



SINOTRONICS HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)



First 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.

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 report, 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 report.

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.

FIRST QUARTERLY REPORT

For the three months ended 30th September, 2002

HIGHLIGHTS

- Turnover of the Group for the three months ended 30th September, 2002 amounted to approximately RMB61.3 million, representing an increase of about 21.4% as compared with the corresponding period in 2001.
- Net profit attributable to shareholders was approximately RMB15.1 million.
- Earnings per share was RMB3.76 cents for the three months ended 30th September, 2002.
- The Directors do not recommend the payment of a dividend for the three months ended 30th September, 2002.
- Shareholders' funds reached approximately RMB309,017,000.

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 three months ended 30th September, 2002 together with the comparative figures for the corresponding three months ended 30th September, 2001, as follows:

	Note	2002 RMB'000	2001 <i>RMB'000</i>
Turnover	2	61,305	50,499
Cost of sales		<u>(29,356)</u>	<u>(25,548)</u>
Gross profit		31,949	24,951
Interest		90	121
Distribution costs		(1,057)	(1,186)
Administrative and other operating expenses		<u>(11,433)</u>	<u>(3,500)</u>
Profit from operations		19,549	20,386
Finance costs		<u>(534)</u>	<u>(615)</u>
Profit from ordinary activities before taxation		19,015	19,771
Taxation	3	<u>(2,206)</u>	<u>(1,562)</u>
Profit from ordinary activities after taxation		16,809	18,209
Minority interests		<u>(1,681)</u>	<u>(1,926)</u>
Profit attributable to shareholders		<u>15,128</u>	<u>16,283</u>
Earnings per share			
Basic	4	<u>RMB3.76 cents</u>	<u>RMB4.68 cents</u>

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. Taxation

	2002	2001
	RMB'000	RMB'000
PRC enterprise income tax (see note (c) below)	<u><u>2,206</u></u>	<u><u>1,562</u></u>

Notes:

(a) *Overseas income tax*

The Company is incorporated in the Cayman Islands and is exempted from taxation in the Cayman Islands until 2019. The Company's subsidiaries 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 periods.

(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. During the three months ended 30th September, 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 periods has been made as the effect of all timing differences is immaterial.

4. Earnings per share

(a) *Basic earnings per share*

The calculation of basic earnings per share for the three months ended 30th September, 2002 is based on the unaudited consolidated profit attributable to shareholders of approximately RMB15,128,000 (2001: RMB16,283,000) and on the 402,625,000 (2001: 347,625,000) ordinary shares in issue during the three months ended 30th September, 2002.

(b) *Diluted earnings per share*

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

RESERVES

There has been no transfer to or from reserves during the three months ended 30th September, 2002.

DIVIDEND

The Board does not recommend the payment of a dividend for the three months ended 30th September, 2002 (2001: Nil).

FINANCIAL PERFORMANCE

The Group recorded unaudited consolidated turnover of approximately RMB61,305,000, representing an increase of approximately 21.40% over that of the same period last year. This proven success was due to the Group's efforts to maintain its comprehensive business model and high service quality, while continue to focus on building up relationships with its customers and exploring new markets in the PRC. Unaudited consolidated profit for the period decreased by 7.09% to approximately RMB15,128,000. The decrease in profit attributable to shareholders was primarily resulted from the increase in administrative and other operating expenses of approximately RMB7,933,000 compared to that reported in the same period last year. Approximately RMB7,500,000 of such increase in administrative and other operating expenses was mainly attributable to the expenses of proposed listing on the main board.

BUSINESS REVIEW

The Group's mission is to become a leading electronic manufacturing services provider in the PRC, offering a full range of solutions to electronics ODMs and CEMs, covering pre-sale engineering services, schematic capture and PCB layout design, quick-turn prototyping and pre-production services as well as volume production.

Enhancing Service Quality

The Group expanded its engineering design services from PCB layout design to cover sub-system design and launched its assembly services. In order to provide more customer-oriented services, the Group employed additional sales staff to deliver pre-sales enquiry and post-sales support services. Additionally, newly employed engineers in the Group's new representative offices also provided original design and layout design services to customers in the Eastern and Southern regions of the PRC.

Increasing productivity & Improving Technology

The Group's production capacities have increased to approximately 18,000 square meters per month with the installment of advanced production equipment from Germany. The adoption of the ISO/TS16949 standards have enhanced the production workflow and helped in ensuring that product quality is maintained at international standards.

Expanding Sales Networks & Exploring New Market Segments

New representative offices of the Group were established beyond Fujian, Shanghai and Shenzhen areas to cover Wuhang and Xian in the Western China, where rapid growth is expected in the near future. The Group also acquired a 49% interest in Floret Industries Limited which indirectly holds a 83% equity interest in Fuzhou Tin Fong at RMB47,000,000 in August 2002, which the Directors expect will help to speed up the Group's business expansion and explore the high potential market in the energy supply industry.

FUTURE PROSPECTS

The Group's development in the past has been remarkable. With the Group's strong customer base, strong R&D capabilities, a group of highly talented specialists and strong experience in the EMS industry, the Group will further enhance its R&D capabilities and increase its production capacities while continue to explore international high potential markets, and constantly enlarge the scale of the Group's business activities by seeking opportunities to cooperate with international enterprises or form strategic partnerships. Going forward, the Group is dedicated to expanding its business to enhance shareholders' return.

DIRECTORS' INTERESTS IN SECURITIES

As at 30th September, 2002, according to the register to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), the interests of the Company's directors, chief executives and their associates in the securities of the Company or any associated corporations (as defined in the SDI Ordinance) were as follows:

Name of Director	Number of ordinary shares held				Total	Percentage of interests
	Personal interests	Family interests	Corporate interests	Other interests		
Lin Wan Qaing	232,203,780	—	—	—	232,203,780	57.67%

Save as disclosed above, none of the directors, chief executives or their associates had any personal, family, corporate or other interests in the equity securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 30th September, 2002, so far as are known to the Directors, Mr. Lin Wan Qaing (as disclosed in the heading "Directors' Interests in Securities" above) is the only person recorded in the register kept by the Company under Section 16(1) of the SDI Ordinance as being directly or indirectly interested in 10% or more of the nominal value of the issued share capital of the Company.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Pursuant to the Company's Share Option Scheme (as disclosed in the heading "Share Option Scheme" below), full-time employees (including executive directors) of the Company and its subsidiaries, may be granted options to subscribe for Shares of the Company.

During the three months ended 30th September, 2002, no option has been granted under the Share Option Scheme.

Save as disclosed above, as at 30th September, 2002, none of the Directors, chief executive or their associates had any interests or rights to subscribe for any securities of the Company or any of its associate corporations as defined in the SDI Ordinance.

Save as disclosed above, at no time during the three months ended 30th September, 2002 was the Company or any of its subsidiaries, its holding company, or any of its fellow subsidiaries a party to any arrangement to enable the Company's directors or chief executive of the Company (including their spouses or children under 18 years of age) to acquire benefits by means of acquisition of shares in or debentures of, the Company or any other body corporate.

SHARE OPTION SCHEME

The Company's share option scheme (the "Share Option Scheme"), was adopted pursuant to a resolution passed on 8th May, 2001 for the primary purpose of providing incentives to eligible person (as defined in the Share Option Scheme), and will expire on 7th May, 2011. Under the Share Option Scheme, the Company may grant options to any person who is a full-time employee (including any executive director) of the Company or any of its subsidiaries to subscribe for shares in the Company.

The maximum number of Shares in respect of which options may be granted under the Share Option Scheme shall represent 30% of the Company's issued share capital for a specified period of 10 consecutive years (the "10 Year Period") from 8th May, 2001 and shall not, when aggregated with any Shares subject to any other schemes of the Company, exceed 30% of the issued share capital of the Company for the 10 Year Period. No Eligible Person (as defined

in the Share Option Scheme) shall be granted an option which, if exercised in full, would result in such Eligible Person (as defined in the Share Option Scheme) becoming entitled to subscribe for such number of Shares as, when aggregated with the total number of Shares already issued under all the options previously granted to him which have been exercised and Shares issuable under all the options previously granted to him which are for the time being subsisting and unexercised, would exceed 25% of the aggregate number of Shares for the time being issued and issuable under the Share Option Scheme.

Options granted must be taken up within 21 days of the date of grant, upon payment of HK\$1.00 per option. Options may be exercised in whole or in part at any time from the date of grant and acceptance of the share option and will expire on a three-years period or such other date as the Board of Directors may determine, but in any event not exceeding 10 years from the commencement date. The subscription price is determined by the Board of Directors which shall be the fair market value of the Shares, and in any event, shall not be less than the highest of (a) the closing price of the Shares on the GEM as stated in the Stock Exchange's daily quotation sheet on the date of grant of the option, which must be a business day; (b) the average closing price of the Shares on the GEM as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the option and (c) the nominal value of a Share.

During the three months ended 30th September, 2002, no option had been granted under the Share Option Scheme.

Note in accordance with Rule 23.10 of the GEM Listing Rules, all options which may be granted under the Share Option Scheme must comply with requirements of Chapter 23.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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.

INTEREST OF SPONSOR

Pursuant to the sponsorship agreement dated 11th May, 2001 entered into between the Company and Deloitte & Touche Corporate Finance Limited (“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.

As updated and notified by DTCFL, neither DTCFL nor their directors, employees or associates had any interest in the share capital of the Company as at 30th September, 2002 pursuant to Rules 6.35 and 18.45 of the GEM Listing Rules.

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 three months ended 30th September, 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 advise 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 First Quarterly Report, the audit committee comprised of two Independent Non-executive Directors, namely Mr. Lam Ming Yung and Mr. Pan Chang Chi. The audit committee had met once to discuss the quarterly results of the Company for the three months ended 30th September, 2002.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the three months ended 30th September, 2002, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

On behalf of the Board
Lin Wan Qaing
Chairman

Hong Kong, 11 November, 2002