carried at revalued amounts);

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

— investments in subsidiaries.

If any such indication exists, the asset's recoverable amount is estimated.

(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).

1 Significant accounting policies (continued)

(i) IMPAIRMENT OF ASSETS (CONTINUED)

(ii) *Recognition of impairment losses*

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (group of units) on a pro rata basis.

(iii) *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss 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 profit or loss in the year in which the reversals are recognised.

(j) 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.

(k) TRADE AND OTHER RECEIVABLES

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

Impairment losses for bad and doubtful debts are measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted where the effect of discounting is material.

1 Significant accounting policies (continued)

(l) CASH AND 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 consolidated cash flow statement.

(m) CONVERTIBLE BONDS

Convertible bonds that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion does not vary with changes in their fair value, are accounted for as compound financial instruments which contain both a liability component and an equity component. At initial recognition the liability component of the convertible bonds is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. 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 liability component is subsequently carried at amortised costs. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest rate method. The equity component is recognised in the capital reserve until either the bond is converted or redeemed.

If the bond is converted, the capital reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, the capital reserve is released directly to retained profits.

(n) 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 the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(o) TRADE AND OTHER PAYABLES

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 1(r)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

1 Significant accounting policies (continued)

(p) EMPLOYEE BENEFITS

(i) *Short term employee benefits and contributions to defined contribution retirement plans*

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. 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 profit or loss as incurred, except to the extent that they are included in the cost of inventory not yet recognised as an expense.

(iii) *Share-based payments*

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at the grant date using the Black-Scholes-Merton Option Pricing Model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On the vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve). The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(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 profit or loss 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.

1 Significant accounting policies (continued)

(q) INCOME TAX (CONTINUED)

(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.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from 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 profits 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 profits 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.

1 Significant accounting policies (continued)

(q) INCOME TAX (CONTINUED)

(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.

(r) FINANCIAL GUARANTEES ISSUED, PROVISIONS AND CONTINGENT LIABILITIES

(i) *Financial guarantees issued*

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 1(r)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

1 Significant accounting policies (continued)

(r) FINANCIAL GUARANTEES ISSUED, PROVISIONS AND CONTINGENT LIABILITIES (CONTINUED)

(ii) *Other provisions and contingent liabilities*

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company 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 expenditure 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) *Sale of goods*

Revenue arising from the sale of goods is recognised on delivery of goods to customers which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value-added tax and is stated after deduction of any trade discounts.

(ii) *Processing service income*

Processing service income are recognised when services are rendered.

(iii) *Interest income*

Interest income is recognised as it accrues using the effective interest method.

(t) TRANSLATION OF FOREIGN CURRENCIES

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

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

1 Significant accounting policies (continued)

(t) TRANSLATION OF FOREIGN CURRENCIES (CONTINUED)

The results of foreign enterprises are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of transactions. Balance sheet items are translated into Renminbi at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

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.

(u) BORROWING COSTS

Borrowing costs are expensed in profit or loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(v) DIVIDENDS

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

(w) RELATED PARTIES

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

1 Significant accounting policies (continued)

(x) 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.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographic segment information as the secondary reporting format for the purposes of these financial statements.

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. For example, segment assets may include inventories, trade receivables and property, plant and equipment. 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, tax balances, corporate and financing expenses.

2 Changes in accounting policies

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group.

The accounting policies of the Group after the adoption of these developments to the extent that they are relevant to the Group has been summarised in note 1. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 34).

FINANCIAL GUARANTEES ISSUED (AMENDMENTS TO HKAS 39, FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT: FINANCIAL GUARANTEE CONTRACTS)

In prior years, financial guarantees issued by the Group were disclosed as contingent liabilities in accordance with HKAS 37, *Provisions, contingent liabilities and contingent assets*. No provisions were made in respect of these guarantees unless it was more likely than not that the guarantee would be called upon.

2 Changes in accounting policies (continued)

FINANCIAL GUARANTEES ISSUED (AMENDMENTS TO HKAS 39, FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT: FINANCIAL GUARANTEE CONTRACTS) (CONTINUED)

With effect from 1 July 2006, in order to comply with the amendments to HKAS 39 in respect of financial guarantee contracts, the Group has changed its accounting policy for financial guarantees issued. Under the new policy, financial guarantees issued are accounted for as financial liabilities under HKAS 39 and measured initially at fair value, where the fair value can be reliably measured. Subsequently, they are measured at the higher of the amount initially recognised, less accumulated amortisation, and the amount of the provision, if any, that should be recognised in accordance with HKAS 37. Further details of the new policy are set out in note 1(r)(i).

The change in accounting policy has no significant financial effect on the consolidated and Company financial statements. Details of the financial guarantees currently issued by the Company are set out in note 21(vii).

3 Turnover

The Company acts as an investment holding company and the Group is principally engaged in the manufacture and sale of printed circuit boards ("PCBs"), PCBs assembling products, and provision for surface mount technology ("SMT") processing service.

Turnover represents the sales value of goods supplied to customers, which excludes value-added tax and is stated after deduction of all goods returns and trade discounts, and service income from SMT processing service. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2007 RMB'000	2006 RMB'000
Sales of PCBs	**541,274**	454,784
Sales of PCBs assembling products	**147,806**	45,363
SMT processing service income	**6,856**	25,806
	695,936	525,953

4 Other revenue and other net income

	2007 RMB'000	2006 RMB'000
Other revenue		
Interest income	6,745	6,272
Sundry income	1,316	852
	8,061	7,124
Other net income		
Reversal of impairment losses of trade and other receivables	9,732	2,940
Impairment losses of trade and other receivables	(721)	(2,087)
Exchange (loss)/gain	(392)	733
Others	4	21
	8,623	1,607

5 Profit before taxation

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

		2007 RMB'000	2006 RMB'000
(a)	Finance costs:		
	Interest on bank loans wholly repayable within five years	17,326	11,923
	Finance charges on obligations under finance leases	668	1,217
	Interest on convertible bonds wholly repayable within five years	300	6,002
	Fair value adjustments		
	— Embedded call option attached to convertible bonds	(2,496)	13,966
	— Derivative financial instruments	38,959	—
	Other borrowing costs	171	131
	Total borrowing costs	54,928	33,239
	Less: Borrowing costs capitalised into construction in progress*	4,966	—
		49,962	33,239

5 Profit before taxation (continued)

		2007 RMB'000	2006 RMB'000
(b)	Staff costs:#		
	Contributions to defined contribution retirement plans	6,538	3,434
	Equity-settled share-based payment expenses	3,065	—
	Salaries, wages and other benefits	32,345	25,414
		41,948	28,848
(c)	Other items:		
	Cost of inventories#	476,892	339,663
	Amortisation of interest in leasehold land held for own use under operating lease#	457	276
	Depreciation#		
	— owned fixed assets	19,492	15,695
	— assets held for use under finance lease	3,593	3,258
	Operating lease rentals for premises#	2,275	1,787
	Auditors' remuneration		
	— audit service	2,128	1,980
	— other services	—	50
	Impairment losses of trade and other receivables	721	2,087
	Reversal of impairment losses of trade and other receivables	(9,732)	(2,940)
	Gain on disposal of trading securities	(98)	(10)

* *The borrowing costs have been capitalised at rates of 5.22%–6.71% per annum (2006: Nil).*

Cost of inventories includes RMB50,866,815 (2006: RMB38,510,000) relating to staff costs, depreciation expenses, operating lease charges and amortisation of interest in leasehold land held for own use under operating lease, which amount is also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

6 Income tax in the consolidated income statement

(a) Taxation in the consolidated income statement represents:

	2007 RMB'000	2006 RMB'000
Current tax		
Provision for PRC enterprise income tax	**22,997**	21,756
Deferred tax		
Origination and reversal of temporary differences	**698**	(531)
	23,695	21,225

Notes:

(i) ***Overseas income tax***

The Company is incorporated in the Cayman Islands and is exempt 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 years presented.

(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, two subsidiaries in the PRC are fully exempt from PRC enterprise income tax until 31 December 2007. Thereafter, they will be entitled to a 50% reduction of PRC income tax for the next three years.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the People's Republic of China ("New Tax Law") which will take effect on 1 January 2008. From 1 January 2008, the existing preferential tax rate is expected to gradually increase to the standard rate of 25% over a five-year transition period. However, the New Tax Law has not set out the details as to how the existing preferential tax rate will gradually increase to the standard rate of 25%. The enactment of the New Tax Law is not expected to have a significant financial effect on the amount accrued in the balance sheet in respect of current tax payable and the carrying value of deferred tax balance at 30 June 2007.

6 Income tax in the consolidated income statement (continued)

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

	2007 RMB'000	2006 RMB'000
Profit before tax	141,955	129,312
Notional tax on profit before tax, calculated at the rates applicable to profits in the countries concerned	19,974	18,703
Tax effect of non-deductible expenses	11,707	6,228
Tax effect of non-taxable revenue	(604)	(1,124)
Tax effect of prior year's tax loss utilised this year	(496)	(2,405)
Tax effect of net income under tax holiday	(6,886)	(177)
Actual tax expense	23,695	21,225

7 Directors' remuneration

Directors' remuneration disclosed pursuant to the Listing Rules is as follows:

	Directors' fees		Salaries and other emoluments		Retirement scheme contributions		Share-based payments *(note)*		Total	
Name	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Executive directors:										
Lin Wan Qaing	–	—	799	1,084	13	12	–	—	812	1,096
Chen Yan Shun	–	—	–	93	–	—	–	—	–	93
Liu Zhao Cai	–	—	402	370	–	—	372	—	774	370
Xiang Song	–	—	358	370	–	—	372	—	730	370
Tong Yiu On	–	—	600	621	12	12	372	—	984	633
Hu Zhao Rui	–	—	240	—	–	—	248	—	488	—
Independent non-executive directors:										
Pan Chang Chi	10	10	–	—	–	—	–	—	10	10
Cai Xun Shan	10	10	–	—	–	—	–	—	10	10
Cheung Chuen	45	47	–	—	–	—	–	—	45	47
	65	67	2,399	2,538	25	24	1,364	—	3,853	2,629

Note: These represent the estimated value of share options granted to the directors pursuant to the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 1(p)(iii). Details of these benefits in kind are disclosed under the paragraph "Summary of the 2003 Scheme" in the directors' report and note 28.

8 Individuals with highest emoluments

Of the five individuals with the highest emoluments, five (2006: four) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the remaining one individual in 2006 were as follows:

	2007 RMB'000	2006 RMB'000
Salaries and other emoluments	–	296
Retirement scheme contributions	–	12
	–	308

The emoluments of the one individual in 2006 with the highest emoluments were within the following band:

	Number of individuals 2007	Number of individuals 2006
Nil – RMB970,000 (equivalent to approximately nil – HK$1,000,000)	–	1

9 Loss attributable to shareholders

The consolidated profit attributable to shareholders includes a loss of approximately RMB55,153,000 (2006: RMB29,655,000) which has been dealt with in the financial statements of the Company.

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

	2007 RMB'000	2006 RMB'000
Amount of loss attributable to shareholders dealt with in the Company's financial statements	**(55,153)**	(29,655)
Final dividends from subsidiaries attributable to the profits of the previous financial year, declared and received during the year	**30,000**	16,560
Company's loss for the year (note 26(b))	**(25,153)**	(13,095)

10 Dividends

(a) DIVIDENDS PAYABLE TO EQUITY SHAREHOLDERS OF THE COMPANY ATTRIBUTABLE TO THE YEAR

	2007 RMB'000	2006 RMB'000
Final dividend proposed after the balance sheet date of HK$0.035 (equivalent to approximately RMB0.03375) per ordinary share (2006: HK$0.035 (equivalent to approximately RMB0.03605) per ordinary share)	18,838	19,942

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

(b) DIVIDENDS PAYABLE TO EQUITY SHAREHOLDERS OF THE COMPANY ATTRIBUTABLE TO THE PREVIOUS FINANCIAL YEAR, APPROVED AND PAID DURING THE YEAR

	2007 RMB'000	2006 RMB'000
Final dividend of HK$0.035 (equivalent to approximately RMB0.035 per ordinary share (2006: HK$0.035 (equivalent to approximately RMB0.0364) per ordinary share) in respect of the previous financial year, approved and paid during the year	19,274	17,022

11 Earnings per share

(a) BASIC EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of approximately RMB115,085,000 (2006: RMB101,816,000) and the weighted average number of 548,950,000 (2006: 467,625,000) ordinary shares in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2007 '000	2006 '000
Issued ordinary shares at 1 July	467,625	467,625
Effect of conversion of convertible bonds	81,325	—
Weighted average number of ordinary shares at 30 June	548,950	467,625

11 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 RMB112,863,000 (2006: RMB118,863,000) and the weighted average number of 553,794,000 (2006: 561,150,000) ordinary shares in issue during the year after adjusting for the effect of all dilutive potential shares, calculated as follows:

(i) *Profit attributable to equity shareholders of the Company (diluted)*

	2007 RMB'000	2006 RMB'000
Profit attributable to equity shareholders	**115,085**	101,816
Adjustments in respect of interest costs and exchange difference on convertible bonds and change in fair value of embedded call option attached to convertible bonds	**(2,222)**	17,047
	112,863	118,863

(ii) *Weighted average number of ordinary shares (diluted)*

	2007 '000	2006 '000
Weighted average number of ordinary shares	**548,950**	467,625
Effect of deemed issue of ordinary shares under the Company's share option scheme for HK$1 consideration per share *(note 28)*	**625**	—
Deemed issue of ordinary shares as a result of conversion of convertible bonds for nil consideration	**4,219**	93,525
Weighted average number of ordinary share (diluted) at 30 June	**553,794**	561,150

(Expressed in Renminbi unless otherwise indicated)

12 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's internal financial reporting.

(a) BUSINESS SEGMENTS

The Group comprises the following main business segments:

PCBs	:	the manufacture and sale of PCBs
PCBs assembling products	:	the manufacture and sale of PCBs assembling products
SMT processing	:	the provision for service mount technology processing service

	PCBs		PCBs assembling products		SMT processing		Inter-segment elimination		Unallocated		Consolidated	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Revenue from external customers	541,274	454,784	147,806	45,363	6,856	25,806	–	—	–	—	695,936	525,953
Inter-segment revenue	105	809	–	—	–	9	(105)	(818)	–	—	–	—
Total	541,379	455,593	147,806	45,363	6,856	25,815	(105)	(818)	–	—	695,936	525,953
Segment result	190,163	165,202	15,723	1,316	729	2,879	–	—	–	—	206,615	169,397
Unallocated operating income and expenses											(14,698)	(6,846)
Profit from operations											191,917	162,551
Finance costs											(49,962)	(33,239)
Taxation											(23,695)	(21,225)
Minority interests											(3,175)	(6,271)
Profit after taxation											115,085	101,816
Depreciation and amortisation for the year	21,225	17,608	2,173	480	101	1,051	–	—	43	90	23,542	19,229
Segment assets	997,181	1,044,274	284,628	74,757	13,203	159,134	(76,133)	(138,867)	274,934	57,058	1,493,813	1,196,356
Segment liabilities	139,725	312,168	206,505	75,557	9,579	159,449	(76,133)	(138,867)	327,350	86,773	607,026	495,080
Capital expenditure incurred during the year	21,443	81,655	23,361	29,991	–	65,581	–	—	11	—	44,815	177,227

12 Segment reporting (continued)

(b) GEOGRAPHICAL SEGMENTS

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 (excluding Hong Kong and Taiwan), Australia and Germany.

	The Group	
	2007 RMB'000	2006 RMB'000
Segment revenue		
— PRC, excluding Hong Kong and Taiwan	565,423	440,976
— Australia	48,849	42,197
— Hong Kong	41,455	12,808
— Germany	8,417	6,498
— Malaysia	3,411	—
— USA	2,064	—
— Others	26,317	23,474
Total revenue from external customers	695,936	525,953
Segment assets		
— PRC, excluding Hong Kong and Taiwan	1,203,879	1,139,298
— Others	289,934	57,058
	1,493,813	1,196,356
Capital expenditure incurred during the year		
— PRC, excluding Hong Kong and Taiwan	44,804	177,227
— Others	11	—
	44,815	177,227

13 Property, plant and equipment

(a) THE GROUP

Year 2005/2006

	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 2005	90,821	146,166	5,270	4,034	4,655	250,946
Additions	3,713	25,222	492	119	127,794	157,340
Reclassifications	54,094	72	1,081	—	(55,247)	—
Fair value adjustment	46	—	—	—	—	46
Less: Elimination of accumulated depreciation	(10,383)	—	—	—	—	(10,383)
Exchange adjustments	—	—	(13)	—	—	(13)
At 30 June 2006	138,291	171,460	6,830	4,153	77,202	397,936
Representing:						
Cost	—	171,460	6,830	4,153	77,202	259,645
Valuation	138,291	—	—	—	—	138,291
	138,291	171,460	6,830	4,153	77,202	397,936
Aggregate depreciation:						
At 1 July 2005	6,739	44,950	2,624	3,104	—	57,417
Depreciation charge for the year	3,644	14,256	852	201	—	18,953
Elimination on revaluation	(10,383)	—	—	—	—	(10,383)
Exchange adjustments	—	—	(8)	—	—	(8)
At 30 June 2006	—	59,206	3,468	3,305	—	65,979
Net book value:						
At 30 June 2006	138,291	112,254	3,362	848	77,202	331,957

13 Property, plant and equipment (continued)

(a) THE GROUP (CONTINUED)

Year 2006/2007

	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 2006	138,291	171,460	6,830	4,153	77,202	397,936
Additions	547	13,408	1,349	512	28,999	44,815
Disposals	—	(61)	(53)	—	—	(114)
Fair value adjustment	4,666	—	—	—	—	4,666
Less: Elimination of accumulated depreciation	(6,674)	—	—	—	—	(6,674)
Exchange adjustments	—	—	(25)	—	—	(25)
At 30 June 2007	136,830	184,807	8,101	4,665	106,201	440,604
Representing:						
Cost	—	184,807	8,101	4,665	106,201	303,774
Valuation	136,830	—	—	—	—	136,830
	136,830	184,807	8,101	4,665	106,201	440,604
Aggregate depreciation:						
At 1 July 2006	—	59,206	3,468	3,305	—	65,979
Depreciation charge for the year	6,674	15,460	808	143	—	23,085
Written back on disposals	—	(6)	—	—	—	(6)
Elimination on revaluation	(6,674)	—	—	—	—	(6,674)
Exchange adjustments	—	—	(22)	—	—	(22)
At 30 June 2007	—	74,660	4,254	3,448	—	82,362
Net book value:						
At 30 June 2007	136,830	110,147	3,847	1,217	106,201	358,242

The construction in progress at 30 June 2007 primarily relates to the additional production premises and facilities of subsidiaries in the PRC.

13 Property, plant and equipment (continued)

(b) THE COMPANY

	Furniture and equipment	
	2007 RMB'000	2006 RMB'000
Cost:		
At 1 July	125	125
Aggregate depreciation:		
At 1 July	109	92
Depreciation charge for the year	3	17
At 30 June	112	109
Net book value:		
At 30 June	13	16

(c) All the Group's buildings are located in the PRC. The Group's buildings were revalued at 30 June 2007 by an independent firm of surveyors, BMI Appraisals Limited who has 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 to four 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 2007, the net book value of machineries held under finance leases of the Group was RMB31,697,000 (2006: RMB35,290,000).

(e) Had the buildings held for own use of the Group been carried at cost less accumulated depreciation, the carrying amount would have been RMB131,003,000 (2006: RMB138,245,000).

14 Interest in leasehold land held for own use under operating lease

The analysis of net book value of leasehold land held for own use is as follows:

	The Group	
	2007	2006
	RMB'000	RMB'000
Outside Hong Kong		
— long leases	**14,768**	15,094
— medium-term leases	**2,391**	2,522
	17,159	17,616

15 Investments in subsidiaries

	The Company	
	2007	2006
	RMB'000	RMB'000
Unlisted shares, at cost	**93,975**	93,975

Details of the subsidiaries as at 30 June 2007 were as follows:

			Proportion of ownership interest			
Name of company	**Place of incorporation and/or operation**	**Particulars of issued and fully paid up capital**	**Group's effective interest**	**Held by the Company**	**Held by subsidiary**	**Principal activities**
Superford Holding Limited ("Superford")	British Virgin Islands ("BVI")/ Hong Kong	10,001 shares of US$1 each	100%	100%	—	Investment holding
Artic Hong Kong Limited	Hong Kong	2 shares of HK$1 each	100%	100%	—	Provision of administrative services to the Group
Dynamic Fortune Technology Limited	BVI/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 ("Tempest")	BVI/Hong Kong	1 share of US$1 each	100%	100%	—	Investment holding

15 Investments in subsidiaries (continued)

Name of company	Place of incorporation and/or operation	Particulars of issued and fully paid up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by subsidiary	Principal activities
Winrise International Limited ("Winrise")	BVI/Hong Kong	100 shares of US$1 each	100%	100%	—	Investment holding
Herowin Limited ("Herowin")	BVI	100 shares of US$1 each	100%	100%	—	Investment holding
Fujian Fuqiang Delicate Circuit Plate Co., Ltd. ("Fuqiang")*	PRC	RMB92,000,000	100%	—	100%	Manufacturing and trading of printed circuit boards ("PCBs")
Gemini Electronics (Huizhou) Co., Ltd. ("Gemini")*	PRC	US$5,970,435	100%	—	100%	Manufacturing and trading of PCBs
Shuangxiang (Fujian) Electronics Limited ("Shuangxiang")*	PRC	RMB40,633,800	100%	—	100%	Manufacturing and trading of PCBs assembling products and provision for surface mount technology processing service
Fuqing Haichuang Electron Technology Co., Ltd. ("Haichuang")*	PRC	US$11,950,000	100%	—	100%	Not yet commenced business

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

The shares of certain subsidiaries were pledged as part of the security against financing facilities granted to the Company. The total net asset value of these subsidiaries as at 30 June 2007 is disclosed in note 21(iii).

16 Inventories

	The Group 2007 RMB'000	2006 RMB'000
Raw materials	**21,146**	14,795
Work-in-progress	**10,243**	6,888
Finished goods	**4,711**	6,781
	36,100	28,464

The carrying amount of inventories sold in 2007 was RMB476,892,000 (2006: RMB339,663,000).

17 Trade and other receivables

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Amounts due from subsidiaries	**—**	—	**344,482**	240,096
Bills receivable	**9,972**	12,487	**—**	—
Trade receivables	**240,196**	209,904	**—**	—
Advances and deposits to suppliers	**4,360**	1,938	**—**	—
Rental and other deposits	**409**	526	**—**	—
Advances to employees	**2,097**	668	**—**	—
Amounts due from a related party	**—**	6,800	**—**	—
Prepayments	**3,174**	3,542	**—**	257
Others	**2,483**	4,354	**—**	—
	262,691	240,219	**344,482**	240,353

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.

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

	The Group	
	2007	2006
	RMB'000	RMB'000
Invoice date:		
— Within 3 months	**159,571**	170,281
— 3 to 6 months	**80,574**	58,042
— 6 to 12 months	**13,123**	1,218
— More than 12 months	**4,778**	4,499
	258,046	234,040
Less: Impairment losses	**(7,878)**	(11,649)
	250,168	222,391

17 Trade and other receivables (continued)

The Group's credit policy is set out in note 29(a). Bills discounted to banks with recourse totalling RMB8,293,000 were included in the bills receivable at 30 June 2006 (note 20). There was no bills discounted to banks with recourse at 30 June 2007.

Included in trade and other receivables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2007	2006	**2007**	2006
	'000	'000	**'000**	'000
United States Dollars	**USD4,843**	USD2,670	**USD—**	USD—
Hong Kong Dollars	**HKD160**	HKD—	**HKD—**	HKD—
Euros	**EUR395**	EUR287	**EUR—**	EUR—

18 Fixed deposits

Fixed deposits are with maturity over three months at acquisition. Included in fixed deposits maturing over three months in the balance sheets are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2007	2006	**2007**	2006
	'000	'000	**'000**	'000
United States Dollars	**USD10,000**	USD—	**USD10,000**	USD—

19 Cash and cash equivalents

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deposits with banks and other financial institutions	**36,349**	55,673	**31,168**	49,634
Cash at bank and in hand	**692,083**	517,130	**18,954**	5,841
	728,432	572,803	**50,122**	55,475

19 Cash and cash equivalents (continued)

At 30 June 2007, cash and cash equivalents of RMB675,674,000 (2006: RMB515,045,000) of the Group were subject to exchange control in the PRC.

Included in cash and cash equivalents in the balance sheets are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2007 '000	2006 '000	2007 '000	2006 '000
United States Dollars	USD3,124	USD3,666	USD2,683	USD6,526
Hong Kong Dollars	HKD33,007	HKD6,696	HKD—	HKD—

20 Trade and other payables

	The Group		The Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Trade payables	91,493	62,737	—	—
Bills payable	17,057	19,447	—	—
Other payables and accruals	17,781	17,884	5,342	4,550
Other tax payable	2,167	4,028	—	—
Payable for purchase of property, plant and equipment	5,980	17,806	—	—
Staff welfare payable	18,479	10,586	—	—
Utility and rental payable	2,499	1,804	—	—
Embedded call option attached to convertible bonds *(note 26(b)(ii))*	—	25,709	—	25,709
Amounts due to subsidiaries	—	—	5,102	5,256
Amount due to a related party	—	1,000	—	—
Amount due to a director	4,359	14,728	43	2,724
	159,815	175,729	10,487	38,239

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

20 Trade and other payables (continued)

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

	The Group	
	2007	2006
	RMB'000	RMB'000
Due within 6 months or on demand	**95,245**	79,506
Due after 6 months but within 1 year	**10,190**	2,394
Due after 1 year	**3,115**	284
	108,550	82,184

Included in trade and other payables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2007	2006	**2007**	2006
	'000	'000	**'000**	'000
United States Dollars	**USD420**	USD326	**USD—**	USD—
Hong Kong Dollars	**HKD4,011**	HKD1,512	**HKD—**	HKD—
Euros	**EUR153**	EUR60	**EUR—**	EUR—

21 Bank loans

At 30 June 2007, the bank loans were repayable as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year or on demand	**146,498**	199,391	**22,698**	56,298
After 2 years but within 5 years	**136,539**	30,000	**106,539**	—
	283,037	229,391	**129,237**	56,298

21 Bank loans (continued)

Included in bank loans are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2007	2006	**2007**	2006
	'000	'000	**'000**	'000
United States Dollars	**USD17,081**	USD7,008	**USD17,081**	USD7,008

At 30 June 2007, the bank loans were secured as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Secured by leasehold land *(note (i))*	**42,000**	—	**—**	—
Secured by bills receivable	**—**	8,293	**—**	—
Secured by shares *(note (iii))*	**106,539**	—	**106,539**	—
Unsecured *(note (vii))*	**134,498**	221,098	**22,698**	56,298
	283,037	229,391	**129,237**	56,298

Notes:

(i) At 30 June 2007, certain interest in leasehold land for own use under operating lease of RMB8,199,000 was mortgaged to banks for bank loans totalling RMB42,000,000 granted to the Group.

(ii) The Group's weighted average interest rate per annum on short-term loans was 6.38% (2006: 6.36%).

(iii) As at 30 June 2007, a bank loan of US$15,000,000 (equivalent to RMB113,490,000) granted to the Company was secured by its entire equity interest in Superford, Tempest, Winrise and Herowin (the "BVI subsidiaries"). The BVI subsidiaries are the immediate holding companies of Fuqiang, Gemini, Shuangxiang and Haichuang, respectively (the "PRC subsidiaries"). The PRC subsidiaries are the operating subsidiaries of the Group. Total net asset value of the BVI and PRC subsidiaries as at 30 June 2007 was approximately RMB720,872,000.

(iv) The Group's and the Company's weighted average interest rates per annum on long-term loans were 7.05% and 7.00%, respectively (2006: 5.85% and 5.85%).

(v) At 30 June 2007, the Group had undrawn committed borrowing facilities of RMB70,000,000 (2006: RMB40,000,000) in respect of which all conditions precedent had been met.

(vi) Certain banking facilities of the Group are subject to the fulfilment of covenants relating to certain of the Group's balance sheet ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 29(b). As at 30 June 2007, none of the covenants relating to drawn down facilities had been breached (2006: nil).

(vii) A corporate guarantee is issued by the Company in respect of bank loans of RMB73,800,000 (2006: RMB144,800,000) granted to a subsidiary. As at the balance sheet date, the directors do not consider it probable that a claim will be made against the Company under the guarantee. The maximum liability of the Company at the balance sheet date under the guarantee issued amounted to RMB73,800,000 (2006: RMB144,800,000). The Company has not recognised any deferred income in respect of the guarantee as the fair value of such guarantee cannot be reliably measured and the transaction price was nil.

22 Obligations under finance leases

At 30 June 2007, the obligations under finance leases were repayable as follows:

	The Group					
	2007			2006		
	Present value of the minimum lease payments RMB'000	Interest expense relating to future periods RMB'000	Total minimum lease payments RMB'000	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	3,059	379	3,438	6,257	700	6,957
After 1 year but within 2 years	2,857	162	3,019	3,247	402	3,649
After 2 years but within 5 years	562	10	572	3,631	182	3,813
	3,419	172	3,591	6,878	584	7,462
	6,478	551	7,029	13,135	1,284	14,419

23 Income tax in the balance sheet

(a) Current taxation in the balance sheet represents:

	The Group	
	2007 RMB'000	2006 RMB'000
Provision for PRC enterprise income tax for the year	22,997	21,756
PRC enterprise income tax paid	(16,581)	(16,257)
	6,416	5,499

23 Income tax in the balance sheet (continued)

(b) Deferred tax assets recognised:

The components of deferred tax assets recognised in the consolidated balance sheet and the movements during the year are as follows:

	The Group		
	General provision	**Others**	**Total**
	RMB'000	RMB'000	RMB'000
Deferred tax arising from:			
At 1 July 2005	(2,905)	—	(2,905)
Charged/(credited) to profit or loss	22	(554)	(532)
Charged to reserves	—	7	7
At 30 June 2006	(2,883)	(547)	(3,430)
At 1 July 2006	(2,883)	(547)	(3,430)
Charged/(credited) to profit or loss	1,167	(469)	698
Charged to reserves	—	676	676
At 30 June 2007	(1,716)	(340)	(2,056)

(c) Deferred tax assets not recognised:

At 30 June 2006, the Group had not recognised deferred tax assets in respect of tax losses of approximately RMB3,303,000 as it was then considered not probable that the tax losses could be utilised after the tax holiday. During the year ended 30 June 2007, the Group's tax losses brought forward of RMB3,303,000 were fully utilised.

24 Derivative financial instruments

	The Group and the Company	
	2007	2006
	RMB'000	RMB'000
Structured interest rate swaps, at fair value	**151,280**	—

During the year, the Company entered into two structured interest rate swaps (the "Swaps") with maturity in 2012 with a commercial bank (the "Bank"), under which total upfront payments of approximately RMB113,490,000 were received at the inception of the Swaps and were initially recognised as derivative financial liabilities in balance sheets. The Swaps are remeasured at fair value as estimated by the Bank based on certain assumption at each balance sheet date. Key terms of the interest rate swaps are summarised as follows:

		Swap 1	Swap 2
Notional amounts:		HK$390,000,000	USD100,000,000
Upfront payments:		HK$39,000,000	USD10,000,000
Effective date:		14 February 2007	19 April 2007
Maturity date:		14 February 2012	19 April 2012
Bank pays:	First six months:	7% (semi-annually)	8% (semi-annually)
	Thereafter:	7%*N/D (semi-annually) *Note (i)*	
The Company pays:		9% (semi-annually)	First six-months: 10% (semi-annually) Thereafter: 10%– 5* (Index YoY Return –1%) Coupon capped at 13% and floored at 0% (semi-annually) *Note (ii)*

Notes:

(i) N equals the number of business days in the Observation Period (each such date a "Reference Date") for which Reference Rate 1** minus Reference Rate 2*** is greater than or equal to 0%.*

D equals the actual number of business days in such Observation Period.

For purpose of calculating "N" for each Observation Period, the Reference Rate 1 and Reference 2 shall be observed on each Reference Date during such Observation Period (each such date an "Observation Date").

** Observation Period means each period beginning from and including the day which is five business days prior to the previous payment date (or the effective date in the case of the first six months), to but excluding the day that is six business days prior to the next following payment date.*

*** Reference Rate 1 means the HKD-Swap Rate published by the International Swaps and Derivatives Association, Inc. with a designated maturity of ten years.*

**** Reference Rate 2 means the HKD-Swap Rate published by the International Swaps and Derivatives Association, Inc. with a designated maturity of two years.*

(ii) Index means the Deutsche Bank Pan-Asian Forward Rate Bias Index (the "Index") as published on Bloomberg.

Index YoY Return is the closing level of the Index five business days prior to the end of the relevant coupon payment period/ closing level of the Index five business days prior to the coupon payment date which is two coupon payment periods prior to the relevant coupon payment (or effective date in cash of the second coupon payment period) –1.

25 Convertible bonds

On 27 April 2005, the Company issued convertible bonds at a nominal value of US$10,000,000 (approximately RMB80,340,000). 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 130% of HK$0.9017; or

— floating conversion price being 90% of the average of any four consecutive closing prices per share as selected by the noteholders 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 bonds during the conversion period if the closing price per the Company's ordinary share is less than or equal to HK$0.5861.

On 19 July 2006, the entire amount of convertible bonds were converted into 85,544,000 ordinary shares at HK$0.909 per share. The converted shares rank pari passu in all respects with the Company's existing shares in issue at the date of conversion.

26 Capital and reserves

(a) THE GROUP

	Attributable to equity shareholders of the Company											
	Share capital	Share premium	Share-based compensation reserve *(note (i))*	Convertible bonds reserve *(note (ii))*	Statutory reserve *(note (iii))*	Capital reserve *(note (iv))*	Exchange reserve *(note (v))*	Building valuation reserve *(note (vi))*	Retained profits	Total	Minority interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 July 2005	49,568	159,175	1,453	11,743	—	46,115	—	—	328,592	596,646	25,848	622,494
Share option lapsed during the year	—	—	(1,309)	—	—	—	—	—	1,309	—	—	—
Exchange difference on translation of financial statements of subsidiaries outside PRC	—	—	—	—	—	—	297	—	—	297	—	297
Surplus on revaluation of buildings held for own use, net of deferred tax	—	—	—	—	—	—	—	39	—	39	—	39
Redesignation of convertible bonds reserve *(note (ii))*	—	—	—	(11,743)	—	—	—	—	—	(11,743)	—	(11,743)
Dividend approved in respect of the previous year *(note 9(b))*	—	—	—	—	—	—	—	—	(17,022)	(17,022)	(876)	(17,898)
Profit for the year	—	—	—	—	—	—	—	—	101,816	101,816	6,271	108,087
At 30 June 2006	49,568	159,175	144	—	—	46,115	297	39	414,695	670,033	31,243	701,276
At 1 July 2006	49,568	159,175	144	—	—	46,115	297	39	414,695	670,033	31,243	701,276
Equity settled share-based transactions	—	—	3,065	—	—	—	—	—	—	3,065	—	3,065
Exchange difference on translation of financial statements of subsidiaries outside PRC	—	—	—	—	—	—	1,704	—	—	1,704	—	1,704
Surplus on revaluation of buildings held for own use, net of deferred tax	—	—	—	—	—	—	—	3,991	—	3,991	—	3,991
Issue of shares upon conversion of convertible bonds	8,555	85,796	—	—	—	—	—	—	—	94,351	—	94,351
Dividend approved in respect of the previous year *(note 9(b))*	—	—	—	—	—	—	—	—	(19,274)	(19,274)	(1,586)	(20,860)
Acquisition of minority interests	—	—	—	—	—	17,832	—	—	—	17,832	(32,832)	(15,000)
Profit for the year	—	—	—	—	—	—	—	—	115,085	115,085	3,175	118,260
Appropriations to statutory reserve	—	—	—	—	3,440	—	—	—	(3,440)	—	—	—
At 30 June 2007	58,123	244,971	3,209	—	3,440	63,947	2,001	4,030	507,066	886,787	—	886,787

26 Capital and reserves (continued)

(b) THE COMPANY

	Share capital	Share premium	Share-based compensation reserve (note (i))	Convertible bonds reserve (note (ii))	Exchange reserve (note (v))	Contributed surplus (note (vii))	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 July 2005	49,568	159,175	1,453	11,743	—	46,305	(2,428)	265,816
Share options lapsed during the year	—	—	(1,309)	—	—	—	1,309	—
Redesignation of convertible bonds reserve *(note (ii))*	—	—	—	(11,743)	—	—	—	(11,743)
Dividend approved in respect of the previous year *(note 9(b))*	—	—	—	—	—	(17,022)	—	(17,022)
Loss for the year	—	—	—	—	—	—	(13,095)	(13,095)
At 30 June 2006	49,568	159,175	144	—	—	29,283	(14,214)	223,956
At 1 July 2006	49,568	159,175	144	—	—	29,283	(14,214)	223,956
Exchange difference on translation of financial statements of the Company into RMB	—	—	—	—	(3,697)	—	—	(3,697)
Equity settled share-based transactions	—	—	3,065	—	—	—	—	3,065
Issue of shares upon conversion of convertible bonds	8,555	85,796	—	—	—	—	—	94,351
Dividend approved in respect of the previous year *(note 9(b))*	—	—	—	—	—	(19,274)	—	(19,274)
Loss for the year	—	—	—	—	—	—	(25,153)	(25,153)
At 30 June 2007	58,123	244,971	3,209	—	(3,697)	10,009	(39,367)	273,248

Notes:

(i) Share-based compensation reserve represents the value of share options granted to the option holders the right to subscribe for ordinary shares of the Company (note 28).

(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). During year ended 30 June 2006, the Group has redesignated the entire reserve as derivative financial liabilities (embedded call options attached to convertible bonds) in other payables (note 20).

(iii) According to the relevant rules and regulations in the PRC, Gemini, Shuangxiang and Haichuang 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 2006, no appropriation was made to the general reserve fund as Gemini and Shuangxiang have accumulated losses and Haichuang has not yet commenced business or not yet set up.

26 Capital and reserves (continued)

(b) THE COMPANY (CONTINUED)

Notes: (continued)

(iv) The capital reserve of the Group represents:

(a) capital reserve of a subsidiary;

(b) 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; and

(c) the amount of non-controlling interest as at acquisition date in excess of the fair value of the consideration paid directly recognised in equity.

(v) The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside the PRC. The reserve is dealt with in accordance with the accounting policy set out in note 1(t).

(vi) The revaluation reserve has been set up and is dealt with in accordance with the accounting policies adopted for land and buildings in note 1(f)(ii).

(vii) 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.

(viii) As stipulated by rules and regulations in the PRC, Fuqiang is required to appropriate part of its after-tax profit determined in accordance with (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 2007, the board of directors of Fuqiang determined that no appropriation was made to the general reserve fund and enterprise expansion fund (2006: Nil).

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 2007, the Company's reserves available for distribution to shareholders amounted to approximately RMB215,125,000 (2006: RMB174,388,000) computed in accordance with the Companies Law (Revised) of the Cayman Islands and the Company's Articles of Association.

26 Capital and reserves (continued)

(c) AUTHORISED AND ISSUED SHARE CAPITAL

	The Group and the Company			
	2007		2006	
	Number of shares '000	Amount RMB'000	Number of shares '000	Amount RMB'000
Authorised:				
Ordinary shares of HK$0.10 each	1,000,000	106,000	1,000,000	106,000
Ordinary shares issued and fully paid:				
At 1 July	467,625	49,568	467,625	49,568
Issue of share upon conversion of convertible bonds	85,544	8,555	—	—
At 30 June	553,169	58,123	467,625	49,568

On 19 July 2006, 85,544,000 ordinary shares of HK$0.1 each was issued upon the conversion of convertible bonds. The share capital and share premium of the Company have been increased by approximately RMB8,555,000 and RMB85,796,000 respectively following the conversion.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

27 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 independent trustees. 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.

(Expressed in Renminbi unless otherwise indicated)

27 Employee retirement benefits (continued)

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 profit or loss 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 outside Hong Kong and PRC. In the opinion of the directors of the Company, the Group did not have any significant liabilities beyond the above contributions in respect of the retirement benefits of its employees.

28 Equity settled share-based transactions

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 ordinary shares, (ii) the closing price of the ordinary shares on the Main Board of the Stock Exchange on the date of grant and (iii) the average closing price of the ordinary 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 ordinary share.

(a) MOVEMENTS IN SHARE OPTIONS

	2007		2006	
	Weighted average Exercise price	Number of options	Weighted average Exercise price	Number of options
Outstanding at 1 July	HK$1.172	4,000,000	HK$0.93	32,000,000
Granted during the year	HK$1.038	12,000,000	—	—
Lapsed during the year	—	—	HK$0.89	(28,000,000)
Outstanding at 30 June	HK$1.06	16,000,000	HK$1.172	4,000,000
Exercisable at 30 June		16,000,000		4,000,000

During the year ended 30 June 2007, no share options were exercised (2006: Nil).

(Expressed in Renminbi unless otherwise indicated)

28 Equity settled share-based transactions (continued)

(b) DETAILS OF SHARE OPTIONS GRANTED DURING THE YEAR, ALL OF WHICH WERE GRANTED AT A CONSIDERATION OF HK$1

Exercise period	Exercise price	Number of options	
	HK$	2007	2006
Options grants to directors and eligible employees			
4 September 2006 to 3 September 2009	1.038	12,000,000	—

The contractual life of the option is three years and may be exercised after vesting date which is also the grant date.

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.

(c) TERMS OF UNEXPIRED AND UNEXERCISED SHARE OPTIONS AT BALANCE SHEET DATE

Date of grant	Exercise period	Exercise price	Number of options	
		HK$	2007	2006
4 September 2006	4 September 2006 to 3 September 2009	1.038	12,000,000	—
27 April 2005	27 April 2005 to 26 April 2008	1.172	4,000,000	4,000,000
			16,000,000	4,000,000

(Expressed in Renminbi unless otherwise indicated)

28 Equity settled share-based transactions (continued)

(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:

	Options granted on 17 December 2004	Options granted on 27 April 2005	Options granted on 4 September 2006
Fair value at measurement date	HK$0.044461	HK$0.034091	HK$0.2554
Exercise price	HK$0.89	HK$1.172	HK$1.038
Risk free rate	0.783%	2.850%	3.933%
Nature of the share options	Call	Call	Call
Expected life	1 year	3 years	3 years
Expected volatility	38.250%	33.090%	37.659%
Expected dividend yield	5.890%	6.000%	2.590%

The expected volatility is based on the historical share price of the Company over the 260 trading days immediately before the valuation date. Changes in the subjective input assumptions could materially affect the fair value estimate.

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.

29 Financial instruments

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) CREDIT RISK

The Group's credit risk is primarily attributable to deposits with banks and other financial institutions, and trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

The major concentration of credit risk arises from exposures to deposits placed in financial institutions operating in one geographical region, the PRC. The Group only places deposits with the major financial institutions in the PRC.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheets.

29 Financial instruments (continued)

(a) CREDIT RISK (CONTINUED)

Except for the financial guarantees given by the Company as set out in note 21(vii), the Company does not provide any other guarantees which would expose the Company to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the balance sheet date is disclosed in note 21(vii).

For year ended 30 June 2007, the largest and the five largest customers of the Group in aggregate accounted for approximately 24% (2006: 18%) and 54% (2006: 52%) respectively of the Group's total sales. At 30 June 2007, approximately 10% (2006: 14%) and 45% (2006: 61%) of trade receivables was due from the largest and the five largest customers. As a result, a termination of the relationship or a reduction in orders from this customer would have a material impact on the Group's results of operations and financial conditions. Credit evaluations are performed on all customers requiring credit over a certain amount. Normally, these receivables are due within 90 days to 180 days from the date of billing. Debtors with balances that are more than six months overdue are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

(b) LIQUIDITY RISK

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of surplus cash and the raising of loans to cover expected cash requirements, subject to approval by the Company's board when the borrowings exceed certain predetermined levels of authority. The Group regularly monitors current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

29 Financial instruments (continued)

(c) INTEREST RATE RISK

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rate at the balance sheet date and the periods in which they reprice or the maturity dates, if earlier.

The Group

	2007					
	Effective interest rate %	Total RMB'000	1 year or less RMB'000	1-2 years RMB'000	2-5 years RMB'000	More than 5 years RMB'000
Repricing dates for assets/ (liabilities) which reprice before maturity						
Cash and cash equivalents	0.77	680,414	680,414	—	—	—
Finance lease liabilities	6.90	(6,478)	(3,059)	(2,857)	(562)	—
Bank loans	6.80	(169,237)	(32,698)	—	(136,539)	—
		504,699	644,657	(2,857)	(137,101)	—
Maturity dates for assets/ (liabilities) which do not reprice before maturity						
Deposits with bank	3.52	48,018	48,018	—	—	—
Fixed deposits maturing over three months	4.30	75,660	75,660	—	—	—
Bank loans	6.66	(113,800)	(113,800)	—	—	—
		9,878	9,878	—	—	—

	2006					
	Effective interest rate %	Total RMB'000	1 year or less RMB'000	1-2 years RMB'000	2-5 years RMB'000	More than 5 years RMB'000
Repricing dates for assets/ (liabilities) which reprice before maturity						
Cash and cash equivalents	0.74	523,169	523,169	—	—	—
Finance lease liabilities	7.18	(13,135)	(6,257)	(3,247)	(3,631)	—
Bank loans	6.75	(86,298)	(86,298)	—	—	—
		423,736	430,614	(3,247)	(3,631)	—
Maturity dates for assets/ (liabilities) which do not reprice before maturity						
Deposits with bank	4.49	49,634	49,634	—	—	—
Bank loans	6.13	(143,093)	(113,093)	—	(30,000)	—
Convertible bonds	8.78	(71,326)	(71,326)	—	—	—
		(164,785)	(134,785)	—	(30,000)	—

29 Financial instruments (continued)

(c) INTEREST RATE RISK (CONTINUED)

The Company

	2007					
	Effective interest rate %	Total RMB'000	1 year or less RMB'000	1-2 years RMB'000	2-5 years RMB'000	More than 5 years RMB'000
Repricing dates for assets/ (liabilities) which reprice before maturity						
Cash and cash equivalents	2.55	18,954	18,954	—	—	—
Bank loans	6.97	(129,237)	(22,698)	—	(106,539)	—
		(110,283)	(3,744)	—	(106,539)	—
Maturity dates for assets/ (liabilities) which do not reprice before maturity						
Deposits with banks	4.45	31,168	31,168	—	—	—
Fixed deposits maturing over three months	4.30	75,660	75,660	—	—	—
		106,828	106,828	—	—	—

	2006					
	Effective interest rate %	Total RMB'000	1 years or less RMB'000	1-2 years RMB'000	2-5 years RMB'000	More than 5 years RMB'000
Repricing dates for assets/ (liabilities) which reprice before maturity						
Cash and cash equivalents	2.51	5,840	5,840	—	—	—
Bank loans	7.30	(56,298)	(56,298)	—	—	—
		(50,458)	(50,458)	—	—	—
Maturity dates for assets/ (liabilities) which do not reprice before maturity						
Deposits with banks	4.49	49,635	49,635	—	—	—
Convertible bonds	8.78	(71,326)	(71,326)	—	—	—
		(21,691)	(21,691)	—	—	—

29 Financial instruments (continued)

(c) INTEREST RATE RISK (CONTINUED)

As disclosed in note 24, the company entered into the Structured Swaps with a commercial bank during the year. The aggregate fair value of the Structured Swaps as at 30 June 2007 was RMB151,280,000 and are recognised as derivative financial instruments (liabilities) in the balance sheets.

(d) FOREIGN CURRENCY RISK

The Group has foreign currency risk as certain financial assets and liabilities are denominated in foreign currencies principally in US dollars and Hong Kong dollars. The Group does not expect any appreciation or depreciation of the Renminbi against foreign currency which might materially affects the Group's result of operations.

(e) FAIR VALUES

All financial instruments are carried at amounts not materially different from their fair values as at 30 June 2007 and 2006.

(f) RELIANCE ON MAJOR SUPPLIERS

For year ended 30 June 2007, the largest and the five largest suppliers of the Group in aggregate accounted for approximately 27% and 66% respectively of the Group's total purchases, evidencing a significant reliance on the Group's largest supplier for the year ended 30 June 2007. The Group maintains several vendors for each major supply in order to diversify its vendor base. During the year ended 30 June 2007, the Group had not encountered any material disruption of supply of raw materials and components used in the Group's manufacture of PCBs.

30 Commitments

(a) Capital commitments outstanding at 30 June 2007 not provided for in the financial statements were as follows:

	The Group	
	2007 RMB'000	2006 RMB'000
Contracted for	48,301	100,702
Authorised but not contracted for	52,166	—
	100,467	100,702

30 Commitments (continued)

(b) At 30 June 2007, the total future minimum lease payments in respect of buildings under non-cancellable operating leases are payable as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year	**520**	1,743	**—**	—
After 1 year but within 5 years	**—**	1,139	**—**	—
	520	2,882	**—**	—

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 Accounting estimates and judgments

KEY SOURCES OF ESTIMATION UNCERTAINTY

Notes 24, 28 and 29 contain information about the assumptions and their risk factors relating to fair value of structured interest rate swaps, share options granted and financial instruments. Other key sources of estimation uncertainty are as follows:

Impairment loss for doubtful accounts

The Group maintains impairment loss for doubtful accounts based upon evaluation of the recoverability of the trade receivables and other receivables at each balance sheet date. The estimates are based on the ageing of the trade receivables and other receivables balances and the historical write-off experience, net of recoveries. If the financial condition of the customers were to deteriorate, additional impairment may be required.

Depreciation

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives. The Group reviews the estimated useful lives and residual values of the assets annually in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives and residual values are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

32 Material related party transactions

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions:

		The Group	
	Note	2007 RMB'000	2006 RMB'000
Lease rental charged by He Yu Zhu	(i)	343	343
Sales to Beijing Orient Top Victory Electronics Co., Ltd.	(ii)	—	4,175
Sales to TPV Electronics (Fujian) Company Limited	(iii)	—	1,479
Sales to Top Victory Electronics (Fujian) Company Limited	(iii)	—	1,220
Sales to TPV Technology (Wuhan) Co., Ltd.	(iii)	—	1,019
Remuneration for key management personnel			
— short-term employee benefits	(v)	3,339	3,238
— equity settled share-based payments		3,065	—

Notes:

(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) Last 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 an executive director of the Group and he resigned on 1 April 2006.

(iii) Last 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.

(iv) Last year, the Group provided advances of RMB6,800,000 to a company controlled by Ms. He Yu Zhu. The advances were unsecured, non-interest bearing and repayable on demand.

(v) Remuneration for key management personnel includes amounts paid to the Company's directors as disclosed in note 7. Total remuneration is included in staff costs (see note 5(b)).

33 Post balance sheet events

(a) After the balance sheet date, the directors proposed a final dividend. Further details are disclosed in note 10.

(b) Subsequent to the balance sheet date, 4,000,000 share options issued to a consultant in April 2005 as part of the compensation to the professional service were fully exercised at exercise price of HK$1.172 per share.

(c) On 2 October 2007, 1,00,000 ordinary shares of the Company were issued to an investor at a price of HK$0.9919 per share pursuant to the subscription agreement dated 27 April 2005 entered into between the Company and the investor.

(Expressed in Renminbi unless otherwise indicated)

34 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting year ended 30 June 2007

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting year ended 30 June 2007 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

In addition, the following developments may result in new or amended disclosures in the financial statements:

		Effective for accounting periods beginning on or after
HK(IFRIC 10)	Interim financial reporting and impairment	1 November 2006
HKFRS 7	Financial instruments: disclosures	1 January 2007
HKFRS 8	Operating segments	1 January 2009
Amendments to HKAS 1	Presentation of financial statements: capital disclosures	1 January 2007

Financial Summary

	Years ended 30th June				
	2007 RMB'000	2006 RMB'000	2005 RMB'000	2004 RMB'000 (restated)	2003 RMB'000 (restated)
RESULTS					
Turnover	**695,936**	525,953	369,787	301,255	241,543
Profit from operations	**191,917**	162,551	112,289	107,716	88,302
Finance costs	**(49,962)**	(33,239)	(8,787)	(7,043)	(2,567)
Share of results of associates	**—**	—	6,655	2,683	793
Loss on disposal of associates	**—**	—	(5,065)	—	—
Profit from ordinary activities before taxation	**141,955**	129,312	105,092	103,356	86,528
Taxation	**(23,695)**	(21,225)	(18,274)	(14,700)	(3,874)
Profit from ordinary activities after taxation	**118,260**	108,087	86,818	88,656	82,654
Attributable to:					
Equity shareholders of the Company	**115,085**	101,816	80,427	81,214	72,903
Minority interests	**3,175**	6,271	6,391	7,442	9,751
	118,260	108,087	86,818	88,656	82,654
Dividends	**18,838**	19,942	17,349	17,349	17,410
ASSETS AND LIABILITIES					
Property, plant and equipment	**358,242**	331,957	193,529	107,653	103,808
Interest in associates	**—**	—	—	50,410	47,727
Other non-current assets	**32,688**	22,811	14,681	91,358	7,637
Net current assets	**635,815**	383,386	519,729	348,934	222,345
Total assets less current liabilities	**1,026,745**	738,154	727,939	598,355	381,517
Convertible bonds	**—**	—	(69,228)	—	—
Other non-current liabilities	**139,958**	(36,878)	(36,217)	(57,876)	—
	886,787	701,276	622,494	540,479	381,517
EQUITY					
Share capital	**58,123**	49,568	49,568	49,568	42,678
Reserves	**828,664**	620,465	547,078	456,704	310,180
Minority interests	**—**	31,243	25,848	34,207	28,659
	886,787	701,276	622,494	540,479	381,517
Earnings per share — basic	**RMB21 cents**	RMB22 cents	RMB17 cents	RMB19 cents	RMB18 cents
— diluted	**RMB20 cents**	RMB21 cents	RMB17 cents	RMB19 cents	RMB18 cents