SINOTRONICS HOLDINGS LIMITED

(華翔微電子控股有限公司)*

(Incorporated in the Cayman Islands with limited liability)

RESULTS ANNOUNCEMENT
For the year ended 30th June, 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.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

This announcement, 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 announcement 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 announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

* *For identification purposes only*

FINANCIAL HIGHLIGHTS

- Successfully entered into two placing and subscription agreements in 2002, under which the placing agent has agreed to place and Mr. Lin Wan Qaing has agreed to subscribe for a total of 55,000,000 ordinary shares of HK$0.10 each in the capital of the Company (the "Shares") of the Company and raised total net proceeds of approximately HK$64 million.
- Turnover for the year achieved to approximately RMB204 million.
- Gross profit margin for the year was stablely maintained at approximately 51%.
- Profit from operations for the year was approximately RMB83 million.
- Profit attributable to shareholders for the year was approximately RMB65 million.
- Net profit margin for the year was approximately 32%.
- Earnings per share was approximately RMB18 cents.
- Shareholders' funds reached approximately RMB294 million.
- Final dividend of HK$0.03 (equivalent to approximately RMB0.032) per Share declared to reward the shareholders for their on-going support.

FINAL RESULTS

The board (the "Board") of directors (the "Directors") of Sinotronics Holdings Limited ("Sinotronics" or the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 30th June, 2002 together with the comparative figures for the corresponding year ended 30th June, 2001, as follows:

	Note	**2002** *RMB'000*	2001 *RMB'000*
Turnover	2	**204,142**	189,128
Cost of sales		**(100,258)**	(91,219)
Gross profit		**103,884**	97,909
Other revenue	3	**2,321**	604
Distribution costs		**(6,485)**	(5,188)
Administrative expenses		**(13,464)**	(8,306)
Other operating expenses		**(3,429)**	(8,632)
Profit form operations		**82,827**	76,387
Finance costs		**(3,567)**	(5,198)
Profit from ordinary activities before taxation	4	**79,260**	71,189
Taxation	5	**(6,656)**	(7,622)
Profit from ordinary activities after taxation		**72,604**	63,567
Minority interests		**(7,837)**	(6,737)
Profit attributable to shareholders		**64,767**	56,830
Dividend attributable to the year		**12,804**	—
Earnings per share			
Basic	6	**RMB18 cents**	RMB20 cents

Notes:

1. Group Reorganisation and basis of Presentation

(a) *Reorganisation*

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. The Company became the holding company of the Group on 8th May, 2001 through a reorganisation (the "Reorganisation") to rationalise the Group's structure in preparation for the public listing of the Company's shares on the Growth Enterprise Market (the "GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Further details of the Reorganisation are set out in the prospectus dated 11th May, 2001 issued by the Company. The shares of the Company were listed on the GEM of the Stock Exchange with effect from 17th May, 2001.

(b) *Basis of presentation*

On 8th May, 2001, the Company became the holding company of the other companies comprising the Group pursuant to the Reorganisation involving companies under common control. The Company and its subsidiaries resulting from the Reorganisation have been regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting under which the consolidated financial statements have been prepared as if the Company had been the holding company of the other companies comprising the Group throughout the periods presented, except for any acquisitions or disposals subsequent to the Reorganisation, which are accounted for under the acquisition basis of accounting.

The financial statements 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.

The measurement basis used in the preparation of the financial statements is historical cost modified by the revaluation of land and buildings as explained in the accounting policies.

2. Turnover

The Group is principally engaged in the manufacture and sale of electronic products.

Turnover represents the sales value of goods supplied to customers, which excludes value-added tax and is stated after deduction of all goods returns and trade discounts.

3. Other Revenue

	The Group	
	2002	2001
	RMB'000	*RMB'000*
Subsidies*	**—**	400
Income from a co-operation agreement for trading of electronic components	**2,241**	—
Interest income from banks	**80**	204
	2,321	604

* Subsides represents grants received from a provincial government committee in the People's Republic of China (the "PRC") in respect of high technology product development project carried out by the Group.

4. Profit from Ordinary Activities before Taxation

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

		The Group	
		2002	2001
		RMB'000	*RMB'000*
(a)	**Finance costs**		
	Interest on bank loans wholly repayable within five years	**2,739**	4,054
	Interest on loans from Fujian Furi Electronics Co., Ltd.	**828**	577
	Interest on loan from Fujian Minxiang Electronics Factory	**—**	100
	Other borrowing costs	**—**	467
	Total borrowing costs	**3,567**	5,198
(b)	**Other items**		
	Cost of inventories (excluding provision/write-back of provision for obsolete and slow-moving of inventories)	**101,212**	89,731
	Staff costs (including directors' emoluments)	**10,935**	7,486
	Less: Amount included in cost of sales	**(5,109)**	(4,449)
	Amount included in research and development costs	**(482)**	(531)
		5,344	2,506
	Depreciation of fixed assets	**7,894**	6,532
	Operating lease rentals of premises	**1,291**	767
	Research and development costs	**518**	579
	Auditors' remuneration		
	— current year	**424**	689
	— underprovision in prior years	**47**	—
	Provision for obsolete and slow-moving inventories (written back)/made	**(954)**	1,488
	Provision for bad and doubtful debts	**1,970**	5,386
	Bad debts written off	**2,167**	—
	Write-off of long outstanding creditors	**(1,459)**	—
	Gain on disposal of fixed assets	**(126)**	—
	Net exchange (gain)/loss	**(102)**	357

5. Taxation

	The Group	
	2002	2001
	RMB'000	*RMB'000*
PRC enterprise income tax *(see note (c) below)*	**6,656**	7,622

Notes:

(a) *Overseas income tax*

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

(b) *Hong Kong profits tax*

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

(c) *PRC enterprise income tax*

Fujian Fuqiang Delicate Circuit Plate Co., Ltd., a subsidiary, is a sino-foreign equity joint venture established in Fuqing, PRC, and is subject to PRC enterprise income tax at a preferential rate of 15% on its profit after offsetting prior year's tax losses. However, it is exempted from PRC 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. For the two years ended 30th June, 2002 and 2001, Fujian Fuqiang Delicate Circuit Plate Co., Ltd. was chargeable to PRC enterprise income tax at a rate of 7.5%.

(d) *PRC value-added tax and government surcharges*

Fujian Fuqiang Delicate Circuit Plate Co., Ltd., a subsidiary, is subject to PRC value-added tax ("VAT") at 17% of the revenue from sales of goods, and city and country maintenance tax at 1.75% on the amount of VAT levied. Input VAT paid on purchase can be used to offset the output VAT levied on the revenue from sales of goods to determine the net VAT payable.

(e) *Deferred taxation*

No provision for deferred taxation for both years has been made as the effect of all timing differences is immaterial.

6. Earnings per share

(a) *Basic earnings per share*

The calculation of basic earnings per share is based on the profit attributable to shareholders of approximately RMB64,767,000 (2001: RMB56,830,000) and the weighted average of 354,721,000 ordinary shares (2001: 279,000,000 ordinary shares prior to the share offer but after adjusting for the capitalisation issue in 2001) in issue during the year.

(b) *Diluted earnings per share*

Diluted earnings per share is not presented as there was no dilutive potential ordinary shares in existence during the year ended 30th June, 2002 (2001: nil).

7. Segment Reporting

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

(a) *Business segment*

Throughout the years ended 30th June, 2002 and 2001, the Group has been involved in operating a single business segment, i.e. the manufacture and sale of circuit printed boards.

(b) *Geographical Segment*

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

The Group's business is principally managed in the PRC, and the Group's customers are mainly located in the PRC (excluding Hong Kong), Australia, United States of America and Germany.

	The Group	
	2002	2001
	RMB'000	*RMB'000*
Revenue from external customers		
— PRC, excluding Hong Kong	**182,718**	153,492
— Australia	**17,443**	29,068
— United States of America	**676**	3,024
— Germany	**3,305**	3,351
— Others	**—**	193
Total revenue from external customers	**204,142**	189,128
Other revenue		
— PRC, excluding Hong Kong	**2,293**	604
— Others	**28**	—
Total other revenue	**2,321**	604
Total operating revenue	**206,463**	189,732
Segment results		
— PRC, excluding Hong Kong	**89,255**	75,740
— Australia	**8,521**	14,344
— United States of America	**330**	1,492
— Germany	**1,614**	1,654
— Others	**—**	95
	99,720	93,325
Unallocated operating income and expenses	**(16,893)**	(16,938)
Profit from operations	**82,827**	76,387
Finance costs	**(3,567)**	(5,198)
Taxation	**(6,656)**	(7,622)
Minority interests	**(7,837)**	(6,737)
Profit attributable to shareholders	**64,767**	56,830
Depreciation		
— PRC, excluding Hong Kong	**6,930**	5,216
— Hong Kong	**151**	105
— Australia	**662**	998
— United States of America	**26**	103
— Germany	**125**	114
— Others	**—**	6
	7,894	6,532

More than 90% of the segment assets and capital expenditures are in the PRC, including Hong Kong, at 30th June, 2002 and 2001.

8. Movements in reserves of the Group

	Share premium *RMB'000*	Contributed surplus (note (i)) *RMB'000*	Capital reserve *(note (ii))* *RMB'000*	Property revaluation reserve *RMB'000*	Retained profits/ (accumulated losses) *RMB'000*	Total *RMB'000*
At 1st July, 2000	—	—	4,738	—	6,789	11,527
Effect of the Reorganisation	—	—	41,377	—	—	41,377
Premium on issue of shares on initial public offering	57,240	—	—	—	—	57,240
Capitalisation issue of share	(28,514)	—	—	—	—	(28,514)
Premium on issue of shares upon exercise of an over-allotment option	8,586	—	—	—	—	8,586
Share issuance expenses	(22,032)	—	—	—	—	(22,032)
Surplus on revaluation of land and buildings	—	—	—	256	—	256
Profit attributable to shareholders	—	—	—	—	56,830	56,830
At 30th June, 2001 and 1st July, 2001	15,280	—	46,115	256	63,619	125,270
Premium on issue of shares upon share placements	65,455	—	—	—	—	65,455
Share issuance expenses	(4,281)	—	—	—	—	(4,281)
Profit attributable to shareholders	—	—	—	—	64,767	64,767
At 30th June, 2002	76,454	—	46,115	256	128,386	251,211

DIVIDENDS

The Board has recommended the payment of a final dividend of HK$0.03 (equivalent to approximately RMB0.0318) per Share for the year ended 30th June, 2002, subject to shareholders' approval at the forthcoming annual general meeting to be held on 24th October, 2002, to the shareholders whose names appear on the register of members of the Company on 24th October, 2002 and payable on around 7th November, 2002. No interim dividend was declared for the six months ended 31st December, 2001 (2000: Nil).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 17th October, 2002 (Thursday) to 24th October, 2002 (Thursday), both days inclusive, during which period no transfer of Shares can be registered. In order to qualify for the final dividend, all completed transfer forms together with the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, namely Hong Kong Registrars Limited at Shops 1712—1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 16th October, 2002 (Wednesday).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

1. ***Enhance Service Quality and Expand Service Scope***

During the year under review, the Group actively improved its overall product quality and application capabilities by enhancing its design and engineering support services. To minimize wastage during production and increase product utilization, the Group strengthened its communication with customers and co-operated more closely with them at the design stages to achieve top service quality. During the year under review, the Group employed additional sales persons to provide pre-sales enquiry services, post-sales support services, as well as to gather customers' feedbacks in order to strengthen and improve its service quality. Additionally, the Group employed more engineers in both Shanghai and Shenzhen under a newly established auxiliary services department to provide original design and layout design services to customers in the Eastern and Southern region of China. These measures strengthened the market competitiveness of the Group.

During the year under review, the Group expanded the overall service scope of its EMS services. The Group expanded its engineering design services from PCBs layout design to cover sub-system design and launched its assembly services. To minimize cost and enhance its monitoring abilities for consistent high quality, the Group restructured its outsource assembly model into a co-operation or rental model.

2. ***Increasing Production Scale, Upgrading technology, Diversifying Products***

During the year under review, the Group introduced advanced production equipment from Germany such as multi-layer PCBs press machines, numeric control drills and horizontal browning and etching equipment, which increased the Group's production capacities to approximately 18,000 square.metre. per month.

In respect of product quality control, the Group implemented and has been following the ISO/TS16949 standards, a newly announced measure by the ISO certifying organization, for quality control programs and production workflow. This places the Group's products at international levels and enhances their competitive advantages.

The Group also achieved significant improvements in production technologies. In addition to the introduction of MLV examination equipment and other advanced technologies to improve its PCB fabrication capability to 30 layers, it has developed a number of new products, including applications of thick copper larger power supply boards and metallic multi-layer composite boards in the "electric supply industry" and diffraction boards and steel diffraction composite boards in the automobile electronics and notebook computers.

3. ***Expanding Sales Network, Consolidating The Customer Base***

During the year under review, the Group actively expanded its sales network. Apart from its headquarters in Fuzhou, the Group also established representative offices in Shanghai, Shenzhen, Wuhang and Xian. These offices are responsible for sales, product engineering design and customer service activities, all working to strengthen customer communications and consolidating customer base through the provision of better services with their proximity and greater availability.

The Group will establish a stronger co-operative customer tie through intensive market promotion activities to stabilize sales volumes and sales orders, and expand its customer base.

Future Plans

Since establishment, the Group has been aiming to offer "one-stop" EMS services for its customers, with services ranging from engineering design consultancy, product support, production and assembly. Being completely different from the traditional PCBs manufacturing outsourcing model, the Group's business has been highly successful and has been delivering excellent results. With these encouraging results, the Group will remain focused on the EMS business while continue to penetrate into various market segments, not only to strengthen its existing business, but also to aggressively explore into the high potential electronic product and related markets. In addition, the Group will seek investment opportunities or co-operative projects which will provide synergies with the Group's EMS business to enhance the Group's profitability.

Market Potential

With China's accession into the WTO and the worldwide informational wave, the development of the electronic information industry in China will accelerate, especially for the communications industry. In the past decade, China's communications industry recorded an annual increase of approximately 32%. According to the "Tenth Five-Year Plan", the estimated average annual growth rate of China's communications industry will be about 22%, while its annual production value is estimated to increase from 36 billion in 2001 to reach approximately 83.7 billion in 2005.

PCBs form the basic component for the communications industry and the electronics information industry. Although the PCB industry suffered under the unfavorable global economy of 2001, indications show that it is about to recover in 2002 and is expected to be stablized in the third quarter of 2002, adding to the recorded rapid growth of China's PCB industry in recent years which reported an annual average growth rate of about 26%. In 2001, its industrial production value reached RMB36 billion and ranked the third worldwide, just after Japan and the USA. Global demand for PCBs reached USD32.8 billion in 2001, and is expected to increase to approximately USD45.9 with an compound annual growth rate of about 8.8%.

Apart from that, the Group provides "one-stop" EMS services tailored to various individual customers' needs. Despite the fact that EMS industry is in its early development stage in China, it is commonly adopted in the USA and European markets. The IDC research report of the U.S. stated that the demand for EMS services would continue to increase in the world electronic manufacturing products market. It is estimated that its production value will reach USD231 billion, while rapid developments will be expected in the European and Asian markets. The Group believes that the EMS industry has tremendous room for growth and will gradually become popularly adopted. With the increase in the demand for electronic products, the Group expects that its comprehensive and quality "one-stop" EMS services will make the Group highly competitive in the PCB industry. This will assist the Group in further exploring new markets and capturing market share, thereby enabling the Group to become a pioneer enterprise in the industry.

With the recovery of the electronic information and information industry, the increasing demand for PCBs and the growing acceptance of EMS business will bring widespread opportunities to the Group. As such, the Group will adopt the following strategies to develop the market and bring reasonable returns to shareholders:

Enhance Service Quality, Broaden Service Scope

The Group will provide customers with wider service scope covering purchasing, testing and assembly through co-operation or joint ventures, bringing customers with a comprehensive “one-stop” shopping platform.

The Group will utilize the strong technical capability of its engineering design centre to advance the Group’s electronics design services which include complete series of design and auxiliary services covering sub-system design, schematic capture design and layout design. Together with enhancing service quality and improving design and production technology of PCBs, the Group will provide more extensive services to its customers.

Strengthen The Sales Network

The Group will strengthen its sales network and will further improve its operations efficiency. Apart from expanding the sales network, the Group is also actively intensifying its brand image and strengthening its customer service capability in China to maintain stable and satisfactory customers relationship.

Adopt Flexible Management Strategies

The Group will continue to adopt the ERP management system, implement the ISO/TS16949 system and the management concept of CRM (customer relation management), and keep upgrading its management software. These measures will enable the Group to increase its operations efficiency and better control its costing, thereby improving its profit levels.

The Group will continue to expansion its EMS business to capture the huge market need brought by the electronic information industry. The Group will leverage on its flexible management strategies and utilize its advanced technology and expandable production capacity to provide customers with high value-added services, with an aim to bringing the Group with higher profit margins and reasonable returns to the investors.

Financial Performance

For the year ended 30th June, 2002, the Group reported turnover of approximately RMB204,142,000, representing an increase of approximately 7.9% as compared to the previous year; and gross profit of approximately RMB103,884,000, an approximately 6.1% increase as compared to the previous year. Profit attributable to shareholders was approximately RMB64,767,000, representing an improvement of approximately 14.0% as compared to the previous year. The gross profit margin remained high at approximately 50.9%, with earnings per share of approximately RMB18 cents. The substantial increase in the turnover for the year under review was mainly due to the active expansion of the Group's sales network and the advancement of technology levels. These activities helped to diversify the Group's product range, develop new customers and create new market segments. At the same time, the expansion of the Group's production capacity helped to improve its economies of scale, and to maintain the Group's gross profit at high level.

Comments on Segmental Information

Turnover by product category and their respective contributions to profit from operations are as follows:

	Turnover *RMB*	**Profit from operations** *RMB*
Single and double-sided PCBs	86,745	26,632
Multilayer PCBs	117,397	56,195
	204,142	82,827

The increase in the Group's turnover for the year ended 30th June, 2002 was mainly attributable to the increase in sales of both the single and double-sided and multilayer PCBs and the provision of relevant design and assembly services to the customers. During the year ended 30th June, 2002, turnover and profit derived from the sale of multilayer PCBs amounted to approximately RMB117,397,000 and RMB56,195,000, representing an increase of approximately 12.0% and approximately 11.6% respectively over the last year. Furthermore, in view of the recession of the U.S. and the Japanese economies which significantly affected the electronics industry of not only themselves but also other developed countries in the world, the management and marketing personnel of the Group re-focused in the development of the PRC market with success. During the year ended 30th June, 2002, turnover of the Group generated from sales to PRC customers amounted to approximately RMB182,718,000, representing approximately 89.5% of turnover of the Group and an increase of approximately 19.0% over the corresponding period last year.

Liquidity and Financial Resources

During the year ended 30th June, 2002, the Group's working capital requirement was principally financed by its internal resources and banking facilities.

As at 30th June, 2002, the Group had loan facilities of approximately RMB33,000,000 (2001 — RMB42,000,000) from several banks which were fully utilized as at the date thereof. The loan facilities were secured by guarantees provided by the Company. The Group's borrowings were mainly denominated in Renminbi. Loan facilities were granted to the Group at the normal market interest rates.

The shareholders' equity of the Group as at 30th June, 2002 increased by approximately 81.3% to approximately RMB293,889,000 (30th June, 2001: RMB162,118,000). The gearing ratio (calculated as the ratio of current liabilities plus non-current liabilities : shareholders' equity) of the Group as at 30th June, 2002 was approximately 0.21 (30th June, 2001: 0.53).

The finance cost of the Group for the year ended 30th June, 2002 amounted to approximately RMB3,567,000, representing approximately 1.7% of the Group's turnover and a decrease of approximately RMB1,631,000, or approximately 31.4% over the corresponding period last year. The decrease in finance cost was principally due to the decrease in bank borrowings.

Capital Structure and Treasury Policy

In March 2002, a placing and subscription agreement was entered into pursuant to which the placing agent had placed 20,000,000 existing Shares to independent third parties and Mr. Lin Wan Qaing had subscribed for 20,000,000 new Shares, both at HK$1.00 per Share, which represented a discount of approximately 4.76% and 3.94% to the closing Share price on 25th March, 2002 and the average closing Share price for the last ten trading days up to and including 25th March, 2002 respectively. A total of approximately HK$18,726,000, net of expenses, was raised for general working capital and in furtherance of the business objectives of the Company.

In June 2002, a placing and subscription agreement was entered into pursuant to which the placing agent had placed 35,000,000 existing Shares to independent third parties and Mr. Lin Wan Qaing had subscribed for 35,000,000 new Shares, both at HK$1.35 per Share which represented a discount of approximately 4.26% and 6.25% to the closing Share price on 13th June, 2002 and the average closing Share price for the last ten trading days up to and including 13th June, 2002 respectively. A total of approximately HK$44,486,000, net of expenses, was raised for potential equity investment in business which the Directors consider would enhance its system design expertise, achieve economies of scale and help the furtherance of the business objectives of the Company.

Saved as disclosed above, there is no change in the Company's share capital.

During the year ended 30th June, 2002, the Group experienced only immaterial exchange rates fluctuations as most of the Group's monetary assets and liabilities are denominated in Hong Kong Dollars and Renminibi, and the Group conducted its business transactions principally in Hong Kong Dollars, US Dollars and Renminbi, all of which were relatively stable during the year under review. The Group considered that as the exchange rate risks of the Group is considered to be minimal, the Group did not employ any financial instruments for hedging purposes.

Significant Investment

As at 30th June, 2002, the Group had no significant investment held, and it is the same as the comparative year ended 30th June, 2001.

Acquisition and Disposals of Subsidiaries and Affiliated Company

During the year ended 30th June, 2002, the Group had no material acquisition and disposals of subsidiaries and affiliated companies.

During the year ended 30th June, 2001, except for the disclosure in the Prospectus dated 11th May, 2001, the Group had no material acquisitions and disposals of subsidiaries and affiliated companies.

Employment Information

As at 30th June, 2002, the Group employed a total of 446 employees. It is a policy of the Group to review its employee's pay levels and performance bonus system regularly to ensure that the remuneration policy is competitive within the relevant industry. During the year ended 30th June, 2002, the employment cost (including directors' emoluments) amounted to approximately RMB10,935,000 (year ended 30th June, 2001 — RMB7,486,000). The increase in total employment cost the Group of approximately RMB3,449,000 was resulted from the fact that the directors' emolument and labour costs was increased by approximately RMB1,973,000. 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. However, no options had been granted since the commencement of the share option scheme for the year ended 30th June, 2002.

Charge on Assets

As at 30th June, 2002, there were no charges on group assets, and it is the same as the comparative year ended 30th June, 2001.

Future Plans for Material Investments and Expected Sources of Funding

On 15th August, 2002 the Group entered into the sale and purchase agreement with an independent third party in relation to the acquisition of 49 shares of Floret Industries held by the him, representing 49% of the issued share capital of Floret Industries, at a consideration of RMB47 million (equivalent to approximately HK$44.6million), which will be wholly satisfied in cash upon Completion by the Company out of the net proceeds raised from the placing and subscription of Shares announced by the Company on 14th June, 2002.

Floret Industries is an investment holding company whose sole asset comprises the entire equity interest in Fuzhou Wei Mei, which in turns holds a 83% equity interest in Fuzhou Tin Fong as its sole asset. Fuzhou Tin Fong is a company principally engaged in the research, development, manufacture and sale of products as well as the provision of ancillary services in relation to the automation and intellectualisation of electric supply systems. These systems are composed of a variety of data processing hardware which, in general, would utilise PCBs as their components.

Save as disclosed above, as at 30th June, 2002, the Group had no future plans for material investments except that capital assets will be purchased in accordance with the details set out in the section headed "Statement of business objectives" in the prospectus of the Company dated 11th May, 2001.

Contingent Liabilities

As at 30th June, 2002, the Group had no contingent liabilities, and it is the same as the comparative year ended 30th June, 2001.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The actual progress of the Group's business objectives for the year ended 30th June, 2002, as set out in the prospectus of the Company dated 11th May, 2001, (the "Prospectus"), is as follows:

Business Objectives for the period July 2001 to December 2001 disclosed in the prospectus	**Actual business progress for the period July 2001 to December 2001**
Engineering outsourcing (including research and development):	
• Start to provide PCB assembly and sub-system design services for existing customers.	• Has been provided sub-system design service for existing customers like Start Network, Newland, 天方公司, Chengdu Gangshun and PCB assembly service for Chengdu Gangshun and other customers.
• Awarded with ISO 9001, which suggests that an enterprise has attained certain quality standards in operation and implementation covering design and development, production, assembly, investment and services.	• The Group is modifying relevant procedural documents according to the ISO9001 (2000 version) requirements. It has also approached third party certification organizations and made certification applications. It is expected that certification will be awarded in the middle of 2002.
PCBs and PCB assembly:	
• Upgrade manufacturing facilities and attract high profit-margin customers by providing PCBs and assembly services to customers who demand shorter lead time.	• Through enhancing the Group's production efficiency by purchasing additional multilayer equipment like multilayer press machines and horizontal browning and etching productions lines, and through technical improvements and innovations to provide the customers with prompt and comprehensive services, Shanghai Huaxin Electronic and Shanghai Hongxi Electronic with high profit margins have become the Group's new customers.

Business Objectives for the period July 2001 to December 2001 disclosed in the prospectus	**Actual business progress for the period July 2001 to December 2001**
• Carry out testing and pre-production works for installing the SMT.	• Has entered into cooperation agreements with the Company's strategic partners, including Start Network and Newland for the provision of assistance to the Group, which enabled the Group to provide complete SMT assembly service to its customers. Meanwhile, acquisition of factories with SMT capacity is under negotiation.
• Continue to increase the sales attributable to PCBs with 10 to 12 layers (higher profit margin is expected from more sophisticated design and production) against the first half ended 30th June, 2001.	• For the six months ended 31st December, 2001, proportion of rules generated from 10 to 12 layer PCBs, remained unchanged as there was no significant increase on customer's demand.
• Increase income by selling PCBs with higher number of layers and providing complicated PCB assembly service.	• The Group aimed to raise the sales attributable to multilayer PCBs and to increase the number of layers while providing relevant design and assembly service to the customers. It also aimed to secure a stable sale income against the prevailing sluggish electronic industry. During the six months ended 31st December, 2001, turnover of multilayer PCBs amounted to approximately 52 million, representing an increase of about 53.8% over the same period last year.
• Purchase advanced equipment capable of manufacturing PCBs with more layers.	• The Group has purchased additional equipment including etching and horizontal browning production lines to produce multilayer PCBs with higher precision, enabling the Group to provide PCBs with greater number of layers to the customers more efficiently.

Business Objectives for the period July 2001 to December 2001 disclosed in the prospectus	Actual business progress for the period July 2001 to December 2001
• Continue to adjust production facilities to meet the ever-changing demands of the customers.	• The Group has reduced its production cycle by improving the production lines in respect of multilayer PCB, automatic operation and soldering to achieve a shorter lead time required by the customers. Meanwhile, the Group has adjusted the etching line and purchased an acidic etching line to meet the customers' demands for thick copper plates and light, slim signal transmission panels with fine filaments.
• Purchase additional backplane assembly equipment to implement the second phase of assembly facility expansion project.	• Due to the worldwide recession, especially of electronic industry, the Group provided SMT assembly service to its customers with the help from its strategic partners to reduce risk and cost. Meanwhile, the Group is seeking opportunities to acquire SMT assembly factories in due course to realise the goal of providing more value-added services to the customers.
• Continue the second phase of expansion project to raise the output of single-layer, double-layer and multilayer PCBs by 50%, from approximately 12,000 sq.m. to 18,000 sq.m..	• The Group has purchased additional equipment including horizontal browning and acidic etching lines to continue the second phase of expansion project. At present, monthly output is 15,000 sq.m..
• Obtain QS9000.	• The Group has revised the original documents of management procedures according to QS9000 Standards. Currently the Group is approaching a third party certification organization to discuss matters on certification and it is expected to obtain the certification in 2002.

Business Objectives for the period July 2001 to December 2001 disclosed in the prospectus	Actual business progress for the period July 2001 to December 2001
Sales and marketing:	
• Carry out comprehensive marketing project, including customised PCB and sub-system design solutions to attract new customers, including the branches of international ODM companies in China and the ODM companies in China.	• The Group is actively promoting its own value-added services, including sub-system design service and short lead time. Currently the Group is actively making business contacts with certain new customers, including Samsung Electronic Tianjin (Sumsung's branch in Tianjin), 東方通信 and 上海明基電腦.
• Making marketing efforts especially to rapid growing ODM electronic manufacturers in telecommunication, computer and computer peripherals related industries.	• Although the global electronic industry has been sluggish in 2001, the electronic industry of China has achieved a growth rate over 10%, with major contributors being the telecommunication and computer industries. The marketing activities of the Group, therefore, has focused in these two fields. Corporations in negotiation with the Group included Samsung Electronic Tianjin, 東方通信 and 上海明基電腦 who are potential key customers of the Group.
Development in business and human resources:	
• Increase income by completing the second phase project, including expanding output of PCBs to approximately 18,000 sq.m. and increasing the output of PCB assembly, to provide services to high profit-margin customers.	• The sluggishness in the electronic industry has led the Group to slow down its first phase of expansion project with an aim to avoid risk exposure and enhance competitiveness. The Group has striven to improve its design services and achieve short lead time. In addition, it has been implementing active marketing strategy to maintain its market share. During the year ended 31st December, 2001, monthly production capacity for PCB assembly has reached approximately 18,000 sq.m.. During the period under review, average monthly output of PCBs was over 15,000 sq.m. with an average monthly turnover of RMB16 million.

Business Objectives for the period July 2001 to December 2001 disclosed in the prospectus	**Actual business progress for the period July 2001 to December 2001**
• Recruit at least one additional engineer during the period to work for the outsoucing engineering department.	• Has recruited at least one additional engineer to work for the out-sourcing department.

Business objectives for the period January 2002 to June 2002 disclosed in the Prospectus	**Actual business progress for the period January 2002 to June 2002**
Engineering outsourcing (including research and development):	
• Launch turnkey sub-system solutions designed by the Group and Electronic Research Institute for communications and communications related segments	• With the support of a strategic partner, the Group's engineering design center commenced the provision of sub-system design services to its customers.
• Establish function test capacity for sub-systems.	• With the support of a strategic partner, the Group commenced the provision of sub-system testing services to its customers.
• Plan for the construction of PCB prototyping facilities and the establishment of an EMS branch office in Shenzhen, the PRC.	• In considering the current changes in the electronics industry, especially the trend of shifting development centers to the Eastern region, the Group temporarily ceased its plan to establish a PCB prototyping plant in Shenzhen. The plan is now under re-assessment which covers areas such as timing for establishment, location and operational model.
• Establish a joint laboratory with a national university in the PRC for the research of advanced materials used in the fabrication of PCBs.	• Seeking opportunities to cooperate with other universities as the agreement with Qinghua University has not yet been concluded due to various un-agreeable terms.
• Undertake projects to develop emerging technologies including various micro-via processes, horizontal plating, plasma etching and laser drilling.	• The Group has set up technological research teams on specific development projects of micro-via processes and plasma etching.

Business objectives for the period January 2002 to June 2002 disclosed in the Prospectus	Actual business progress for the period January 2002 to June 2002
PCBs and PCB assembly:	
• Complete the second phase of the expansion plan which includes the increase of planned floor space and the purchase of state-of-the-art equipment to increase monthly production capacity to approximately 27,000 square metres for single-sided, double-sided and multilayer PCBs.	• Production capacity has reached 18,000 square metres per month. Further capacity expansion plan is still proceeding.
• Depending on customer demand, increase the layer counts of PCBs to 12 or more, and increase production capabilities from its current 20 layers to 30 layers.	• The Group has achieved production capability to manufacture PCBs upto 30 layers.
• Increase the percentage contribution to revenue from the communications segment to 65% of total revenue.	• Due to the fluctuations in the electronics industry, the percentage increase to 65% of total revenue from the communications industry has not yet been achieved.
Sales and marketing:	
• Target customers with latest technologies, including broadband technologies such as optical networking, wireless applications, and data storage technologies.	• Sales offices were established in Wuhan and Xian. With Wuhan being the base of the optical fibre communications, the Group is now providing prototyping services for customers in Wuhan.
Business and human resources developments:	
• Improve the gross margin of the Group by 15% through the increase of higher margin, value added, high-mix and EMS strategies.	• Due to the unfavorable market condition, the Group remained its HIGH MIX production strategy to provide value-added services, so as to keep the product mix at the similar percentage as in the previous years, hence maintaining its profit margin at the same level.

Business objectives for the period January 2002 to June 2002 disclosed in the Prospectus	Actual business progress for the period January 2002 to June 2002
• Establish preferred supplier relationships with two established leaders in the communications and communications related consumer product markets (the Directors believe that the establishment of business relationships with two companies within the same industry sector will enable the Group to consolidate its efforts to realize market expansion, easing its internal operations and management constraints).	• The Group has managed to developed positive supplier relationship with 冠捷電子 and 廈門誠信. 冠捷電子 is the largest LCD manufacturer in China.
• Recruit at least two new engineers for its engineering outsourcing division during the year ended 30th June, 2002.	• Two new engineers were recruited to serve under the engineering outsourcing division.

USE OF PROCEEDS

The Group raised net proceeds of approximately HK$47.6 million upon the listing of the Company and approximately HK$8.7 million pursuant to the exercise of an over-allocation option.

Comparison of the use of proceeds as stated in the Prospectus with actual application

The use of proceeds as disclosed in the Prospectus	Application of proceeds from the initial share offer to 30th June, 2002
• Approximately HK$30 million for the expansion of the PCB fabrication plant	• Approximately HK$3.0 million for the expansion of the PCB fabrication plant
• Approximately HK$10 million for the development of EMS business and the purchase of related equipment	• Approximately HK$4.2 million for the development of EMS business and the purchase of related equipment
• Approximately HK$4 million for the construction of a SMT assembly line	• Approximately HK$4 million for the construction of a SMT assembly line
• Approximately HK$3.3 million for the purchase of advanced testing equipment and software for the PCB testing to facilitate the provision of computer-aid testing and assembly of PCBs	• Approximately HK$Nil million for the purchase of advanced testing equipment and software for the PCB testing to facilitate the provision of computer-aid testing and assembly of PCBs

The use of proceeds as disclosed in the Prospectus	Application of proceeds from the initial share offer to 30th June, 2002
• Approximately HK$0.3 million for the establishment of a joint engineering design center with Electronic Research Institute to undertake future and development projects from ODMs	• Approximately HK$0.3 million for the establishment of a joint engineering design center with Electronic Research Institute to undertake future and development projects from ODMs
• The remaining balance of approximately HK$8.7 million for general working capital	• The balance of approximately HK$17.8 million for general working capital

During the year ended 30th June, 2002, the Group incurred the following (including the proceeds from the initial share offer and its internally generated resources) to achieve its business objective as disclosed in the Prospectus:

- Approximately HK$19.7 million for the expansion of the PCB fabrication plant
- Approximately HK$4.2 million for the development of EMS business and the purchase of related equipment
- Approximately HK$7 million for the construction of a SMT assembly line
- Approximately HK$Nil million for the purchase of advanced testing equipment and software for the PCB testing to facilitate the provision of computer-aid testing and assembly of PCBs
- Approximately HK$0.3 million for the establishment of a joint engineering design center with Electronic Research Institute to undertake future and development projects from ODMs
- The remaining balance of the net proceeds of approximately HK$17.8 million were deposited in licensed banks

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 30th June, 2002, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

COMPLIANCE WITH THE GEM LISTING RULES

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules of the Stock Exchange during the year ended 30th June, 2002.

AUDIT COMMITTEE

The Company has established an audit committee on 8th May, 2001 with written terms of reference based upon the guidelines published by the Hong Kong Society of Accountants. The duties of the audit committee include reviewing the Company's annual reports and quarterly reviews 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 of the Group.

As at the date of this announcement the audit committee comprised of two Independent Non-executive Directors, namely Mr. Lam Ming Yung and Mr. Pan Chang Chi (Mr. Liu Zhao Cai ceased to be a member of the audit committee following his re-appointment as an executive director of the Company on 22nd April, 2002). The audit committee had met three times during the year to discuss the quarterly results and interim results of the Company and had met once to review the final audited results for the year ended 30th June, 2002.

On behalf of the Board
Lin Wan Qaing
Chairman

Hong Kong, 17th September, 2002

This announcement will remain on the GEM website on the "Latest Company Announcement" page for at least 7 days from the day of its posting.