



SINOTRONICS HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)



Third Quarterly Report
2002

Characteristics of The Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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This quarterly report, for which the directors (the “Directors”) of Sinotronics Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this quarterly report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this quarterly report misleading; and (3) all opinions expressed in this quarterly report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

THIRD QUARTERLY REPORT

For the nine months ended 31st March, 2002

HIGHLIGHTS

- Turnover of the Group for the nine months ended 31st March, 2002 amounted to approximately RMB144.1 million, representing an increase of about 24.0% as compared with the corresponding period in 2001.
- Net profit attributable to shareholders was approximately RMB45.3 million, representing an increase of about 16.5% over the corresponding period in 2001.
- Earnings per share was RMB13.03 cents for the nine months ended 31st March, 2002
- The Directors do not recommend dividend for the nine months ended 31st March, 2002.

RESULTS

The board (the “Board”) of directors (the “Directors”) of Sinotronics Holdings Limited (“Sinotronics” or the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the nine months and three months ended 31st March, 2002, together with the comparative figures for the corresponding period in 2001, as follows:

		(Unaudited) nine months ended 31st March,		(Unaudited) three months ended 31st March,	
	Note	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Turnover	2	144,113	116,233	46,376	37,691
Cost of sales		<u>(71,977)</u>	<u>(57,629)</u>	<u>(23,243)</u>	<u>(18,341)</u>
Gross profit		72,136	58,604	23,133	19,350
Selling and distribution expenses		(3,052)	(3,348)	(970)	(876)
General and administrative expenses		<u>(10,412)</u>	<u>(6,601)</u>	<u>(4,354)</u>	<u>(2,257)</u>
Profit from operations		58,672	48,655	17,809	16,217
Subsidies		—	400	—	—
Interest income		317	297	102	—
Finance costs		<u>(2,470)</u>	<u>(4,580)</u>	<u>(740)</u>	<u>(1,998)</u>
Profit before taxation		56,519	44,772	17,171	14,219
Taxation	3	<u>(5,623)</u>	<u>(1,434)</u>	<u>(1,504)</u>	<u>(1,434)</u>
Profit after taxation but before minority interests		50,896	43,338	15,667	12,785
Minority interests		<u>(5,605)</u>	<u>(4,447)</u>	<u>(1,854)</u>	<u>(1,333)</u>
Profit attributable to shareholders		<u>45,291</u>	<u>38,891</u>	<u>13,813</u>	<u>11,452</u>
Earnings per share – Basic	4	<u>RMB13.03 cents</u>	<u>RMB14.40 cents</u>	<u>RMB3.97 cents</u>	<u>RMB4.24 cents</u>

Notes:

1. Group reorganisation and basis of presentation

The Company was incorporated in the Cayman Islands on 29th September, 2000 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. Its shares have been listed on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited since 17th May, 2001.

On 8th May, 2001, the Company became the holding company of the other companies comprising the Group pursuant to a group reorganisation (the "Reorganisation") which included exchange of shares. The Reorganisation involved companies under common control, and the Group, resulting from the Reorganisation, is regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which the unaudited consolidated results of the Group for the nine months ended 31st March, 2001 have been prepared as if the Company had been the holding company of the other companies comprising the Group throughout the nine months ended 31st March, 2001, rather than from the date on which the Reorganisation was completed.

All significant intercompany transactions and balances within the Group have been eliminated on combination.

The unaudited consolidated results have been prepared in accordance with Statement of Standard Accounting Practices issued by the Hong Kong Society of Accountants and accounting principles generally accepted in Hong Kong.

2. Turnover and revenue

Turnover and revenue consisted of:

	nine months ended 31st March,		three months ended 31st March,	
	2002	2001	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover – Sales of printed circuit boards	144,113	116,233	46,376	37,691
Interest income	317	297	102	—
Total revenue	<u>144,430</u>	<u>116,530</u>	<u>46,478</u>	<u>37,691</u>

3. Taxation

Taxation consisted of:

	nine months ended 31st March, 2002		three months ended 31st March, 2001	
	RMB'000	RMB'000	RMB'000	RMB'000
Mainland China enterprise income tax	<u>5,623</u>	<u>1,434</u>	<u>1,504</u>	<u>1,434</u>

The Company is exempted from taxation in the Cayman Islands until 2019. No provision for Hong Kong profits tax was made as the Group had no assessable profit in Hong Kong.

Fujian Fuqiang Delicate Circuit Plate Co., Ltd., a subsidiary, is a sino-foreign equity joint venture established in Fuqing, Mainland China, and is subject to Mainland China enterprise income tax at a rate of 15% on its profit after offsetting prior year's tax losses. However, it is exempted from Mainland China enterprise income tax for two years starting from the first year of profitable operations after offsetting prior year's tax losses, followed by a 50% reduction for the following three years. During the nine months ended 31st March, 2002, Fujian Fuqiang Delicate Circuit Plate Co., Ltd. provided Mainland China enterprise income tax at a rate of 7.5% (2001 – 7.5%).

4. Earnings per share

The calculation of basic earnings per share for the nine months and three months ended 31st March, 2002 was based on the unaudited consolidated profit attributable to shareholders of approximately RMB45,291,000 and RMB13,813,000 on the 347,625,000 and 347,625,000 ordinary shares in issue during the nine months and three months ended 31st March, 2002.

The calculation of earnings per share for the nine months and three months ended 31st March, 2001 was based on the unaudited consolidated profit attributable to shareholders of approximately RMB38,891,000 and RMB11,452,000 and on the 270,000,000 and 270,000,000 ordinary shares in issue and issuable pursuant to a capitalisation issue in connection with the Company's share offering in May 2001.

Diluted earnings per share was not presented as there were no dilutive potential ordinary shares in existence during the nine months and three months ended 31st March, 2002.

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RESERVES

There has been no transfer to or from reserves, other than the profit for the respective period during the nine months and three months ended 31st March, 2002.

DIVIDEND

The Board does not recommend the payment of a dividend for the nine months ended 31st March, 2002 (*2001 – Nil*).

FINANCIAL REVIEW

The unaudited consolidated turnover of the Group for the nine months ended 31st March, 2002 amounted to approximately RMB144,113,000, representing an increase of approximately 23.99% over the unaudited combined turnover of the Group of approximately RMB116,233,000 for the corresponding nine months ended 31st March, 2001. The unaudited consolidated profit of the Group for the nine months ended 31st March, 2002 amounted to approximately RMB45,291,000, representing an increase of approximately 16.46% as compared to the unaudited combined profit of the Group of approximately RMB38,891,000 for the corresponding nine months ended 31st March, 2001. The unaudited gross profit margin of the Group for the nine months ended 31st March, 2002 was approximately 50.06%, which was approximately 0.36% lower than the unaudited gross profit margin of the Group of approximately 50.42% for the corresponding nine months ended 31st March, 2001.

On the other hand, the unaudited consolidated turnover of the Group for the three months ended 31st March, 2002 amounted to approximately RMB46,376,000, representing an increase of approximately 23.04% over the unaudited combined turnover of the Group of approximately RMB37,691,000 for the corresponding three months ended 31st March, 2001. The unaudited consolidated profit of the Group for the three months ended 31st March, 2002 amounted to approximately RMB13,813,000, representing an increase of approximately 20.62% as compared to the unaudited combined profit of the Group of approximately RMB11,452,000 for the corresponding three months ended 31st March, 2001. The unaudited gross profit margin of the Group for the three months ended 31st March, 2002 was approximately 49.88%, which was approximately 1.46% lower than the unaudited gross profit margin of the Group of approximately 51.34% for the corresponding three months ended 31st March, 2001.

The increase in the Group's turnover for the nine months and three months ended 31st March, 2002 was mainly attributable to the increase in sales of both the single and double-sided and multilayer PCBs, especially multilayer PCBs with higher number of the layers and the provision of relevant design and assembly services to the customers. Such increase in sales was mainly attributable to the Group's acquisitions of additional multilayer equipment to produce multilayer PCBs with greater number of layers. During the nine months and three months ended 31st March, 2002, turnover of multilayer PCBs amounted to approximately RMB75,514,000 and RMB23,735,000 respectively, representing an increase of approximately 33.44% and 3.57% respectively, over the same period last year.

BUSINESS REVIEW

Expedition of the expansion of sales network

On the one hand, the Group increased the number of its engineering staff in Shanghai and Shenzhen and the existent key sales points to enhance the engineering support and service capacity of the Group's sales branches with an aim to raise the Company's competitiveness. On the other hand, the Group actively expanded the coverage of its sales points to other regions in the PRC.

Expansion and promotion of the Group's capacity and scope in engineering support services

After setting up an engineering design center in Fuzhou, the Group initially increased its engineering staff in Shanghai and Shenzhen and established auxiliary services capacity including the provision of original design and wiring design to customers. Accordingly, the Group laid a solid foundation for its competitive advantage in market competition in the Eastern China including Shanghai.

Constant improvement in services to become a “one-stop shop”

To become an essential strategic partner in customers' rapid growth to constantly improve its services offered for customers' convenience and to become a “one-stop shop” of its customers are the Company's targets. Utilising the Group's advantages in the accessibility of information and sources of supplies through its headquarter in Hong Kong, together with the close cooperation between the Group and each of its two strategic partners, Start Network and Newland, the Group provided services including procurement, installation and testing to its customers, which allow the Group to further approach its development targets.

BUSINESS PROSPECTS

In the first quarter of 2002, the international electronic industry slowly recovered. With China's accession to the WTO, China will become the fastest growing market. Leveraging on its geographical advantage, the Group had established its sales network in China in a relatively advanced time and introduced various EMS business modes, thereby establishing a stable foundation for the Group's rapid growth. In the new year, the Group continues to expand its engineering support services to the Group's major sales points and improved customer relationship management (CRM). Additionally, the Group based on the above competitive strategies to adopt the following two approaches:

Constant R & D of new technology and know-how, and widen the market horizons

New technologies have become the driving force for the development of new economy. To ensure the Group's continuous and rapid development in the future, it has devoted extensive human and material resources to carry out R & D on new technology and know-how and technology renovation. After the successful completion of the Group's trial production on thick copper large power supply boards and metallic multilayer boards, the Group continue to devote human, material and financial and other resources to carry out the R & D on diffraction board and steel diffraction composite board and commenced trial sample production. With China's accession to WTO, automobile electronics and notebook computers will be two of the fastest growing sectors in China's electronic industry. Diffraction board and steel diffraction composite board are essential in these two sectors and they are expected to bring significant rewards to the Group in the future.

Expansion of production scale to reduce costs

While actively expanding its sales network, the Group is also actively expanding its own production scale and improving its own management in order to adjust its production with the market and effectively improve the utilization rate of its equipment and reduce costs. With the introduction of new production equipment including horizontal browning and etching equipment which the Group newly acquired, its production scale in multilayer boards will increase to 18,000 sq.m. per month. This will provide strong support to the Group's demand arising from its improved market competitiveness.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN EQUITY SECURITIES

As at 31st March, 2002, the following Directors had or were deemed to have interests in the equity securities of the Company within the meaning of the Securities (Disclosure of Interests) Ordinance ("the SDI Ordinance"), as recorded in the register kept by the Company pursuant to Section 29 of the SDI Ordinance:

Name	Number of ordinary shares held				Total	Percentage of interests
	Personal interest	Family interest	Corporate interest	Other interest		
Mr. Lin Wan Qaing	232,203,780	—	—	—	232,203,780	66.8%

Save as disclosed above, the Company had no notice of any interests required to be recorded under Section 29 of the SDI Ordinance as at 31st March, 2002.

SUBSTANTIAL SHAREHOLDERS

As at 31st March, 2002, except for the interests of Mr. Lin Wan Qaing, a Director and a management shareholder of the Company as disclosed in the section head “Directors’ and Chief Executives’ Interests in Equity Securities” in this report, no person was deemed to have interests being 10% or more in the issued share capital of the Company as recorded in the register by the Company under Section 16(1) of the SDI Ordinance.

Save as disclosed above, the Company had not been notified of any other interests representing 10% or more of the Company’s issued share capital as at 31st March, 2002.

DIRECTORS’ RIGHTS TO ACQUIRE SHARES OR DEBENTURES

The Company has an employee share option scheme, under which it may grant options to employees of the Group (including executive directors of the Company) to subscribe for shares in the Company, subject to a maximum of 10% of the issued share capital of the Company from time to time, excluding for this purpose shares issued on exercise of options. The subscription price will be determined by the Board of Directors of the Company and will not be less than the highest of (i) the nominal value of the Company’s shares, (ii) the average of the closing price of the shares quoted on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the grant date and (iii) the closing price of the shares on the grant date. No options have been granted since the adoption of the share option scheme.

As at 31st March, 2002, no option has been granted to any of the Directors under the share option scheme.

Save as disclosed above, at no time during the nine months ended 31st March, 2002 was the Company or any of its subsidiaries a party to any arrangements to enable any of the Directors or members of the Company’s management to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

Save as disclosed above, none of the Directors or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right.

COMPETING INTERESTS

None of the Directors or the management shareholder of the Company (as defined under the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Group.

SPONSORS' INTERESTS

As updated and notified by the Company's sponsor, Deloitte & Touche Corporate Finance Limited ("DTCFL") and co-sponsor, JS Cresvale International Limited ("JSC"), neither DTCFL and JSC nor their directors, employees or associates had any interest in the share capital of the Company as at 31st March, 2002 pursuant to Note 3 to Rules 6.35 of the GEM Listing Rules.

Pursuant to the sponsorship agreement dated 11th May, 2001 entered into between the Company and DTCFL, DTCFL has received and will receive fees for acting as the Company's sponsor for the remainder of the financial year of the Company ended 30th June, 2001 and two years thereafter or until the sponsorship agreement is terminated upon the terms and conditions set out therein.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference based upon the guidelines recommended by the Hong Kong Society of Accountants on 8th May, 2001. The audit committee comprise two independent non-executive Directors, namely Mr. Lam Ming Yung and Mr. Pan Chang Chi. The duties of the audit committee include reviewing the Company's annual reports and accounts, half-year reports and quarterly reports and providing advice and comments thereon to the board of Directors. The audit committee is also responsible for reviewing and supervising the Company's financial reporting and internal control procedures. The audit committee had reviewed the third quarterly results of the Company and has met four times since its formation.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the nine months ended 31st March, 2002.

By Order of the Board

Lin Wan Qaing

Chairman

Hong Kong, 14th May, 2002