



Sinotronics Holdings Limited

華翔微電子控股有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock code: 1195)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 30 JUNE 2006

FINANCIAL SUMMARY

The Board of Directors (the “Board” or the “Directors”) of Sinotronics Holdings Limited (the “Company” or “Sinotronics”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the year ended 30 June 2006 together with the comparative figures for the corresponding year ended 30 June 2005, prepared in accordance with accounting principles generally accepted in Hong Kong. The figures in respect of the preliminary announcement of the Group’s results for the year ended 30 June 2006 have been compared by the Company’s auditors, KPMG, Certified Public Accountants, to the amounts set out in the Group’s audited financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect was limited and did not constitute an audit, review or other assurance engagement and consequently no assurance has been expressed by the auditors on this Announcement.

Consolidated Income Statement
For the year ended 30 June 2006

	<i>Note</i>	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Turnover	3	525,953	369,787
Cost of sales		<u>(339,663)</u>	<u>(222,783)</u>
Gross profit		186,290	147,004
Other revenue		8,731	2,948
Distribution costs		(6,499)	(3,901)
Administrative expenses		(24,994)	(27,599)
Other operating expenses		<u>(977)</u>	<u>(6,163)</u>
Profit from operations		162,551	112,289
Finance costs	4(a)	(33,239)	(8,787)
Share of profits less losses of associates		—	6,655
Loss on disposal of associates		<u>—</u>	<u>(5,065)</u>
Profit before taxation	4	129,312	105,092
Income tax	5	<u>(21,225)</u>	<u>(18,274)</u>
Profit for the year		<u>108,087</u>	<u>86,818</u>
Attributable to:			
Equity shareholders of the Company		101,816	80,427
Minority interests		<u>6,271</u>	<u>6,391</u>
Profit for the year		<u>108,087</u>	<u>86,818</u>
Dividends attributable to the year:	6		
Final dividend proposed after the balance sheet date		<u>19,942</u>	<u>17,349</u>
Earnings per share	7		
Basic		<u>22 cents</u>	<u>17 cents</u>
Diluted (2005: restated)		<u>21 cents</u>	<u>17 cents</u>

Consolidated Balance Sheet*As at 30 June 2006*

	<i>Note</i>	2006 RMB'000	2005 <i>RMB'000</i>
Non-current assets			
Property, plant and equipment		331,957	193,529
Interest in leasehold land held for own use under operating lease		17,616	2,653
Purchase deposits of property, plant and equipment		1,765	9,123
Deferred tax assets		3,430	2,905
		<u>354,768</u>	<u>208,210</u>
Current assets			
Trading securities		102	192
Inventories		28,464	21,237
Trade and other receivables	9	240,219	180,110
Pledged bank deposit		—	5,329
Cash and cash equivalents		572,803	540,915
		<u>841,588</u>	<u>747,783</u>
Current liabilities			
Trade and other payables	10	175,729	101,139
Short-term bank loans		199,391	110,657
Obligations under finance leases		6,257	9,899
Taxation		5,499	6,359
Convertible bonds		71,326	—
		<u>458,202</u>	<u>228,054</u>
Net current assets		<u>383,386</u>	<u>519,729</u>
Total assets less current liabilities		<u>738,154</u>	<u>727,939</u>
Non-current liabilities			
Non-current bank loans		30,000	33,134
Obligations under finance leases		6,878	3,083
Convertible bonds		—	69,228
		<u>36,878</u>	<u>105,445</u>
NET ASSETS		<u>701,276</u>	<u>622,494</u>
Capital and reserves			
Share capital		49,568	49,568
Reserves		620,465	547,078
Total equity attributable to equity shareholders of the parent		<u>670,033</u>	<u>596,646</u>
Minority interests		<u>31,243</u>	<u>25,848</u>
TOTAL EQUITY		<u>701,276</u>	<u>622,494</u>

Notes:

1. 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 (“HKAS”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong (“HKGAAP”) and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

For new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005, the Group had early adopted for the financial statements for the year ended 30 June 2005.

2. REVENUE RECOGNITION

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

(i) Sales of goods

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

(ii) 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.

3. TURNOVER

The Company acts as an investment holding company and the Group is principally engaged in the manufacture and sales 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:

	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Sales of PCBs	454,784	360,855
Sales of PCBs assembling products	45,363	8,932
SMT processing service income	25,806	—
	<u>525,953</u>	<u>369,787</u>

4. PROFIT BEFORE TAXATION

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

	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
(a) Finance costs:		
Interest on bank loans wholly repayable within five years	11,923	6,939
Finance charges on obligations under finance leases	1,217	659
Interest on convertible bonds wholly repayable within five years	6,002	1,090
Fair value adjustments on derivative financial instruments	13,966	—
Other borrowing costs	<u>131</u>	<u>99</u>
Total borrowing costs	<u><u>33,239</u></u>	<u><u>8,787</u></u>
(b) Staff costs:#		
Contributions to defined contribution plans	3,434	1,800
Employees share option benefits	—	1,496
Salaries, wages and other benefits	<u>25,414</u>	<u>14,527</u>
	<u><u>28,848</u></u>	<u><u>17,823</u></u>
(c) Other items:		
Cost of inventories#	339,663	222,783
Amortisation of interest in leasehold land held for own use under operating lease#	276	131
Depreciation#		
— owned fixed assets	15,695	16,064
— assets held for use under finance lease	3,258	60
Operating lease rentals for premises #	1,787	663
Research and development costs	—	673
Auditors' remuneration		
— audit service	1,980	1,435
— other services	50	—
Impairment losses of trade and other receivables	2,087	3,513
Bad debts written off	—	743
(Gain)/loss derived from trading securities	<u>(10)</u>	<u>8</u>

Cost of inventories includes RMB38,510,000 (2005: RMB27,483,000) relating to staff cost, 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 4(b) for each of these types of expenses.

5. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

Taxation in the consolidated income statement represents:

	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Current tax — Overseas		
Provision for PRC enterprise income tax	21,756	21,464
Overprovision in respect of prior years	<u>—</u>	<u>(285)</u>
	21,756	21,179
Deferred tax		
Origination and reversal of temporary differences	<u>(531)</u>	<u>(2,905)</u>
	<u><u>21,225</u></u>	<u><u>18,274</u></u>

Notes:

(i) Overseas income tax

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

(ii) Hong Kong profits tax

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

6. DIVIDENDS

(a) Dividends payable to equity shareholders of the Company attributable to the year

	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Final dividend proposed after the balance sheet date of HK\$0.035 (equivalent to approximately RMB0.03605) per ordinary share (2005: HK\$0.035 (equivalent to approximately RMB0.0371) per ordinary share)	<u><u>19,942</u></u>	<u><u>17,349</u></u>

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

	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Final dividend of HK\$0.035 (equivalent to approximately RMB0.0364 per ordinary share (2005: HK\$0.035 (equivalent to approximately RMB0.0371 per ordinary share)) in respect of the previous financial year, approved and paid during the year	<u>17,022</u>	<u>17,349</u>

7. 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 RMB101,816,000 (2005: RMB80,427,000) and the weighted average number of 467,625,000 (2005: 467,625,000) ordinary shares in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to shareholders of approximately RMB118,863,000 (2005 (restated): RMB81,400,000) as adjusted for interest and exchange gain on convertible bonds and fair value adjustments on derivative financial instruments of RMB17,047,000 (2005 (restated): RMB973,000) and the weighted average number of 561,150,000 (2005 (restated): 484,280,000) ordinary shares in issue during the year after adjusting for the effect of all dilutive potential shares.

	2006	2005
	<i>thousand</i>	<i>thousand</i> <i>(restated)</i>
Weighted average number of ordinary shares used in calculating basic earnings per share	467,625	467,625
Deemed issue of ordinary shares as a result of conversion of convertible bonds for no consideration	<u>93,525</u>	<u>16,655</u>
	<u>561,150</u>	<u>484,280</u>

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

Business segment

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	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers	454,784	360,855	45,363	8,932	25,806	—	—	—	—	—	525,953	369,787
Inter-segment revenue	809	90	—	—	9	—	(818)	(90)	—	—	—	—
Total	455,593	360,945	45,363	8,932	25,815	—	(818)	(90)	—	—	525,953	369,787
Segment result	165,202	127,350	1,316	(4,330)	2,879	—	—	—	—	—	169,397	123,020
Unallocated operating income and expenses											(6,846)	(10,731)
Profit from operations											162,551	112,289
Finance costs											(33,239)	(8,787)
Share of profits less losses of an associate	—	—	—	—	—	—	—	—	—	6,655	—	6,655
Loss on disposal of associates	—	—	—	—	—	—	—	—	—	(5,065)	—	(5,065)
Taxation											(21,225)	(18,274)
Minority interests											(6,271)	(6,391)
Profit after taxation											101,816	80,427
Depreciation and amortisation	17,608	15,386	480	794	1,051	—	—	—	90	75	19,229	16,255
Segment assets	1,044,274	777,679	74,757	88,771	159,134	—	(138,867)	(9,560)	57,058	99,103	1,196,356	955,993
Segment liabilities	312,168	224,837	75,557	52,467	159,449	—	(138,867)	(9,560)	86,773	65,755	495,080	333,499
Capital expenditure	81,655	84,761	29,991	8,065	65,581	—	—	—	—	4	177,227	92,830

9. TRADE AND OTHER RECEIVABLES

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

	The Group	
	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Invoice date:		
— Within 3 months	170,281	128,848
— 3 to 6 months	58,042	39,111
— 6 to 12 months	1,218	3,643
— More than 12 months	4,499	1,668
	<u>234,040</u>	<u>173,270</u>
Less: Impairment losses	(11,649)	(17,900)
	<u>222,391</u>	<u>155,370</u>

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.

10. TRADE AND OTHER PAYABLES

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

	The Group	
	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Due within 6 months or on demand	79,506	47,777
Due after 6 months but within 1 year	2,394	542
Due after 1 year	284	—
	<u>82,184</u>	<u>48,319</u>

11. COMPARATIVE FIGURES

Comparative figures of diluted earnings per share and related information in note 6(a) have been adjusted as a result of the inadvertent mistakes.

DIVIDEND

The Board recommended the payment of a final dividend of HK\$0.035 (equivalent to approximately RMB0.03605) (2005: HK\$0.035 (equivalent to approximately RMB0.0371)) per share for the year ended 30 June 2006. The final dividend, subject to shareholders' approval at the forthcoming annual general meeting to be held on 22 December 2006, will be payable to the shareholders whose names appear on the Register of Members of the Company on 22 December 2006. The final dividend will be paid on or around 18 January 2007.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from 18 December 2006 to 22 December 2006, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the final dividend, all transfers, accompanied by the relevant share certificates and transfer forms, must be lodged with the Company's Hong Kong branch share registrars, Hong Kong Registrars Limited of shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on 15 December 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

Results

The Group's financial performance for the year ended 30 June 2006 recorded a steady upward growth with a double-digit increase in both turnover and net profit. During the year under review, turnover of the Group amounted to RMB525,953,000 (2005: RMB369,787,000), representing an increase of approximately 42.2% 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 under review reached approximately RMB186,290,000 as compared to approximately RMB147,004,000 for last year. The overall gross profit margin was decreased due to the increase in raw material prices, changes in products mix and the relatively lower utilization rate of the production capacity of the two subsidiary companies as compared to the old subsidiary company. Operating profit and profit attributable to equity shareholders were RMB162,551,000 (2005: RMB112,289,000) and RMB101,816,000 (2005: RMB80,427,000) respectively, representing increases of approximately 44.8% and 26.6% respectively as compared to the corresponding period last year. Basic earnings per share was RMB22 cents (2005: RMB17 cents).

Loss on changes in fair value of the derivative components of the convertible bonds ("CB") amounted to approximately RMB13,966,000 (2005: Nil). Ignoring such loss, the net profit attributable to equity shareholders for the year under review would be reached RMB115,782,000, representing an increase of 44.0% as compared to last year.

Business Review

The Group is principally engaged in the manufacturing and sale of rigid printed circuits boards ("PCBs") and flexible printed circuits boards ("FPCBs") and also provides printed circuits boards assembly ("PCBA") and sub-contracting services. Due to the strong overall demand from downstream electronic consumer products, such as LCDs, PSPs, multi-media products and mobile phones, as well as the trend of multi-national companies outsourcing EMS to China, the Group has achieved strong results during the 2006 financial year despite the rising cost of raw materials.

PCBs have received strong orders from clients. However, as the utilization rate of the PCBs plant has reached full capacity, the revenue only recorded 6.9% growth of that sector this year.

The new FPCBs business recorded a growth of 2,201.4% in turnover compared with last year. The business has significantly benefited from the overall trend that FPCBs industry has been moving to China as a result of EMS outsourcing. Furthermore, the Group has successfully obtained certifications from additional renowned international companies such as Sankyo Seiki Management Co., Ltd, JVC and Truly Semiconductors Ltd, which resulted in an upsurge of orders.

The Group's PCBA business has also recorded tremendous growth of 404.5% in turnover compared with last year. The growth reflected the success of the Group's strategy in offering one-stop solutions for the PCBs industry.

Segmental Information

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

Rigid printed circuit boards

During the year under review, the sales of PCBs amounted to RMB382,498,000 (2005: RMB357,714,000), representing approximately 72.7% of the Group's total turnover. Operating profit contributed by this business segment was RMB157,080,000 (2005: RMB141,740,000), up 10.8% as compared with that of the preceding year.

Flexible printed circuit boards

Total sales of FPCBs reached approximately RMB72,286,000 (2005: RMB3,141,000), which made up approximately 13.8% of the Group's total turnover during the year under review. Operating profit reached approximately RMB8,122,000 (2005: RMB(14,390,000)). The FPCBs sector was one of the Group's key revenue engines, primarily targeting Korean and Japanese clients. Since the Group started full-scale manufacturing operation in January 2005, sales of FPCBs have recorded rapid growth. Given the wide application and strong demand of FPCBs yield, this business segment has increased the Group's overall profit significantly.

Rigid printed circuit boards assembly

The PCBA service provides a major competitive edge to the Group's business, consolidating its position as a one-stop EMS provider. It is the second fastest growing sector apart from the FPCBs. Turnover of PCBA during the year under review amounted to approximately RMB45,363,000 (2005: RMB8,932,000), accounting for approximately 8.6% of the Group's total sales, and the operating profit was approximately RMB1,316,000 (2005: RMB(4,330,000)).

Provision of SMT processing services

Turnover contributed by this business segment amounted to RMB25,806,000 (2005: NIL), accounting for 4.9% of the Group's total sales, and operating profit came up to RMB2,879,000 (2005: NIL).

Geographically, sales within the PRC (excluding Hong Kong and Taiwan) remained the largest segment in which approximately 83.8% (2005: 83.0%) of the Group's turnover was generated, while approximately 8.0% (2005: 10.6%) was attributable to the sales to Australia for the year under review. The balance of approximately 8.2% of the Group's turnover (2005: 6.4%) 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:

Fuqiang Plant, Fujian Province

The manufacturing facility in Fuqiang, Fujian Province, focuses on rigid PCBs, including double-side and multilayer PCBs. Adopting the high mix, low volume strategy, the Fuqiang Plant specializes in the early stage of the production cycle. The Group has successfully expanded the plant's production capacity to 40,000 square meters of PCBs per month, which is near full capacity.

Shuangxiang Electronics, Fujian Province

In line with the Group's objective to position itself as a "one-stop" EMS provider, the Group has been stepping up efforts to maintain and expand its assembly production line. Located in Mawei, Fuzhou city, the facility occupies 6 SMT lines and 2 MI lines and is primarily responsible for conducting PCBA and SMT processing services, including the design of sub-system, production of prototype samples, low-volume production and testing services.

Gemini Electronics, Guangdong Province

FPCBs is one of the fastest growing sectors of the Group. The plant in Huizhou, Guangdong Province, has reached a production capacity of 10,000 square meters per month.

FUTURE PROSPECT

Strong demand for electronic products and the outsourcing trend of EMS to China has foreseen the positive outlook for EMS. International Data Corporation expected that the total income of EMS solution providers worldwide will grow at a compounded annual rate of 10.2% from US\$89 billion in 2002 to US\$400 billion in 2007. It also predicts that the EMS industry in China will grow at a compounded annual rate of 29.7% from year 2002 to 2007, and will account for 38% of the global EMS industry by year 2007. While PCB demand in China is expected to enjoy an annual growth rate of 15.2%, from US\$6.85 billion in 2003 to US\$13.88 billion in 2008, according to BPA Consulting. It also expects that the China market, the largest in the world, to account for approximately one-third of global demand by then.

As one of the few pioneering one-stop solution providers in the industry, the management believes that the Group is well-positioned to capitalize and enjoy further growth.

In recent years, there has been robust global demand for compact, thin, multi-functional and portable electronic devices, boosting the demand for FPCBs. It is the management's view that there is still room for market expansion and higher operation efficiency. The Group plans to install new production facilities in the coming years, in a bid to boost monthly capacity by 50% to 15,000 square meters by next financial year.

Regarding the PCBA business, the Group plans to install 2 more SMT lines in the Shuangxiang Electronics plant by next financial year, in addition to current 6 SMT lines.

To cope with the rising demand for PCBs, the Group has acquired a new site area for a second plant named Hai Chuang. The new plant is expected to begin manufacturing PCBs in the financial year of 2009, total monthly capacity for PCBs is expected to reach 60,000 square meters.

The Group will continue to explore strategic merger and acquisition opportunities for further expansion. This will boost production capacity, broaden its client base and provide a wide range of value-added services to clients.

The management is fully confident that the Group will again achieve record growth next year and further increase shareholders' returns.

Liquidity and Financial Resources and Capital Structure

For the year ended 30 June 2006, the Group's working capital requirement was principally financed by its internal resources, banking facilities and convertible bonds.

As at 30 June 2006, the Group had cash and cash equivalents, net current assets and total assets less current liabilities of RMB572,803,000 (2005: RMB540,915,000), RMB383,386,000 (2005: RMB519,729,000) and RMB738,154,000 (2005: RMB727,939,000) respectively.

As at 30 June 2006, the Group had total borrowings (excluding obligations under finance leases) of RMB300,717,000 (2005: RMB213,019,000), comparing utilised bank loan facilities of RMB229,391,000 (2005: RMB143,791,000) and convertible bonds of RMB71,326,000 (2005: RMB69,228,000), of the total utilised bank loans of RMB199,391,000 (2005: RMB110,657,000) for short term and the remainder of RMB30,000,000 (2005: RMB33,134,000) for long term. Included in these utilised bank loans, RMB8,293,000 and RMB144,800,000 were secured by bills receivables and corporate guarantee given by the Company and the remaining balance of RMB76,298,000 was unsecured. Besides, the Group had available RMB40,000,000 (2005: RMB8,385,000) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met and had obligations under finance leases of RMB13,135,000 (2005: RMB12,982,000) denominated in Hong Kong Dollars. The total borrowings were mainly for business expansion, capital expenditure and working capital purposes. The Group's short term and long term borrowings were mainly denominated in Renminbi and US Dollars. Loan facilities were granted to the Group at the normal market interest rates.

The shareholders' equity of the Group as at 30 June 2006 increased by RMB73,387,000 to RMB670,033,000 (2005: RMB596,646,000). The gearing ratio (calculated as the ratio of current liabilities plus non-current liabilities: shareholders' equity) of the Group as at 30 June 2006 was approximately 0.74 (2005: 0.56).

Significant Investments

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

Acquisition and disposal of Subsidiaries and Associated Companies

During the year ended 30 June 2006, the Group had no material acquisition and disposals of subsidiaries and affiliated companies.

Employment Information

As at 30 June 2006, the Group employed a total of 1,550 (2005: 1,200) 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 2006, the employment cost (including directors' emoluments) amounted to approximately RMB28,848,000. 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 schemes ("2003 Scheme"). As at 30 June 2006, there are 4,000,000 share options outstanding under the 2003 Scheme.

Charges on Group Assets

As at 30 June 2006, there were no charges on group assets.

Future Plans for Material Investments and Expected Sources of Funding

Save as disclosed elsewhere on the Management Discussion and Analysis, as at 30 June 2006, the Group had no future plans for material investments.

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

Exposure to Fluctuations in Exchange Rates

During the year ended 30 June 2006, the Group experiences only immaterial exchange rate fluctuations as most of the Group's monetary assets and liabilities are denominated in Hong Kong Dollars, US Dollars and Renminbi, and the Group conducted its business transactions principally in Hong Kong Dollars, US Dollars and Renminbi, all of which were relatively stable during the year under review. The Group considered that as the exchange rate risks of the Group is considered to be minimal, the Group did not employ any financial instruments for hedging purposes.

Capital Commitment

As at 30 June 2006, in respect of capital expenditures, the Group had contracted for capital commitment in the financial statements amounted to approximately RMB100,702,000.

Contingent Liabilities

As at 30 June 2006, the Group did not have any material contingent liabilities.

Post balance sheet events

- (a) Subsequent to the balance sheet date, all convertible bonds were converted into 85,544,000 ordinary shares of the Company.
- (b) After the balance sheet date, the directors proposed a final dividend. Further details are disclosed in note 6(a).
- (c) On 4 September 2006, the directors had granted share options to eligible participants to subscribe for an aggregate amount of 12,000,000 shares with value of approximately RMB2 million.

CORPORATE GOVERNANCE

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 throughout the year ended 30 June 2006, except the code provision A.4.1 that all independent non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the articles of association of the Company.

Remuneration Committee

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

Audit Committee

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 30 June 2006, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

On behalf of the Board
Lin Wan Qaing
Chairman

Hong Kong, 19 October 2006

As at the date of this announcement, the Board comprises Mr. Lin Wan Qaing, Mr. Liu Zhao Cai, Mr. Xiang Song and Mr. Tong Yiu On as executive directors, and Mr. Pan Chang Chi, Mr. Cai Xun Shan and Mr. Cheung Chuen as independent non-executive directors.

* *for identification purpose only*

*Please also refer to the published version of this announcement in **The Standard**.*