



China Precision Technology Limited

80 Raffles Place #25-01
UOB Plaza 1
Singapore 048624
www.cptl.com.sg



China Precision Technology Limited
Annual Report 2006

Discover
the World of **Precision**



Mission **Statement**

To be the leading integrated manufacturing services provider for consumer electronic products

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Proxy Form

Corporate Information

Company's Registered Office :

80 Raffles Place #25-01
UOB Plaza 1
Singapore 048624

Company's Principal Place of business:

138 Cecil Street
#05-04 Cecil Court
Singapore 069538

Group Principal Place of business

Nanda Road, Changhe Town,
Cixi City, 315326 Zhejiang Province, PRC

Board of Directors :

Zhang Zhongliang (Executive Chairman and CEO)
Zheng Yimin (Executive Director)
Tan Soo Kiat (Independent Director)
Wee Chow Hou (Lead Independent Director)
Peng Yinghong (Independent Director)
Seah Kian Wee (Non-Executive Director)
Mark Yeo Wee Tiong, alternate to Seah Kian Wee
(Non-Executive Director)
Yeo Pek Heng (Non-Executive Director)

Audit Committee :

Tan Soo Kiat (Chairman)
Wee Chow Hou
Peng Yinghong

Nominating Committee :

Wee Chow Hou (Chairman)
Tan Soo Kiat
Zhang Zhongliang

Remuneration Committee :

Wee Chow Hou (Chairman)
Tan Soo Kiat
Peng Yinghong

Company Registration Number :

200406029N

Company Secretaries :

Ch'ng Li-Ling
Chew Kok Liang

Share Registrar and Share Transfer Office :

Tricor Barbinder Share Registration Services
(A division of Tricor Singapore Pte Ltd)
8 Cross Street #11-00
PWC Building
Singapore 048424

Auditors :

PricewaterhouseCoopers
8 Cross Street #17-00
PWC Building
Singapore 048424

Partner-In-Charge:

Chey Chor Wai (Appointed in 2004)

Principal Bankers :

Shenzhen Development Bank, Cixi Branch
Bank of China, Cixi Branch and Suzhou Branch
Bank of Shanghai, Ningbo Branch
Suzhou City Commercial Bank
United Overseas Bank

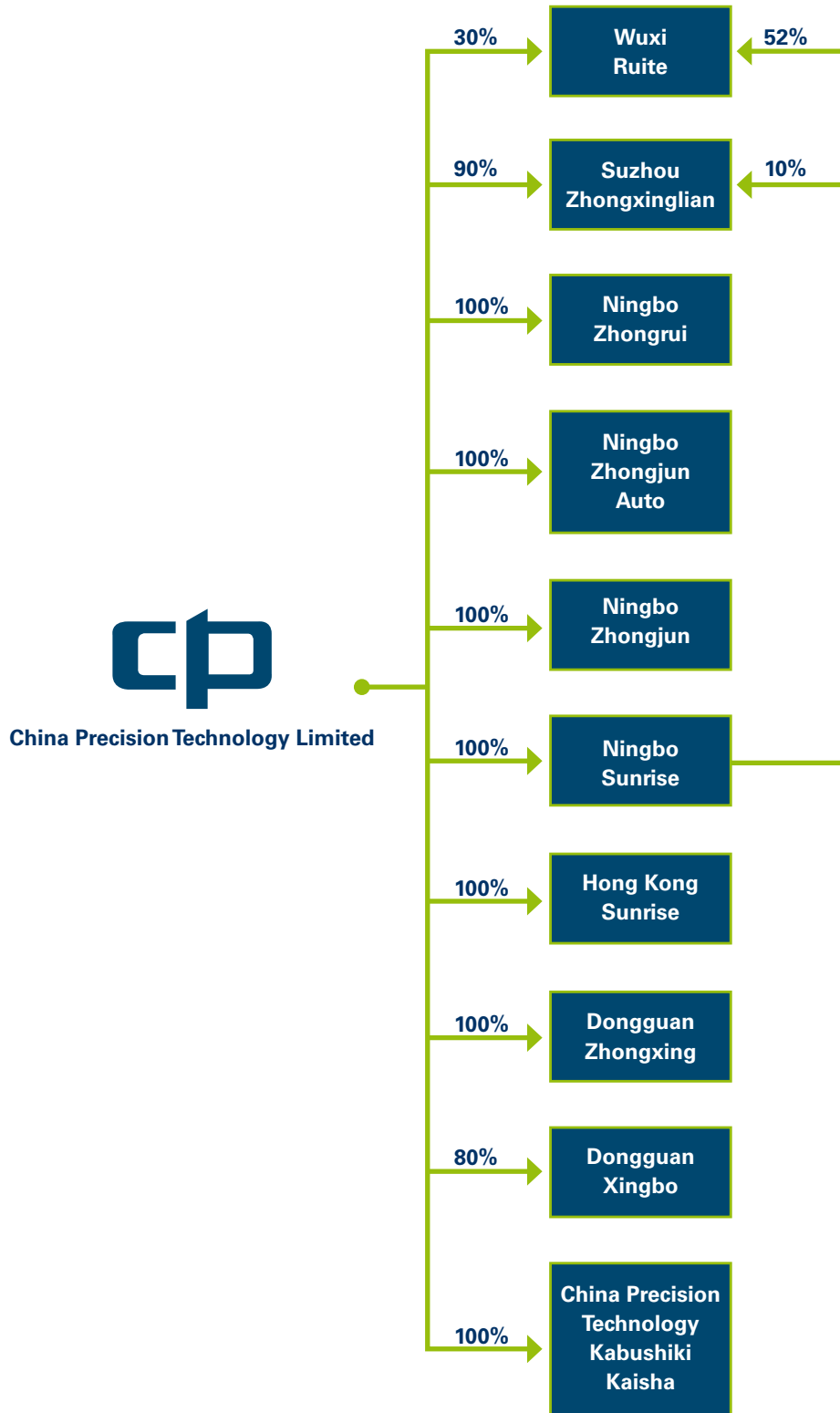
Corporate Profile

Established in 1996, China Precision Technology Limited Group is an integrated manufacturing services provider for the consumer electronics, automotive, telecommunication and office automation equipment industries. The Group's business is divided into three business segments - Electronic Tuner Component, ("ETC") Automotive and Others. The Group provides precision engineering services such as metal stamping, plastic injection moulding, die-casting, mould design and fabrication, as well as assembly and electroplating for metal and plastic parts. With seven manufacturing facilities spanning across four cities in the PRC, the Group serves world leading consumer electronics manufacturers, such as Sharp, Panasonic, Toshiba, Philips, LG, Sony and Thomson etc.

Equipped with advanced production technology and engineering capabilities, the Group is involved from the customers' initial design stage to the provision of full manufacturing services, enabling the Group to establish strong relationships with its customers.



Corporate Structure



Our Presence



China

Dongguan Zhongxing Electronics Co., Ltd
Dongguan Xingbo Precision Mould Co., Ltd
 Kaida Industrial Park, Qiaotou Town,
 Dongguan, Guangdong Province, PRC

Ningbo Sunrise Electronics Co., Ltd
Ningbo Zhongjun Electronics Co., Ltd
Ningbo Zhongjun Automobile Parts Co., Ltd
Ningbo Zhongrui Precision Mould Co., Ltd
 Nanda Road, Changhe Town,
 Cixi City, 315326, Zhejiang Province, PRC

Suzhou Zhongxinglian Precision Industry Co., Ltd
 No 69 Hongxi Road Xushuguan
 Suzhou National New Hi-Tech Industrial Development Zone
 Suzhou, 215151, Jiangsu Province, PRC

Wuxi Ruite Surface Treatment Co., Ltd
 Phase II, Wuxi Surface Treatment Technology Industrial Park
 Luoshe Town, Wuxi, 214154, Jiangsu Province, PRC

Hong Kong (SAR)

Hongkong Sunrise Enterprises Limited
 Suite 1703, 17/F, 88 Hing Fat Street
 Causeway Bay, Hong Kong

Singapore

China Precision Technology Limited
 80 Raffles Place #25-01 UOB Plaza 1
 Singapore 048624 (Registered office)

138 Cecil Street #05-04 Cecil Court
 Singapore 069538 (Principal place of business)

Japan

China Precision Technology Kabushiki Kaisha
 T.N.J Bldg 6F,1-6-2 Awaji-machi Chuo-ku
 Osaka 541-0047 Japan

Milestones

2006

Listed on 8 May 2006 on SGX-ST Mainboard

In January, JHT Investments Pte Ltd, a wholly-owned subsidiary of Jurong Technologies Industrial Corpn Ltd, entered into an agreement with our Company and our shareholders to acquire 20% of our Company's post-invitation share capital.

2005

In October, our Company entered into a collaboration agreement with Jurong Hi-Tech Industries Pte Ltd whereby (i) Jurong Hi-Tech Industries Pte Ltd and our Group would each act as the preferred sub-contractor to the other and their respective customer base, and (ii) Jurong Hi-Tech Industries Pte Ltd (and its other collaboration partners) and our Group agreed to jointly carry out product development.

2004

In December, we entered into a "Precision Injection Moulding Transfer Agreement" with Meiho Co. Ltd, and Hong Kong Meiho Co. Ltd to acquire advanced technology for precision injection moulding.

In August, our company issued Redeemable Convertible Loan Stocks of S\$7.0 million to Asean China Investment Fund L.P., Aventures 1 Pte Ltd and Prospect Investment Pte Ltd.

In May, our Company was incorporated in Singapore.

In April, we entered into a "Plastic Plating Technology Assistance Agreement" with Uehara Nameplate Ind. Co., Ltd., a Japan-based company to acquire advance technology for electroplating of plastic parts.

2003

In November, Donguan Zhongxing was certified by Sony Corporation as one of its "Green Partner" under its "Green Partner Environmental Quality Approval Programme.

We obtained QS 9000:March 1998 certification so that we could provide electroplating services for exterior automobile plastic parts such as logos, plates and grilles to the automotive industry.

2001

In December, we formed Ningbo Sunrise which evolved into our Group's main operating base for the production of electronic tuner components.

In September, we established Dongguan Zhongxing to tap into the business opportunity in the Pearl River Delta region and to enable us to respond quickly and effectively to customers located in this region.

2000

Recognizing the manufacturing efficiencies and competitive advantage of automated assembly, we set up an assembly automation team to design, develop and build automated assembly machines.

1999

Started to utilize progressive stamping techniques in our production process which enabled us to increase our production volume, maintain consistency and improve the quality of our products and reduce rejection rates.

1998

Awarded the ISO 9002 certification by the China Quality Certification Centre.

Acquired and installed electroplating equipment to provide plating for electronic tuner parts we manufactured.

1997

Sanyo (Japan) became our first MNC customer.

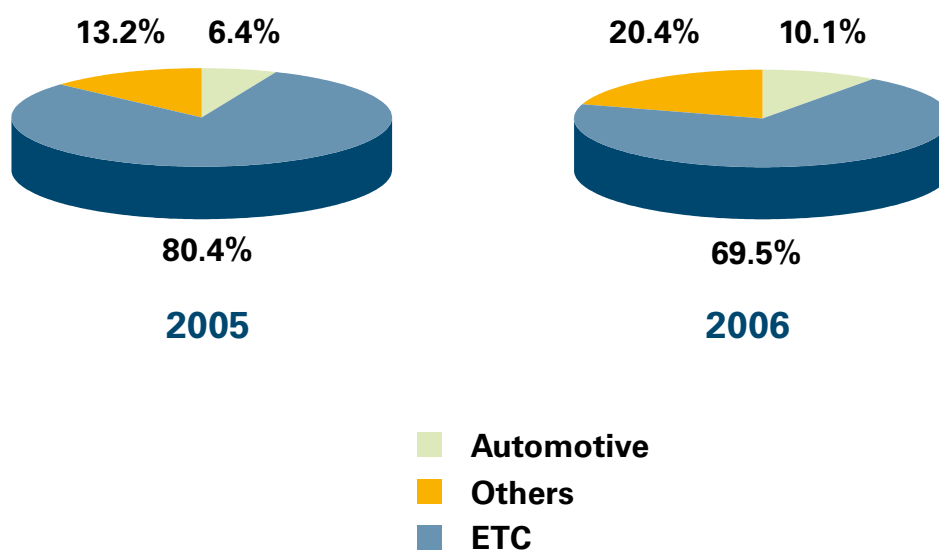
1996

Zhang Zhongliang, CEO of our Group, started a company with a registered capital of RMB 3 million.

Financial Highlights

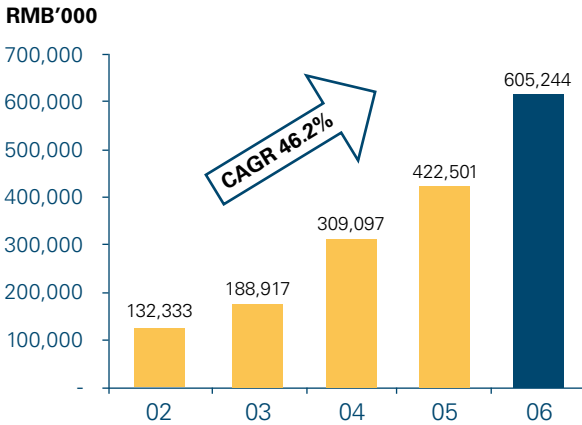
Financial Highlights (RMB'000)	2002	2003	2004	2005	2006
Sales	132,333	188,917	309,097	422,501	605,244
Gross profit	55,542	70,278	109,152	146,471	195,325
EBITDA	35,378	47,604	82,947	106,766	127,942
Profit before income tax	28,571	36,360	62,400	78,579	89,437
Net profit attributable to shareholders of the Company	23,703	35,538	61,230	70,299	77,992
Sales by business segment (RMB'000)	2002	2003	2004	2005	2006
ETC	132,333	175,818	285,176	339,517	420,679
Automotive	-	-	11,074	26,978	61,386
Others	-	13,099	12,847	56,006	123,179
	132,333	188,917	309,097	422,501	605,244

Sales by Business Segment

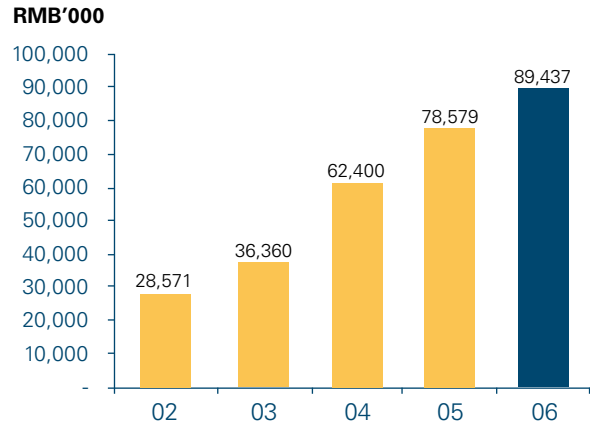


Financial Highlights

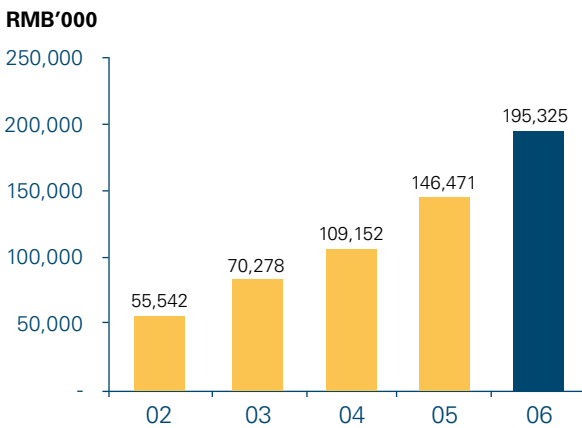
Sales



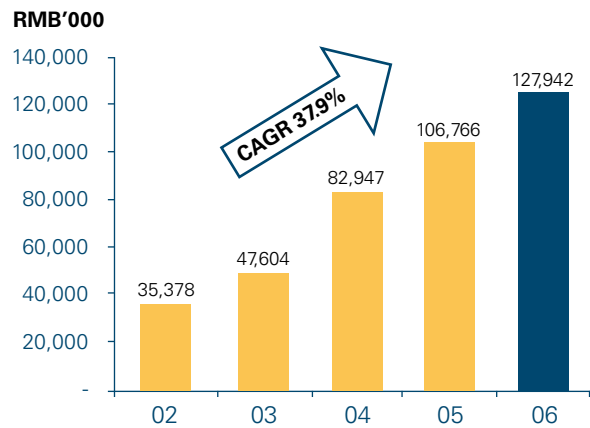
Profit Before Income Tax



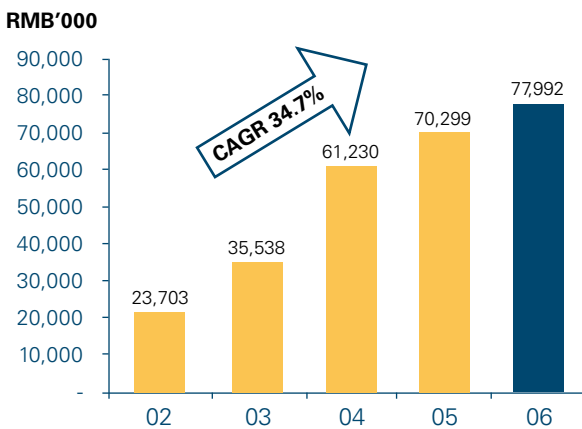
Gross Profit



EBITDA



Net Profit Attributable to Shareholders of The Company



Chairman's Statement

Dear Shareholders,

I am pleased to present to you our maiden annual report for the financial year ended 31 December 2006, following the listing of our shares on SGX-ST on 8 May 2006.

2006 marked the start of a new chapter in our journey towards becoming an international company and the laying of a sound foundation for our future development.

The year saw the Group continue its rapid pace of growth, achieving sales of RMB 605 million and net profits of RMB 78 million. This represents a 43.3% and 10.9% growth in sales and net profit respectively over 2005. Although the price of materials such as non-ferrous metals increased significantly in 2006, we were able through innovation in technology such as replacing copper with steel, to successfully minimise their impact on our gross profit margin. As a result, our overall gross profit margin only fell marginally from 34.7% in 2005 to 32.3% in 2006. Moving forward, we will continue to push for wider adoption of steel as a replacement material for copper and will continue to focus on cost control in order to maintain our competitiveness.

With the upcoming Beijing Olympics and the rapid pace of digitalisation in the global market, the output of flat-panel TV is expected to grow at an annual rate of above 20%. This translates into strong growth prospects for our electronic tuner components and precision components and connectors businesses. Our strong industry position as the largest supplier for electronic tuner components will enable us to increase our market share for electronic tuner components and increase our market penetration rate for precision components and connectors.

In addition, the growing trend towards car ownership by Chinese families and the PRC's cost competitiveness is leading it to gradually become the global supply base for automobile components. This points to tremendous latent potential for us in this sector as it is estimated that automobile output in the PRC may hit 8.5 million units in 2007, an 18% growth year-on-year.

To leverage on these opportunities, we intend to strengthen the integration of our resources by continuing to increase our research and development and market development efforts, as well as enhance our production capabilities and nurture our core competitiveness. Through these actions we aim to become the leading supplier to the electronics and automotive industries.

In conclusion, I would like to say a big thank you to our shareholders for your firm belief and support for the Group. In appreciation, the Board is pleased to propose a final dividend of RMB 0.053 per share.

We would also like to thank our customers, suppliers and business associates for your support. Finally, I would also like to pay tribute to our Board of Directors for their guidance and counsel throughout the year, and to our staff for their invaluable contributions to the Group. Our culture of "Be challenged daily and improve oneself continually" will provide us with the strength to drive us forward to become a truly international group.

I firmly believe that with the support and co-operation from all, we will be able to deliver an even better set of results in 2007.



2006 marked the start of a new chapter in our journey towards becoming an international company and the laying of a sound foundation for our future development.

Zhang Zhongliang
Executive Chairman
28 March 2007



2006年对公司而言是非常不平凡的一年，公司的股票于5月8日在新加坡证券交易所正式挂牌交易，这标志着公司的国际化战略进入了一个新的里程碑，更为将来的发展奠定了良好的基础

尊敬的股东们：

很荣幸为您呈上中国精密技术有限公司截至2006年12月31日的年报，这也是公司在新加坡上市后的第一份年报。

2006年对公司而言是非常不平凡的一年，公司的股票于5月8日在新加坡证券交易所正式挂牌交易，这标志着公司的国际化战略进入了一个新的里程碑，更为将来的发展奠定了良好的基础。

2006年公司继续保持着高速成长的态势，全年实现销售收入6.05亿元人民币，税后净利润为7,800万元人民币。同期对比，销售与税后净利润分别增长了43.3%与10.9%。尽管有色金属等原材料价格飞涨，集团通过技术创新，如铜改铁等方法，成功地将其对毛利率的影响降低。2006年集团毛利率仅略微下降，从2005年的34.7%下降到32.3%。集团将继续大力推广铜改铁的替换，继续控制成本保持竞争优势。

随着2008年北京奥运会的临近以及全球数字化进程的不断加快，平板电视机的出货量在未来几年之内预期将能保持20%以上的速度增长。这也意味着市场对公司在电子调谐器零组件、精密连接器和部件的需求将会保持持续增长的态势。作为最大的电子调谐器零组件供应商，我们将能够在继续扩大电子调谐器零组件市场份额的基础上，也能提高精密连接器等相关产品在客户中的市场占有率。

目前汽车在中国正在逐步进入家庭，中国2007年汽车产量预计有望达到850万辆，同比增长18%。另外，由于中国具有的成本优势，将逐步成为全球汽车零部件的采购基地。集团的汽车零部件产业已准备就绪面临着良好的市场环境。

针对外部有利的市场环境，集团将会加强资源整合力度，继续加大对研发和市场的投入力度，进一步提升制造能力，培育自身的核心竞争力，致力于成为电子及汽车产业提供生产及服务的卓越供应商。

公司在2006年所取得的成绩离不开股东的大力支持，为了答谢股东，董事会建议派发每股RMB 0.053的股息。

我们还要感谢我们的客户、供应商和其他合作伙伴，正是由于有他们的支持才转换为公司持续发展的动力。我非常感谢董事会给予的督导。另外，我们必须向所有尽心尽力付出的员工致敬，只要公司全体员工秉持“每日挑战，持续改善”的理念，这股力量将带动公司迈向国际化集团的目标。

我坚信，有了大家的支持和努力配合，董事会和管理层将会继续朝着公司的经营目标努力前进，在2007年一定会为投资者交上更满意的答卷。

张忠良

董事会主席

2007年3月28日

Operations and **Financial Review**

Sales ↑ **43.3%**



Overview

2006 was an exciting and challenging year for China Precision Technology Group "Group". Our Group continued its strong growth momentum, achieving 43.3% growth in sales and 10.9% growth in net profit. All our business segments saw substantial growth in sales and net profit.

In face of the challenges brought about by the significant increase in the prices of non-ferrous metals such as copper, we were able to minimise its impact on us as we have, since 2005, embarked on research and development efforts to replace copper used in non-essential parts of the F-connectors with steel. As a result, despite the significant increase in copper prices, we were able to offer our customers a solution to cushion the impact of such price increments. We were therefore able to contain the adverse effects on our overall gross profit margin to just 2.4 percentage points. In recognition of our unique contributions to our customers, we were accorded outstanding supplier awards by both Thomson and Sharp.

We have benefited from various technology transfers from our Japanese partners. This has translated into an improved bottom line for our Automotive segment. This was achieved through the improvement in the quality of our products, widening of our market reach and extension of our range of products and services. The segmental profit from our Automotive segment was RMB 8.8 million in 2006, which was a substantial growth from the loss of RMB 2.6 million in 2005.

In late 2006, we moved into our newly-constructed factory in Suzhou. Our Suzhou factory will focus on developing the precision components and connectors business to cater to the consumer electronics and telecommunication industries.

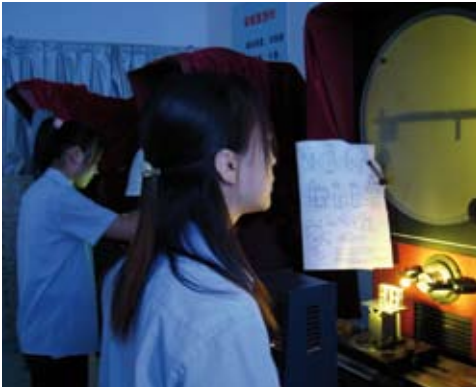
Sales

Sales increased by RMB 182.7 million due to growth in all three business segments. Sales of Electronic Tuner Components ("ETC") increased by RMB 81.2 million or 23.9%, driven by an increase in orders from our existing customers. The increase in volume of orders was attributable to the trend of digitalisation in the global market as well as organic growth in the consumer electronics industry, specifically for, Liquid Crystal Display ("LCD"), Plasma Display Panel ("PDP") and set-top boxes.

Sales from our Automotive segment increased by RMB 34.4 million or 127.4% to RMB 61.4 million from RMB 27.0 million in 2005. This increase was driven by an increase in orders from our existing customers as well as the widening of the range of services provided to them.

Our Others business segment consists largely of sales of precision components and connectors to the consumer electronics industry and sales of components to the office automation industry. Sales from our Others business segment

Operations and **Financial Review** (cont'd)



increased by RMB 67.2 million or 119.9%, of which RMB 46.2 million was contributed by the precision components and connectors business while components for the office automation equipment accounted for RMB 21.0 million of the increase. The increase in sales of precision components and connectors was largely attributable to the increase in new customers while the increase in sales of components for the office automation equipment was due to increase in orders from our existing customers.

Sales from ETC for 2006 accounted for 69.5% of our total sales as compared to 80.4% in 2005. This is in line with our longer-term objective of having a more balanced sales mix.

Gross profit

Our gross profit increased by RMB 48.8 million from RMB 146.5 million in 2005 to RMB 195.3 million in 2006. Overall gross profit margin decreased by 2.4 percentage points from 34.7% in 2005 to 32.3% in 2006.

Despite the significant increase in non-ferrous metal prices, our ETC gross profit margin only decreased by 1.1 percentage points from 36.9% in 2005 to 35.8% in 2006. We were able to contain the adverse effects of the increase in raw material prices by convincing our customers of the cost merits of replacing copper with steel for the non-essential parts of F-connectors. In addition, we also enhanced our productivity through increasing the use of automated assembly machines, renegotiating selling prices with our customers as well as fine-tuning our customer mix.

Our gross profit margin for the Automotive segment increased from 5.6% in 2005 to 29.7% in 2006 as a result of the benefits from the transfer of technology from our Japanese partners as well as improvement in our utilisation rates.

The gross profit margin for our Others business segment was 21.4%. Looking forward, we will focus our efforts in increasing sales and improving our gross profit margin.

Expenses

Expenses increased by RMB 46.1 million or 59.4% to RMB 123.7 million from RMB 77.6 million in 2005. In tandem with the increase sales, distribution expenses increased by RMB 9.6 million.

Other expenses increased by RMB 6.9 million, largely due to RMB 7.0 million in provision made in relation to restitutions and fines relating to the customs issues (see note 26 to the financial statements).

Administrative expenses increased by RMB 30.9 million, of which about RMB 17.6 million was attributable to increase in staff costs and RMB 2.1 million attributable to increase in foreign exchange losses due to the depreciation of USD against RMB. Increase in rental, depreciation, profit sharing of our CEO, impairment in trade receivables and inventories totalled RMB 4.7 million.

Finance expenses decreased by RMB 1.3 million following the routine payment of bank loans and entrusted loans due to a related party.

Profit before tax

Profit before income tax for 2006, excluding the RMB 7.0 million in provision for customs issues, increased by RMB 17.9 million or 22.6% from RMB 78.6 million in 2005 to RMB 96.4 million in 2006. This increase was due to the increase in

Operations and **Financial Review** (cont'd)

gross profit of RMB 48.9 million and increase in other income of RMB 8.0 million, as well as the RMB 1.3 million reduction in finance expenses, decrease in other expenses of RMB 0.1 million (excluding the RMB 0.7 million of provision for customs issues) and decrease in share of loss of associated company of RMB 0.1 million. However, this was offset by the increase in distribution and administrative expenses of RMB 40.5 million.

Income tax

The Group's effective tax rate for 2005 was 10.6%. This included the recognition of deferred income tax assets of RMB 1.7 million. The adjusted effective tax rate for 2005, excluding the deferred income tax assets, was 12.8%.

The Group's effective tax rate for 2006, excluding the RMB 7.0 million in provision for customs issues, was 11.9%. This included an investment tax credit of RMB 1.1 million. No such tax credit was recognised in 2005. The adjusted effective tax rate for 2006, excluding the investment tax credit and the RMB 7.0 million in provision for customs issues, was 13.0%, which was not significantly different from the 12.8% in 2005.

Profit attributable to shareholders of the Company

Profit attributable to shareholders of the Company, excluding the RMB 7.0 million in provision for customs issues, increased by RMB 14.7 million from RMB 70.3 million in 2005 to RMB 85.0 million in 2006. Net profit margin for 2006, excluding the RMB 7.0 million in provision for customs issues, was 14.0%. This was lower than the net profit margin of 16.6% in 2005, mainly due to the decrease in our overall gross profit margin and increase in administrative expenses.

Going Forward

The overall outlook for 2007 remains encouraging. The trend of digitalisation (transition from analog to digital-based technology) will lead to an increase in demand for ETC used in digital-based consumer electronics products such as set-top boxes, LCD and PDP. This trend is expected to continue into the foreseeable future. We will continue to expand our market share and leadership position in the ETC market.

For our Others business segment, the Group intends to focus its effort in expanding the precision components and connectors business for the consumer electronics industry and the mobile phone market. We intend to increase both the sales and the gross profit margin of our Others business segment by improving both our customer and product mix. We are in the process of developing strategic business plans with our Japanese partners in the area of lead-frame.

In relation to our Automotive segment, we will continue to improve our customer mix and strive to position ourselves as the tier-one direct supplier to our customers. We are also seeking out potential markets beyond the PRC.

As the price movement of non-ferrous metals such as copper will have an impact on our results, we will continue our research and development efforts and collaboration with our ETC customers to replace copper, which is used in the F-connectors, with steel. We expect the benefits from this to continue to contribute to the ETC gross profit margin in the coming quarters.

In relation to the customs issues, as described in note 26 to the financial statements, the Customs Authority has largely completed its enquiries but has not determined the quantum of the restitutions and fines. Based on current available information, the provision of RMB 7.0 million made in 2006 is adequate. The customs issues do not and will not affect the core fundamentals of the Group's businesses. Necessary actions have been taken to address these issues with the relevant authorities and to prevent similar incidents from occurring in the future. The Company will make the appropriate announcements when there are further developments.

Board of Directors

Zhang Zhongliang is our Executive Chairman, CEO. He was appointed to the Board on 8 June 2004. He was the pioneer and founder of our Group in December 1996. Mr Zhang is responsible for our operations, marketing, public relations, strategic planning and development of new products and markets and overall running of our Group. He has been spearheading the expansion and growth of our Group, including the expansion of our production facilities and services in the region. From 1990 to 1996, Mr Zhang was the factory manager at Gaowang Electronics Equipment Plant (from 1990 to 1993) and Cixi Huaxing Electronics Equipment Plant (from 1993 to 1996). As factory manager, Mr Zhang was responsible for the development and implementation of its annual marketing plan, setting division profitability and sale targets, the co-ordination of mould design and fabrication and the manufacture of electronic tuner components and product quality. Mr Zhang started his career as a mechanical technician at a radio factory in Cixi City, Zhejiang Province, from 1987 to 1990, where he learnt the operation and maintenance of metal stamping machines and plastic injection moulding machines. Mr Zhang obtained a Diploma in Mechanical Engineering from the Ningbo Radio and Television University, China in 1987 and has completed a Master of Business Administration course at the Nanyang Technological University in Singapore in 2005.

In 2001, Mr Zhang was awarded Cixi City Advanced Production Pioneer (慈溪市先进生产工作者) by Cixi Municipal People's Government. In the same year, Mr Zhang was elected as deputy director of China Video Industry Association (Special Parts branch), which awarded him the Outstanding Contribution to Industry Award (行业工作突出贡献奖) in 2002. In 2002, Mr Zhang was also elected as a director of the Ningbo Economic Council (宁波经济理事会理事). In 2003, Mr Zhang was elected as a member of the People's Congress of Cixi City (慈溪市人民代表大会). In 2004, Mr Zhang was awarded the Cixi City Young Entrepreneur Award (慈溪市青年企业家新锐奖) by Cixi Propaganda Department of the PRC Communist Party, Cixi Municipal Commission. In 2005, Mr Zhang was awarded the Distinguished Person of Cixi City (慈溪市先进个人) by Cixi Municipal People's Government. In the same year, he was also awarded the Star Entrepreneur Award by Cixi Municipal People's Government.

Zheng Yimin is our Executive Director and PRC Finance Manager was appointed to the Board on 1 February 2005. Mr Zheng joined our Group in 2000. He is in charge of credit management and assist our CEO in the business development and strategic planning of our Group. In addition, he also assist our Chief Financial Officer by overseeing the day-to-day accounting and finance functions of our subsidiaries in the PRC. From 1991 to 2000, Mr Zheng worked at Shanxi Lingyun Huada Electronics Ltd. From 1991 to 1994, he was the manager of the finance and accounting department and from 1994 to 2000, he was the General Manager responsible for the development of corporate goals and marketing strategies. He was also responsible for the overall management of the employees and supervised the sales and marketing procurement, finance and accounting functions of the company. From 1986 to 1991, Mr Zheng worked as a supervisor at Shanxi Lingyun Electronics Co., Ltd where he was responsible for the aggregation of cost information, cost analysis and the formulation of cost strategies. Mr Zheng obtained a Diploma in Accounting from the Central Television University, China in 1986.

Tan Soo Kiat is an Independent Director of the Company and was appointed to the Board on 1 February 2005. He is currently the Director of Corporate Advisory of Intergate Pte Ltd, a company engaged in the provision of corporate advisory services. Mr Tan was formerly the Chief Operating Officer and Executive Director of Goodpack Limited from July 1999 to November 2000 and was responsible for the financial functions of the company. He also assisted the managing director of the company in its day-to-day business operations. Mr Tan was formerly a General Manager and Executive Director of Progen Holdings Ltd from July 1997 to April 1999, Vice-President (Finance) of Pacific Century Regional Developments Limited from March 1996 to July 1997, a Treasurer with the investment banking arm of DBS Bank from April 1994 to March 1996 and a Senior Internal Auditor and Marketing/Loans Manager of Bank of Western Australia Ltd in Australia from June 1990 to April 1994. Mr Tan has more than 14 years of experience in the banking and finance industry. Mr Tan obtained a Bachelor of Commerce (Accounting) from University of Otago, New Zealand in 1983. He is a Chartered Accountant with the Institute of Chartered Accountants of New Zealand.

Board of Directors

Professor Wee Chow Hou is the Lead Independent Director of the Company and was appointed to the Board on 1 March 2005. Professor Wee is currently a Professor of Strategy, Management & Organisation at the Nanyang Business School, Nanyang Technological University (NTU) and an Honorary Professor of the Faculty of Management at Xiamen University (China) and University Tunku Abdul Rahman (Malaysia). Professor Wee is currently the Honorary Advisor of the Promote Mandarin Council in Singapore and a member of the University Grants Committee in Hong Kong.

Professor Wee is the author of several books, including "Sun Tzu: War & Management", "The 36 Strategies of the Chinese: Adapting Ancient Chinese Wisdom to the Business World", "The Inspirations of Tao Zhu-gong: Modern Business Lessons from an Ancient Past" and "Sun Zi Art of War: An Illustrated Translation with Asian Perspectives and Insights". Professor Wee has also consulted and conducted executive training for many organisations globally, including Fortune 500 companies.

Professor Wee was a former Merit, Colombo Plan and Commonwealth scholar. Professor Wee obtained a degree of Bachelor of Business Administration (Honours) from the University of Singapore in 1974, a Master of Business Administration in 1976 and a Doctor of Philosophy of Business Administration in 1984 both from the University of Western Ontario, Canada. Professor Wee was awarded the Public Administration Medal (Silver) in 1995, the Public Service Medal in 1999, and the Public Service Star in 2006 by the President of Singapore.

Professor Peng Yinghong is an Independent Director of the Company and was appointed to the Board on 1 March 2005. Professor Peng is currently in the faculty of Mechanical Engineering at Shanghai Jiaotong University and also a director at the university's Knowledge Engineering Research Institute. In 1995, Professor Peng was an Associate Professor at the Shanghai Jiaotong University and a Professor in 1997 at the aforesaid university, where he taught and conducted research in material engineering, mechanical engineering and automation. From 1997 to 2001, he was a General Manager of Shanghai Shenmo Computer Integration Ltd. From 1999 to 2001, he was a General Manager of Shanghai Shenmo Science & Innovation Ltd. He obtained a Bachelor of Engineering from the Chongqing University, China in 1984, a Master of Engineering from the Lanzhou Jiaotong University, China in 1990 and a PHD of Engineering from the Central South University, China in 1993.

Seah Kian Wee is a Non-Executive Director of the Company and was appointed to the Board on 6 August 2004. Currently, he is the Managing Director of UOB Venture Management Pte Ltd responsible for profit and loss, fund administration, investment and divestment. Mr Seah currently chairs the investment committee of several UOB-sponsored regional private equity and venture capital funds. He obtained a Bachelor of Engineering (Electrical) from the National University of Singapore in 1986 and a Master of Science (Electrical Engineering) from the University of California, Los Angeles, in 1988. Mr Seah received an Executive MBA from Tsinghua University in Beijing, China and a training certificate for Independent Director of Public Company from The Securities Association of China and Tsinghua University. Mr Seah is also a Chartered Financial Analyst charterholder.

Mark Yeo Wee Tiong is the alternate Director to Seah Kian Wee and was appointed to the Board on 6 August 2004. Currently, he is an Executive Director at UOB Venture Management Pte Ltd responsible for fund raising, deal sourcing, investment valuation, structuring and divestments. Prior to joining the venture capital industry in 1996, he spent 2 years (1993 to 1995) working for Smith Barney Shearson, HG Asia (Singapore) Pte Ltd and approximately 4 years (from 1990 to 1993) working for N M Rothschild & Sons (Singapore) Ltd specialising in corporate finance transactions where he was involved in advisory services on mergers and acquisitions, corporate restructuring and public listings. Mr Yeo started his career in 1988 in the audit division of Ernst & Young Chartered Accountants in New Zealand. He obtained a Bachelor of Commerce degree with a double major in Accounting and Marketing from the University of Canterbury in New Zealand in 1987.

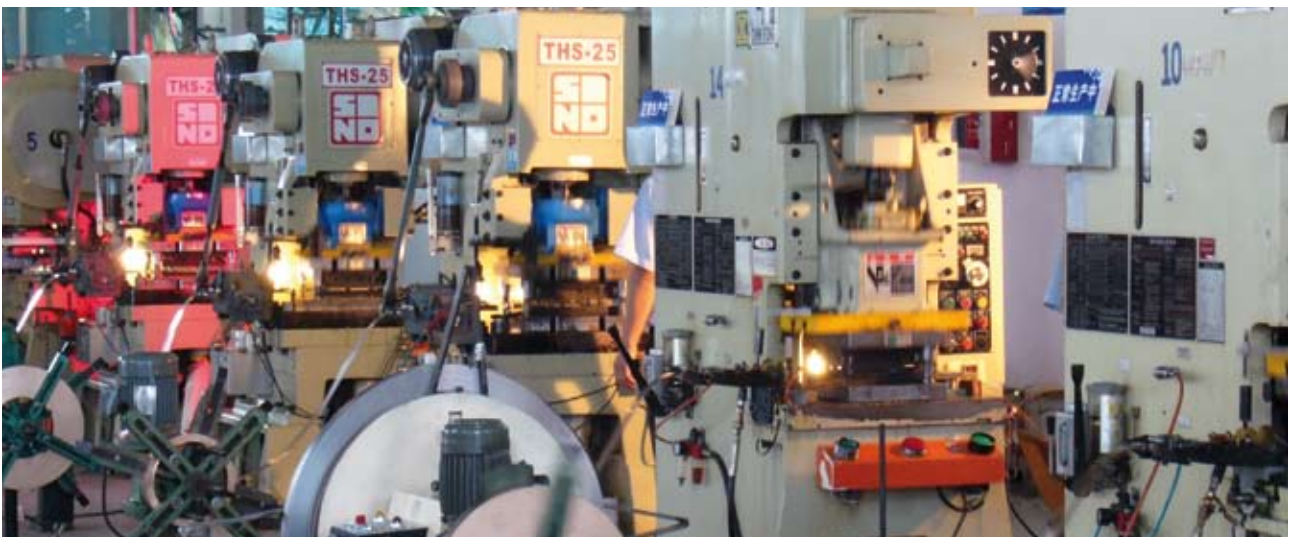
Yeo Pek Heng is a Non-executive Director of our Company and was appointed to the Board on 22 January 2006. Mr Yeo is currently an independent management consultant with Glo Performance Consulting Group Pte. Ltd., providing advisory services to companies seeking to streamline its business activities and financial operations. Mr Yeo was previously with the Overseas Union Bank Limited ("OUB"), and retired from OUB in 2001 as its Vice President, after a tenure of 39 years. In OUB, Mr Yeo had responsibility for enterprise financing for small medium enterprises. Mr Yeo is currently a director of Jurong Technologies Industrial Corporation Ltd.

Key Executives

Leslie Ying Wei Hsein is our Chief Financial Officer and joined our Group in November 2004. He is responsible for the corporate finance function of our Group and oversees matters relating to accounting, financial administration and the compliance and reporting obligations of our Group. Prior to joining us, he was with Deloitte & Touche Singapore from July 1997 to October 2004, where he last held the position of Audit Manager. At Deloitte & Touche Singapore, he led and managed various statutory audits of companies, both listed and privately held, in the manufacturing, venture capital, construction, ship-building and repair, investment holding, trading and hospitality industries. His responsibilities also included identifying weaknesses in financial and operational controls and devising plans to mitigate such risks. In addition, he led a fraud investigation in India in 2003. Mr Ying obtained a Bachelor of Accountancy (Honours) with a minor in Banking and Finance from the Nanyang Technological University in 1997. Mr Ying is currently a non-practising member of the Institute of Certified Public Accountants of Singapore.

Chen Songjie is the General Manager of our subsidiary Ningbo Sunrise Electronics Co., Ltd. He also assist our CEO in developing the strategic direction and integration of our electronic communication business. Mr Chen is responsible for overall operations of our Cixi City plant, including direct involvement in engineering, technical, manufacturing and sales for the electronic tuner components. Mr Chen joined our Group in 1993, where he has held the positions of Production Manager and Deputy General Manager of Cixi Zhongxing from 1996 and Deputy General Manager of Zhejiang Zhongxing from 2000 to 2003. He obtained a diploma in Business Administration from the Central Radio and Television University, China in 2004. Presently Mr Chen has enrolled for EMBA at Cheung Kong Graduate School of Business.

Lu Hong is our Group Human Resource Director. She joined our Group in 2003 and is responsible for the Group's development of human resource strategies, the development and coordination of personnel programs and policies and the general overseeing of employment, compensation, benefits, training and development and employee relations of our Group. From 2001 to 2003, Ms Lu was the vice general manager in charge of cost control and daily operations of Shanghai 5A Intelligent System Co. Ltd. From 1997 to 2001, she was the manager for the Shanghai region of Shanghai ICON Electronic System Engineering Co. Ltd where she was responsible for cost control and the general administration of the Shanghai office. From 1995 to 1997, she worked as a division manager of the system integration division of the Tsinghua Unisplendour Corporation Limited Shanghai Office where she was responsible for providing integrated services in design, implementation, set-up and maintenance of the networking and operating system and hardware. Ms Lu started her career as an office administrator in charge of office administration, human resource management and liaison of Arrow Electronic Shanghai Office in 1993. Ms Lu obtained a Bachelor of Preventive Medicine from the Shanghai Medical University, China in 1993 and has completed a Master of Business Administration course at the Nanyang Technological University in Singapore in 2005.



Key Executives

Liu Xudong is the General Manager of Ningbo Zhongjun Automobile Parts Co., Limited, he joined our Group in 2006. He is responsible for the operation of Ningbo Zhongjun Automobile Parts Co., Limited.

From 2003 to 2005, Mr Liu was the vice general manager and quality control representative of Ningbo Swell Automobile Trimming Parts Co., Ltd and was responsible for its daily operations and business development.

From 2002 to 2003, he was the general manager of Wuhan Fushide Industry Limited and was in charge of supplying components and services to automobile manufacturers.

Between 2000 to 2002, he worked at Wuhan Hutchinson-DFEDC Automotive Rubber Products Co., Ltd. as its business director. He was responsible for the market development, the marketing of automobile parts and assisted the general manager in the development of strategic business plan.

From 1994 to 2000, he worked at China Sanjiang Renault Automotive Co., Ltd as the purchasing manager and was in charge of induction of the Renault traffic, purchasing of component, vendor selection and vendors' quality assurance system. From 1990 to 1994, he was a department manager at Hubei Auto Industry Corporation of Space Trade which belongs to China Spaceflight Sanjiang Corporation and was involved in the design and localisation of the production of Toyota Module-F in the PRC. From 1988 to 1990, he worked at Wanshan Special Vehicle Factory which belongs to China Spaceflight Sanjiang Corporation as a technologist and was in charge of the design of production techniques for automobile components production.

Mr Liu obtained a diploma in manufacture technology and equipment from Huazhong University of Science and Technology in 1988.

Shi Guangxing is the Deputy General Manager (administrative) of Suzhou Zhongxinglian Precision Industry Co., Limited, he is in charge of the overall operation, technology, manufacturing, development of our precision connectors and components businesses and marketing functions of our Suzhou factory.

From 1992 to 1994, Mr Shi worked at Wuxi Special Steel Tube Factory as Technical Engineer. Between 1994 to 2002, he worked at Foxconn Group, where he held the position engineer and was in charge of desktop connector QC & Technical department from 1994 to 1999, from August 1999 to February 2002, he worked as Field Application Engineer at Foxconn I/O Inc. in USA . From February 2002 to June 2002, he was in charge of R&D and marketing department of the manufacturing division for the notebook connector business unit in Kunshan.

Mr Shi joined our Group in 2002 as manager of technology department and in 2004 he was tasked with the planning of the establishment of Suzhou Zhongxinglian Precision Industry Co., Limited. Mr Shi obtained his bachelor's degree of material science from Lanzhou University in 1992 and completed his EMBA at Shanghai Jiaotong University in 2005.



Corporate Governance Statement

The Board of Directors of China Precision Technology Limited (the "Board") recognizes the importance of and is committed to setting and maintaining high standards of corporate governance to protect shareholders' interests and enhance shareholders' value and corporate transparency. This report describes the Company's corporate governance processes and activities with reference to the Code of Corporate Governance 2005 (the "Code").

The Company is in the course of implementing further practices to enhance compliance with the recommendations of the Code. Where there are deviations from the Code, appropriate explanations will be provided.

BOARD MATTERS

Board's Conduct of its Affairs

Principle 1: Every company should be headed by an effective Board to lead and control the company. The Board is collectively responsible for the success of the company. The Board works with Management to achieve this and the Management remains accountable to the Board.

The principal functions of the Board include the following:-

- (a) Protecting and enhancing long-term value and return to its shareholders;
- (b) Providing leadership and guidance on corporate strategy, business directions, risk management policy and implementation of corporate objectives;
- (c) Establishing, reviewing and approving the annual budget, corporate policies, strategies and objectives for the Group;
- (d) Ensuring the effectiveness and integrity of Management;
- (e) Monitoring Management's achievement of these goals;
- (f) Conducting periodic reviews of the Group's financial performance, internal controls and reporting compliance;
- (g) Approving nominations to the Board and appointment of key personnel;
- (h) Ensuring the Group's compliance with all relevant and applicable laws and regulations; and
- (i) Assuming responsibility for the corporate governance of the Group.

To assist the Board in the execution of its responsibilities, the Board is supported by three committees, namely the Nominating Committee, the Remuneration Committee and the Audit Committee. Each Committee has its own defined terms of reference and operating procedures.

Formal Board meetings are held at least once every quarter to approve the quarterly results announcement and to oversee the business affairs of the Group. The Board is free to seek clarification and information from Management on all matters within their purview. Ad-hoc meetings are convened when the circumstances require. In the financial year ended 31 December 2006, the number of Board and Committee meetings held and attended by each Board member are set out as follows:

Name	Board		Audit Committee		Nominating Committee		Remuneration Committee	
	No. of meeting held	No. of meeting attended	No. of meeting held	No. of meeting attended	No. of meeting held	No. of meeting attended	No. of meeting held	No. of meeting attended
Zhang Zhongliang	4	4	3*	3*	1	1	2*	2*
Zheng Yimin	4	4	3*	3*	1*	1*	2*	2*
Tan Soo Kiat	4	4	3	3	1	1	2	2
Wee Chow Hou	4	4	3	3	1	1	2	2
Peng Yinghong	4	1	3	2	NA	NA	2	1
Seah Kian Wee	4	2	2*	1*	NA	NA	NA	NA
Mark Yeo Wee Tiong **	4	4	2*	1*	NA	NA	NA	NA
Yeo Pek Heng ***	3	3 [#]	2*	1 [#]	NA	NA	NA	NA

* By invitation

** Alternate to Seah Kian Wee

*** Appointed 22 January 2006

[#] Attendance on Board and Audit Committee Meetings held on 1 November 2006 is by way of Power of Attorney

Corporate Governance Statement

Training for Directors

The Board has received relevant training to familiarise themselves with the roles and responsibilities of a director of a public listed company in Singapore. Management would conduct briefings and orientation programmes to familiarise newly appointed Directors with the various businesses and operations of the Group, including visits to the Group's factories in the PRC.

Board Composition and Balance

Principle 2: There should be a strong and independent element on the Board, which is able to exercise objective judgment on corporate affairs independently, in particular, from Management. No individual or small group of individuals should be allowed to dominate the Board's decision making.

The Nominating Committee has reviewed the size and composition of the Board. It is satisfied that the current Board size is appropriate and effective, and the Board comprises members from diverse background and possess varied expertise in finance, academic, business and management field.

The Board consists of eight members, three of whom are Independent Directors: -

Executive Directors

Zhang Zhongliang (Chairman of the Board, Chief Executive Officer ("CEO"))
Zheng Yimin

Independent Directors

Wee Chow Hou (Lead Independent Director)
Tan Soo Kiat
Peng Yinghong

Non-Executive Directors

Seah Kian Wee
Mark Yeo Wee Tiong, alternate to Seah Kian Wee
Yeo Pek Heng

The Board considers an "Independent Director" as one who has no relationship with the Company, its related corporation or its officers that could interfere or be reasonably perceived to interfere, with the exercise of the Director's independent business judgment.

The Nominating Committee has reviewed the independence of each Director for the financial year ended 31 December 2006 in accordance with the Code's definition of independence and is satisfied that more than one-third of the Board comprises Independent Directors.

The Nominating Committee is of the view that the Board comprises Directors who have the appropriate mix of diversity, expertise and experience, and collectively possess the necessary core competencies for effective functioning and informed decision-making.

Chairman and Chief Executive Officer

Principle 3: There should be a clear division of responsibilities at the top of the company – the working of the Board and the executive responsibility of the company's business – which will ensure a balance of power and authority, such that no one individual represents a considerable concentration of power.

The roles for both Chairman and duties of a CEO in the Company are assumed by Zhang Zhongliang. As such, Zhang Zhongliang bears executive responsibility for the Group's businesses as well as responsibility for the workings of the Board and ensures that procedures are introduced to comply with the Code.

Although the roles and responsibilities for the Chairman and CEO are vested in Zhang Zhongliang, major decisions are made in consultation with the Board which comprises a majority of Independent and Non-Executive Directors. The Board is of the opinion that the process of decision making by the Board has been independent and has been based on collective decisions without any individual exercising any considerable concentration of power or influence.

Corporate Governance Statement

To strengthen corporate governance, the Company has appointed Wee Chow Hou as the Lead Independent Director of the Company with effect from 19 December 2006. The Lead Independent Director will lead and coordinate the activities of the Non-Executive Directors. His functions include (i) serving as the principal liaison on Board issues between the Non-Executive Directors and the Chairman of the Board, and (ii) being available to shareholders where they have concerns which contact through the normal channels of the Chairman, CEO, Executive Director or CFO has failed to resolve or for which such contact is inappropriate.

Board Membership

Principle 4: There should be a formal and transparent process for the appointment of new directors to the Board.

The Nominating Committee comprises the following three members, of whom two are Independent Directors:

Wee Chow Hou (Chairman)
Tan Soo Kiat
Zhang Zhongliang

The duties of the Nominating Committee are, *inter alia*:-

- (1) To make recommendations to the Board on all board appointments and on the composition of the Board generally and the balance between Executive and Non-Executive Directors appointed to the Board to ensure that the Board as a whole possess the right blend of relevant experiences and core competencies to effectively manage the Company;
- (2) To review, assess and recommend nominees or candidates for appointment or election to the Board, having regard to his/her requisite qualifications and competency and whether or not he/she is independent and in the case of a re-nomination, to his/her contribution and performance (e.g. attendance, preparedness, participation and candour);
- (3) To determine, on an annual basis, if a Director is independent;
- (4) To recommend Directors who are retiring by rotation to be put forward for re-election;
- (5) To determine/propose objective performance criteria for evaluating the performance of the Board and each of its Directors with respect to the Director's delegated duties; and
- (6) To assist the Board to implement a process for assessing the effectiveness of the Board as a whole and for assessing the contribution of each individual Director to the effectiveness of the Board.

Pursuant to the Company's Articles of Association, every Director (except the Managing Director i.e. our CEO, who may be appointed for a term of up to five years) must retire from office at least once every three years by rotation. Directors who retire are eligible to offer themselves for re-election.

Each member of the Nominating Committee shall abstain from voting on any resolutions in respect to his re-nomination as a Director.

The Nominating Committee has recommended the re-election of Wee Chow Hou and Peng Yinghong who are retiring at the forthcoming Annual General Meeting to be held on 27 April 2007. The Board has accepted the recommendations and the retiring Directors would be offering themselves for re-election.

Board Performance

Principle 5: There should be a formal assessment of the effectiveness of the Board as a whole and the contribution by each director to the effectiveness of the Board.

The Nominating Committee is in the process of establishing a formal process for assessing the effectiveness of the Board as a whole and for assessing the contribution of each individual Director to the effectiveness of the Board.

The Board and the Nominating Committee have endeavored to ensure that Directors appointed to the Board possess the experience, knowledge and expertise critical to the Group's business.

Corporate Governance Statement

Access to Information

Principle 6: In order to fulfill their responsibilities, Board members should be provided with complete, adequate and timely information prior to Board meetings and on an on-going basis.

To enable the Board to fulfill its responsibility, Management strives to provide Board members with adequate information for Board and committee meetings and on an ongoing basis. Board and committee papers are prepared for each meeting and are disseminated to the members before the meetings. Board and committee papers include sufficient information from Management on financial, business and corporate matters of the Group so as to enable Directors to be properly briefed on matters to be considered at the Board and committee meetings. Directors are given separate and independent access to the Group's key executives and Company Secretaries to address any enquiries.

The Company Secretaries attend all Board and committee meetings and are responsible for ensuring that proper procedures at such meetings are followed. Together with the Company's Management, they are responsible for ensuring that the Company complies with the requirements of the Singapore Companies Act, Listing Manual of the SGX-ST and other rules and regulations that are applicable to the Company. Directors may seek professional advice in furtherance of their duties and the costs will be borne by the Company.

REMUNERATION MATTERS

Procedures for Developing Remuneration Policies

Principle 7: There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his own remuneration.

Principle 8: The level of remuneration should be appropriate to attract, retain and motivate the directors needed to run the company successfully but companies should avoid paying more than is necessary for this purpose. A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance.

Principle 9: Each company should provide clear disclosure of its remuneration policy, level and mix of remuneration, and the procedure for setting remuneration, in the company's annual report. It should provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to directors and key executives, and performance.

The Remuneration Committee comprises the following three members, all of whom are Independent Directors:

Wee Chow Hou (Chairman)
Tan Soo Kiat
Peng Yinghong

The principal functions of the Remuneration Committee are, *inter alia*:

- (1) To review and submit its recommendations for endorsement by the Board, a framework of remuneration and the specific remuneration packages and terms of employment (where applicable) for each Director, CEO and senior management, including but not limited to senior executives/divisional directors/those reporting directly to the Chairman/CEO of the Group/employees related to the Executive Directors and Controlling Shareholders of the Group. The Independent Directors on the Remuneration Committee shall review and approve annually the total remuneration of the Directors, Executive Officers and other employees who are related to the Substantial Shareholders;
- (2) To review and submit its recommendations for endorsement by the Board, the share option granted under the China Precision Technology Employee Share Option Scheme or any long-term incentive schemes which may be set up from time to time and to do all acts necessary in connection therewith; and
- (3) To cover all aspects of remuneration, including but not limited to Directors' fees, salaries, allowances, bonuses, options and benefits-in-kind in the Remuneration Committee's review and recommendations.

Corporate Governance Statement

Each member of the Remuneration Committee refrains from voting on any resolutions in respect of the assessment of his remuneration. No Director will be involved in determining his own remuneration.

The Remuneration Committee has full authority to engage any external professional advice on matters relating to remuneration as and when the need arises.

Company's Directors receiving remuneration from the Group for the financial year ended 31 December 2006 are as follows:

Remuneration Band	Number of Directors	
	2006	2005
S\$500,000 and above	–	–
S\$250,000 to below S\$500,000	1	–
Below S\$250,000	7	7
Total	<u>8</u>	<u>7</u>

A breakdown of each individual Director's and key executive's remuneration, in percentage terms showing the level and mix for the financial year ended 31 December 2006, is as follows:

	Fees	Salary	Bonus	Other benefits	Total compensation
	%	%	%	%	%
Directors					
S\$250,000 to below S\$500,000					
Zhang Zhongliang	–	37	63	–	100
Below S\$250,000					
Zheng Yimin	–	51	49	–	100
Tan Soo Kiat	100	–	–	–	100
Wee Chow Hou	100	–	–	–	100
Peng Yinghong	100	–	–	–	100
Seah Kian Wee	100	–	–	–	100
Mark Yeo Wee Tiong	100	–	–	–	100
Yeo Pek Heng	–	–	–	–	–
Key Management					
S\$250,000 to below S\$500,000					
Hayashi Sawamatsu	–	92	8	–	100
Below S\$250,000					
Leslie Ying Wei Hsein	–	70	30	–	100
Chen Songjie	–	39	61	–	100
Lu Hong	–	50	50	–	100
Du Changxiu	–	83	17	–	100

There is no employee of the Group who is an immediate family member of a Director or Substantial Shareholder whose remuneration exceeds S\$150,000 for the financial year ended 31 December 2006.

The Remuneration Committee has reviewed and approved the remuneration packages of the Directors and Key Management, having due regard to their contributions as well as the financial performance and commercial needs of the Group and has ensured that the Directors are adequately but not excessively remunerated.

Corporate Governance Statement

ACCOUNTABILITY AND AUDIT

Accountability

Principle 10: The Board should present a balanced and understandable assessment of the company's performance, position and prospects.

In presenting the annual audited financial statements and quarterly announcements of financial results to its shareholders, it is the aim of the Board to provide shareholders with a balanced and comprehensive assessment of the Group's performance, position and prospects. Management currently provides the Board with appropriate explanations on the Group's performance, position and prospects on a regular basis.

Principle 11: The Board should establish an Audit Committee with written terms of reference which clearly set out its authority and duties.

The Audit Committee comprises the following three members, all of whom are Independent Directors:

Tan Soo Kiat (Chairman)
Wee Chow Hou
Peng Yinghong

The Company has adopted and has complied with the principles of corporate governance under the Code in relation to the roles and responsibilities of the Audit Committee.

The Board is of the view that the members of the Audit Committee are appropriately qualified, having the necessary accounting or related financial management expertise or experience to discharge their responsibilities.

The Audit Committee meets quarterly and when circumstances require. Its duties are, *inter alia*: -

- (1) To review with the external auditors:-
 - a) their audit plan, including the nature and scope of the audit before the audit commences;
 - b) their evaluation of the system of internal accounting controls;
 - c) their audit report; and
 - d) their management letter and Management's response.
- (2) To ensure co-ordination where more than one audit firm is involved.
- (3) To review all announcements including the Group's quarterly and half-yearly results announcements and the annual financial statements to ensure the integrity of the said financial statements and announcements; and thereafter to submit them to the Board for approval. The Audit Committee would focus, *inter alia*, on the following:-
 - a) significant financial reporting issues and judgments;
 - b) changes in accounting policies and practices;
 - c) major risk areas;
 - d) significant adjustments resulting from the audit;
 - e) the going concern statement;
 - f) compliance with accounting standards;
 - g) audit qualifications, if any;
 - h) concerns and issues arising from the audits; and
 - i) compliance with SGX-ST and statutory/regulatory requirements.
- (4) To discuss problems and concerns, if any, arising from the statutory audits, in consultation with the external auditors and the internal auditors where necessary.

Corporate Governance Statement

- (5) To meet with the external auditors and with the internal auditors without the presence of Management, at least annually, to discuss any problems and concerns they may have. The external auditor has the right to appear and be heard at any meeting of the Audit Committee and shall appear before the Audit Committee when required to do so by the Audit Committee.
- (6) To review the assistance given by Management to the external auditors.
- (7) To review annually the scope and results of the audit and its cost effectiveness as well as the independence and objectivity of the external auditors.

Where the auditors also provide a substantial volume of non-audit services to the Company, to review the nature and extent of such services in order to balance the maintenance of objectivity and value for money, and to ensure that the independence of the auditors would not be affected.

- (8) To review the internal audit programme and ensure co-ordination between the internal and external auditors and Management.
- (9) To review the effectiveness of the internal audit function, the scope and results of the internal audit procedures and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company and to review and ensure annually the adequacy of the internal audit function.
- (10) To recommend to the Board if the internal audit function be in-house or out-sourced to a reputable public accounting/auditing firm. If the public accountant is also the external auditor of the Company, the Audit Committee should satisfy itself that the independence of the public accountant is not compromised by any other material relationship with the Company.
- (11) To review the adequacy of the Company's internal controls as set out in Guideline 12.1 of the Code. Guideline 12.1 states that the Audit Committee should review the adequacy of the Company's internal financial controls, operational control and compliance controls, and risk management policies and systems established by the Management (collectively "the internal controls"). The Audit Committee should ensure a review of the effectiveness of the Company's internal controls is conducted at least annually.
- (12) To review the annual statutory consolidated financial statements of the Group and thereafter to submit to the Board.
- (13) To review all internal audit reports. The Internal Auditor's primary line of reporting is to the Chairman of the Audit Committee.
- (14) To commission and review the findings of internal investigations into matters where there is any suspected fraud or irregularity, or failure of internal controls or infringement of any Singapore law, rules or regulations, which has or is likely to have a material impact on the Company's and Group's operating results or financial position. To also discuss the above with the external auditors and to review Management's response.
- (15) To investigate any matter within its terms of reference, with full access to and co-operation by Management and full discretion to invite any Director or executive officer to attend its meetings, and reasonable resources to enable it to discharge its functions properly.
- (16) To review arrangements by which staff of the Group may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters and ensure that arrangements are in place for the independent investigations of such matters and for appropriate follow up actions.
- (17) To report to the Board its findings from time to time on matters arising and requiring the attention of the Audit Committee. In addition, upon the request of the auditor, the Chairman of the Audit Committee shall convene a meeting of the Audit Committee to consider any matters the auditor believes should be brought to the attention of the Directors or shareholders.
- (18) To recommend to the Board the appointment, re-appointment, removal and matters arising from the resignation of the external auditors, and approve the remuneration and terms of engagement of the external auditors.

Corporate Governance Statement

- (19) To review all other existing and future Interested Person Transactions not subject to the Shareholders' Mandate to ensure that they are carried out at arm's length basis and on normal commercial terms and are not prejudicial to the interests of the Company and Minority Shareholders.
- (20) To review all Interested Person Transactions falling within the scope of the SGX-ST Listing Manual to ensure compliance with Chapter 9 of the Listing Manual and the principles of and best practices set out in the SGX-ST Best Practices Guide.
- (21) To update the SGX-ST on any findings of the independent accounting firm commissioned to review the adequacy of the Group's existing system of internal controls relating to Interested Person Transaction review procedures (in the event trade transactions with Interested Persons in aggregate account for more than 5% of the total sales or purchases in the preceding year, as the case may be), and any follow up action taken by the Audit Committee, if any.
- (22) To review the payment terms for Interested Person Transactions on a quarterly basis.
- (23) To review Interested Person Transactions, including but not restricted to, comment in annual report as to whether the Interested Person Transactions are conducted in accordance with the review procedures for Mandate Transactions.
- (24) To review any potential conflicts of interest.
- (25) To review the hedging policies, if any, all types of instruments used for hedging, if any, as well as the foreign exchange policies and practices of the Group.
- (26) To review the reporting structure relating to the Group's accounting function and conduct semi-annual meetings with the Chief Financial Officer to ensure that the Chief Financial Officer is able to discharge his responsibilities effectively.
- (27) To undertake such other reviews and projects as may be requested by the Board and report to the Board its findings from time to time on matters arising and requiring the attention of the Audit Committee; and
- (28) To undertake generally such other functions and duties as may be required by law or the Listing Manual, and by such amendments made thereto from time to time.

The Audit Committee is of the opinion that Mandate Interested Persons Transactions for the financial year ended 31 December 2006 are conducted in accordance with the review procedures for such Mandate Interested Persons Transactions.

The Company is in the process of setting up a whistle blowing policy whereby accessible channels are provided for employees to raise concerns about possible improprieties in matters of financial reporting or other matters which they become aware and to ensure that:

- (i) independent investigations are carried out in an appropriate and timely manner;
- (ii) appropriate action is taken to correct the weaknesses in internal controls and policies which allowed the perpetration of fraud and/or misconduct and to prevent a recurrence; and
- (iii) administrative, disciplinary, civil and/or criminal actions that are initiated following the completion of investigations are appropriate, balance and fair, while providing reassurance that employees will be protected from reprisals or victimization for whistle-blowing in good faith and without malice.

The Audit Committee has full access to the Management and also full discretion to invite any Director or key management to attend its meetings, and has been given reasonable resources to enable it to discharge its function.

The Audit Committee has reviewed the non-audit services provided by the external auditors, including fees paid for non-audit services of \$325,000 in relation to the Company's IPO during the financial year ended 31 December 2006 and is of the opinion that the external auditors' independence has not been compromised. The Audit Committee has reviewed the performance of the external auditors and recommended to the Board the re-appointment of the external auditors at the forthcoming Annual General Meeting.

Corporate Governance Statement

The Audit Committee has reviewed all Interested Person Transactions during the financial year ended 31 December 2006 and is of the opinion that Chapter 9 of the SGX-ST Listing Manual has been complied with.

In the event that a member of the Audit Committee is interested in any matter being considered by the Audit Committee, he will abstain from reviewing that particular transaction or voting on that particular resolution.

During the financial year ended 31 December 2006, the Audit Committee met with the external and internal auditors, without the presence of Management.

Principle 12: The Board should ensure that the Management maintains a sound system of internal controls to safeguard the shareholders' investments and the company's assets.

The Board is responsible for the overall internal control framework and is fully aware of the need to put in place a system of internal controls within the Group to safeguard shareholders' interests and the Group's assets, and to manage risks. The Board recognizes that no cost effective internal control system will preclude all errors and irregularities, as a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Company's internal auditors conduct an annual review of the effectiveness of the Group's material internal controls. Any material non-compliance or failures in internal controls and recommendations for improvements are reported to the Audit Committee. The Audit Committee also reviews the effectiveness of the actions taken by the Management on the recommendations made by the internal auditors in this respect.

The Board is satisfied that currently there are adequate internal controls in the Group. The Board regularly reviews the effectiveness of all internal controls, including operational controls.

Principle 13: The Company should establish an internal audit function that is independent of the activities it audits.

The Company has outsourced its internal audit function to an independent professional accounting firm. The Internal Auditor ("IA") reports directly to the Chairman of the Audit Committee. To ensure the adequacy of the internal audit function, the Audit Committee reviews and approves the IA plan on an annual basis.

Communication with Shareholders

Principle 14: Companies should engage in regular, effective and fair communication with shareholders.

Greater Shareholder Participation

Principle 15: Companies should encourage greater shareholder participation at Annual General Meetings, and allow shareholders the opportunity to communicate their views on various matters affecting the company.

The Company is committed to regular and proactive communication with its shareholders in line with continuous disclosure obligations of the Company according to the Listing Manual of the SGX-ST. Pertinent information will be disclosed to shareholders in a timely, fair and equitable manner.

Communications are made through:

- annual report that are prepared and issued to all shareholders;
- quarterly results announcements;
- media and analyst meetings;
- circulars and notices to the shareholders
- press releases; and
- disclosures to the SGX-ST via SGXNET

In addition, shareholders are encouraged to attend the Company's Annual General Meeting to ensure a high level of accountability and to stay informed of the Group's strategies and growth. The participation of shareholders is encouraged at the Company's Annual General Meeting. The Chairman of the Audit, Remuneration and Nominating Committees will be available at the forthcoming Annual General Meeting to answer questions relating to the work of these committees. The external auditors will also be present to assist the Directors in addressing any relevant queries from the shareholders. The Group fully supports the Code's principle to encourage active shareholders participation.

Corporate Governance Statement

If any shareholder is unable to attend, he is allowed to appoint up to two proxies to vote on his behalf at the meeting through proxy forms sent in advance.

DEALINGS IN SECURITIES

The Company has adopted the Best Practices Guide on Dealing in Securities and has issued a policy on the dealings in the securities of the Company to its Directors and Management. The Company and its officers are not allowed to deal in the Company's shares during the period commencing one month before the announcement of the Group's quarterly financial results and ending on the date of the announcements of the relevant results or when they are in possession of any unpublished price sensitive information on the Group. In addition the Directors and Management are expected not to deal in the Company's securities on short-term consideration.

INTERESTED PERSON TRANSACTIONS

To ensure compliance with the relevant rules under Chapter 9 of the SGX-ST Listing Manual on Interested Person Transactions, the Board and Audit Committee regularly review if the Group will be entering into any Interested Person Transaction and if it does, to ensure that the Group complies with the requisite rules under Chapter 9 of the SGX-ST Listing Manual. When a potential conflict of interest arises, the Director concerned does not participate in discussions and refrains from exercising any influence over other members of the Board. Details of Interested Person Transactions for the financial year ended 31 December 2006 are as follows:

Name of interested person	Aggregate value of all Interested Person Transactions during the financial period under review (excluding transactions conducted under shareholders' mandate pursuant to Rule 920)		Aggregate value of all Interested Person Transactions conducted under shareholders' mandate pursuant to Rule 920	
	12 months ended		12 months ended	
	31-Dec-06 RMB'000	31-Dec-05 RMB'000	31-Dec-06 RMB'000	31-Dec-05 RMB'000
Hefei Rundong Communications Co., Ltd				
– Sale of finished goods	–	1,054	1,137	–
Ningbo Chunsheng Electronics Co., Ltd				
– Processing fees paid or payable	–	–	32,864	–
– Sale of consumables	–	–	33	–
Cixi Hengxing Electronics Co., Ltd				
– Processing fees paid or payable	–	23,729	1,753	–
– Sale of consumables	–	461	24	–
Zhejiang Zhongxing Precision Industry Co., Ltd				
– Operating leases of leasehold land and building paid or payable	2,227	1,143	–	–
– Interest expense paid or payable	–	1,606	724	–

Corporate Governance Statement

MATERIAL CONTRACTS

There are no material contracts of the Company or its subsidiaries involving the interest of any Director or Controlling Shareholder subsisting at the end of the financial year ended 31 December 2006.

RISK MANAGEMENT

Management regularly reviews the Group's business and operational activities to identify areas of significant business risks as well as appropriate measures to control and mitigate these risks within the Group's policies and strategies. The significant risk management policies are as disclosed in the audited financial statements.



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Directors' Report

The directors present their report to the members together with the audited financial statements of the Group for the financial year ended 31 December 2006 and the balance sheet of the Company at 31 December 2006.

Directors

The directors of the Company in office at the date of this report are as follows:

Zhang Zhongliang
 Zheng Yimin
 Tan Soo Kiat
 Wee Chow Hou
 Peng Yinghong
 Seah Kian Wee
 Mark Yeo Wee Tiong (alternate to Seah Kian Wee)
 Yeo Pek Heng

Arrangements to enable directors to acquire shares and debentures

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object is to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' interests in shares or debentures

- (a) According to the register of directors' shareholdings, none of the directors holding office at the end of the financial year had any interest in the shares or debentures of the Company or its related corporations, except as follows:

	Holdings registered in name of director or nominee		Holdings in which a director is deemed to have an interest	
	At 31.12.2006	At ⁽¹⁾ 1.1.2006	At 31.12.2006	At ⁽¹⁾ 1.1.2006
The Company				
<u>(Ordinary shares)</u>				
Zhang Zhongliang	–	–	206,410,245	209,211,744
Zheng Yimin	–	–	1,610,925	1,610,925
The holding corporation				
Dynamic Goal Finance Ltd				
<u>(Ordinary shares of US\$1 each)</u>				
Zhang Zhongliang	10	10	–	–
The previous holding corporation				
Hong Kong Zhongxing Trading Limited				
<u>(Ordinary shares of HK\$1 each)</u>				
Zhang Zhongliang	9,999	9,999	–	–

(1) Adjusted for the subdivision of 278,289,769 ordinary shares into 320,000,000 ordinary shares.

Directors' Report

Directors' interests in shares or debentures (continued)

- (b) Zhang Zhongliang, who by virtue of his interest of not less than 20% of the issued capital of the Company, is deemed to have an interest in the whole of the share capital of the Company's wholly-owned subsidiaries and in the equity interests held by the Group in the following subsidiaries that are not wholly-owned by the Group:

	Group's interest in registered capital	
	At 31.12.2006	At 1.1.2006
Wuxi Ruite Surface Treatment Co., Ltd	US\$820,000	US\$820,000
Dongguan Xingbo Precision Mould Co., Ltd	US\$1,160,000	–

- (c) The directors' interests in the ordinary shares of the Company, the holding corporation and the previous holding corporation as at 21 January 2007 were the same as those as at 31 December 2006.

Directors' contractual benefits

Since the end of the previous financial year, no director has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member or with a company in which he has a substantial financial interest, except as disclosed in the financial statements.

Share options

- (a) China Precision Employee Share Option Scheme

The China Precision Employee Share Option Scheme (the "Scheme") for Executive Directors and employees of the Group was approved by members of the Company at an Extraordinary General Meeting on 26 July 2005.

On 17 February 2006, the members approved the amendments to the Scheme necessitated by the Companies (Amendment) Act 2005.

Under the Scheme, share options can be granted to Executive Directors and employees. Controlling shareholders and associates of controlling shareholders are not eligible to participate in the Scheme. The exercise price of the granted options is equal to the average of the closing price of the Company's ordinary shares listed on the Singapore Exchange Securities Trading Limited ("SGX-ST") for the five consecutive market days ("Average Price") immediately preceding the date of grant or at a maximum discount of 20% from the Average Price. Once the options are vested, they are exercisable for a contractual option term of 4 years. The options may be exercised in full or in part in respect of 1,000 shares or a multiple thereof, on the payment of the exercise price.

The persons to whom the options have been issued have no right to participate by virtue of the options in any share issue of any other company. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

The Scheme is administered by the Remuneration Committee which comprises of Wee Chow Hou (Chairman), Tan Soo Kiat and Peng Yinghong.

- (b) Share options outstanding

There were no options granted during the financial year to subscribe for unissued shares of the Company.

No shares have been issued during the financial year by virtue of the exercise of options to take up unissued shares of the Company.

There were no unissued shares of the Company or its subsidiaries under option at the end of the financial year.

Directors' Report

Audit Committee

The Audit Committee performed the functions specified in the Singapore Companies Act, including the following:

- (1) To review with the external auditors:-
 - a) their audit plan, including the nature and scope of the audit before the audit commences;
 - b) their evaluation of the system of internal accounting controls;
 - c) their audit report; and
 - d) their management letter and management's response.
- (2) To ensure co-ordination where more than one audit firm is involved.
- (3) To review all announcements including the Group's quarterly and half-yearly results announcements and the annual financial statements to ensure the integrity of the said financial statements and announcements; and thereafter to submit them to the Board for approval. The Audit Committee would focus, *inter alia*, on the following:-
 - a) significant financial reporting issues and judgments;
 - b) changes in accounting policies and practices;
 - c) major risk areas;
 - d) significant adjustments resulting from the audit;
 - e) the going concern statement;
 - f) compliance with accounting standards;
 - g) audit qualifications, if any;
 - h) concerns and issues arising from the audits; and
 - i) compliance with SGX-ST and statutory/regulatory requirements.
- (4) To discuss problems and concerns, if any, arising from the statutory audits, in consultation with the external auditors and the internal auditors where necessary.
- (5) To meet with the external auditors and with the internal auditors without the presence of management, at least annually, to discuss any problems and concerns they may have. The external auditor has the right to appear and be heard at any meeting of the Audit Committee and shall appear before the Audit Committee when required to do so by the Audit Committee.
- (6) To review the assistance given by management to the external auditors.
- (7) To review annually the scope and results of the audit and its cost effectiveness as well as the independence and objectivity of the external auditors. Where the auditors also provide a substantial volume of non-audit services to the Company, to review the nature and extent of such services in order to balance the maintenance of objectivity and value for money, and to ensure that the independence of the auditors would not be affected.
- (8) To review the internal audit programme and ensure co-ordination between the internal and external auditors and management.
- (9) To review the effectiveness of the internal audit function, the scope and results of the internal audit procedures and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company and to review and ensure annually the adequacy of the internal audit function.
- (10) To recommend to the Board if the internal audit function be in-house or out-sourced to a reputable public accounting/auditing firm. If the public accountant is also the external auditor of the Company, the Audit Committee should satisfy itself that the independence of the public accountant is not compromised by any other material relationship with the Company.

Directors' Report

Audit Committee (continued)

- (11) To review the adequacy of the Company's internal controls as set out in Guideline 12.1 of the Code of Corporate Governance. Guideline 12.1 states that the Audit Committee should review the adequacy of the Company's internal financial controls, operational control and compliance controls, and risk management policies and systems established by the management (collectively "the internal controls"). The Audit Committee should ensure a review of the effectiveness of the Company's internal controls is conducted at least annually.
- (12) To review the annual statutory consolidated financial statements of the Group and thereafter to submit to the Board.
- (13) To review all internal audit reports. The internal auditor's primary line of reporting is to the Chairman of the Audit Committee.
- (14) To commission and review the findings of internal investigations into matters where there is any suspected fraud or irregularity, or failure of internal controls or infringement of any Singapore law, rules or regulations, which has or is likely to have a material impact on the Company's and Group's operating results or financial position. To also discuss the above with the external auditors and to review management's response.
- (15) To investigate any matter within its terms of reference, with full access to and co-operation by management and full discretion to invite any director or executive officer to attend its meetings, and reasonable resources to enable it to discharge its functions properly.
- (16) To review arrangements by which staff of the Group may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters and ensure that arrangements are in place for the independent investigations of such matters and for appropriate follow up actions.
- (17) To report to the Board its findings from time to time on matters arising and requiring the attention of the Audit Committee. In addition, upon the request of the auditor, the Chairman of the Audit Committee shall convene a meeting of the Audit Committee to consider any matters the auditor believes should be brought to the attention of the directors or shareholders.
- (18) To recommend to the Board the appointment, re-appointment, removal and matters arising from the resignation of the external auditors, and approve the remuneration and terms of engagement of the external auditors.
- (19) To review all other existing and future Interested Person Transactions not subject to the shareholders' mandate to ensure that they are carried out at arm's length basis and on normal commercial terms and are not prejudicial to the interests of the Company and minority shareholders.
- (20) To review all Interested Person Transactions falling within the scope of the SGX-ST Listing Manual to ensure compliance with Chapter 9 of the Listing Manual and the principles of and best practices set out in the SGX-ST Best Practices Guide.
- (21) To update the SGX-ST on any findings of the independent accounting firm commissioned to review the adequacy of the Group's existing system of internal controls relating to Interested Person Transaction review procedures (in the event trade transactions with Interested Persons in aggregate account for more than 5% of the total sales or purchases in the preceding year, as the case may be), and any follow up action taken by the Audit Committee, if any.
- (22) To review the payment terms for Interested Person Transactions on a quarterly basis.
- (23) To review Interested Person Transactions, including but not restricted to, comment in annual report as to whether the Interested Person Transactions are conducted in accordance with the review procedures for Mandate Transactions.
- (24) To review any potential conflicts of interest.
- (25) To review the hedging policies, if any, all types of instruments used for hedging, if any, as well as the foreign exchange policies and practices of the Group.

Directors' Report

Audit Committee (continued)

- (26) To review the reporting structure relating to the Group's accounting function and conduct semi-annual meetings with the Chief Financial Officer to ensure that the Chief Financial Officer is able to discharge his responsibilities effectively.
- (27) To undertake such other reviews and projects as may be requested by the Board and report to the Board its findings from time to time on matters arising and requiring the attention of the Audit Committee; and
- (28) To undertake generally such other functions and duties as may be required by law or the Listing Manual, and by such amendments made thereto from time to time.

Auditors

The auditors, PricewaterhouseCoopers, have expressed their willingness to accept re-appointment.

On behalf of the directors

Zhang Zhongliang
Director

Zheng Yimin
Director

30 March 2007

Statement by Directors

In the opinion of the directors,

- (a) the balance sheet of the Company and the consolidated financial statements of the Group as set out on pages 36 to 84 are drawn up so as to give a true and fair view of the state of affairs of the Company and of the Group at 31 December 2006, and of the results of the business, changes in equity and cash flows of the Group for the financial year then ended; and
- (b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the directors

Zhang Zhongliang
Director

30 March 2007

Zheng Yimin
Director

Independent Auditor's Report

to the Members of China Precision Technology Limited

We have audited the accompanying financial statements of China Precision Technology Limited (the "Company") and its subsidiaries (the "Group") set out on pages 36 to 84, which comprise the balance sheets of the Company and of the Group as at 31 December 2006, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement of the Group for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The Company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with the provisions of the Singapore Companies Act (the "Act") and Singapore Financial Reporting Standards. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation 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. We conducted our audit in accordance with Singapore Standards on Auditing. 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 includes performing procedures to obtain 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 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 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,

- (a) the balance sheet of the Company and the consolidated financial statements of the Group are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006, and the results, changes in equity and cash flows of the Group for the financial year ended on that date; and
- (b) the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Consolidated Income Statement

Financial year ended 31 December 2006

	Notes	The Group	
		2006	2005
		RMB'000	RMB'000
Sales	7	605,244	422,501
Cost of sales		(409,919)	(276,030)
Gross profit		195,325	146,471
Other gains	7	17,792	9,820
Expenses			
– Distribution		(26,239)	(16,683)
– Administrative		(85,702)	(54,757)
– Finance	9	(1,979)	(3,285)
– Other	10	(9,760)	(2,850)
Share of loss of an associated company	19	–	(137)
Profit before income tax		89,437	78,579
Income tax expense	12(a)	(11,459)	(8,336)
Profit for the financial year		77,978	70,243
Attributable to:			
Equity holders of the Company		77,992	70,299
Minority interest		(14)	(56)
		77,978	70,243
Earnings per share (RMB)	13		
– Basic		0.22	0.32
– Diluted		0.22	0.32

The accompanying notes form an integral part of these financial statements.

Balance Sheets

As at 31 December 2006

	Notes	The Group		The Company	
		2006	2005	2006	2005
		RMB'000	RMB'000	RMB'000	RMB'000
ASSETS					
Current assets					
Cash and bank balances	14	108,771	42,065	53,822	262
Dividend due from a subsidiary	15	–	–	10,798	–
Trade receivables	16	181,158	123,234	–	–
Prepayments and other receivables	17	11,376	12,230	1,560	896
Inventories	18	64,829	51,656	–	–
		366,134	229,185	66,180	1,158
Non-current assets					
Investment in an associated company	19	–	–	–	–
Investments in subsidiaries	20	–	–	197,357	65,273
Property, plant and equipment	21	242,112	162,268	–	5
Intangible assets	22	2,022	2,765	–	–
Deferred income tax assets	23	1,818	1,747	–	–
		245,952	166,780	197,357	65,278
Total assets		612,086	395,965	263,537	66,436
LIABILITIES					
Current liabilities					
Trade payables	24	128,724	76,568	–	–
Other payables	25	34,797	19,747	4,499	2,799
Provision for custom issues	26	7,000	–	–	–
Current income tax liabilities	12(b)	3,387	3,357	–	–
Dividends payable	6(d)	–	5,629	–	–
Borrowings	27	5,134	85,624	–	–
Redeemable convertible loan stocks	28	–	33,898	–	33,898
Current portion of deferred subsidy income	29	133	–	–	–
		179,175	224,823	4,499	36,697
Non-current liability					
Deferred subsidy income	29	6,401	6,667	–	–
Total liabilities		185,576	231,490	4,499	36,697
NET ASSETS		426,510	164,475	259,038	29,739
EQUITY					
Capital and reserves attributable to the Company's equity holders					
Share capital	30	225,237	39,431	225,237	39,431
Share premium		–	159	–	–
Translation reserve		(2,172)	(109)	3,029	(138)
Statutory reserves		42,999	29,896	–	–
Retained earnings/ (Accumulated losses)		159,737	94,689	30,772	(9,554)
		425,801	164,066	259,038	29,739
Minority interest		709	409	–	–
Total equity		426,510	164,475	259,038	29,739

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

Financial year ended 31 December 2006

	Notes	Attributable to equity holders of the Company					Minority interest	Total equity
		Share capital	Share premium	Translation reserve	Statutory reserves#	Retained earnings		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
Balance at 1 January 2006		39,431	159	(109)	29,896	94,689	409	164,475
Contribution of capital by a minority shareholder of a subsidiary		-	-	-	-	-	314	314
Issue of new ordinary shares by the Company	30	195,242	-	-	-	-	-	195,242
Current translation differences		-	-	(2,063)	-	-	-	(2,063)
Net profit for the financial year		-	-	-	-	77,992	-	77,992
Minority shareholder share of results of subsidiaries		-	-	-	-	-	(14)	(14)
Transfer from retained earnings to statutory reserves		-	-	-	13,103	(13,103)	-	-
Total recognised gains for the financial year		-	-	(2,063)	13,103	64,889	(14)	75,915
Reclassification		-	(159)	-	-	159	-	-
Shares issue expenses@		(9,436)	-	-	-	-	-	(9,436)
Balance at 31 December 2006		225,237	-	(2,172)	42,999	159,737	709	426,510
Balance at 1 January 2005		33,659	159	(1,618)	22,966	36,192	-	91,358
Contribution of capital by a minority shareholder of a subsidiary		-	-	-	-	-	465	465
Issue of new ordinary shares by the Company	30	5,772	910	-	-	-	-	6,682
Current translation differences		-	-	1,509	-	-	-	1,509
Net profit for the financial year		-	-	-	-	70,299	-	70,299
Minority shareholder share of results of a subsidiary		-	-	-	-	-	(56)	(56)
Transfer from retained earnings to statutory reserves		-	-	-	6,930	(6,930)	-	-
Total recognised gains for the financial year		-	-	1,509	6,930	63,369	(56)	71,752
Shares issue expenses@		-	(910)	-	-	(4,872)	-	(5,782)
Balance at 31 December 2005		39,431	159	(109)	29,896	94,689	409	164,475

This represents amounts set aside for reserve fund and enterprise expansion fund in compliance with local laws in the People's Republic of China where subsidiaries of the Group operate. The reserve fund can only be used, upon approval by the relevant authority, to offset prior year's losses or to increase capital while the enterprise expansion fund can only be used to increase capital upon approval by the relevant authority.

@ Shares issue expenses represent incremental costs which are directly attributable to the issuance of new shares pursuant to the Company's Initial Public Offering ("IPO") in Singapore, which was completed on 8 May 2006.

Consolidated Cash Flow Statement

Financial year ended 31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
Cash flows from operating activities			
Profit before income tax		89,437	78,579
Adjustments for:			
Depreciation of property, plant and equipment		35,783	24,344
Interest expense		1,979	3,285
Amortisation of intangible assets		743	558
Amortisation of deferred subsidy income		(133)	–
Provision for custom issues		7,000	–
Gain on disposal of an associated company		–	(423)
Share of loss of an associated company		–	137
Loss on disposal of property, plant and equipment		399	113
Interest income		(2,012)	(133)
Effects of foreign exchange on translation		(1,071)	(47)
Operating cash flow before working capital changes		132,125	106,413
Change in operating assets and liabilities			
Pledged bank deposits		(4,203)	(7,328)
Receivables		(60,608)	(47,007)
Inventories		(13,173)	(17,773)
Payables		67,222	45,540
Cash generated from operations		121,363	79,845
Interest income received		1,972	133
Income tax paid		(11,500)	(6,867)
Net cash provided by operating activities		111,835	73,111
Cash flows from investing activities			
Net receipt from repayment of advances to related parties		92	77
Investment in an associated company		–	(2,072)
Proceeds from disposal of an associated company		3,240	2,835
Purchase of property, plant and equipment, net of deferred subsidy income received		(116,210)	(85,547)
Proceeds from disposal of property, plant and equipment		184	358
Purchase of intangible asset		–	(1,679)
Net cash used in investing activities		(112,694)	(86,028)
Cash flows from financing activities			
Repayment of advances from related parties		–	(8,540)
(Repayment)/ Proceeds from borrowings (net)		(80,490)	38,158
Dividends paid to former shareholders		(5,629)	–
Proceeds from issuance of redeemable convertible loan stocks		38,152	–
Proceeds from issuance of new ordinary shares		122,200	1,453
Share issue expenses		(9,436)	(5,782)
Contribution of capital by a minority shareholder of a subsidiary		560	219
Interest expenses paid		(1,995)	(3,264)
Net cash provided by financing activities		63,362	22,244
Net increase in cash and cash equivalents		62,503	9,327
Cash and cash equivalents at beginning of the financial year		30,257	20,930
Cash and cash equivalents at end of the financial year	14	92,760	30,257

The accompanying notes form an integral part of these financial statements.

Notes to the Financial Statements

Financial year ended 31 December 2006

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1. General

China Precision Technology Limited (the "Company") is incorporated in Singapore on 17 May 2004 as a private limited company under the name of China Precision Technology Pte. Ltd.

The Company was listed on the Singapore Exchange Securities Trading Limited ("SGX-ST") on 8 May 2006.

In connection with the conversion into a public company limited by shares, the Company's name was changed from China Precision Technology Pte. Ltd. to China Precision Technology Limited on 28 July 2005.

The Company is domiciled in Singapore with its registered office at 80 Raffles Place #25-01 UOB Plaza 1 Singapore 048624. The Company's and the Group's principal place of business is 138 Cecil Street, #05-04 Cecil Court, Singapore 069538 and Nanda Road, Changhe Town, Cixi City, Zhejiang province, The People's Republic of China (the "PRC") respectively.

The principal activity of the Company is investment holding.

The principal activities of its subsidiaries are the production and sale of electronic tuners, modulator metal parts, various connectors and injection parts, precision metal stamped parts, mould design and fabrication and surface treatment of metal and plastic parts.

2. Significant accounting policies

2.1 Basis of preparation

The financial statements have been prepared in accordance with Singapore Financial Reporting Standards ("FRS"). The financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with FRS requires management to exercise its judgement in the process of applying the Group's accounting policies. It also requires the use of accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the financial year. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates. Critical accounting estimates and assumptions used that are significant to the financial statements, and areas involving a higher degree of judgement or complexity, are disclosed in note 4.

2.2 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods, net of value-added tax, rebates and discounts, where applicable and after eliminating sales within the Group. Revenue is recognised as follows:

(a) Sale of goods and scrap

Revenue from sale of goods and scrap are recognised when a Group entity has delivered the products to the customer, the customer has accepted the products and the collectibility of the related receivables is reasonably assured.

Notes to the Financial Statements

Financial year ended 31 December 2006

2. Significant accounting policies (continued)

2.2 Revenue recognition (continued)

(b) Interest income

Interest income is recognised on a time proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cashflow discounted at original effective interest rate of the instrument, and continue amortising the discount as interest income on the recoverable amount.

(c) Subsidy income

Subsidy income is received at a discretionary amount as determined by the local PRC government. Subsidy income is recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with attached conditions. Subsidy income relating to costs, are deferred and taken to the income statement over the period necessary to match them with the costs they are intended to compensate. Subsidy income relating to assets are included in the liabilities as deferred subsidy income and are taken to the income statement on a straight-line basis over the expected useful lives of the related assets.

(d) Dividend income

Dividend income is recognised when the right to receive payment is established.

2.3 Group accounting

(a) Subsidiaries

Subsidiaries are entities (including special purpose entities) over which the Group has power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries acquired pursuant to the reorganisation of companies under common control have been consolidated using the pooling-of-interest method. Under the pooling-of-interest method, the consolidated financial statements of the Group have been presented as if the Group structure immediately after the reorganisation has been in existence since the earliest financial year presented and the assets and liabilities are brought into the consolidated financial statements at their existing carrying amounts.

The purchase method of accounting is used to account for all other acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values on the date of acquisition, irrespective of the extent of any minority interest.

Notes to the Financial Statements

Financial year ended 31 December 2006

2. Significant accounting policies (continued)

2.3 Group accounting (continued)

(a) Subsidiaries (continued)

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases. In preparing the consolidated financial statements, intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency of accounting policies with those of the Group.

Minority interest is that part of the net results of operations and of net assets of a subsidiary attributable to interests which are not owned directly or indirectly by the Group. It is measured at the minorities' share of the fair value of the subsidiary's identifiable assets and liabilities at the date of acquisition by the Group and the minorities' share of changes in equity since the date of acquisition, except when the losses applicable to the minority in the subsidiary exceed the minority interest in the equity of that subsidiary. In such cases, the excess and further losses applicable to the minority are attributed to the equity holders of the Company, unless the minority has a binding obligation to, and is able to, make good the losses. When that subsidiary subsequently reports profits, the profits applicable to the minority are attributed to the equity holders of the Company until the minority's share of losses previously absorbed by the equity holders of the Company has been recovered.

(b) Associated companies

Associated companies are entities over which the Group has significant influence, but not control, generally accompanying a shareholding of between and including 20% and 50% of the voting rights. Investments in associated companies are accounted for in the consolidated financial statements using the equity method of accounting. Investments in associated companies in the consolidated balance sheet include goodwill (net of accumulated amortisation) identified on acquisition, where applicable.

Equity accounting involves recording investments in associated companies initially at cost, and recognising the Group's share of its associated companies' post-acquisition results and its share of post-acquisition movements in reserves against the carrying amount of the investments. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated company.

In applying the equity method of accounting, unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, adjustments are made to the financial statements of associated companies to ensure consistency of accounting policies with those of the Group.

(c) Transaction costs

Costs directly attributable to an acquisition are included as part of the cost of acquisition.

2.4 Property, plant and equipment

(a) Leasehold land

Leasehold land is initially recognised at cost and subsequently recorded at cost less accumulated depreciation and accumulated impairment losses (note 2.7).

Depreciation on leasehold land is calculated using the straight-line method to allocate the depreciable amounts over the term of the lease of 50 years.

Notes to the Financial Statements

Financial year ended 31 December 2006

2. Significant accounting policies (continued)

2.4 Property, plant and equipment (continued)

(b) Other property, plant and equipment

All other property, plant and equipment are initially recognised at cost and subsequently stated at cost less accumulated depreciation and accumulated impairment losses (note 2.7).

(c) Component of costs

The cost of property, plant and equipment includes expenditure that is directly attributable to the acquisition of the items. Dismantlement, removal or restoration costs are included as part of the cost of property, plant and equipment if the obligation for dismantlement, removal or restoration is incurred as a consequence of acquiring or using the asset. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

(d) Depreciation

Depreciation on other property, plant and equipment is calculated using a straight-line method to allocate their depreciable amounts over their estimated useful lives. The estimated useful lives are as follows:

	<u>Useful lives</u>
Buildings	20 years
Leasehold improvements	1 - 5 years
Plant and machinery	10 years
Furniture, fixtures and office equipment	1 - 5 years
Motor vehicles	5 years
Moulds	2 - 3 years

No depreciation is provided on construction-in-progress.

The residual values and useful lives of property, plant and equipment are reviewed, and adjusted as appropriate, at each balance sheet date. The effects of any revision of the residual values and useful lives are included in the income statement for the financial period in which the changes arise.

(e) Subsequent expenditure

Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset only when it is probable that future economic benefits, in excess of the standard of performance of the asset before the expenditure was made, will flow to the Group and the cost can be reliably measured. Other subsequent expenditure is recognised as repair and maintenance expense in the income statement during the financial period in which it is incurred.

(f) Disposal

On disposal of an item of property, plant and equipment, the difference between the net disposal proceeds and its carrying amount is taken to the income statement.

2.5 Intangible assets

Licence for the discharge of pollutants and technology transfer fee are initially stated at cost and subsequently stated at cost less accumulated amortisation and accumulated impairment losses (note 2.7). Amortisation is calculated using the straight-line method to allocate the cost of licence for the discharge of pollutants and technology transfer fee over their estimated useful lives of 10 years and 3 years respectively.

Notes to the Financial Statements

Financial year ended 31 December 2006

2. Significant accounting policies (continued)

2.6 Borrowing costs

Borrowing costs are recognised on a time-proportion basis in the income statement using the effective interest method.

2.7 Impairment of non-financial assets

Intangible assets, property, plant and equipment and investment in associated company and subsidiaries are reviewed for impairment whenever there is any indication that these assets may be impaired. If any such indication exists, the recoverable amount (i.e. the higher of the fair value less cost to sell and value in use) of the asset is estimated to determine the amount of impairment loss.

For the purpose of impairment testing of these assets, recoverable amount is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, recoverable amount is determined for the cash-generating-units ("CGU") to which the asset belongs.

If the recoverable amount of the asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. The impairment loss is recognised in the income statement unless the asset is carried at revalued amount, in which case, such impairment loss is treated as a revaluation decrease.

An impairment loss for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of an asset other than goodwill is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset other than goodwill is recognised in the income statement, unless the asset is carried at revalued amount, in which case, such reversal is treated as a revaluation increase.

2.8 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the allowance is recognised in the income statement.

2.9 Borrowings

(a) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is taken to the income statement over the period of the borrowings using the effective interest method.

Borrowings which are due to be settled within twelve months after the balance sheet date are presented as current borrowings in the balance sheet even though the original term was for a period longer than twelve months and an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the balance sheet date and before the financial statements are authorised for issue. Other borrowings due to be settled more than twelve months after the balance sheet date are presented as non-current borrowings in the balance sheet.

(b) Redeemable convertible loan stocks ("RCLS")

Redeemable convertible loan stocks, which are mandatorily redeemable on a specific date, are classified as liabilities. The interest paid on these RCLS are taken to the income statement as finance expense.

Notes to the Financial Statements

Financial year ended 31 December 2006

2. Significant accounting policies (continued)

2.10 Trade and other payables

Trade and other payables are initially measured at fair value, and subsequently measured at amortised cost, using the effective interest method.

2.11 Fair value estimation

The carrying amount of current financial assets and financial liabilities are assumed to approximate their fair values. The fair values of financial liabilities carried at amortised cost are estimated by discounting the future contractual cash flows at the current market interest rate that are available to the Group for similar financial instruments.

2.12 Operating leases – when a group company is the lessee

Leases of assets in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are taken to the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

2.13 Research costs

Research costs are recognised as an expense when incurred.

2.14 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work-in-progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. The net realisable value is the estimated selling price in the ordinary course of business, less the applicable variable selling expenses.

2.15 Income taxes

Current income tax liabilities (and assets) for current and prior periods are recognised at the amounts expected to be paid to (recovered from) the tax authorities, using the tax rate (and tax laws) that have been enacted or substantially enacted by the balance sheet date.

Deferred income tax assets/liabilities are recognised for all deductible taxable temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except when the deferred income tax assets/liabilities arise from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting nor taxable profit or loss.

Deferred income tax liability is recognised on temporary differences arising on investments in subsidiaries and associated company, except where the Group is able to control the timing of the reversal and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Notes to the Financial Statements

Financial year ended 31 December 2006

2. Significant accounting policies (continued)

2.15 Income taxes (continued)

Deferred income tax assets and liabilities are measured at:

- (i) the tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted by the balance sheet date; and
- (ii) the tax consequence that would follow from the manner in which the Group expects at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred income tax are recognised as income or expenses in the income statement for the period, except to the extent that the tax arises from a business combination or a transaction which is recognised directly in equity.

2.16 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are estimated based on the best estimate of the expense required to settle the obligation, taking into consideration time value and are recognised as expense in the income statement in the period to which they relate.

2.17 Employee compensation

Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities such as Central Provident Fund and social security plans in the PRC, and will have no legal or constructive obligation to pay further contributions if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services in the current and preceding financial years. The Group's contribution to defined contribution plans are recognised as employee compensation expense when they are due.

2.18 Currency translation

- (a) Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the principal subsidiaries' functional and presentation currency. The Company's functional currency is Singapore Dollar and the presentation currency is RMB.

- (b) Transactions and balances

Transactions in a currency other than the functional currency ("foreign currency") are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Currency translation gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Notes to the Financial Statements

Financial year ended 31 December 2006

2. Significant accounting policies (continued)

2.18 Currency translation (continued)

(c) Translation of Group entities' financial statements

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) Assets and liabilities are translated at the closing rate at the date of the balance sheet;
- (ii) Income and expenses are translated at average exchange rate (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated using the exchange rates at the dates of the transactions); and
- (iii) All resulting exchange differences are taken to the translation reserve within equity.

2.19 Segment reporting

A business segment is a distinguishable component of the Group engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is a distinguishable component of the Group engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

2.20 Cash and cash equivalents

Cash and cash equivalents include cash at bank and on hand.

2.21 Investments in subsidiaries and associated company

Investments in subsidiaries and associated company are initially stated at cost and subsequently stated at cost less accumulated impairment losses (note 2.7) in the Company's balance sheet. On disposal of investments in subsidiaries and associated company, the difference between net disposal proceeds and the carrying amounts of the investments are taken to the income statement.

2.22 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issuance of new equity instruments are taken to equity as a deduction, net of tax, from the proceeds.

2.23 Dividends

Interim dividends are recorded in the financial period in which they are declared payable. Final dividends are recorded in the financial period in which the dividends are approved by the shareholders.

Notes to the Financial Statements

Financial year ended 31 December 2006

3. Effects on financial statements on adoption of new or revised FRS and Interpretations to FRS

In 2006, the Group adopted the new or revised FRS and Interpretations to FRS ("INT FRS") that are applicable in the current financial year. Changes to the Group's accounting policies were made as required, in accordance with the relevant transitional provisions in the respective FRS and INT FRS. The following are the FRS and INT FRS that are relevant to the Group:

FRS 19 (Amendment)	Employee Benefits
FRS 21 (Amendment)	The Effects of Changes In Foreign Exchange Rates
FRS 32 (Amendment)	Financial Instruments: Disclosure And Presentation
FRS 39 (Amendment)	Financial Instruments: Recognition and Measurement
INT FRS 104	Determining Whether An Arrangement Contains a Lease

The adoption of the above FRS and INT FRS did not result in substantial changes to the Group's accounting policies.

4. Critical accounting estimates, assumptions and judgements

Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Intangible assets

The useful lives of the licence for the discharge of pollutants and the technology transfer fee of 10 years and 3 years respectively are based on management best estimate of the period over which these intangible assets are expected be available for use by the Group, thereby resulting in incremental economic benefits to the Group.

The useful lives of the intangible assets can be affected by the following factors:

- (a) stability of the industry, market demand and typical product life cycles for the end products for which the intangibles are applied;
- (b) technical, technological, commercial or other types of obsolescence;
- (c) actions by competitors or potential competitors; and
- (d) changes in legal and other regulatory framework.

The above factors are largely beyond the control of the Group and should the intangible assets be rendered obsolete in the period immediately after 31 December 2006, the maximum impairment charge to be recognised in the income statement is RMB 2,022,000, being the carrying value of the intangible assets as at 31 December 2006.

Notes to the Financial Statements

Financial year ended 31 December 2006

4. Critical accounting estimates, assumptions and judgements (continued)

(ii) Deferred tax assets

The carrying value of the deferred income tax assets recognised is affected by the following factors:

- (a) subsequent changes to the PRC tax rate (and laws) that have been enacted or substantially enacted by the balance sheet date which are expected to apply when the related deferred tax asset is realised; and
- (b) the probability that future taxable profit will be available against which such deferred tax asset can be utilised.

If the PRC tax rate increases by 1.0 percentage point, the carrying value of its deferred tax assets will increase by 4.6% (RMB 83,600) with a corresponding reduction in its income tax expense. If the PRC tax rate decreases by 1.0 percentage point, the carrying value of its deferred tax assets will decrease by 4.6% (RMB 83,600) with a corresponding increase in its income tax expense.

In the event that the results of the Group are negatively affected by factors such as stability of the industry and market demand for our products such that it becomes less than probable that future taxable profit will be available against which such deferred tax assets can be utilised, the carrying value of the deferred tax assets has to be written down. Should such an event occurs immediately subsequent to 31 December 2006, the maximum charge to income statement would be RMB 1,818,000, being the carrying value of the deferred tax assets as at 31 December 2006.

(iii) Provision for custom issues

In relation to the custom issues as described in note 26, as at the date of authorisation for the issue of these financial statements, the customs authority has not determined the quantum of the restitutions for customs excise tax previously exempted and the fines associated with these restitutions. Based on currently available information and the Directors' estimate, a provision of RMB 7.0 million was made, being the highest estimate of the aggregate potential restitutions and fines. However, this provision may not be an indication of the actual payment to be made by the Group relating to these custom issues. Additional expenses may be incurred if the aforesaid estimate turns out to be lower than the actual quantum of the restitutions and fines.

5. Financial risk management

Financial risk factors

The Group's activities expose it to a variety of financial risks, including credit risk, liquidity risk, interest rate risk and foreign exchange risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Financial risk management is carried out by the Finance Department under policies approved by the Board of Directors.

Notes to the Financial Statements

Financial year ended 31 December 2006

5. Financial risk management (continued)

(a) Credit risk

The Group has no significant concentration of credit risk. The Group has policies in place to ensure that sale of products are made to customers with an appropriate credit evaluation. The Group performs ongoing credit evaluation of its customers' financial condition and generally does not require collateral on its receivables. The credit evaluation includes assessing the customers' credit reliability and periodic review of their financial status and the total credit exposure to determine the credit limits to be granted. Where necessary the Group establishes allowances for impairment in receivables based on the expected recoverability of its receivables.

(b) Liquidity risk

The Group is exposed to minimal liquidity risk as all of its financial assets and financial liabilities are due within one year.

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents and credit facilities deemed adequate by the management of the Group to finance its operations and mitigate the adverse effects of fluctuations in short-term cash flows.

(c) Interest rate risk

The Group does not deal in derivative financial instruments to hedge its interest rate risk.

The Group is exposed to interest rate risk through the impact of interest rate changes on interest bearing financial liabilities and financial assets. The Group's policy is to maintain its interest bearing financial assets and financial liabilities as short-term and where possible, minimise interest rate risk by maintaining its long-term interest bearing financial liabilities in fixed rate instruments.

The tables below set out the Group's exposure to interest rate risks. Included in the tables are the assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

The Group

	Variable rates		Fixed rates				Non-interest bearing	Total
	Less than 6 months	6 to 12 months	Less than 6 months	6 to 12 months	1 to 5 years	Over 5 years		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2006								
Assets								
Cash and bank balances	106,326	–	–	–	–	–	2,445	108,771
Other financial assets	–	–	–	–	–	–	192,534	192,534
Non-financial assets	–	–	–	–	–	–	310,781	310,781
Total assets	106,326	–	–	–	–	–	505,760	612,086
Liabilities								
Borrowings	5,134	–	–	–	–	–	–	5,134
Other financial liabilities	–	–	–	–	–	–	163,521	163,521
Non-financial liabilities	–	–	–	–	–	–	16,921	16,921
Total liabilities	5,134	–	–	–	–	–	180,442	185,576

Notes to the Financial Statements

Financial year ended 31 December 2006

5. Financial risk management (continued)

(c) Interest rate risk (continued)

The Group (continued)

	Variable rates		Fixed rates				Non-interest bearing	Total
	Less than 6 months	6 to 12 months	Less than 6 months	6 to 12 months	1 to 5 years	Over 5 years		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
At 31 December 2005								
Assets								
Cash and bank balances	41,719	-	-	-	-	-	346	42,065
Other financial assets	-	-	-	-	-	-	135,464	135,464
Non-financial assets	-	-	-	-	-	-	218,436	218,436
Total assets	41,719	-	-	-	-	-	354,246	395,965
Liabilities								
Redeemable convertible loans stocks								
	33,898	-	-	-	-	-	-	33,898
Borrowings								
	52,024	-	33,600	-	-	-	-	85,624
Other financial liabilities								
	-	-	-	-	-	-	101,944	101,944
Non-financial liabilities								
	-	-	-	-	-	-	10,024	10,024
Total liabilities	85,922	-	33,600	-	-	-	111,968	231,490

The Company

	Variable rates		Fixed rates				Non-interest bearing	Total
	Less than 6 months	6 to 12 months	Less than 6 months	6 to 12 months	1 to 5 years	Over 5 years		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
At 31 December 2006								
Assets								
Cash and bank balances	51,931	-	-	-	-	-	1,891	53,822
Other financial assets	-	-	-	-	-	-	12,358	12,358
Non-financial assets	-	-	-	-	-	-	197,357	197,357
Total assets	51,931	-	-	-	-	-	211,606	263,537
Liabilities								
Total financial liabilities								
	-	-	-	-	-	-	4,499	4,499
At 31 December 2005								
Assets								
Cash and bank balances	-	-	-	-	-	-	262	262
Other financial assets	-	-	-	-	-	-	896	896
Non-financial assets	-	-	-	-	-	-	65,278	65,278
Total assets	-	-	-	-	-	-	66,436	66,436
Liabilities								
Redeemable convertible loans stocks								
	33,898	-	-	-	-	-	-	33,898
Other financial liabilities								
	-	-	-	-	-	-	2,799	2,799
Total liabilities	33,898	-	-	-	-	-	2,799	36,697

Notes to the Financial Statements

Financial year ended 31 December 2006

5. Financial risk management (continued)

(d) Foreign exchange risk

The Group does not deal in derivative financial instruments to hedge its foreign exchange risk as the Group's exposure to foreign currency risk is not material since a substantial portion of its transactions are in Renminbi. The Group's risk management policy is to manage the foreign currency denominated financial assets through financial liabilities denominated in the relevant foreign currencies.

6. Related party transactions

(a) Related parties are entities with common direct or indirect shareholders and/or directors. Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

(b) Name and relationship of related parties

Name of related party	Nature of relationship
Zhang Zhongliang	Chairman of the Board of Directors and controlling shareholder of the Company
Zhejiang Zhongxing Precision Industry Co., Ltd ("Zhejiang Zhongxing")	A company in which Zhang Zhongliang has majority interest
Hong Kong Zhongxing Trading Limited ("Hongkong Zhongxing")	A company in which Zhang Zhongliang has majority interest
Cixi Mould Co., Ltd ("Cixi Mould")	A company in which Zhang Zhongliang and Zhang Huafen, spouse of Zhang Zhongliang, each has 50% equity interest
Cixi Hengxing Electronics Co., Ltd ("Cixi Hengxing")	A company in which Zhang Zhongliang's brother has majority interest
Ningbo Chunsheng Electronics Co., Ltd ("Ningbo Chunsheng")	A company in which Zhang Zhongliang's brother has majority interest
Hefei Rundong Communications Co., Ltd ("Hefei Rundong")	A company in which Zhang Zhongliang has a 45% equity interest
Shenzhen Bright Precision Metals Co., Ltd ("Shenzhen Bright Precision")	A company in which Yan Changxian, a director and the beneficial owner of the 20% minority interest in Dongguan Xingbo Precision Mould Co., Ltd, has majority interest.
Dynamic Goal Finance Ltd ("Dynamic Goal Finance")	A company in which Zhang Zhongliang is the controlling shareholder.

Notes to the Financial Statements

Financial year ended 31 December 2006

6. Related party transactions (continued)

(c) Significant related party transactions

The following transactions took place between the Group and related parties on terms agreed between the parties concerned during the financial year:

(i) Finished goods sold to related parties

	The Group	
	2006	2005
	RMB'000	RMB'000
Hefei Rundong	1,137	1,054
Shenzhen Bright Precision	85	–
Hongkong Zhongxing	–	15,611
	<u>1,222</u>	<u>16,665</u>

Sales to Hefei Rundong and Shenzhen Bright Precision were at prices comparable to third party customers.

Sales to Hongkong Zhongxing were carried out on agreed terms and conditions and were priced at approximately no more than 20% lower than sales to third parties. With effect from 1 June 2005, the Group ceased sales to Hongkong Zhongxing.

(ii) Purchases of raw materials from a related party

	The Group	
	2006	2005
	RMB'000	RMB'000
Hongkong Zhongxing	–	588

Purchases from Hongkong Zhongxing were at prices comparable to third party suppliers.

(iii) Sales of consumables to related parties

	The Group	
	2006	2005
	RMB'000	RMB'000
Cixi Hengxing	24	461
Ningbo Chunsheng	33	–
	<u>57</u>	<u>461</u>

Sales to Cixi Hengxing and Ningbo Chunsheng were at cost.

Notes to the Financial Statements

Financial year ended 31 December 2006

6. Related party transactions (continued)

(c) Significant related party transactions (continued)

(iv) Processing fees paid and payable to related parties

	The Group	
	2006	2005
	RMB'000	RMB'000
Ningbo Chunsheng	32,864	–
Cixi Hengxing	1,753	23,729
	<u>34,617</u>	<u>23,729</u>

As a result of the reorganisation of the operations of Cixi Hengxing by its shareholders, with effect from 1 January 2006, transactions with Cixi Hengxing were taken over by Ningbo Chunsheng. The processing fee paid and payable to Cixi Hengxing in 2006 relates to orders placed with Cixi Hengxing prior to 1 January 2006.

Processing services rendered by Cixi Hengxing and Ningbo Chunsheng were based on long-term agreement and were based on commercial terms and conditions.

(v) Operating leases of certain leasehold land and buildings from a related party

	The Group	
	2006	2005
	RMB'000	RMB'000
Zhejiang Zhongxing	2,227	1,143

Operating lease fee is set at a value not higher than the market rate established by an independent valuer.

(vi) Property, plant and equipment purchased from a related party

	The Group	
	2006	2005
	RMB'000	RMB'000
Shenzhen Bright Precision	2,070	–
Hongkong Zhongxing	–	357
	<u>2,070</u>	<u>357</u>

The purchase of property, plant and equipment from Shenzhen Bright Precision were based on commercial terms and conditions. The cost of the property, plant and equipment purchased from Hongkong Zhongxing approximate that of third party suppliers.

Notes to the Financial Statements

Financial year ended 31 December 2006

6. Related party transactions (continued)

(c) Significant related party transactions (continued)

(vii) Security and pledge arrangements for borrowings provided by related parties

(1) Bank facility of USD 2,000,000 (RMB 16,200,000) (note 27 (a)(iii))

Certain leasehold land and buildings of Zhejiang Zhongxing are used to secure a bank facility of USD 2,000,000 approximately RMB 16,200,000 (2005: USD 1,500,000 approximately RMB 12,105,000) as at 31 December 2006.

As at 31 December 2006, this facility was not utilised.

(2) Bank facility of RMB 40,000,000 (note 27(a)(iv))

A corporate guarantee by Zhejiang Zhongxing and certain leasehold land and buildings of Zhejiang Zhongxing were used to secure a bank facility of RMB 40,000,000 as at 31 December 2006 and 31 December 2005.

As at 31 December 2006, this facility was not utilised.

(3) Bank facility of RMB 20,000,000 (note 27(a)(v))

Personal guarantees by Zhang Zhongliang and Zhang Huafen were used to secure a bank facility of RMB 20,000,000 as at 31 December 2005.

(viii) Borrowings from Zhejiang Zhongxing

	The Group	
	2006	2005
	RMB'000	RMB'000
Loan principal (note 27)	–	33,600
Interest charge (note 9)	724	1,606

(ix) Funds repaid to related parties

	The Group	
	2006	2005
	RMB'000	RMB'000
Zhang Zhongliang	–	4,531
Zhejiang Zhongxing	–	1,986
Hongkong Zhongxing	–	1,013
	–	7,530

(x) Funds recovered from related parties

	The Group	
	2006	2005
	RMB'000	RMB'000
Zhejiang Zhongxing	92	6,983
Hongkong Zhongxing	–	169
	92	7,152

Notes to the Financial Statements

Financial year ended 31 December 2006

6. Related party transactions (continued)

(d) Related party balances

	The Group		The Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables (note 16)				
Hefei Rundong	454	547	–	–
Shenzhen Bright Precision	91	–	–	–
	<u>545</u>	<u>547</u>	<u>–</u>	<u>–</u>
Prepayments and other receivables (note 17)				
Zhejiang Zhongxing	733	92	–	92
Cixi Mould	1,225	–	–	–
	<u>1,958</u>	<u>92</u>	<u>–</u>	<u>92</u>
Trade payables (note 24)				
Ningbo Chunsheng	10,960	–	–	–
Shenzhen Bright Precision	5	–	–	–
Cixi Hengxing	–	8,058	–	–
	<u>10,965</u>	<u>8,058</u>	<u>–</u>	<u>–</u>
Other payables (note 25)				
Zhejiang Zhongxing – accrued interest and rental expenses	3	21	–	–
Hongkong Zhongxing	–	81	–	–
	<u>3</u>	<u>102</u>	<u>–</u>	<u>–</u>

As at 31 December 2006, RMB 1,958,000 of prepayments to related parties pertain to deposits for acquisition of land through related parties. As at 31 December 2005, RMB 92,000 relates to prepayments made on behalf of a related party.

	The Group		The Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Dividends payable Zhejiang Zhongxing	–	5,629	–	–

The non-trade amounts due from and due to related parties are unsecured, non-interest bearing and without fixed repayment terms.

Notes to the Financial Statements

Financial year ended 31 December 2006

6. Related party transactions (continued)

(e) Key management personnel compensation

Key management personnel compensation is as follows:

	The Group	
	2006	2005
	RMB'000	RMB'000
Key management of the Group:		
– Directors of the Company	2,952	1,011
– Directors of subsidiaries	4,065	1,720
	<u>7,017</u>	<u>2,731</u>
The remuneration consists of:		
– Salaries and other short-term employee benefits	7,017	2,731
	<u>7,017</u>	<u>2,731</u>

7. Revenue and other gains

	The Group	
	2006	2005
	RMB'000	RMB'000
Sale of goods	605,244	422,501
Other gains:		
– Subsidy income *	7,577	3,486
– Scrap sales	5,719	3,306
– Interest income	2,012	133
– Gain on disposal of an associated company (note 19)	–	423
– Others	2,484	2,472
	<u>17,792</u>	<u>9,820</u>
Total	<u>623,036</u>	<u>432,321</u>

* Certain subsidiaries of the Group enjoy certain local government subsidies, at discretionary amounts as determined by the local government, as support for their development and expansion. There is no assurance that the subsidiaries could continue to enjoy such benefits in the future.

Notes to the Financial Statements

Financial year ended 31 December 2006

8. Expenses by nature

	The Group	
	2006	2005
	RMB'000	RMB'000
Raw materials, work-in-progress and finished goods (included in cost of sales, excluding employee benefits expense, depreciation on property, plant and equipment and amortisation of intangible assets)	329,176	223,951
Employee benefits expense (note 11)	112,418	76,733
Depreciation of property, plant and equipment (note 21)	35,783	24,344
Transportation expense	8,218	7,331
Provision for custom issues (note 26)	7,000	–
Lease payments under operating leases for rental of land and building and plant and equipment	5,881	4,054
Commission	4,946	2,632
Travel and accommodation	3,986	3,540
Foreign exchange loss – net	3,199	1,087
Research expense	1,558	624
Directors' fee	977	221
Amortisation of intangible assets (note 22)	743	558
Allowance for impairment in inventories	660	–
Allowance for impairment of trade receivables (note 16)	482	44
Loss on disposal of property, plant and equipment	399	113
Preliminary expenses written off	252	287
Changes in inventories	(13,173)	(17,773)
Amortisation of deferred subsidy income (note 29)	(133)	–
Other expenses	29,248	22,574
Total cost of sales, distribution, administrative and other expenses	531,620	350,320

9. Finance expense

	The Group	
	2006	2005
	RMB'000	RMB'000
Interest expense:		
– Bank borrowings	1,255	1,679
– Related party borrowings (note 6(c)(viii))	724	1,606
	1,979	3,285

10. Other expense

	The Group	
	2006	2005
	RMB'000	RMB'000
Provision for custom issues (note 26)	7,000	–
Levies	1,031	579
Sundry	1,729	2,271
	9,760	2,850

Notes to the Financial Statements

Financial year ended 31 December 2006

11. Employee benefits

	The Group	
	2006	2005
	RMB'000	RMB'000
Wages and salaries	95,721	68,920
Staff welfare benefits	10,456	4,268
Employer's contribution to defined contribution plans	6,241	3,545
	<u>112,418</u>	<u>76,733</u>

12. Income taxes

(a) Income tax expense

	The Group	
	2006	2005
	RMB'000	RMB'000
Tax expense attributable to profit is made up of:		
Current income tax – PRC	12,636	10,083
Investment tax credit received	(1,085)	–
Over-provision in preceding financial years:		
– current income tax – PRC	(21)	–
	<u>11,530</u>	<u>10,083</u>
Deferred income tax (note 23(a))	(71)	(1,747)
	<u>11,459</u>	<u>8,336</u>

The tax expense on profit differs from the amount that would arise using the Singapore standard rate of income tax due to the following:

	The Group	
	2006	2005
	RMB'000	RMB'000
Profit before income tax	<u>89,437</u>	<u>78,579</u>
Tax calculated at a tax rate of 20% (2005: 20%)	17,887	15,716
Effect of different tax rate in other countries	8,030	5,202
Expenses not deductible for tax purposes	1,241	791
Effect of deferred tax benefits not recognised	96	75
Tax exemption	(14,689)	(13,287)
Utilisation of deferred tax benefit on tax losses not recognised in prior years	–	(161)
Investment tax credit received	(1,085)	–
Over-provision in preceding financial years	(21)	–
Tax charge	<u>11,459</u>	<u>8,336</u>

Notes to the Financial Statements

Financial year ended 31 December 2006

12. Income taxes (continued)

(a) Income tax expense (continued)

The tax status of subsidiaries in PRC is as follows:

Ningbo Sunrise Electronics Co., Ltd ("Ningbo Sunrise"), Ningbo Zhongjun Electronics Co., Ltd ("Ningbo Zhongjun"), Ningbo Zhongrui Precision Mould Co., Ltd (Ningbo Zhongrui") and Ningbo Zhongjun Automobile Parts Co., Ltd ("Ningbo Zhongjun Auto")

Ningbo Sunrise, Ningbo Zhongjun, Ningbo Zhongrui and Ningbo Zhongjun Auto are foreign invested enterprises incorporated in the coastal area of Ningbo province and subject to Enterprise Income Tax ("EIT") rate of 26.4%, 33%, 26.4% and 26.4% respectively on taxable income. As foreign invested manufacturing enterprises, the subsidiaries are entitled to full exemption from EIT for the first two years and a 50% reduction in the tax rate for the next three years, commencing from the first profitable year of operation after offsetting all tax losses carried forward from previous years (at most five years) ("Tax Holidays").

Ningbo Sunrise was established in December 2001 and financial year ("FY") 2002 was the first profitable year. Ningbo Sunrise had chosen to defer the Tax Holidays to commence from FY2003 by subjecting itself to EIT at a rate of 26.4% in FY2002. Ningbo Sunrise was exempted from EIT in FY2003 and FY2004 and the applicable EIT rate for FY2006 is 13.2% (FY2005: 13.2%).

Ningbo Zhongjun was established in December 1996 and FY1998 was the first profitable year. FY2002 was the last year of the Tax Holidays, hence, the applicable EIT rates for FY2006 is 33% (FY2005: 33%).

Ningbo Zhongrui and Ningbo Zhongjun Auto were incorporated in December 2006 and October 2006 respectively. Both Ningbo Zhongrui and Ningbo Zhongjun Auto have no taxable profit in FY2006.

Dongguan Zhongxing Electronics Co., Ltd ("Dongguan Zhongxing") and Dongguan Xingbo Precision Mould Co., Ltd ("Dongguan Xingbo")

Dongguan Zhongxing is a foreign invested enterprise incorporated in Guangdong province in September 2001 and subject to EIT rate of 27% on taxable income. Dongguan Xingbo is a sino-foreign joint venture enterprise incorporated in Guangdong province in March 2006 and subject to EIT rate of 27% on taxable income. Dongguan Zhongxing and Dongguan Xingbo are entitled to full exemption from EIT for the first two years and a 50% reduction in the tax rate for the next three years, commencing from the first profitable year of operation after offsetting all tax losses carried forward from previous years (at most five years). Dongguan Zhongxing has no taxable profit from FY2001 to FY2004. Dongguan Zhongxing is entitled to a full exemption from EIT in FY2005 and FY2006. Dongguan Xingbo has no taxable profit in FY2006.

Suzhou Zhongxinglian Precision Industry Co., Ltd ("Suzhou Zhongxinglian")

Suzhou Zhongxinglian is a sino-foreign joint venture enterprise registered in the high-technology development region of Suzhou City, Jiangsu province, in April 2004 and is subject to EIT at a rate of 27% on taxable income. As a sino-foreign joint venture manufacturing enterprise, Suzhou Zhongxinglian is entitled to full exemption from EIT for the first two years and a 50% reduction in the tax rate for the next three years commencing from the first profitable year of operation after offsetting all tax losses carried forward from previous years (at most five years). Suzhou Zhongxinglian has no taxable profit in FY2004. Suzhou Zhongxinglian is entitled to a full exemption from EIT in FY2005 and FY2006.

Wuxi Ruite Surface Treatment Co., Ltd ("Wuxi Ruite")

Wuxi Ruite is a sino-foreign joint venture enterprise registered in Wuxi City, Jiangsu province, in July 2005 and is subject to EIT at a rate of 27% on taxable income. As a sino-foreign joint venture manufacturing enterprise, Wuxi Ruite is entitled to full exemption from EIT for the first two years and a 50% reduction in the tax rate for the next three years commencing from the first profitable year of operation after offsetting all tax losses carried forward from previous years (at most five years). Wuxi Ruite has no taxable profit in FY2005 and FY2006.

Notes to the Financial Statements

Financial year ended 31 December 2006

12. Income taxes (continued)

(a) Income tax expense (continued)

In March 2007, The Enterprise Income Tax Law, effective 1 January 2008, was adopted at the Fifth Session of the Tenth National People's Congress of the PRC to unify income tax on domestic and foreign enterprises, new preferential tax policies and tax deduction policies. Income tax rate for domestic and foreign enterprises will be unified and set at 25%. Foreign enterprises that enjoy preferential tax rates under the present regime will be given a 5-year transitional period before the new rate apply. The Group is in the process of assessing the impact of this change.

(b) Movements in current income tax liabilities

	The Group		The Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Balance at beginning of financial year	3,357	141	–	–
Tax expense on profit			–	–
– current financial year	12,636	10,083	–	–
– Investment tax credit received	(1,085)	–	–	–
– Over-provision in preceding financial years	(21)	–	–	–
Income tax paid	(11,500)	(6,867)	–	–
Balance at end of financial year	3,387	3,357	–	–

13. Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year.

	The Group	
	2006	2005
	RMB'000	RMB'000
Net profit attributable to members of China Precision Technology Limited (RMB '000)	77,992	70,299
Weighted average number of ordinary shares in issue for basic earnings per share ('000)	357,154	217,126
Basic earnings per share (RMB per share)	0.22	0.32

The weighted average number of ordinary shares in issue as at 31 December 2006 and 31 December 2005 were based on the assumption that the subdivision of 278,289,769 ordinary shares into 320,000,000 ordinary shares (note 30(b)(v)) on 22 April 2006 was completed on 1 January 2006 and 1 January 2005 respectively.

(b) Diluted earnings per share

Diluted earnings per share for the financial years ended 31 December 2006 and 31 December 2005 are the same as basic earnings per share because there were no potential dilutive ordinary shares existing during the respective financial years.

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Financial year ended 31 December 2006

14. Cash and bank balances

	The Group		The Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and bank balances	2,445	346	1,891	262
Short-term bank deposits	106,326	41,719	51,931	–
	108,771	42,065	53,822	262
Less: restricted bank deposits	(16,011)	(11,808)	–	–
Cash and cash equivalents	92,760	30,257	53,822	262

As at 31 December 2006, restricted bank deposits include:

- (i) approximately RMB 14,003,000 of deposits pledged for the issuance of bank acceptance notes and letters of credit (2005: approximately RMB 9,502,000);
- (ii) approximately RMB 1,242,000 of deposits pledged as custom deposits for imported materials (2005: approximately RMB 1,382,000);
- (iii) approximately RMB 766,000 of deposits set aside based on contracts, for the payment of contractors involved in the construction of the Group's factory (2005: RMB 610,000); and
- (iv) approximately RMB Nil of deposits set aside based on contracts, for the payment of imported materials (2005: RMB 314,000).

The carrying amounts of cash and bank balances approximate their fair values.

Cash and bank balances are denominated in the following currencies:

	The Group		The Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Singapore Dollar	53,822	262	53,822	262
Renminbi	44,862	31,174	–	–
United States Dollar	6,862	10,498	–	–
Japanese Yen	2,965	–	–	–
Hong Kong Dollar	179	131	–	–
Euro	81	–	–	–
	108,771	42,065	53,822	262

The exposure of cash and bank balances to interest rate risk is disclosed in note 5(c).

The weighted average effective interest rate of short-term bank deposits at 31 December 2006 is 3.2% (31 December 2005: 0.7%) per annum.

15. Dividend due from a subsidiary

As at 31 December 2006, the Company has dividend due from a subsidiary of RMB 10,798,000 (2005: Nil). The amount is denominated in Renminbi, unsecured, non-interest bearing and without fixed term of repayment. The carrying value of the dividend due from a subsidiary approximates its fair value.

Notes to the Financial Statements

Financial year ended 31 December 2006

16. Trade receivables

	The Group		The Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables				
– third parties	156,422	118,605	–	–
– related parties (note 6(d))	545	547	–	–
Notes receivable-trade related	25,215	4,703	–	–
Deductible input value added tax (“VAT”) *	314	572	–	–
Gross trade receivables	182,496	124,427	–	–
Less: Allowance for impairment of trade receivables – third parties	(1,338)	(1,193)	–	–
	181,158	123,234	–	–

(*) The Group's sales of goods are subject to VAT. The applicable tax rate for PRC domestic sales is 17%. Input VAT on purchase of raw materials, fuel, and other production materials can be deducted from output VAT. The net difference between output and deductible input VAT is included in VAT payable or deductible input VAT. The Group's export sales are not subject to VAT. Input VAT on purchases of materials for the production of goods that are finally exported could be refunded at a rate of 13%. This VAT refund policy applies to companies which have operated over one year.

Concentrations of credit risk with respect to trade receivables are limited due to the Group's large number of customers, who are internationally dispersed, covering a large spectrum of manufacturing and distribution entities, which have a variety of end markets in which they sell. Due to these factors, management believes that no additional credit risk beyond the amount of allowance for impairment made is inherent in the Group's trade receivables.

The carrying amounts of trade receivables approximate their fair values. Trade receivables at 31 December 2006 and 31 December 2005 are non-interest bearing.

Gross trade receivables are denominated in the following currencies:

	The Group		The Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Renminbi	111,976	63,522	–	–
United States Dollar	66,801	59,816	–	–
Japanese Yen	3,458	274	–	–
Hong Kong Dollar	180	815	–	–
Euro	81	–	–	–
	182,496	124,427	–	–

Impairment loss on trade receivables recognised as an expense and included in “administrative expense” for the financial year ended 31 December 2006 amounted to RMB 482,000 (2005: RMB 44,000) (note 8).

Notes to the Financial Statements

Financial year ended 31 December 2006

17. Prepayments and other receivables

	The Group		The Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments to contractors	6,857	6,774	–	–
Prepayments to				
- related parties (note 6(d))	1,958	–	–	–
- suppliers	509	146	147	20
Advances:				
- staff	1,116	501	50	–
- related parties (note 6(d))	–	92	–	92
- subsidiaries	–	–	1,235	726
Deposits	445	553	88	58
Interest receivable	40	–	40	–
Outstanding proceeds from disposal of an associated company	–	3,240	–	–
Sundry receivables	451	924	–	–
	11,376	12,230	1,560	896

As at 31 December 2006, RMB 1,958,000 of prepayments to related parties pertain to deposits for acquisition of land through related parties. As at 31 December 2005, RMB 92,000 of advances relate to prepayments made on behalf of a related party.

As at 31 December 2005, outstanding proceeds from the disposal of an associated company were unsecured and non-interest bearing and was due on 25 March 2006. The amount was collected during the current financial year.

The carrying amounts of prepayments and other receivables approximate their fair values. Advances, deposits, prepayments to suppliers and contractors, interest receivable and sundry receivables are unsecured and non-interest bearing with no fixed term of repayment.

Prepayments and other receivables are denominated in the following currencies:

	The Group		The Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Renminbi	10,229	8,246	–	–
United States Dollar	469	3,603	–	–
Japanese Yen	353	211	1,235	–
Singapore Dollar	325	170	325	896
	11,376	12,230	1,560	896

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18. Inventories

	The Group		The Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	27,888	23,736	–	–
Work-in-progress	14,261	11,988	–	–
Finished goods	22,680	15,932	–	–
	<u>64,829</u>	<u>51,656</u>	<u>–</u>	<u>–</u>

The cost of inventories recognised as expense for the financial year ended 31 December 2006 included in "cost of sales" amounted to RMB 316,003,000 (2005 : RMB 206,178,000).

19. Investment in an associated company

	The Group	
	2006	2005
	RMB'000	RMB'000
Balance at beginning of financial year	–	3,717
Capital injection	–	2,072
Share of loss	–	(137)
	<u>–</u>	<u>5,652</u>
Disposal	–	(5,652)
Balance at end of financial year	<u>–</u>	<u>–</u>

The details of the associated company are as follow:-

Associated company held by a subsidiary	Principal activities	Country of incorporation and business	Equity holding	
			2006	2005
			%	%
Suzhou Sunrise Communication Co., Ltd ("Suzhou Sunrise") ^{(i) (ii)}	Manufacture, assembly and sale of precision die-cast components	PRC	–	–

(i) Held by Ningbo Sunrise

(ii) Not required to be audited for the purpose of the consolidated financial statements of China Precision Technology Limited and its subsidiaries as the associated company was disposed on 28 October 2005.

On 28 October 2005, the Group disposed its 50% equity interest in Suzhou Sunrise to a third party for a consideration of US\$ 750,000 (RMB 6,075,000).

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20. Investments in subsidiaries

	The Company	
	2006	2005
	RMB'000	RMB'000
Equity investments at cost	192,166	65,273
Effects of foreign exchange on translation	5,191	–
	<u>197,357</u>	<u>65,273</u>

During 2006, the Company increased its investment in subsidiaries by RMB 126,893,000 (2005: RMB 484,000). There was no disposal of subsidiary during 2005 and 2006.

The details of the subsidiaries held by the Company are as below:-

Name of companies	Principal activities	Country of incorporation and business	Equity holding	
			2006	2005
			%	%
China Precision Technology Kabushiki Kaisha ⁽¹⁾	Engage in market development, projects, research and development, trading and provisioning of services in relation to consumer electronics, telecommunication and automotive industries.	Japan	100	–
Dongguan Zhongxing Electronics Co., Ltd ⁽²⁾	Manufacture, assembly and sale of precision metal stamped and plastic parts and moulds.	PRC	100	100
Dongguan Xingbo Precision Mould Co., Ltd ⁽²⁾	Precision mould design and fabrication	PRC	80	–
Hong Kong Sunrise Enterprise Limited ⁽²⁾	Trading of electronic tuner components (such as pin blocks, connectors, frames and covers), precision metal stamped and plastic parts and moulds.	Hong Kong Special Administrative Region of the PRC	100	100
Ningbo Sunrise Electronics Co., Ltd ⁽²⁾	Manufacture, assembly and sale of electronic tuner components (such as pin blocks, connectors, frames and covers) and moulds, electroplating of metal and plastic parts.	PRC	100	100
Ningbo Zhongjun Electronics Co., Ltd ⁽²⁾	Manufacturing, assembly and sale of electronic tuner components (such as pin blocks, connectors, frames and covers) and moulds.	PRC	100	100

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Financial year ended 31 December 2006

20. Investments in subsidiaries (continued)

Name of companies	Principal activities	Country of incorporation and business	Equity holding	
			2006	2005
			%	%
Ningbo Zhongjun Automobile Parts Co., Ltd ⁽²⁾	Provision of electroplating and plastic injection moulding for automobile parts	PRC	100	–
Ningbo Zhongrui Precision Mould Co., Ltd ⁽²⁾	Design and fabrication of precision mould for the consumer electronics, telecommunication and automotive industries	PRC	100	–
Suzhou Zhongxinglian Precision Industry Co., Ltd ^{(2) (3)}	Manufacture, assembly and sale of precision metal stamped and plastic-moulded parts.	PRC	100	100
Wuxi Ruite Surface Treatment Co., Ltd ^{(2) (4)}	Surface treatment of metal products and sale of such products.	PRC	82	82

(1) Audited by PricewaterhouseCoopers Singapore for the purpose of the consolidated financial statements of China Precision Technology Limited and its subsidiaries.

(2) Audited by PricewaterhouseCoopers Zhong Tian Certified Public Accountants Co., Ltd for the purpose of the consolidated financial statements of China Precision Technology Limited and its subsidiaries.

(3) 90% held by the Company and 10% held by Ningbo Sunrise.

(4) 30% held by the Company and 52% held by Ningbo Sunrise.

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21. Property, plant and equipment

	Leasehold land and buildings	Leasehold improve- ments	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Moulds	Construc- tion- in-progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
The Group								
Cost								
At 1 January 2006	565	1,367	131,623	14,279	1,345	54,883	18,314	222,376
Additions	20,181	4,037	37,339	3,713	674	28,054	22,212	116,210
Disposals	-	-	(2,212)	(538)	(142)	(3,592)	-	(6,484)
Reclassification	28,757	-	5,899	-	-	-	(34,656)	-
At 31 December 2006	49,503	5,404	172,649	17,454	1,877	79,345	5,870	332,102
Accumulated depreciation								
At 1 January 2006	115	767	20,466	5,893	488	32,379	-	60,108
Depreciation charge	440	220	13,856	2,473	284	18,510	-	35,783
Disposals	-	-	(1,799)	(383)	(127)	(3,592)	-	(5,901)
At 31 December 2006	555	987	32,523	7,983	645	47,297	-	89,990
Net book value at 31 December 2006	48,948	4,417	140,126	9,471	1,232	32,048	5,870	242,112
Cost								
At 1 January 2005	565	704	80,519	10,626	962	28,359	9,269	131,004
Currency translation differences	-	-	-	(2)	-	-	-	(2)
Additions	-	663	37,943	5,004	383	26,524	21,697	92,214
Disposals	-	-	(569)	(271)	-	-	-	(840)
Reclassification	-	-	13,730	(1,078)	-	-	(12,652)	-
At 31 December 2005	565	1,367	131,623	14,279	1,345	54,883	18,314	222,376
Accumulated depreciation								
At 1 January 2005	67	164	11,097	4,092	264	20,445	-	36,129
Currency translation differences	-	-	-	4	-	-	-	4
Depreciation charge	48	603	9,389	2,146	224	11,934	-	24,344
Disposals	-	-	(190)	(179)	-	-	-	(369)
Reclassification	-	-	170	(170)	-	-	-	-
At 31 December 2005	115	767	20,466	5,893	488	32,379	-	60,108
Net book value at 31 December 2005	450	600	111,157	8,386	857	22,504	18,314	162,268

Notes to the Financial Statements

Financial year ended 31 December 2006

21. Property, plant and equipment (continued)

As at 31 December 2006, leasehold land included in leasehold land and building (2005: construction-in-progress) with a net book value of RMB 12,401,000 (2005: RMB 12,667,000) is pledged as security for credit facilities granted to the Group (note 27(a)(i)).

	Furniture, fixtures and office equipment RMB'000
The Company	
Cost	
At 1 January 2006	24
Additions	144
Disposal	(144)
At 31 December 2006	<u>24</u>
Accumulated depreciation	
At 1 January 2006	19
Depreciation charge	70
Disposal	(65)
At 31 December 2006	<u>24</u>
Net book value at 31 December 2006	<u>–</u>
Cost	
At 1 January 2005	16
Currency translation differences	(2)
Additions	10
At 31 December 2005	<u>24</u>
Accumulated depreciation	
At 1 January 2005	1
Currency translation differences	4
Depreciation charge	14
At 31 December 2005	<u>19</u>
Net book value at 31 December 2005	<u>5</u>

Notes to the Financial Statements

Financial year ended 31 December 2006

22. Intangible assets

	The Group			The Company		
	Licence for discharge of pollutants	Technology transfer fee	Total	Licence for discharge of pollutants	Technology transfer fee	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost						
At 1 January 2006 and 31 December 2006	1,844	1,679	3,523	–	–	–
Accumulated amortisation						
At 1 January 2006	385	373	758	–	–	–
Amortisation	185	558	743	–	–	–
At 31 December 2006	570	931	1,501	–	–	–
Net book value at 31 December 2006	1,274	748	2,022	–	–	–
Cost						
At 1 January 2005	1,844	–	1,844	–	–	–
Additions	–	1,679	1,679	–	–	–
At 31 December 2005	1,844	1,679	3,523	–	–	–
Accumulated amortisation						
At 1 January 2005	200	–	200	–	–	–
Amortisation	185	373	558	–	–	–
At 31 December 2005	385	373	758	–	–	–
Net book value at 31 December 2005	1,459	1,306	2,765	–	–	–

Amortisation expense is included in "cost of sales".

The Group is engaged in the electroplating business, which is a strictly controlled industry in the PRC. The Group's licence for the discharge of pollutants refers to the permission granted by the Cixi Bureau of Environmental Protection to legalise the Group's operation of the electroplating business.

The technology transfer fee refers to the amount paid to a third party for the use of advance plastic plating technology under the "Plastic Plating Technology Assistance Agreement" with the third party which enables the Group to manufacture more complex plastic products.

Notes to the Financial Statements

Financial year ended 31 December 2006

23. Deferred income tax assets

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority. No offset is made for the financial years ended 31 December 2006 and 31 December 2005.

(a) The movement in deferred income tax account is as follows:

	The Group		The Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Balance at beginning of financial year	1,747	–	–	–
Tax credit to income statement (note 12(a))	71	1,747	–	–
Balance at end of financial year	1,818	1,747	–	–

(b) The movement in deferred income tax assets during the financial year is as follows:

	Deferred subsidy income	Others	Total
	RMB'000	RMB'000	RMB'000

The Group

31 December 2006

Balance at beginning of financial year	1,488	259	1,747
Credited to the income statement	–	71	71
Balance at end of financial year	1,488	330	1,818

31 December 2005

Credited to the income statement and balance at end of financial year	1,488	259	1,747
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(c) Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefits through future taxable profits is probable. The Group has unrecognised tax losses of approximately RMB 596,000 (2005: approximately RMB 313,000) which can be carried forward and used to offset against future taxable income subject to meeting certain statutory requirements by those companies with unrecognised tax losses in the PRC. These tax losses can be carried forward for a maximum of five years and will expire by 2011.

Notes to the Financial Statements

Financial year ended 31 December 2006

24. Trade payables

	The Group		The Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables				
- third parties	70,509	34,516	-	-
- related parties (note 6(d))	10,965	8,058	-	-
Notes payables	44,423	32,690	-	-
Deferred income	1,680	931	-	-
VAT payable	1,147	373	-	-
	<u>128,724</u>	<u>76,568</u>	<u>-</u>	<u>-</u>

The carrying amounts of notes payables and trade payables approximate their fair values and are non-interest bearing.

Trade payables are denominated in the following currencies:

	The Group		The Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Renminbi	124,900	71,560	-	-
United States Dollar	3,320	4,997	-	-
Japanese Yen	395	-	-	-
Hongkong Dollar	109	-	-	-
Euro	-	11	-	-
	<u>128,724</u>	<u>76,568</u>	<u>-</u>	<u>-</u>

25. Other payables

	The Group		The Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Staff salaries and welfare payables	14,956	10,774	-	-
Payable to contractors	11,282	3,550	-	-
Accrued operating expenses	5,765	3,226	2,187	552
Pension, medical and housing funds payables	207	265	-	-
Related parties – non-trade (note 6(d))	3	102	-	-
Interest payable	5	-	-	-
Amount due to a subsidiary – non-trade	-	-	2,312	2,232
Others	2,579	1,830	-	15
	<u>34,797</u>	<u>19,747</u>	<u>4,499</u>	<u>2,799</u>

The carrying amounts of other payables approximate their fair values and are non-interest bearing.

The non-trade amounts due to related parties and to a subsidiary are unsecured, non-interest bearing and payable on demand.

Notes to the Financial Statements

Financial year ended 31 December 2006

25. Other payables (continued)

Other payables are denominated in the following currencies:

	The Group		The Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Renminbi	32,355	19,115	2,312	2,073
Singapore Dollar	2,187	567	2,187	567
United States Dollar	166	65	–	159
Japanese Yen	89	–	–	–
	<u>34,797</u>	<u>19,747</u>	<u>4,499</u>	<u>2,799</u>

26. Provision for custom issues

	The Group		The Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Provision for the financial year (note 8) and balance at end of financial year	7,000	–	–	–

During an inspection carried out by the Customs Office ("Customs") in late FY2006, two issues were raised by the Customs. Firstly, the subcontracting services provided by the Group's wholly owned subsidiary Ningbo Zhongjun to another wholly owned subsidiary Ningbo Sunrise, including the lease of equipment in the past and secondly, the import of Polyphenylene Sulphide ("PPS") and Tri-layer Coated steel sheet by Ningbo Sunrise under the customs excise tax and value added tax exemption scheme ("Exempt Imported Materials").

The Customs is of the view that the subcontracting services, in part provided by equipment imported which were previously exempted from customs excise tax and value-added tax ("Exempt Imported Equipment"), were in substance rental of such equipment from Ningbo Zhongjun to Ningbo Sunrise. Under the customs regulations, companies are not allowed to rent such Exempt Imported Equipment without prior approval from the relevant authorities. Depending on the Customs' assessment of the fundamental nature of the service provided, Ningbo Zhongjun may be required to make restitutions for the customs excise tax previously exempted, together with a fine.

Secondly, Ningbo Sunrise is required by the Customs to perform reconciliation on the quantity of Exempt Imported Materials imported, as recorded in the Customs' handbook, with the quantity used for final products that were exported, and the physical stock in hand at the date of inspection. Due to operational issues (such as a relatively diverse range of parts and products), Ningbo Sunrise has not been able to reconcile the differences to the satisfaction of the Customs. As a result, Ningbo Sunrise may be required to make restitutions for the customs excise tax previously exempted, together with a fine.

As at the date of authorisation for the issue of these financial statements, the Customs has not determined the quantum of the restitutions for custom excise tax previously exempted and the fines associated with these restitutions. Based on available information and the directors' estimate, the estimated restitutions and fines associated with these restitutions would amount to about RMB 7,000,000 and a provision was made as at 31 December 2006.

Notes to the Financial Statements

Financial year ended 31 December 2006

27. Borrowings

	The Group		The Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Current				
Bank loans				
- secured	5,134	52,024	-	-
Related party loans (note 6(c)(viii))				
- unsecured	-	33,600	-	-
Total borrowings	5,134	85,624	-	-

(a) Security granted

As at 31 December 2006,

- (i) current borrowings of approximately RMB 3,000,000 (2005: RMB 4,000,000) are drawn down under a bank facility, which amounted to RMB 6,600,000. This bank facility is secured on leasehold land of Suzhou Zhongxinglian (note 21); and
- (ii) current borrowings of RMB 2,134,000 (2005: RMB Nil) are drawn down against notes received by the Group discounted with the banks.

As at 31 December 2005,

- (iii) current borrowings of approximately RMB 10,940,000 are drawn down under a bank facility, which amounted to USD 1,500,000 (RMB 12,105,000). This bank facility is guaranteed by a subsidiary, Ningbo Zhongjun, and is secured by certain leasehold land and buildings of Zhejiang Zhongxing (note 6(c)(vii)).
 - (iv) current borrowings of approximately RMB 17,084,000 are drawn down under a bank facility, which amounted to RMB 40,000,000. This bank facility is guaranteed by Ningbo Zhongjun, and Zhejiang Zhongxing and secured by certain leasehold land and buildings of Zhejiang Zhongxing (note 6(c)(vii)).
 - (v) current borrowings of approximately RMB 20,000,000 are drawn down under a bank facility, which amounted to RMB 20,000,000. This bank facility is guaranteed by Zhang Zhongliang, Zhang Huafen and Ningbo Zhongjun (note 6(c)(vii)).
- (b) current borrowings of RMB 33,600,000 are funds borrowed from Zhejiang Zhongxing, arranged in the form of an entrusted loan through the use of a local commercial bank as an intermediary. The applicable interest rates of the borrowings approximate the market prevailing interest rates (note 27 (e)).
- (c) Maturity of borrowings

The borrowings have an average maturity of 4 months (2005: 4 months) from the end of the financial year.

Notes to the Financial Statements

Financial year ended 31 December 2006

27. Borrowings (continued)

(d) Currency risk

The carrying amounts of total borrowings are denominated in the following currencies:

	The Group		The Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Renminbi	5,134	57,600	–	–
United States Dollar	–	28,024	–	–
	<u>5,134</u>	<u>85,624</u>	<u>–</u>	<u>–</u>

(e) Interest rate risks

The weighted average effective interest rates of total borrowings at the balance sheet date are as follows:

	2006		2005	
	RMB	US\$	RMB	US\$
Bank borrowings	5.06%	–	5.22%	5.70%
Related party borrowings	–	–	4.78%	–

The exposure of current borrowings to interest rate risks is disclosed in note 5(c).

(f) Carrying amounts and fair values

The carrying amounts of borrowings approximate their fair values. The fair values are determined from a discounted cash flow analysis, using a discount rate based upon the borrowing rates which the directors expect would be available to the Group at the balance sheet date.

(g) Undrawn borrowing facilities

The Group has undrawn borrowing facilities of approximately RMB 110,069,000 as at 31 December 2006, which will expire within one year from the balance sheet date (2005: approximately RMB 3,719,000).

28. Redeemable convertible loan stocks

- (a) On 6 August 2004, the Company entered into an investment agreement (the "Investment Agreement") with Asean China Investment Fund L.P. ("Asean China Fund"), Aventures 1 Pte Ltd ("Aventures"), and Prospect Investment Pte Ltd ("Prospect") (collectively, the "RCLS Investors"), Zhejiang Zhongxing, Hongkong Zhongxing and Zhang Zhongliang. Under the Investment Agreement, Asean China Fund, Aventures and Prospect subscribed for the redeemable convertible loan stocks ("RCLS") of the Company in the amount of S\$4,250,000, S\$2,500,000 and S\$250,000 respectively.
- (b) Under the terms of the RCLS, the RCLS are automatically converted into new ordinary shares in the Company, credited as fully paid up, upon the issue of the Eligibility-to-List letter from the SGX-ST (the "Conversion Shares"). The number of Conversion Shares to be issued is calculated by dividing the aggregate principal amount of the RCLS to be converted by a conversion price, established at a discount to the Group's price earning ratio ("PER") multiplied by the audited consolidated net profit after tax of the Group for the financial year ended 31 December 2004, and subject to a maximum PER of 8.5 times. In the event that the listing takes place on or before 30 June 2005, the applicable discount rate is 30% and in the event that the listing takes place after 30 June 2005, the applicable discount rate is 40%.
- (c) Each of the RCLS Investors are entitled to subscribe for such number of the Company's placement shares representing up to 15% of their respective principal amount of the RCLS upon the listing of the Company.

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28. Redeemable convertible loan stocks (continued)

- (d) The RCLS are unsecured, non-interest bearing and redeemable in full by the Company on 30 June 2005 ("Maturity Date").
- (e) In the event that the listing of the Company occurs on or before Maturity Date, the RCLS shall not bear any interest.
- (f) In the event that the listing of the Company does not occur by the Maturity Date ("Default Event"), dependent on the cause of Default Event, the RCLS will bear interest of between 5% to 30% per annum of the principal amount over the holding period of the RCLS.

On 12 January 2006, the Company entered into a Supplemental Investment Agreement (supplemental to the Investment Agreement dated 6 August 2004) with Asean China Fund, Aventures, Prospect, Zhejiang Zhongxing, Hongkong Zhongxing and Zhang Zhongliang (the "Supplemental Investment Agreement"). The terms of the Investment Agreement dated 6 August 2004 was supplemented and/or amended in the following manner:

- (g) the S\$7,000,000 RCLS is sub-divided into 2 tranches of S\$3,850,000 ("Tranche 1 Principal") and S\$3,150,000 ("Tranche 2 Principal");
 - (i) the number of conversion shares to be issued on conversion of Tranche 1 Principal ("Tranche 1 Conversion Shares") is calculated by dividing the Tranche 1 Principal by Tranche 1 conversion price, established at S\$0.138. The number of conversion shares to be issued on conversion of Tranche 2 Principal ("Tranche 2 Conversion Shares") is calculated by dividing the Tranche 2 Principal by Tranche 2 conversion price, established at a 40% discount to the Initial Public Offering ("IPO") price, subject to a maximum price earning ratio ("PER") of 8.5 times;
 - (ii) Tranche 1 Principal will be converted into new ordinary shares in the Company upon the receipt of the Eligibility-to-List letter from SGX-ST; and
 - (iii) Tranche 2 Principal will be converted into new ordinary shares in the Company upon the completion of the book building exercise to determine the IPO price;
- (h) The RCLS shall expire on 31 March 2006 ("Amended Maturity Date"), and shall be redeemed and payable in full by the Company. If due to unfavourable market conditions the Company cannot obtain a suitable PER for listing on or before 31 March 2006, the Company is entitled to defer the listing till 30 April 2006, the RCLS shall expire on 30 April 2006, and shall be redeemed and payable in full by the Company;
- (i) In the event that the listing of the Company does not occur by Amended Maturity Date ("Default Event"), dependent on the cause of the Default Event, the RCLS will bear interest of between 5% to 30% per annum on the principal amount over the holding period of the RCLS, being the period from the issue of the RCLS to the redemption date;
- (j) For the purposes of calculating the amount to be paid by the Company for the redemption of the RCLS, the holding period shall not include the period from 1 October 2005 to 31 March 2006 and up to a 6-month grace period from the date of the redemption notice to full repayment of the RCLS; and
- (k) The RCLS Investors agreed to sell all of Tranche 1 Conversion Shares and such number of Tranche 2 Conversion Shares to JHT Investments Pte Ltd ("JHT") so that the RCLS Investors will not hold more than 5% of the post-listing issued share capital of the Company.
- (l) On 24 March 2006, Tranche 1 Principal was converted into 27,898,551 new ordinary shares in the Company (note 30(b)(ii)).
- (m) On 20 April 2006, Tranche 2 Principal was converted into 17,500,000 new ordinary shares in the Company (note 30(b)(iii)).
- (n) No interest was charged on Tranche 1 and Tranche 2 principals of the RCLS.

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Financial year ended 31 December 2006

29. Deferred subsidy income

	The Group		The Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Gross amount received				
Balance at beginning of financial year	6,667	–	–	–
Amount received	–	6,667	–	–
Balance at end of financial year	6,667	6,667	–	–
Accumulated amortisation				
Amortisation for the financial year (note 8) and balance at end of financial year	133	–	–	–
Net book value	6,534	6,667	–	–
Current	133	–	–	–
Non-current	6,401	6,667	–	–
Total	6,534	6,667	–	–

Deferred subsidy income refers to subsidy income received by Suzhou Zhongxinglian from Suzhou City Xushuguan New District Treasury in relation to the purchase of leasehold land in Suzhou, Jiangsu province. The subsidy income is intended to subsidise the cost of the leasehold land acquired by Suzhou Zhongxinglian and will be amortised to the income statement over the term of the lease on a straight-line basis in order to match the depreciation charge of the leasehold land.

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Financial year ended 31 December 2006

30. Share capital of China Precision Technology Limited

(a) Authorised ordinary share capital

The total authorised number of ordinary shares as at 31 December 2006 is 2.5 billion shares (2005: 2.5 billion shares).

(b) Issued ordinary share capital

	Number of shares	RMB'000
31 December 2006		
Balance at beginning of financial year	202,617,175	39,431
Shares issued on conversion of Tranche 1 RCLS (ii)	27,898,551	19,040
Shares issued on conversion of Tranche 2 RCLS (iii)	17,500,000	15,774
Share issued on conversion of JT RCLS (iv)	30,274,043	38,228
	278,289,769	112,473
Sub-division of shares (v)	41,710,231	–
Sub-total	320,000,000	112,473
Shares issued pursuant to the IPO (vi)	80,000,000	122,200
Share issue expenses	–	(9,436)
Balance at end of financial year	400,000,000	225,237
31 December 2005		
Balance at beginning of financial year	6,929,656	33,659
Issue of shares (vii)	107,441	543
Issue of shares for capitalisation of advances (viii), (ix)	1,067,590	5,229
	8,104,687	39,431
Sub-division of shares (x)	194,512,488	–
Balance at end of financial year	202,617,175	39,431

(i) All issued shares are fully paid.

31 December 2006

(ii) On 24 March 2006, 27,898,551 new ordinary shares in the Company were issued as fully paid pursuant to the Supplemental Investment Agreement dated 12 January 2006 in relation to the conversion of Tranche 1 Principal of the RCLS, amounting to S\$3,850,000 (RMB 19,040,000), upon the receipt of the Eligibility-to-List letter from SGX-ST (note 28(l)). The newly issued shares rank pari passu in all respects with the previously issued shares.

(iii) On 20 April 2006, 17,500,000 new ordinary shares in the Company were issued as fully paid pursuant to the Supplemental Investment Agreement dated 12 January 2006, in relation to the conversion of Tranche 2 Principal of the RCLS, amounting to S\$3,150,000 (RMB 15,774,000), upon the completion of the IPO book-building exercise (note 28(m)). The newly issued shares rank pari passu in all respects with the previously issued shares.

(iv) On 12 January 2006, JHT subscribed for S\$7,729,607 (approximately RMB 38,152,000) of Redeemable Convertible Loan Stocks ("JT RCLS") of the Company which will be converted into 30,274,043 new ordinary shares in the Company upon the receipt of the Eligibility-to-List letter from SGX-ST. On 24 March 2006, 30,274,043 new ordinary shares in the Company were issued as fully paid pursuant to the conversion of S\$7,729,607 (approximately RMB 38,228,000) of JT RCLS upon the receipt of the Eligibility-to-List letter from SGX-ST. The newly issued shares rank pari passu in all respects with the previously issued shares.

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Financial year ended 31 December 2006

30. Share capital of China Precision Technology Limited (continued)

(b) Issued ordinary share capital (continued)

- (v) On 22 April 2006, the shareholders at an extraordinary general meeting, approved the sub-division of the issued share capital of 278,289,769 ordinary shares into 320,000,000 ordinary shares.
- (vi) On 5 May 2006, 80,000,000 ordinary shares were issued as fully paid, for cash, at S\$0.30 each pursuant to the Company's IPO. The newly issued shares rank *pari passu* in all respects with the previously issued shares.

31 December 2005

- (vii) On 23 February 2005, the issued ordinary share capital of the Company was increased by S\$107,441 (equivalent to RMB 543,583) by way of a new issue of 107,441 new ordinary shares of S\$1.00 each at a premium of approximately S\$1.67 per share for cash, totalling S\$287,144 (RMB 1,452,766), for working capital purposes. The newly issued shares rank *pari passu* in all respects with the previously issued shares.
- (viii) On 20 July 2005, the issued ordinary share capital of the Company was increased by S\$216,263 by way of a new issue of 216,263 ordinary shares of S\$1.00 each at par in consideration for the capitalisation of advances amounting to S\$216,263 (equivalent to RMB 1,059,217) from Hongkong Zhongxing. The newly issued shares rank *pari passu* in all respects with the previously issued shares.
- (ix) On 20 July 2005, the issued ordinary share capital of the Company was increased by S\$851,327 by way of a new issue of 851,327 ordinary shares of S\$1.00 each at par in consideration for the capitalisation of advances amounting to S\$851,327 (equivalent to RMB 4,169,646) from Zhang Zhongliang. The newly issued shares rank *pari passu* in all respects with the previously issued shares.
- (x) On 26 July 2005, by way of a Memorandum of Resolutions of Members, the shareholders approved, *inter alia*, the following:
 - (a) the sub-division of one ordinary share of S\$1.00 each in the authorised and issued capital into 25 ordinary shares of S\$0.04 each and
 - (b) the increase in the authorised share capital from S\$10,000,000 divided into 10,000,000 ordinary shares of S\$1.00 each to S\$100,000,000 divided into 2,500,000,000 ordinary shares of S\$0.04 each.

As at 31 December 2006, share issue expenses amounting to RMB 9,436,000 (2005: RMB Nil) were charged against the share capital.

The movements in the share premium account are set out in the Consolidated Statement of Changes in Equity.

31. Dividends

At the Annual General Meeting on 27 April 2007, a final exempt (one-tier) dividend of RMB 0.053 per share amounting to RMB 21,200,000 will be recommended. These financial statements did not reflect this proposed dividend, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the period when approved by the shareholders.

Notes to the Financial Statements

Financial year ended 31 December 2006

32. Contingent liabilities

As at 31 December 2006 and 31 December 2005, the Group has no significant contingent liabilities.

33. Commitments

(a) Capital commitments

Capital expenditure contracted for at the balance sheet date but not recognised in the financial statements are as follows:

	The Group		The Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Property, plant and equipment	14,774	33,302	–	–
Investment in subsidiaries	–	–	11,433	59,155
	14,774	33,302	11,433	59,155

(b) Operating lease commitments – where a Group company is a lessee

The Group leases various office and factory premises under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The future aggregate minimum lease payments under non-cancellable operating leases contracted for at the reporting date but not recognised as liabilities, are as follows:

	The Group		The Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Not later than 1 year	4,300	2,582	–	100
Later than 1 year but not later than 5 years	6,776	5,400	–	–
Later than 5 years	2,369	3,201	–	–
	13,445	11,183	–	100

Notes to the Financial Statements

Financial year ended 31 December 2006

34. Holding corporation

As at 31 December 2006, the Company's holding and ultimate holding corporation is Dynamic Goal Finance Ltd, a corporation incorporated in the British Virgin Island, which owns 51.6% (31 December 2005: 89.8%) of the Company's issued share capital.

Prior to 20 July 2005, the Company's holding and ultimate holding corporation was Hong Kong Zhongxing Trading Limited, a company incorporated in the Hong Kong Special Administrative Region of the PRC. On 20 July 2005, Hong Kong Zhongxing Trading Limited renounced its shares in the Company to Dynamic Goal Finance Ltd and ceased to be the Company's holding and ultimate holding corporation.

35. Segment information

At 31 December 2006, the Group is organised into three main business segments:

- Electronic Tuner components segment: electronic tuners are electronic components that are commonly found in consumer electronic products that require video and audio signal transmission and reception. These consumer electronic products include television, set-top boxes, DVD players, satellite receiver systems and automobile radio systems. The Group manufacture mechanical parts of the electronic tuner such as connectors, pins, frame and covers.
- Automotive segment – The Group provides plastic injection moulding and electroplating services for automobile parts. These parts include grills, logo and other accessory parts.
- Others segment – The Group manufactures and supply precision metal and plastic components for the office automation and telecommunication industries, neither of which constitutes a separately reportable segment as each of these segments contributed less than 10% of the Group's sales, profit or total assets.

Segment revenue and expenses reported in the respective segments are revenue and expenses that are either directly attributable to a segment or can be allocated on a reasonable basis to a segment. Segment expenses do not include income tax expense, provision for custom issues and finance expense. Share of results of associated company and gain on disposal of associated company and interest income are not allocated to any segment.

Unallocated costs represent corporate expenses. Segment assets consist primarily of property, plant and equipment, intangible assets, inventories and trade receivables. Segment liabilities comprise operating liabilities and exclude items such as other payables, tax liabilities, borrowings, redeemable convertible loan stocks and dividends payable. Capital expenditure comprises additions to property, plant and equipment and intangible assets.

Notes to the Financial Statements

Financial year ended 31 December 2006

35. Segment information (continued)

(a) Primary reporting format - business segments

	Electronic Tuner components RMB'000	Automotive RMB'000	Others RMB'000	Group RMB'000
Financial year ended 31 December 2006				
Sales:				
- external sales	420,679	61,386	123,179	605,244
Segment result	84,270	8,773	2,362	95,405
Unallocated costs				(12,801)
Unallocated other income				8,812
Finance expense				(1,979)
Profit before income tax				89,437
Income tax expense				(11,459)
Profit for the financial year				77,978
Other segment items				
Capital expenditure:				
- property, plant and equipment	39,135	6,133	70,942	116,210
Allowance for impairment of trade receivables	167	-	315	482
Allowance for impairment in inventories	-	-	660	660
Depreciation and amortisation	17,649	4,189	14,688	36,526
As at 31 December 2006				
Segment assets	245,899	61,805	182,417	490,121
Deferred income tax assets				1,818
Unallocated assets				120,147
Consolidated total assets				612,086
Segment liabilities	82,761	11,469	41,028	135,258
Borrowings				5,134
Current income tax liabilities				3,387
Unallocated liabilities				41,797
Consolidated total liabilities				185,576

Notes to the Financial Statements

Financial year ended 31 December 2006

35. Segment information (continued)

(a) Primary reporting format - business segments (continued)

	Electronic Tuner components RMB'000	Automotive RMB'000	Others RMB'000	Group RMB'000
Financial year ended 31 December 2005				
Sales:				
- external sales	339,517	26,978	56,006	422,501
Segment result	75,666	(2,552)	10,620	83,734
Unallocated costs				(2,156)
Gain on disposal of an associated company				423
Finance expense				(3,285)
Share of loss of an associated company				(137)
Profit before income tax				78,579
Income tax expense				(8,336)
Profit for the financial year				70,243
Other segment items				
Capital expenditure:				
- property, plant and equipment	29,212	13,506	49,496	92,214
- intangible assets	-	1,679	-	1,679
- investment in an associated company	2,072	-	-	2,072
Allowance for impairment of trade receivables	44	-	-	44
Depreciation and amortisation	15,630	4,915	4,357	24,902
As at 31 December 2005				
Segment assets	215,746	34,997	89,180	339,923
Deferred income tax assets				1,747
Unallocated assets				54,295
Consolidated total assets				395,965
Segment liabilities	57,628	5,898	19,709	83,235
Borrowings				85,624
Redeemable convertible loan stocks				33,898
Current income tax liabilities				3,357
Unallocated liabilities				25,376
Consolidated total liabilities				231,490

Notes to the Financial Statements

Financial year ended 31 December 2006

35. Segment information (continued)

(b) Secondary reporting format - geographical segments

The Group's three business segments operate in two main geographical areas:

- Singapore – the Company is headquartered and has operations in Singapore. The operations in this area are principally investment holding; and
- People's Republic of China – the operations in this area are principally engaged in the manufacturing of component parts.

With the exception of the People's Republic of China and Hong Kong, no other individual country contributed more than 10% of consolidated sales and assets. Sales are based on the country in which the customers are located. Total assets and capital expenditure are shown by the geographical area where the assets are located.

	Sales		Total assets		Capital expenditure	
	2006	2005	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
PRC and Hong Kong	396,197	267,309	506,795	351,827	116,051	95,955
Southeast Asia	117,297	89,004	85,400	25,944	145	10
Japan	53,740	29,334	9,840	7,200	14	–
Europe	15,775	17,080	2,342	3,153	–	–
Other countries	22,235	19,774	7,709	7,841	–	–
	605,244	422,501	612,086	395,965	116,210	95,965

36. New accounting standards and FRS Interpretations

Certain new accounting standards and INT FRS have been published that are mandatory for accounting year beginning on or after 1 January 2007. The Group's assessment of those standards and interpretations that are relevant to the Group is set out below.

FRS 107 Financial Instruments: Disclosure and a complementary Amendment to FRS 1 Presentation of financial statements – Capital Disclosures

The Group has adopted FRS 107 on 1 January 2007, which is effective date of the Standard. Implementation of FRS 107 is not expected to significantly affect the financial statements of the Group.

FRS 108 Operating segments

The Group will apply FRS 108 from 1 January 2009, which is the effective date of the Standard. Implementation of FRS 108 is not expected to significantly affect the financial statements of the Group.

37. Authorisation of financial statements

These financial statements were authorised for issue in accordance with a resolution of the Board of Directors of China Precision Technology Limited on 30 March 2007.

Statistics of Shareholdings

5 April 2007

DISTRIBUTION OF SHAREHOLDERS BY SIZE OF SHAREHOLDINGS

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	% OF SHAREHOLDERS	NO. OF SHARES	% OF SHAREHOLDINGS
1 - 999	6	0.35	858	0.00
1,000 - 10,000	658	38.48	4,863,000	1.22
10,001 - 1,000,000	1,030	60.23	61,948,000	15.49
1,000,001 - and above	16	0.94	333,188,142	83.29
Grand Total	1,710	100.00	400,000,000	100.00

Details of Substantial Shareholders are as follows:-
(As recorded in the Register of Substantial Shareholders)

Name	Direct Interest	%	Deemed Interest	%
JHT Investments Pte Ltd	80,000,000	20.00	–	–
Dynamic Goal Finance Ltd	207,660,245	51.92	–	–
Zhang Zhongliang*	–	–	207,660,245	51.92

* Zhang Zhongliang is deemed to have an interest in the shares held by Dynamic Goal Finance Ltd.

TWENTY LARGEST SHAREHOLDERS AS AT 5 APRIL 2007

	NAME OF SHAREHOLDER	NO. OF SHARES	% OF SHAREHOLDINGS
1	HSBC (SINGAPORE) NOMINEES PTE LTD	180,001,245	45.00
2	JHT INVESTMENTS PTE. LTD.	80,000,000	20.00
3	HL BANK NOMINEES (SINGAPORE) PTE LTD	27,464,000	6.87
4	WELGROW PROFITS INC.	14,998,775	3.75
5	UOB KAY HIAN PTE LTD	3,835,000	0.96
6	PHILLIP SECURITIES PTE LTD	3,660,000	0.92
7	AVENTURES 1 PTE LTD	3,642,858	0.91
8	CITIBANK NOMINEES SINGAPORE PTE LTD	3,480,000	0.87
9	OCBC SECURITIES PRIVATE LTD	3,260,000	0.82
10	DBS NOMINEES PTE LTD	2,632,000	0.66
11	CITIBANK CONSUMER NOMINEES PTE LTD	2,543,000	0.64
12	PROSPECT INVESTMENT PTE LTD	1,894,284	0.47
13	KIM ENG SECURITIES PTE. LTD.	1,692,000	0.42
14	DBS VICKERS SECURITIES (SINGAPORE) PTE LTD	1,520,000	0.38
15	UNITED OVERSEAS BANK NOMINEES PTE LTD	1,465,000	0.37
16	YEO TSUNG TONG	1,100,000	0.28
17	BULKSHIPS ASIA PTE LTD	1,000,000	0.25
18	LIM NGUAN SIEW	1,000,000	0.25
19	CHAN SOH HAR	970,000	0.24
20	NG LIEW PENG	920,000	0.23
		337,078,162	84.27

Shareholding Held in Hands of Public

Based on information available to the Company as at 5 April 2007, approximately 27.54% of the Company's shares listed on the Singapore Exchange Securities Trading Limited were held in the hands of the public. Therefore the Company has complied with Rule 723 of the Listing Manual.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting of the Company will be held at Sheraton Towers on the 27th day of April 2007 at 4.30 p.m. to transact the following business:

ORDINARY BUSINESS

1. To receive and adopt the Directors' Report and Audited Accounts for the financial year ended 31 December 2006. **Resolution 1**
2. To approve the payment of Directors' fees of RMB 977,000 (equivalent of S\$ 195,000) for the financial year ended 31 December 2006. **Resolution 2**
3. To approve the payment of Directors' fees of S\$170,000 for the financial year ending 31 December 2007 to be paid quarterly in arrears. **Resolution 3**
4. To declare a final dividend of RMB0.053 per share for the financial year ended 31 December 2006. **Resolution 4**
5. To re-elect Wee Chow Hou pursuant to Article 107 of the Articles of Association. **Resolution 5**
6. To re-elect Peng Yinghong pursuant to Article 107 of the Articles of Association. **Resolution 6**
7. To re-appoint Messrs PricewaterhouseCoopers as Auditors of the Company and to authorise the Directors to fix their remuneration. **Resolution 7**
8. To transact any other business of the Company which may properly be transacted at an Annual General Meeting.

SPECIAL BUSINESS

To consider and if thought fit to pass the following as Ordinary Resolutions:

9. "That pursuant to Section 161 of the Companies Act, Cap. 50, and the listing rules of the Singapore Exchange Securities Trading Limited, the Directors be and are hereby authorised to issue shares in the Company (whether by way of bonus issue, rights issue or otherwise) at any time and upon such terms and conditions and for such purposes and to such persons as the Directors may, in their absolute discretion, deem fit provided that:
 - (a) the aggregate number of shares and convertible securities to be issued pursuant to this Resolution does not exceed 50% of the issued share capital of the Company, of which the aggregate number of shares and convertible securities to be issued other than on a pro-rata basis to existing shareholders of the Company does not exceed 20% of the Company's issued share capital;
 - (b) for the purpose of determining the aggregate number of shares that may be issued under (a) above, the percentage of issued share capital shall be based on the issued share capital of the Company at the time this Resolution is passed, after adjusting for:
 - (i) new shares arising from the conversion or exercise of any convertible securities;
 - (ii) new shares arising from exercising share options or vesting of share awards outstanding or subsisting at the time of the passing of this resolution approving the mandate, provided the options or awards were granted in compliance with Listing Manual; and
 - (iii) any subsequent consolidation or subdivision of shares; and
 - (c) unless revoked or varied by the Company in general meeting, such authority conferred by this Resolution shall continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier."

[see explanatory note (a)] **Resolution 8**

Notice of Annual General Meeting

10. "That pursuant to Section 161 of the Companies Act, Cap. 50, the directors be and are hereby authorised to allot and issue from time to time such number of shares as may be required to be issued pursuant to the exercise of the options granted under the China Precision Technology Employee Share Option Scheme (the "ESOS") provided always that the aggregate number of shares to be issued pursuant to the ESOS shall not exceed 15% of the issued share capital of the Company from time to time."
[see explanatory note (b)] **Resolution 9**
11. "That for the purposes of Chapter 9 of the Listing Manual of the Singapore Exchange Securities Trading Limited:
- (a) approval be given for the Company, its subsidiaries and associated companies or any of them to enter into any of the transactions falling within the types of Interested Person Transactions as set out in the Appendix to the Annual Report to shareholders dated 11 April 2007 (the "Appendix") with any party who is of the class of Interested Persons described in the Appendix, provided that such transactions are carried out in the normal course of business, at arm's length and on commercial terms and in accordance with the guidelines of the Company for Interested Person Transactions as set out in the Appendix (the "Shareholders' Mandate");
 - (b) unless revoked or varied by the Company in a general meeting, the Shareholders' Mandate shall continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier; and
 - (c) authority be given to the Directors to complete and do all such acts and things (including executing all such documents as may be required) as they may consider necessary, desirable or expedient to give effect to the Shareholders' Mandate as they may think fit."
[see explanatory note (c)] **Resolution 10**

By Order of the Board

Ch'ng Li-Ling
Company Secretary

Date: 11 April 2007

Explanatory Notes:

- a. The proposed ordinary resolution 8, if passed, will empower the Directors from the date of the Annual General Meeting until the date of the next Annual General Meeting to issue further shares in the Company. The maximum number of shares, which the Directors may issue under this resolution, shall not exceed the quantum set out in the resolution.
- b. The proposed ordinary resolution 9, if passed, will empower the Directors to issue shares in the Company pursuant to the China Precision Technology Employee Share Option Scheme, which was duly approved by way of a Memorandum of Resolutions of Members passed on 26 July 2005.
- c. The proposed ordinary resolution 10, if passed, will authorise the Interested Person Transactions as described in the Appendix and recurring in the year and will empower the Directors from the date of the Annual General Meeting until the date of the next Annual General Meeting to do all acts necessary to give effect to the Shareholders' Mandate.

Note:

- 1. A member entitled to attend and vote at this meeting is entitled to appoint a proxy to attend and vote in his stead. A proxy need not be a member of the Company.
- 2. If a proxy is to be appointed, the form must be deposited at the registered office of the Company, at 80 Raffles Place #25-01 UOB Plaza 1, Singapore 048624 not less than 48 hours before the meeting.
- 3. The form of proxy must be signed by the appointor or his attorney duly authorised in writing.
- 4. In case of joint shareholders, all holders must sign the form of proxy.

CHINA PRECISION TECHNOLOGY LIMITED

(Company Registration Number 200406029N)
(Incorporated in the Republic of Singapore)

IMPORTANT:

- i. For Investors who have used their CPF monies to buy China Precision Technology Limited's shares, this Report is forwarded to them at the request of the CPF Approved Nominees and is sent solely FOR INFORMATION ONLY.
- ii. This Proxy Form is not valid for use by CPF investors and shall be ineffective for all intents and purposes if used or purported to be used by them.

PROXY FORM – ANNUAL GENERAL MEETING

(Please see notes overleaf before completing this form)

I/We, _____ (Name)

of _____ (Address)

being the holder(s) of ordinary shares in the capital of CHINA PRECISION TECHNOLOGY LIMITED (the "Company"), hereby appoint the Chairman of the Annual General Meeting ^(Note 2) of the Company or:

Name	Address	NRIC/Passport Number	Shareholdings	
			Number ^(Note 3)	(%)

and/or (delete as appropriate)

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as my/our proxy/proxies, to attend and vote for me/us on my/our behalf and, if necessary, to demand a poll, at the Annual General Meeting of the Company to be held at Sheraton Towers on 27 April 2007 at 4.30 p.m. and at any adjournment thereof.

I/We direct my/our proxy/proxies to vote in the manner indicated below. If no specific direction as to the manner of voting is given, my/our proxy/proxies may vote or abstain at his discretion.

No.	Resolution ^(Note 4)	For	Against
1	Adoption of Directors' Report and Audited Accounts		
2	Approval of Directors' fees for financial year ended 31 December 2006		
3	Approval of Directors' fees for financial year ending 31 December 2007 to be paid quarterly in arrears		
4	Declare final dividend of RMB0.053 per share for financial year ended 31 December 2006		
5	Re-election of Wee Chow Hou as a Director		
6	Re-election of Peng Yinghong as a Director		
7	Re-appointment of Messrs PricewaterhouseCoopers as Auditors		
8	Authority to issue additional shares pursuant to Section 161		
9	Authority to issue shares pursuant to ESOS		
10	Approval of Mandate for Interested Person Transactions		

Dated this _____ day of _____ 2007

Number of Shares Held ^(Note 5)

(a) CDP Register	
(b) Register of Members	

Signature of Shareholder(s) or, Common Seal ^(Note 6)



Notes :

1. A Shareholder entitled to attend and vote at the Annual General Meeting is entitled to appoint not more than two proxies to attend and vote in his stead. Such proxy need not be a Shareholder.
2. If any other proxy/proxies is/are to be appointed, please strike out "Chairman of the Annual General Meeting" and insert the name(s) and particulars of the proxy/proxies to be appointed in the blank space provided.
3. Where a Shareholder appoint two proxies, the appointments shall be invalid unless he specifies the number of Shares to be represented by each proxy.
4. IMPORTANT: If you wish to vote "FOR" the Resolution, please indicate an "X" in the box marked "FOR" the Resolution. If you wish to vote "AGAINST" the Resolution, please indicate an "X" in the box marked "AGAINST" the Resolution.
5. Please insert the total number of Shares held by you. If you have Shares entered against your name in the Depository Register (as defined in Section 130A of the Companies Act, Chapter 50 of Singapore), you should insert that number of Shares. If you have Shares registered in your name in the Register of Members, you should insert that number of Shares. If you have Shares entered against your name in the Depository Register and Shares registered in your name in the Register of Members, you should insert the aggregate number of Shares entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate to all the Shares held by you.
6. The instrument appointing a proxy or proxies must be executed under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under the common seal of the corporation or under the hand of any officer or attorney duly authorised.
7. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at 80 Raffles Place #25-01 UOB Plaza 1 Singapore 048624 not later than 48 hours before the time appointed for the Annual General Meeting.
8. Where an instrument appointing a proxy is signed on behalf of the appointor or by an attorney, the power of attorney (or other authority) or a duly certified copy thereof must (failing previous registration with the Company) be lodged with the instrument of proxy, failing which the instrument may be treated as invalid.
9. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks it to act as its representative at the meeting, in accordance with Section 179 of the Companies Act (Cap 50).

General:

The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies. In addition, in the case of Shares entered in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if the member, being the appointor, is not shown to have Shares entered against his name in the Depository Register 48 hours before the time appointed for holding the Meeting, as certified by The Central Depository (Pte) Limited to the Company.