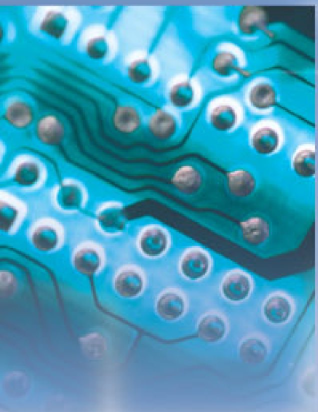
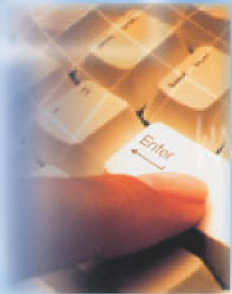
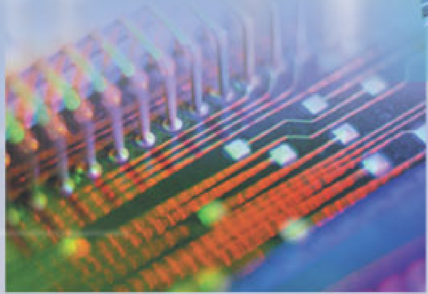
SINOTRONICS HOLDINGS LIMITED

華翔微電子控股有限公司*

(Incorporated in the Cayman Islands with limited liability)







Sponsor

Deloitte & Touche Corporate Finance Ltd

Co-sponsors

Guotai Junan Capital Limited

CAF Securities
wholly owned subsidiary of Agricultural Bank of China

*For identification only 僅供識別

FOR INFORMATION ONLY

If you are in any doubt about this document, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.

The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Hong Kong Securities Clearing Company Limited ("HKSCC") take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

LISTING BY WAY OF INTRODUCTION OF THE ENTIRE ISSUED SHARE CAPITAL OF

SINOTRONICS HOLDINGS LIMITED

華翔微電子控股有限公司*

(incorporated in the Cayman Islands with limited liability)

ON

THE STOCK EXCHANGE OF HONG KONG LIMITED

Stock Code: 1195

Sponsor

Deloitte & Touche Corporate Finance Ltd

Co-sponsors

Guotai Junan Capital Limited

CAF Securities
wholly owned subsidiary of Agricultural Bank of China

This document is published in connection with the listing by way of introduction on the Main Board of the Stock Exchange of the entire issued share capital of Sinotronics Holdings Limited (the "Company") and contains particulars given in compliance with the Securities (Stock Exchange Listing) Rules 1989 (as amended) of Hong Kong and the Rules Governing the Listing of Securities on the Stock Exchange for the purpose of giving information with regard to the Company.

This document does not constitute any offer of, nor is it calculated to invite any offers for, shares or other securities of the Company, nor have any such shares or other securities been allotted with a view to any of them being offered for sale to the public. No new shares will be issued in connection with, or pursuant to, the publication of this document.

Your attention is drawn to the section headed "Risk factors" in this document.

The shares of HK$0.10 each in the capital of the Company (the "Shares") have been accepted as eligible securities by HKSCC for deposit, clearance and settlement in the Central Clearing and Settlement System ("CCASS") with effect from 17 May 2001, the date on which the Shares were listed on the Growth Enterprise Market of the Stock Exchange. Subject to the granting of the listing of, and permission to deal in, the Shares on the Main Board by the Stock Exchange and the continue compliance with the stock admission requirements of HKSCC by the Company, the Shares will continue to be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS once dealings in the Shares on the Main Board of the Stock Exchange commence. Necessary arrangements have been made with HKSCC for the Shares to continue to be accepted as eligible securities of CCASS. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

* *For identification purpose only*

24 December 2002

EXPECTED TIMETABLE

Despatch of circulars, notice of the extraordinary general meeting and the related forms of proxy in relation to the withdrawal of listing of the Shares on GEM to the Shareholders	Saturday, 21 December 2002
Despatch of the listing documents in relation to the Introduction	Tuesday, 24 December 2002
Lastest time for lodgement of forms of proxy for the extraordinary general meeting	10:00 a.m. on Tuesday, 7 January 2003
Extraordinary general meeting of the Company	10:00 a.m. on Thursday, 9 January 2003
Announcement of results of the extraordinary general meeting of the Company to be published in The Standard (in English), in Hong Kong Economic Times (in Chinese) and on the GEM website	Friday, 10 January 2003
Last day of dealings in Shares on GEM	Friday, 17 January 2003
Withdrawal of listing of Shares on GEM effective from	9:30 a.m. on Monday, 20 January 2003
Dealings in Shares on the Main Board to commence on	9:30 a.m. on Monday, 20 January 2003

CONTENTS

You should rely only on the information contained in this document with regard to the Company. The Company has not authorised anyone to provide you with information that is different from what is contained in this document.

Any information or representation not made in this document must not be relied upon by you as having been authorised by the Company, the Sponsors, any of their respective directors, agents or advisers or any other parties involved in the Introduction.

	Page
Summary	1
Definitions	6
Glossary of technical terms	11
Risk factors	16
Information about this document and the Introduction	24
Directors and parties involved in the Introduction	26
Corporate information	29
Industry overview	31
Business	40
Directors, senior management and staff	70
Substantial shareholder	75
Share capital	76
Financial information	78
Future plan and prospects	95
Appendix I — Accountants' report	97
Appendix II — Property valuation	129
Appendix III — Summary of the constitution of the Company and the Cayman Islands Company Law	145
Appendix IV — Statutory and general information	161
Appendix V — Documents available for inspection	181

This summary aims to give you an overview of the information contained in this document. As this is a summary, it does not contain all the information that may be important to you.

BUSINESS

The Group is an electronic manufacturing services provider in the PRC offering a range of solutions to electronics ODMs and CEMs throughout the production cycle of PCBs, covering pre-sale engineering services, schematic capture and PCB layout design, quick-turn prototyping and pre-production services as well as volume production and PCB assembly and sub-system creation and testing. The Group derives its revenue principally from the sale of single-sided, double-sided and multilayer PCBs fabricated by the Group under prototyping or volume production arrangements.

The Directors consider that EMS companies can be broadly divided into two different groups based on the different strategies adopted:

- the high-mix strategy focuses on securing a variety of orders with higher margin and smaller production lots and devising flexible manufacturing processes for real-time reconfiguration of production lines and equipment; and

- the low-mix strategy targets to serve fewer ODMs and handles orders in larger production lots with lower margin.

The Directors believe that the high-mix strategy adopted by the Group tends to be more demanding in operational management than the low-mix strategy that is currently adopted by most of the PCB fabricators in the PRC, as it requires frequent set-ups during the manufacturing processes to cater for the change in production mix. By establishing itself in this market, the Group intends to develop a unique competitive niche in the EMS industry in the PRC.

The Group is equipped with PCB fabrication facilities including CAD/CAM workstation, NC drills, multilayer press machines, multilayer measuring system and horizontal browning and etching production lines which enable the Group to manufacture PCBs of up to 30 layers and to fabricate, as estimated by the Directors, approximately 18,000 square metres of PCBs per month.

The Group offers single-sided, double-sided and multilayer PCBs using different materials and technologies, including PCMCIA boards, metal-based multilayer PCBs, thick copper large power supply PCBs, flexible diffraction PCBs and steel flexible diffraction composite PCBs. These PCBs are used in a variety of applications such as personal computers, cellular phones, pagers, printers, air-conditioners, televisions, stereo systems, cameras and personal digital assistants (PDAs).

The Directors are of view that the use of strategic alliance is a cost effective way to enhance its capability in providing value-added engineering design services to its customers. In this respect, the Group has successfully established strategic alliances with Newland, Start Network, Amoisonic and Electronic Research Institute. As at the Latest Practicable Date, apart from the joint development centre established jointly with Newland, the Group has not established any other joint development centre with its other strategic allies. On the other hand, pursuant to the non-exclusive strategic alliance agreement entered into between the Group and Electronic Research Institute, the Group would occasionally request design and/or technical assistance from Electronic Research Institute as and when the Group's own design and/or technical capabilities is not sufficient to satisfy its customers' technical requirements.

The Group has established a team to serve certain of the Group's key customers such as Newland, Start Network and Amoisonic as well as other strategic potential customers. As at the Latest Practicable Date, this team is made up of approximately 11 personnel from the areas of marketing, technical support and quality control, and is responsible for addressing issues raised by these key customers or other strategic potential customers. As at the Latest Practicable Date, the Group has employed 23 sales, support and marketing personnel in its manufacturing plant, and a total of 15 sales personnel in 7 offices of the Group who are assigned to geographic territories including Shanghai, Fuzhou, Xiamen, Wuhan, Chengdu, Xian and Shenzhen within the PRC and Hong Kong. For each of the three years ended 30 June 2002, the turnover of the Group amounted to approximately RMB87 million, RMB189 million and RMB204 million respectively.

The Directors believe that the Group has the following principal strengths:

- an established customer base;
- an experienced and committed management team;
- the capability and flexibility to produce both high-mix, low volume, customised complex products and low-mix, high volume products;
- the ability to offer "design-for-manufacturability" capabilities;
- the ability to maintain quality in its products and offer engineering support services;
- the ability to conduct continuous evaluation and adopt new manufacturing and production technologies;
- its manufacturing facilities located in a country with abundant supply of labour, low production costs and a large potential market; and
- strategically located in Fujian Province, one of the recognised manufacturing bases in the PRC for communications and communications related products.

TRADING RECORD

The following table sets forth a summary of the audited consolidated results of the Group for the three years ended 30 June 2002 prepared on the assumption that the current structure of the Group had been in existence throughout the Track Record Period and is extracted from, and has been prepared in accordance with the basis set forth in, section 1 of the accountants' report, the text of which is set forth in Appendix I to this document:

	For the year ended 30 June					
	2000		2001		2002	
	RMB'000	*HK$'000 (Note 1)*	*RMB'000*	*HK$'000 (Note 1)*	*RMB'000*	*HK$'000 (Note 1)*
Turnover *(Note 2)*	86,756	81,846	189,128	178,423	204,142	192,587
Cost of sales	(47,816)	(45,109)	(91,219)	(86,056)	(100,258)	(94,583)
Gross profit	38,940	36,737	97,909	92,367	103,884	98,004
Other revenue	781	737	604	570	2,321	2,190
Distribution costs	(3,247)	(3,063)	(5,188)	(4,894)	(6,485)	(6,118)
Administrative expenses	(4,596)	(4,336)	(8,306)	(7,836)	(13,464)	(12,702)
Other operating expenses	(5,682)	(5,361)	(8,632)	(8,143)	(3,429)	(3,235)
Profit from operations	26,196	24,714	76,387	72,064	82,827	78,139
Finance costs	(8,708)	(8,215)	(5,198)	(4,904)	(3,567)	(3,365)
Profit from ordinary activities before taxation	17,488	16,499	71,189	67,160	79,260	74,774
Taxation	—	—	(7,622)	(7,191)	(6,656)	(6,279)
Profit from ordinary activities after taxation	17,488	16,499	63,567	59,969	72,604	68,495
Minority interests	(8,358)	(7,885)	(6,737)	(6,356)	(7,837)	(7,393)
Profit attributable to Shareholders	9,130	8,614	56,830	53,613	64,767	61,102
Dividend attributable to the year	—	—	—	—	12,804	12,079
Earnings per Share *(Note 3)*	RMB3 cents	HK3 cents	RMB20 cents	HK19 cents	RMB18 cents	HK17 cents

Notes:

(1) Translation of amounts from Renminbi into Hong Kong dollars is for the convenience of readers only and has been made at the rates of exchange in effect at 30 June 2000, 2001 and 2002 of RMB106 = HK$100. No representation is made that the Renminbi amounts could have been, or could be, converted into Hong Kong dollars at such rates or any other rate. Such translation is only for the convenience of readers and is not intended to and does not conform with accounting principles generally accepted in Hong Kong.

(2) Turnover represents the sale value of goods supplied to customers, which excludes value-added tax and is stated after the deduction of any goods returned and trade discounts.

(3) The calculation of basic earnings per Share for each of the three years ended 30 June 2000, 2001 and 2002 is based on the profit attributable to Shareholders for the respective year and the weighted average of 270,000,000, 279,000,000 and 354,721,000 ordinary Shares respectively in issue during the respective years.

FUTURE PLAN AND PROSPECTS

The Directors believe that the communications segment would continue to experience a higher-than-average growth, which would generate a higher demand and profit margin for PCBs than other industry sectors. The Group plans to:

- continue implementing its EMS strategy by further expanding its engineering support and service capacity;
- further develop the Group's PCB fabrication capacity;
- continue its strategy of becoming an integral part of customers' product development and manufacturing process; and
- continue its strategy of becoming a "one-stop-shop" for PCB fabrication, PCB assembly and sub-system design services.

KEY FINANCIAL INFORMATION

Earnings per Share for the year ended 30 June 2002 *(Note 1)* . . . . approximately HK17 cents

Adjusted net tangible asset value per Share *(Note 2)* . . . . approximately HK72 cents

Board lot size . . . . 4,000 Shares

Notes:

1. The calculation of the basic earnings per Share for the year ended 30 June 2002 is based on the consolidated profit attributable to Shareholders of approximately HK$61,102,000 during the year and the weighted average of 354,721,000 ordinary Shares in issue during the year.

2. The adjusted net tangible asset value per Share has been arrived at after the adjustments referred to in the paragraph headed "Adjusted Net Tangible Assets" and the section headed "Financial Information" in this document and is based on the 402,625,000 Shares in issue immediately following the Introduction, but taking no account of any Shares which may fall to be allotted and issued pursuant to the exercise of any options granted under the Share Option Scheme or the Proposed Share Option Scheme or upon the exercise by the Directors of the general mandates granted to them to allot and issue securities or repurchase Shares.

RISK FACTORS

The Directors consider there are certain risks involved in the Group's business, which are set out in the section headed "Risk factors" in this document. These risks can be categorised into (i) risks relating to the Group; (ii) risks relating to the electronics industry; and (iii) risks relating to the PRC:

Risks relating to the Group

- Reliance on the PRC market

- Reliance on major customers
- Reliance on major suppliers
- Reliance on key personnel
- Expansion may strain management and resources of the Group
- Sustainability of profit margin
- Non-inclusion of a profit forecast for the year ending 30 June 2003
- Liquidity of the Group
- Intellectual property rights
- PRC enterprise income tax
- Dividends
- Potential product liability
- Possible competing business by Furi Electronics
- Environmental matters
- Risks relating to the Group's future plans

Risks relating to the electronics industry

- The demands and uncertainties of the electronics industry
- Fluctuation in the global PCB market
- Reliance on suppliers and availability of raw materials and components
- Competitive industry
- Industry information

Risks relating to the PRC

- Political and social considerations
- Currency conversion and foreign exchange risks
- WTO
- Economic, legal and other regulatory considerations

In this document, unless the context otherwise requires, the following expressions have the following meanings:

"Amoisonic"	Xiamen Amoisonic Electronics Co., Ltd. (廈門廈新電子股份有限公司), a company established in the PRC which is listed on the Shanghai Stock Exchange (上海證券交易所) and a third party independent of the Company and its associates. It is a customer of the Group and is principally engaged in the manufacture and sale of digital video, audio and consumer telecommunication products
"Articles"	the articles of association of the Company
"Board"	the board of Directors
"BVI"	the British Virgin Islands
"CAF Securities"	CAF Securities Company Limited, an investment adviser and securities dealer registered under the Securities Ordinance and one of the co-sponsors of the Introduction
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"Chengxin"	Chengxin Electronics Technology (Xiamen) Co., Ltd. (丞信電子科技(廈門)有限公司), a PRC enterprise established by several Taiwanese corporations including 宏基集團 (Acer Group) and 飛端集團 (Phoenix Group), which is principally engaged in the manufacture of computer systems
"Companies Law"	the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
"Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) (as amended)
"Company"	Sinotronics Holdings Limited, a company incorporated in the Cayman Islands with limited liability on 29 September 2000 under the Companies Law, the Shares of which are listed on GEM
"DTCFL" or "Sponsor"	Deloitte & Touche Corporate Finance Limited, an investment adviser and securities dealer registered under the Securities Ordinance and the sponsor of the Introduction
"Director(s)"	the director(s) of the Company
"East Sign"	East Sign Limited, a company incorporated in Hong Kong with limited liability and an investment holding company wholly owned by Mr. Lin
"Electronic Research Institute"	The Electronic Research Institute of Fujian Province (福建省電子技術研究所), a national research institute established by the government of Fujian Province, the PRC and a third party independent of the Company and its associates

"Floret Industries"	Floret Industries Limited, a company incorporated in the BVI with limited liability on 18 May 2001
"Furi Electronics"	Fujian Furi Electronics Co., Ltd. (福建福日電子股份有限公司), a joint stock company established in the PRC which is listed on the Shanghai Stock Exchange (上海證券交易所) and a connected person as defined under 1.01 of the Listing Rules. It owned 10% shareholding interests of Fuqiang and was 72.7% owned by Furi Group as at the Latest Practicable Date. To the best knowledge of the Directors, it is principally engaged in the manufacture and sale of notebook computers, computer monitors, computer accessories, system integration products and electronic components
"Furi Group"	Fujian Furi Group Company (福建福日集團公司), a state-owned enterprise established in the PRC which, as at the Latest Practicable Date, owned 72.7% equity interests of Furi Electronics and a connected person as defined under 1.01 of the Listing Rules
"Fuqiang"	Fujian Fuqiang Delicate Circuit Plate Co., Ltd. (福建福強精密印製線路板有限公司), a sino-foreign joint venture established in the PRC on 20 March 1996 in which 90% interests is indirectly held by the Company through Superford and the remaining 10% interests by Furi Electronics
"Fuzhou Tin Fong"	福州天方科技有限公司, an equity joint venture company established in the PRC on 14 September 2001
"Fuzhou Wei Mei"	福州威美電子有限公司, a wholly foreign-owned enterprise established in the PRC on 20 June 2001
"GEM"	the Growth Enterprise Market of the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM
"Group"	the Company and its subsidiaries
"Guanjie"	Guanjie Electronics (Fujian) Co., Ltd. (冠捷電子(福建)有限公司), a wholly foreign-owned enterprise established in the PRC by the Taiwan Pang's Group (台灣潘氏集團) and Indonesia Lin's Group (印尼林氏集團) in 1990 which is principally engaged in the research, development, manufacture and sale of computer monitors
"Guotai Junan"	Guotai Junan Capital Limited, an investment adviser registered under the Securities Ordinance and one of the co-sponsors of the Introduction
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"HKSCC"	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
"Hong Kong GAAP"	generally accepted accounting principles in Hong Kong

"Introduction"	the proposed listing of the Shares on the Main Board by way of introduction pursuant to the Listing Rules
"Latest Practicable Date"	16 December 2002, being the latest practicable date for ascertaining certain information contained in this document prior to its publication
"Listing Date"	the date on which dealings in the Shares commence on the Main Board
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Main Board"	the stock market operated by the Stock Exchange prior to the establishment of GEM (excluding the options market) and which stock market continues to be operated by the Stock Exchange in parallel with GEM. For the avoidance of doubt, the Main Board excludes GEM
"Minxiang"	Fujian Minxiang Electronics Factory (福建閩薌電子廠), a state-owned enterprise established in the PRC and a third party independent of the Company and its associates, which is principally engaged in the manufacture of television broadcasting equipment, computers and electronics parts and components
"Mr. Lin"	Mr. Lin Wan Qaing, the chairman of the Group and an executive Director and the controlling shareholder of the Company having the meaning ascribed to it under Rule 1.01 of the Listing Rules
"Newland"	Fujian Newland Computer Co., Ltd. (福建新大陸電腦股份有限公司), a joint stock company established in the PRC which is listed on the Shenzhen Stock Exchange (深圳證券交易所) and a third party independent of the Company and its associates. It is a customer of the Group and is principally engaged in the manufacture, sale and leasing of computer and computer accessories, computer technology consulting services, information technology, and automated highway system design, testing and implementation
"PRC" or "China"	People's Republic of China, which, for the purposes of this document, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"PRC GAAP"	generally accepted accounting principles in the PRC
"Proposed Share Option Scheme"	the share option scheme proposed to be adopted at the extraordinary general meeting of the Company to be held on 9 January 2003, the principal terms of which are summarised in the paragraph headed "Proposed Share Option Scheme" under the section headed "Share option schemes" in Appendix IV to this document
"Prospectus"	the prospectus of the Company dated 11 May 2001 in connection with the listing of the Shares on GEM by way of placing

"Qiangwang"	Fujian Fuqing Qiangwang Fishery Product Development Company Limited (福清市強旺水產開發有限公司), an enterprise established in the PRC and beneficially wholly owned by Mr. Lin under an arrangement entered into between Mr. Lin and Fuqiang City Suburban Enterprise Bureau (福清市鄉鎮企業局), whereby it was registered as a collective enterprise (集體所有製企業). On 26 November 2002, it was changed into a company with limited liability. It is principally engaged in cultivating, wholeselling and retailing of freshwater eels and freshwater fishes
"Repurchase Mandate"	the share repurchase mandate proposed to be granted to the Directors at the extraordinary general meeting of the Company to be held on 9 January 2003
"SDI Ordinance"	the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong)
"Securities Ordinance"	the Securities Ordinance (Chapter 333 of the Laws of Hong Kong (as amended))
"SFC"	the Securities and Futures Commission of Hong Kong
"Share(s)"	share(s) of HK$0.10 each in the share capital of the Company
"Shareholder(s)"	holder(s) of Shares
"Share Option Scheme"	the share option scheme conditionally adopted by the sole shareholder of the Company since 8 May 2001
"Sponsors"	DTCFL, Guotai Junan and CAF Securities
"Start Network"	Fujian Start Network Technology Co., Ltd. (福建實達網絡科技有限公司), a company established in the PRC and a former subsidiary of Fujian Start Computer Group Co. Ltd. (福建實達電腦集團股份有限公司) which is listed on the Shanghai Stock Exchange (上海證券交易所). It is a third party independent of the Company and its associates and a customer of the Group which is principally engaged in the development, manufacture and sale of internet connection devices, internet merging devices, training and consultation of web-publishing and system integration service
"Stock Exchange"	The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
"subsidiary"	a subsidiary company as defined in section 2 of the Companies Ordinance
"Superford"	Superford Holding Limited, an investment holding company incorporated in the BVI on 5 January 2000 and a wholly-owned subsidiary of the Company
"Takeovers Code"	Hong Kong Code on Takeovers and Mergers, as amended from time to time
"Track Record Period"	the period comprising the three financial years ended 30 June 2002
"United States" or "US"	the United States of America

"WTO"	World Trade Organisation
"$" or "HK$" or "Hong Kong dollars" and "cents"	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
"Euros"	the lawful currency of the participants in the European Monetary Union of the European Union
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"US$" or "US dollars"	United States dollars, the lawful currency of the United States
"%" or "per cent."	percentage
"mm"	millimetres

Unless otherwise specified in this document, amounts denominated in foreign currencies (other than those relating to the financial information of the Group which are translated at the rates as at the relevant dates in question) have been translated, for the purposes of illustration only, into Hong Kong dollars using the following exchange rates:

US$1 = HK$7.80
HK$1 = RMB1.06

No representation is made that any amount in US$, RMB or HK$ could have been or could be converted at the above rate or at any other rates or at all.

This glossary contains explanations of certain terms used in this document in connection with the Group and its business. The terms and their meanings may or may not correspond to standard industry meaning or usage of these terms.

"backplane"	large circuit board that contains circuitry and sockets to which additional electronic devices or other circuit boards or card can be plugged
"BGA"	ball-grid array, an integrated circuit surface mount package with an area of solder balls used to attach integrated circuits to a printed circuit board
"BOM"	bill of materials, a comprehensive listing of all subassemblies, components, and raw materials that go into a parent assembly, showing the quantity of each required to make the assembly
"CAD"	computer aided design, a system where engineers create a design and visually inspect the image on a graphics screen or in the form of a computer printout or plot. In electronics, the result would be a printed circuit layout
"CAE"	computer assisted engineering whereby, in the context of electronics work, refers to schematic software packages
"CAM"	computer aided manufacturing, applications that use manufacturing specifications from CADs to control the manufacturing processes
"CCEE"	Certificate of Conformity for Electrical Equipment Committee (中國電工產品認證委員會), a state-level organisation for certification of quality standards of electrical equipment
"CEM"	contract manufacturer or contract electronics manufacturer, who manufactures, on behalf of an ODM customer, electronic equipment, the design and brandname of which belongs to the ODM
"circuit design"	design of circuit logic that allows electronic components to perform a specific function
"component"	any of the basic parts used in building electronic equipment, such as a resistor, capacitor, PCB or connector, etc.
"CPCA"	China Printed Circuit Association
"design-for-manufacturability"	a product design concept during the design and development stage of an electronic products. During the product design stage, the product should be designed in a way that it can be testable for its functionality so that one can ensure that the product meets the requirement(s) of its customer/user/owner/regulator
"design-for-testability"	a design approach to design products with an aim to enable that prototypes manufactured from such design will be testable

"dry film solder mask"	a solder mask film applied to a PCB with photographic methods. This method can manage the higher resolution required for fine line design and SMT
"DVD"	digital versatile disk
"Electronic data interchange" or "EDI"	the electronic transfer of data over a network
"EMS"	electronic manufacturing services, which include the provision of contract design, manufacturing, and related product support services to electronics ODMs. The design will be owned by the ODM while the products will be sold under the ODM's or other's brand name
"ERP"	enterprise resource planning, an information system for effective planning and control of all enterprise-wide resources that need to take, make, ship and account for customer orders in manufacturing, distribution or service operations
"functional tests"	tests that identify functional level faults in PCB assembly, including manufacturing related faults, timing related failures, and internal faults of components
"horizontal plating"	a type of plating technology for PCB manufacturing that can better ensure the smoothness of the plating surface
"IC"	integrated circuit, a small-sized semiconductor device consisting of a large number of electronic components mounted on a piece of silicon
"IC applications solutions"	in the context of this document, it means PCB design solutions that target at maximising the performance of a new IC design
"Internet"	the combination of computer networks that use the same standard of protocols and that are connected to each other to form a single layer network through which file and data transfer together with electric mail function can be made available to users globally
"in-circuit test"	combination of hardware and software that identifies manufacturing induced faults of PCB assembly by isolating and individually testing devices using a bed-of-nails fixture. Potential faults include shorts, opens, wrong components, missing components
"IPC"	formerly known as The Institute for Interconnecting and Packaging Electronic Circuits, a trading association comprising PCB manufacturers, designers, suppliers and CEMs
"ISO 9000"	comprises a series of internationally accepted standards designed to assure customers of a quality management system resulting in the consistent delivery of quality products

"ISO 9001"	quality systems model for quality assurance in design, development, production, installation and servicing
"ISO 9002"	quality systems model for quality assurance in production, installation and servicing
"IT"	acronym for information technology
"just-in-time" or "JIT"	the materials management practices adopted by the Group that minimise or eliminate the amount of product brought into inventory by setting up a delivery schedule that brings materials directly from the supplier to the production floor
"laser drilling"	a drilling process that uses a focused laser beam to drill holes that are less than 0.2mm in diameter
"LCD"	liquid crystal display
"micro-via processes"	means those drilling processes the purpose of which is to drill a micro hole on a PCB, including through-hole vias and blind vias
"MIL"	Military Specification of the United States, which are standards originally developed for defence and aerospace related organisations but have later been adopted by many commercial and industrial companies ranging from telecommunications to medical
"NC drill"	numeric control drill machine, which is used to drill the holes in a PCB at exact locations as specified in a data file
"ODM"	original design manufacturer, who owns the brandname and designs, manufactures (or outsources its manufacture), markets, and provides customer support for its product
"outsourcing"	the practice of sub-contracting
"PCB"	printed circuit board, a flat plate or base of insulating material containing a pattern of conducting materials, which becomes an electrical circuit when components are attached and soldered to it
"PCB database"	all of the data fundamental to a PCB design, stored as one or more files on a computer
"PCB layout design"	the process of transforming the electrical design (functional or logical representation) into a physical object: the physical layout of placing components and routing of interconnect wires
"PCMCIA"	an international standards body and trade association with over 200 member companies that was founded in 1989 to establish standards for integrated circuit cards and to promote interchangeability among mobile computers. In the context of this document, it refers to the standard(s) on PCBs established by this body

"PCB assembly"	integration of active and passive devices (electrical, electronic, optical and/ or mechanical) on a PCB
"plasma etching"	plasma, in physis, refers to fully ionised gas of low density, containing approximately equal numbers of positive and negative ions. It is electrically conductive and is affected by magnetic fields. Plasma etching is a method of making prints from a metal plate on PCB, usually copper, into which the design has been incised by acid. The copper plate is first coated with an acid-resistant substance, called the etching ground, through which the design is drawn with a sharp tool. The ground is usually a compound of beeswax, bitumen, and resin. It is a technology for drilling holes that are less than 0.2 mm in diameter
"prototype"	a working model of a product used to demonstrate the product, test design ideas for a complete version
"QS 9000"	an internationally accepted standard developed for the motor vehicle industry
"quick-turn prototyping"	production on a quick turnaround basis of a small quantity of products that are used to prove the design
"SMT"	surface mount technology, a specialised manufacturing process used in the production of PCBs whereby electronic components, including ICs, are soldered onto the surface of the PCBs
"SMT line"	standard terminology for the automated manufacturing process for PCB assembly and testing, defined as having screen printing, placement, and reflow equipment
"schematic capture"	the process of entering the logical design of an electronic circuit into a CAE system by creating a schematic representation of components and interconnections
"software"	programs, data files, procedures, rules, and any associated documentation pertaining to the operation of a computer system or of a computer application
"statistical process control system"	a system that uses statistical techniques to analyse a process or its outputs, so as to take appropriate actions to achieve and maintain consistent quality in PCB fabrication
"sub-system"	a portion of a system that can be treated as a single element in the main system, but that can also be considered a distinct system itself
"supply-chain management"	the procurement, stocking and distribution of components, sub-assemblies and products throughout the design, manufacturing, and distribution stages, ensuring that the correct components, sub-assemblies and products are delivered to the appropriate destination at the proper time, with the lowest overall cost, and at acceptable quality levels

"system design"	designs that comprise the interaction and integration of sub-assemblies into a single assembly that performs an intended function. The sub-assemblies can consist of electrical, mechanical, optical and other components and software to achieve overall functionality. Examples include designing of personal computers, mobile phones and printers
"testing"	a method for determining whether sub-assemblies, assemblies and/or a finished product conform to a set of parameters and functional specifications. Test types include in-circuit, functional, system-level, reliability and environmental
"through-hole" or "thru-hole"	having pins designed to be inserted into holes and soldered to pads on a PCB
"time-to-market"	the period of time to get a product from the product development stage to generating actual sales
"time-to-volume"	the period of time to get a product from the product development stage to volume production stage
"turnkey"	a type of outsourcing method that turns over to the sub-contractor all aspects of manufacturing including materials acquisition, assembly and testing
"turnkey sub-system solution"	a situation where a customer would outsource the engineering solution of a whole sub-system
"UL"	Underwriters Laboratories, Inc., an independent product safety testing and certification organisation
"VCD"	video compact disk
"VCR"	video cassette recorder

You should consider carefully all of the information set out in this document and, in particular, you should evaluate the following risks with regard to the Group.

RISKS RELATING TO THE GROUP

Reliance on the PRC market

During each of the three years ended 30 June 2002, approximately 76%, 81% and 90% respectively of the turnover of the Group were derived from sales in the PRC. The Directors anticipate that sales of the Group's products in the PRC will continue to represent a significant portion of the Group's total turnover in the near future. In this connection, the Group is exposed to changes in economic, political and social conditions in the PRC as well as changes in the PRC domestic demands for the Group's products. There is no assurance that such changes will not adversely affect the performance and profitability of the Group.

Reliance on major customers

Sales of the Group during the Track Record Period were highly concentrated in a small group of customers. In particular, for each of the three years ended 30 June 2002, the Group's ten largest customers in aggregate accounted for approximately 97%, 88% and 93% respectively of the Group's total turnover, while its five largest customers in aggregate accounted for approximately 88%, 60% and 71% respectively of the Group's total turnover during the same periods under review. In addition, the largest customer of the Group for each of the three years ended 30 June 2002 accounted for approximately 34%, 15% and 18% respectively of the Group's total turnover. In the event that these major customers significantly reduce their orders placed with the Group, there could be a material adverse impact on the Group's turnover if the Group is not able to replace such loss of business on a timely basis. In addition, the Group does not have long-term commitments and/or volume guarantees from its customers. As a result, the Group's customers may cancel, delay or reduce orders placed with the Group without any penalty and in such event, the Group's business and profitability may be adversely affected.

Reliance on major suppliers

For each of the three years ended 30 June 2002, the five largest suppliers of the Group in aggregate accounted for approximately 66%, 61% and 82% respectively of the Group's total purchases, while the largest supplier of the Group accounted for approximately 25%, 35% and 61% respectively during the same periods under review, evidencing a significant increase in reliance on the Group's largest supplier for the year ended 30 June 2002. If the Group encounters any material disruption of supply of raw materials and components for its PCB manufacture, the business and financial performance of the Group will be negatively affected.

Reliance on key personnel

The Group's future success depends to a large extent upon the continue services of its senior management and key technical employees. Each of the executive Directors has entered into a service contract with the Group for a term of three years. Nevertheless, the loss of services of any of the Group's key employees could have a material adverse effect on the Group.

The Directors believe that the Group's future success depends on its continuing ability to attract and retain qualified technical, managerial and marketing personnel. The Directors believe that competition for such personnel is intense, especially for engineering personnel, and there can be no assurance that the Group will be able to attract, assimilate or retain such personnel. In the event that the Group is unable to hire or retain such personnel, its business, financial condition and results of operations may be adversely affected.

Expansion may strain management and resources of the Group

The Group has been experiencing significant growth during the Track Record Period and the Directors anticipate that the Group will continue to experience growth in its business and profitability. It is expected that further expansion will be required to capitalise on the growth potential of the Group's business. Due to the relatively capital intensive nature of its business, the Group's future expansion may place a strain on its management and financial resources, which may result in further recruitment of personnel in the future. In addition, the Group may need to improve its existing and/or adopt new management, operational and financial systems, procedures and controls, and to expand, train and manage its growing employee base, in order to facilitate such anticipated business growth. All these measures will incur additional costs which will place a burden on the Group's financial condition.

The Group may also enter into relationships with various parties including customers, suppliers, industry players and other third parties in order to expand its business. There can be no assurance that the Group's current and planned personnel, systems, procedures and controls will be adequate to support the Group's future operations, or that the Group will be able to recruit, retain and motivate personnel or that it will be able to identify, manage and exploit existing and new relationships with various parties and market opportunities. Failure of the Group to manage its growth effectively could have an adverse effect on the Group's business, results of operations and financial condition.

Sustainability of profit margin

For each of the three years ended 30 June 2002, the Group achieved profit margin of approximately 45%, 52% and 51% respectively, which the Directors attributed such achievements mainly to the Group's ability to develop relevant technologies and provide a range of EMS that meet its customers' demand, coupled with the compliance of the ISO9002 standard and the implementation of the ISO/TS16949 standard. There is no assurance that the net profit margin of the Group would continue to be maintained at a similar level in the coming years.

Non-inclusion of a profit forecast for the year ending 30 June 2003

A profit forecast of the Group for the year ending 30 June 2003 has not been included in this document. The Directors considered that the inclusion of such profit forecast in this document is not appropriate mainly because a substantial portion of the Group's revenue has been, and is expected to be, derived from the sale of PCBs in the PRC which the Directors consider to be a market of considerable competition. Furthermore, the electronics industry, in which the Group's business is operated, is considered by the Directors to be highly competitive and uncertain, which is subject to rapid technological changes, short product life cycles and pricing and margin pressure. In addition, the electronics industry has historically been cyclical and is facing significant economic downturns, rapid declines in average selling prices and over-capacity. Accordingly, the Directors consider that sales of the Group for the remaining year ending 30 June 2003 will be significantly affected by, among other factors, prevailing industry and market conditions and economic environment that are beyond the control of the Group, and it would not be feasible for the Group to prepare a profit forecast with a level of adequacy, reliability and certainty that is required for inclusion in this document.

Investors should be aware that there is no assurance that the Group will increase or maintain the level of its historical revenue or profitability and that the historical results of the Group should not be used as an indication of its future performance.

Liquidity of the Group

Immediately before the listing of the Shares on GEM, the Group was heavily capitalised as evidenced by the proportion of its non-current assets relative to its total assets. Prior to the listing of the Shares on GEM, the Group's operations and capital expenditure requirements were primarily financed by significant borrowings from financial institutions. The Group successfully raised net proceeds amounting to approximately HK$56 million from its initial public offer, and net proceeds amounting to approximately HK$64 million from two Share placements in March 2002 and June 2002 respectively, to finance its planned business objectives and enhance its general financial liquidity. Nevertheless, to the extent that those net proceeds, together with the cashflow generated from its operations, shall not be sufficient to finance its future business growth, the Group may need to raise additional funds by way of either debt and/or equity financing, which may have a negative effect on the Group's overall financial and leverage structure, or which may have a dilutive effect on the Group's then existing shareholders, as the case may be. Furthermore, if high interest rates are required to be paid or that the Group cannot obtain such financings, the Group's working capital, its ability to implement its planned business objectives and expansion plans, and its profitability may be adversely affected.

Intellectual property rights

From time to time, the Group may develop intellectual property rights over its trade secrets, electronic manufacturing products and services. Some of the Group's intellectual property rights may be protected against exploitation by third parties by way of registration. The Group has registered its trademark and logo as referred to under the sub-paragraph headed "Intellectual property rights" in the section headed "Business" in this document. The Group's designs may be protected in the PRC by registration with the State Administration on Intellectual Property of the PRC before the expiration of a two-year period starting from the date of a design's first commercial use within the world. The Group, however, has not filed any patent application in respect of any of its new inventions. The Group relies on ownership protection provisions as set out in its internal employment guidelines to protect its proprietary rights. The Group is not aware of any unauthorised use of its production know-how. The risk of dissemination of information of the Group's intellectual property rights, by way of any such unauthorised use or unauthorised disclosure of confidential information relating to the Group's production know-how cannot be entirely protected. The measure currently taken by the Group may not be adequate for other misappropriation of the proprietary technology of the Group. When necessary, the Group may have to expend a significant amount of financial resources to assert, safeguard and/or maintain its intellectual property rights over such products, services and new inventions. In that event, the Group's resources may be significantly drained for such purposes which may adversely affect the Group's financial condition.

PRC enterprise income tax

Under the prevailing tax legislation in the PRC, Fuqiang, a sino-foreign joint venture established in the open coastal areas of the PRC, will be subject to the PRC enterprise income tax at a preferential rate of 15% for unspecific period on its income after offsetting prior years' tax losses. However, Fuqiang is exempted from paying PRC enterprise income tax for two years commencing from the first year of profitable operations after offsetting prior years' tax losses, followed by a 50% tax exemption in the three years thereafter. The tax holiday of Fuqiang commenced from 1 January 1999 pursuant to which Fuqiang was entitled to a tax-free period up to 31 December 2000. Fuqiang is entitled to a 50% reduction on enterprise income tax for the period from 1 January 2001 to 31 December 2003, following which Fuqiang will be subject to a preferential tax rate of 15%.

The Group is exposed to changes in the taxation system which may result from, among other factors, changes in the policies adopted by the PRC government. There is no assurance that such changes will not adversely affect the financial performance and profitability of the Group.

Dividends

No dividends have been paid or declared by the Company up to the year ended 30 June 2001. The Directors recommended a final dividend of HK$0.03 per ordinary share for the year ended 30 June 2002, pursuant to which final dividends amounting to approximately HK$12.1 million were paid out of internal resources of the Group, representing approximately 19.8% of the profit attributable to shareholders for the year ended 30 June 2002. Potential investors should note that the above dividend payment should not be used as a reference for the Company's dividend policy.

Potential product liability

If products developed and distributed by the Group contain defects or errors which adversely affect the performance of such products, the Group may incur additional costs in correcting the defects or defending any legal proceedings and/or claims brought by its customers against the Group for damages. Although no legal claims were made by any of its customers relating to the products sold and/or services provided by the Group throughout its history of operation, there can be no assurance that there will not be any product liability claims against the Group in the future. The Group does not maintain any insurance against product liabilities and seeks to limit its liability by incorporating limited warranty provisions in its contracts with its customers. Accordingly, the Group will not be covered or compensated by insurance in respect of losses, damages, claims and/or liabilities arising from or in connection with product liability or third party liability. These events could adversely affect the business of the Group.

Possible competing business by Furi Electronics

Furi Electronics, a minority shareholder of Fuqiang, is, to the best knowledge of the Directors, mainly engaged in the manufacture of notebook computers, computer monitors, computer accessories, system integration products and electronic components, which are not in competition with the business of the Group. However, the Directors confirmed that Furi Electronics has not undertaken with the Group that it will not engage in any business which may directly or indirectly compete with those of the Group in the future. In the event that Furi Electronics engages in competing businesses with the Group and the Group fails to maintain its competitive edge over Furi Electronics in those areas, the profitability of the Group may be adversely affected.

Environmental matters

The Group is subject to a variety of local and national environmental laws and local environmental rules of the PRC relating to the storage, use, discharge and disposal of chemicals, solid waste and other hazardous materials used during its manufacturing process, as well as air quality regulations and restrictions on water use. When violations of environmental laws occur, the Group can be held liable for damages and the costs of remedial actions, and can also be subject to revocation of permits necessary to conduct its business. Any such revocations could require the Group to cease or limit production, which could have a material adverse effect on the Group's business, financial condition and results of operations. For each of the three years ended 30 June 2002, the Group paid a discharge fee to the government of Fuqing City of approximately RMB130,000, RMB50,000 and RMB252,605 respectively.

The Group's failure to comply with present or future environmental regulations could restrict the Group's ability to expand its facilities or could require the Group to acquire costly equipment or incur other significant expenses to comply with environmental regulations. Environmental laws could become more stringent over time, imposing greater compliance costs and increasing risks and penalties associated with violation of such laws. Changes or restrictions on discharge limits, emissions levels, or material storage or handling might require a high level of unplanned capital investment and/or relocation. There can be no assurance that compliance with new or existing regulations will not have a material adverse effect on the Group's business, financial condition and results of operations.

Risks relating to the Group's future plans

The Directors believe that the success of the Group in the future will substantially depend on, among other things, its ability to implement its future plans. The success of such plans depends upon a number of factors. The implementation of the future plans involves numerous risks including failure to react and adapt new technologies, difficulties in integrating different technologies, product-level knowledge and customers' needs, and inability to attract or retain qualified personnel. In the event that the Group fails to implement any or all of its future plans, the Group's business and prospects in the future may be adversely affected.

RISKS RELATING TO THE ELECTRONICS INDUSTRY

The demands and uncertainties of the electronics industry

The Group's business depends on the development of the electronics industry, which is subject to rapid technological changes, short product life cycles, intense competition and pricing and margin pressure. In addition, the electronics industry has historically been cyclical and is facing significant economic downturns, rapid declines in average selling prices and over-capacity. Furthermore, the world semiconductor industry has experienced a decline in the recent years. When these factors adversely affect the Group's customers, demand for the Group's products may also be adversely affected.

Moreover, the level and timing of orders placed by the Group's customers vary due to a number of factors, including customers' attempts to manage inventory, changes in customers' manufacturing strategies and variations in demand for customers' products due to, among other things, technological changes, new product introductions, product life-cycles, competitive conditions or general economic conditions. Since the Group has not secured long-term purchase orders or commitments from its customers, estimates of future volume of orders will be based on discussions with its customers. The Group relies on its estimate of anticipated future volume of orders when making commitments regarding the level of business that it will seek and accept the mix of products that it intends to manufacture, the timing of production schedules and the levels and utilisation of personnel and other resources. A variety of conditions, both specific to the individual customer and generally affecting the customer's industry, may cause customers to cancel, reduce or delay orders that were previously made or anticipated. A significant portion of the Group's orders may be subject to cancellation or postponement without penalty. There is no assurance that timely replacement of cancelled, delayed or reduced orders can be avoided. Significant or numerous cancellations, delays or reductions in orders by a customer or group of customers could adversely affect the Group's business, financial condition and results of operations.

Fluctuation in the global PCB market

Global production of PCBs has experienced considerable fluctuation during the last two years. There is no assurance that the global PCB market demand will increase or maintain at a level comparable to the historical level in the future. Should the global PCB market demand experience any significant downturn in the future, the Group's prospects may be adversely affected.

Reliance on suppliers and availability of raw materials and components

The Group has to order, from outside suppliers, certain raw materials and components to complete its customers' purchase orders. Although the Group works with its customers and suppliers to minimise the impact of shortages in materials, it may experience short-term adverse effects due to price fluctuations and delayed shipments of raw materials and components. Although the Group does not have guaranteed sources of raw materials and components, it does have supply agreements with most of its key suppliers with terms including quality requirements and scheduling of deliveries, and it routinely purchases raw materials and components from several suppliers. Further, although alternative suppliers are currently available, a significant unplanned event with a major supplier, such as unforeseen disruption in production schedules and serious delay in shipments, could have a material adverse effect on the Group's operations. The Group believes that the potential existence of shortages of materials in the printed circuit and electronic assembly industries could have a material adverse effect on the Group's manufacturing operations and future unit costs. Product changes and the overall demand for electronic interconnect products could increase the industry's use of new laminate materials, standard laminate materials, multilayer blanks and other materials, and such materials therefore may not be readily available to the Group in the future. There can be no assurance that shortages of certain types of electronic components will not occur in the future. If a significant shortage of raw materials or components is to occur, the Group's operating results would be materially adversely affected.

Competitive industry

The Directors consider the electronic interconnect industry to be fragmented and characterised by intense competition. The Directors believe that the Group's major competitors in the EMS business are domestic producers of multilayer PCBs, domestic PCB design houses and international and domestic EMS providers. Some of these competitors have significantly greater financial, technical and marketing resources, greater name recognition and a larger installed customer base than the Group. The Directors are of the view that these competitors may have the ability to respond more quickly to new or emerging technologies, may adapt more quickly to changes in customer requirements and may devote greater resources to the development, promotion and sale of their products than the Group. The demand for PCBs has continued to be affected by the development of smaller, more powerful electronic components requiring less printed circuit area. Expansion of the Group's existing products or services could expose the Group to new competition. Moreover, new developments in the electronics industry could render existing technology obsolete or less competitive and could potentially introduce new competition into the industry. There can be no assurance that the Group will continue to compete successfully against present and future competitors or that competitive pressures faced by the Group will not have a material adverse effect on the Group's business, financial condition and results of operations.

Industry information

Certain industry information in the sections headed "Glossary of technical terms", "Risk factors", "Industry overview" and "Business" in this document relating to the electronics industry and the EMS industry is derived from various publications. When making investment decisions, the investors should be aware that such information has not been verified by or on behalf of the Group, and that the Group makes no representation as to the correctness or accuracy of such information.

RISKS RELATING TO THE PRC

Currently, substantially all of the Group's assets and operations are in the PRC and the Group derives all of its revenue from its operations in the PRC. Hence, the Group's financial condition and results of operations are, to a significant degree, subject to economic, political and legal developments in the PRC.

Political and social considerations

Since 1978, the PRC government has been undergoing a series of reforms, with emphasis on its political systems. Such reforms have resulted in significant economic growth and social progress and many of the reforms are expected to be refined and improved. Other political and social factors may also lead to further readjustment and refinement of the reform measures. There is no assurance that such reform measures introduced by the PRC government will have a favourable effect on the operations of the Group. The Group's operations and performance may be adversely affected by changes in the PRC political and social conditions resulting from changes in the policies adopted by the PRC government, such as changes in laws and regulations on the interpretation thereof, or changes in the taxation system.

Currency conversion and foreign exchange risks

The Group is exposed to the risks associated with the currency conversion and exchange rate system in the PRC as the Group's income are primarily denominated in Renminbi which is currently not freely exchangeable, whereas dividends are to be paid in Hong Kong dollars.

The PRC government imposes control over the convertibility of Renminbi into foreign currencies. Upon the execution of the unitary managed-floating-rate system in 1994, Renminbi was devaluated by 50% against the US dollars. Since then, the exchange rate between Renminbi and US dollar has been generally stable. However, there can be no assurance that Renminbi will not become volatile against other currencies. In the event of a major devaluation of Renminbi, the Group may incur capital depreciation on its investments in the PRC which may have a material adverse effect on the Group's operations and financial condition, in view of the Group's significant PRC presence at the moment.

Although new policies were introduced by the PRC government in 1996 to allow greater convertibility of Renminbi, significant restrictions still remain. In accordance with the "Foreign Exchange Control Regulations" and the "Regulations on the Administration on Settlement, Sale and Payment of Foreign Exchange", foreign exchange required for a payment of dividends that are payable in foreign currencies can be purchased from designated foreign exchange banks upon presentation of the relevant documents including, but not limited to, board resolutions authorising the conversion of its Renminbi earnings into foreign currency for the purpose of dividends distribution. There is no assurance that the PRC government will not introduce more restrictive foreign exchange measures that could adversely affect the Group's ability to convert its Renminbi earnings into foreign currencies.

Since the unification of the exchange rate system, a number of rules, regulations and notices (the "Policies") which are designed to provide greater exchangeability of Renminbi have been issued by the PRC government. Under the Policies, a foreign investment enterprise ("FIE") must now establish a "current account" and a "capital account" with a designated foreign exchange bank. In addition, under the Policies, the State Administration of Foreign Exchange ("SAFE") has the authority to determine the maximum amount of foreign currency an FIE may maintain in its current account in accordance with the paid-up capital of the FIE and its need for working capital in foreign currency. Any foreign currency balance in the current account in excess of the maximum limit determined by SAFE is required to be sold either to a designated foreign exchange bank or, prior to 1 December 1998, through a foreign exchange swap center. With effect from 1 July 1996, FIEs may exchange amounts in Renminbi for amounts in foreign currencies at authorised banks without any need for prior approval from SAFE if such funds are in respect of current account items. However, there can be no assurance that the current authorisations for FIEs to retain or purchase foreign exchange to satisfy exchange liabilities under current account transactions will not be limited or eliminated. Furthermore, there can be no assurance that Fuqiang will be able to obtain sufficient foreign exchange to pay dividends or satisfy its foreign exchange requirements in the future since Fuqiang's revenue, profits and dividends are expressed in Renminbi. Foreign exchange transactions under the "capital account" will continue to be subject to limitations and require approvals from SAFE, which could affect the receipt and payments of foreign exchange by Fuqiang for loans, capital contributions, purchase of fixed assets and other capital account transactions.

As from 1 December 1998, the swap centers became restricted to conducting foreign exchange transactions between authorised banks and inter-bank lending between PRC banks and are no longer available to FIEs to exchange their Renminbi into foreign currencies. Instead, FIEs are required to conduct all their foreign exchange transactions through authorised banks. Apart from the change of function of the swap centers, the procedures and requirements for exchanging Renminbi amounts into foreign currencies remain unchanged.

Although the exchange rate between Renminbi and Hong Kong dollar has been relatively stable in the past few years and the PRC government has reiterated its intention to support the value of Renminbi, there is no assurance that Renminbi will not be subject to devaluation or depreciation due to administrative or legislative intervention by the PRC government or adverse market movements. As all of the sales of the Group's products are settled in Renminbi and Renminbi is still not a freely convertible currency, a devaluation of Renminbi may adversely affect the value of the profits generated by the Group when they are converted into US dollars or Hong Kong dollars.

WTO

The PRC has become a member of the WTO. The PCB industry in the PRC is currently accessable by foreign investors. The Directors consider that although the PCB industry requires high level of technical and industry specific knowledge and involves complicated production management, direct establishment of PCB factories by foreign investors as a result of the PRC's accession into the WTO may be significant. The Directors anticipate that such foreign investments may take the form of acquisitions of PRC local PCB factories with large scale, low mix production capacities which, in the opinion of the Directors, do not share the same market sub-segments with the Group. Furthermore, the Group has devoted significant efforts in the development of long-term strategic co-operative relationships with its customers, which would lessen the competition from other PCB manufacturers. The admission of the PRC into the WTO is nonetheless likely to result in increased competition from overseas business undertakings who engage in the production of similar products manufactured by the Group, which may have an adverse effect on the profitability of the Group.

Economic, legal and other regulatory considerations

The economy of the PRC has gradually been transformed from a planned economy to a market economy with socialist characteristics. There is no certainty that the PRC government's pursuit of economic reforms will not slow down.

Since an open-door policy was adopted by the PRC in 1978, the trend of the PRC's legislation has, on the whole, significantly enhanced the protection afforded to foreign investors in the PRC. However, as the PRC legal system matures, there is no assurance that changes in its legislation or the related interpretation will not have an adverse effect on the business and prospects of the Group.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS DOCUMENT

This document includes particulars given in compliance with the Securities (Stock Exchange Listing) Rules 1989 of Hong Kong (as amended) and the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this document and confirm, having made all reasonable enquiries, that, to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in this document misleading.

This document is published solely in connection with the Introduction. It may not be used for any other purpose and, in particular, no person is authorised to use or reproduce this document or any part thereof in connection with any offering, or invitation to offer, of the Shares or other securities of the Company.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Application has been made to the Listing Committee of the Stock Exchange for the listing on the Main Board of, and permission to deal on the Main Board in, the Shares in issue and any Shares which may fall to be allotted and issued pursuant to the exercise of any option which were granted under the Share Option Scheme or may, prior to its termination, be granted thereunder, or which may be granted under the Proposed Share Option Scheme. Except that prior to the Introduction, the Shares are listed on the GEM, no part of the share or loan capital of the Company is listed or dealt in on any other stock exchange and no such listing or permission to deal is being or is proposed to be sought by the Company as at the date of this document.

SHARES WILL CONTINUE TO BE ELIGIBLE FOR ADMISSION INTO CCASS

The Shares have been accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from 17 May 2001, the date on which the Shares were listed on GEM. Subject to the granting of the listing of, and permission to deal in, the Shares on the Main Board by the Stock Exchange and the continue compliance with the stock admission requirements of HKSCC by the Company, the Shares will continue to be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS once dealings in the Shares on the Main Board commence. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after the date of transactions. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Necessary arrangements have been made with HKSCC for the Shares in issue and the Shares which may fall to be allotted and issued upon the exercise of the options which were granted under the Share Option Scheme or may, prior to its termination, be granted thereunder, or which may be granted under the Proposed Share Option Scheme, to continue to be accepted as eligible securities of CCASS.

NO CHANGE IN BUSINESS

No change in the business of the Group is contemplated following the Introduction.

STAMP DUTY

Dealings in the Shares registered in the Company's branch register of members in Hong Kong will be subject to Hong Kong stamp duty.

PROFESSIONAL TAX ADVICE RECOMMENDED

Shareholders are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of holding and dealing in the Shares. None of the Company, the Sponsors, any of their respective directors, agents or advisers or any other party involved in the Introduction accepts responsibility for any tax effects on, or liabilities of, holders of the Shares resulting from the holding of or dealing in the Shares.

UNDERTAKINGS

Mr. Lin, being the controlling shareholder of the Company holding approximately 57.67% of the total issued Shares as at the Latest Practicable Date, has undertaken to the Company and the Stock Exchange that he shall not (a) in the period of six months from the date on which dealings in the Shares commence on the Stock Exchange, dispose of, and shall procure that the registered holder thereof shall not dispose of, any of those Shares in respect of which he is the beneficial owner; and (b) in the period of six months commencing from the date on which the period referred to in paragraph (a) above expires, dispose of or permit the registered holder thereof to dispose of, any of the Shares referred in paragraph (a) above if, immediately following such disposal, Mr. Lin would cease to be a controlling shareholder of the Company (as defined in the Listing Rules).

Mr. Lin has also undertaken to the Company and the Stock Exchange that, within the period of twelve months from the date on which dealings in the Shares commence on the Stock Exchange, he will:

(i) immediately inform the Company of any pledge/charge of securities of the Company beneficially owned by him together with the number of securities so pledged/charged when he makes such pledges/charges; and

(ii) immediately inform the Company when he receives indications, either verbal or written, from the pledgee/chargee that any of the pledged/charged securities will be disposed of.

The Company has agreed that it will inform the Stock Exchange as soon as it has been informed of any matters relating to the pledge/charge mentioned above by Mr. Lin, and disclose such matters by way of a press notice in newspapers as soon as possible in accordance with the requirements of the Listing Rules.

CONDITION OF THE INTRODUCTION

The Introduction is subject to the fulfilment of the conditions that, among other things, the Listing Committee of the Stock Exchange granting the listing on the Main Board of, and permission to deal on the Main Board in, the Shares in issue and any Shares which may fall to be allotted and issued pursuant to the exercise of any options which were granted under the Share Option Scheme or may, prior to its termination, be granted thereunder, or which may be granted under the Proposed Share Option Scheme.

The Shares are currently listed on GEM. Immediately prior to the Introduction, the listing of the Shares on GEM will be withdrawn in accordance with the GEM Listing Rules. In this connection, an extraordinary general meeting of the Company will be held on 9 January 2003 to approve, among other things, the proposed withdrawal of listing of the Shares on GEM. The Directors expect that dealings in the Shares on the Main Board will commence on or about 20 January 2003. Share will continue to be traded in board lots of 4,000 Shares each.

DIRECTORS

Name	Address	Nationality
Executive Directors		
Lin, Wan Qaing	Flat 4407, 44th Floor Apartment Tower on the Western Side Convention Plaza No. 1 Harbour Road Wanchai Hong Kong	Chinese
Liu, Zhao Cai	Room 506, 5th Floor Jixiong Ge, Yangqiao Garden 145 Yangqiao Zhong Road Gulou District Fuzhou City Fujian Province the PRC	Chinese
Xiang, Song	The Industry Development Company Limited Zhicheng Road Guangzhou Economic Technology Development Zone Guangzhou City Guangdong Province the PRC	Chinese
Tong, Yiu On	Flat A, 7th Floor Wang Fung Building 33 Chi Kiang Street Tokwawan Kowloon Hong Kong	Chinese (Hong Kong)
Independent non-executive Directors		
Lam, Ming Yung	Room B, 4th Floor, Block 5 Bayview Garden 633 Castle Peak Road Tsuen Wan New Territories Hong Kong	Chinese (Hong Kong)

Name	Address	Nationality
Pan, Chang Chi	39 Dongmen Road Rong Town Fuqing City Fujian Province the PRC	Chinese
Cai, Xun Shan	Room 602, Unit 1 9 Hualin Road Gulou District Fuzhou City Fujian Province the PRC	Chinese

PARTIES INVOLVED

Sponsor	**Deloitte & Touche Corporate Finance Limited** 21st Floor, Wing On Centre 111 Connaught Road Central Hong Kong
Co-sponsors	**Guotai Junan Capital Limited** 27th Floor, Low Block Grand Millennium Plaza 181 Queen's Road Central Hong Kong **CAF Securities Company Limited** 13th Floor, Fairmont House 8 Cotton Tree Drive Central Hong Kong
Legal advisers to the Company	*as to Hong Kong law* **Sidley Austin Brown & Wood** 49th Floor, Bank of China Tower 1 Garden Road Central Hong Kong *as to PRC law* **Chen & Co.** Suite 1901, North Tower Shanghai Stock Exchange Building 528 Pu Dong Nan Road Shanghai the PRC

	as to Cayman Islands law **Conyers Dill & Pearman, Cayman** Century Yard Cricket Square Hutchins Drive P.O. Box 2681GT George Town Grand Cayman British West Indies
Auditors and reporting accountants	**Charles Chan, Ip and Fung CPA Ltd.** 37th Floor, Hennessy Centre 500 Hennessy Road Causeway Bay Hong Kong
Property valuer	**Sallmanns (Far East) Ltd.** 15th Floor, Trinity House 165–171 Wanchai Road Wanchai Hong Kong

Registered office	Century Yard Cricket Square Hutchins Drive P.O. Box 2681GT George Town Grand Cayman British West Indies
Head office and principal place of business	Room 1805, 18th Floor Harbour Centre 25 Harbour Road Wanchai Hong Kong
Website	*www.sinotronics.com.cn*
Company secretary	Mr. Tong, Yiu On, *AHKSA, ACCA*
Audit committee	Mr. Lam, Ming Yung Mr. Pan, Chang Chi Mr. Cai, Xun Shan
Authorised representatives	Mr. Lin, Wan Qaing Mr. Tong, Yiu On
Principal bankers	The China Construction Bank Chen Dong Branch No. 96, Gu Tian Road Fuzhou Fujian Province the PRC Bank of China Fuqing Branch No. 101 Tian Qiang Road Fuqing City Fujian Province the PRC Standard Chartered Bank Standard Chartered Bank Building 4–4A Des Voeux Road Central Hong Kong

Principal share registrar and transfer office	**Bank of Butterfield International (Cayman) Limited** Butterfield House Fort Street P.O. Box 705 George Town Grand Cayman British West Indies
Hong Kong branch share registrar and transfer office	**Hong Kong Registrars Limited** Shops 1712–1716, 17th Floor Hopewell Centre 183 Queen's Road East Wanchai Hong Kong

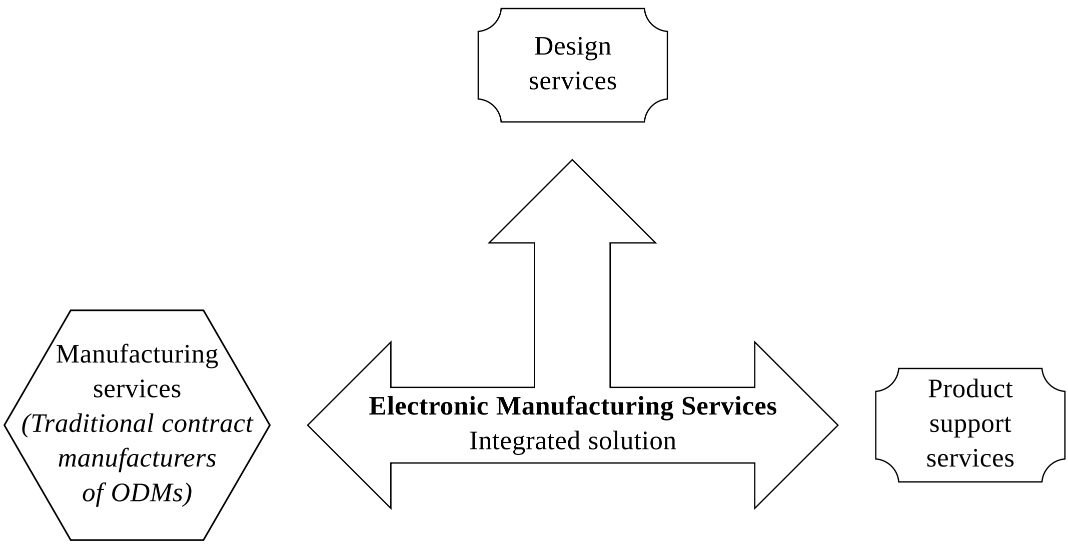
The information contained in this section is derived from various sources and/or government publications. This information has not been independently verified by the Company, the Sponsors or any of their respective advisers or affiliates in connection with the Introduction.

INTRODUCTION

ODMs of electronics products are companies that design, manufacture (or outsource their manufacture), market and provide customer support for their products. EMS providers that emerged as ODMs began to outsource some of their labour-intensive manufacturing functions to obtain additional capacity. Early EMS providers were essentially subcontractors, providing production capacity on a transactional basis. However, with continuous advances in manufacturing process technology, EMS providers developed additional capabilities and were able to improve product quality and reduce ODMs' costs.

In recent years, some ODMs have adopted plans to outsource everything from production to after-sales services and even new product developments to EMS providers. Some EMS companies have become the beneficiaries of this trend and have grown to become the global giants in recent years. For example, in 1998, Solectron Corporation was an EMS company with more than US$6.1 billion in sales. It grew quickly to US$18.7 billion in sales in 2001. Several major EMS companies have revenue passed the US$3.5 billion benchmark in 2001.

The following diagram describes the services offered by EMS companies.



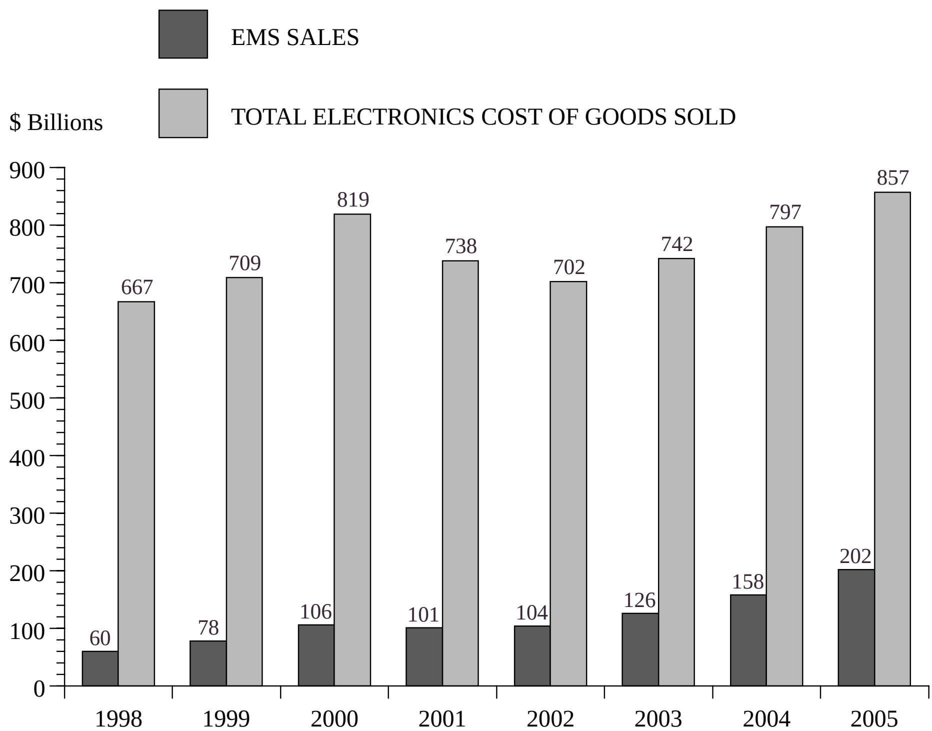
Some EMS providers are turning to consumer electronics such as digital cameras and mobile phones to diversify their business mix. Many of them are looking for opportunities to enlarge their back-end supply chain business and their worldwide capabilities, which is expected to increase profit margin. This includes aftersales support services which provide repair, warranty, network installation, product upgrades, and logistics services, forming a new market for EMS companies.

THE EMS INDUSTRY

Overviews and market trends

The world's EMS sales were relatively constant from 2000 up to present as a result of the continuing outsourcing deals. According to the information provided by the Custer Consulting Group, the global EMS industry revenue is forecasted to grow from approximately US$104 billion in 2002 to approximately US$202 billion in 2005. Furthermore, it was estimated that the total electronics cost of goods sold in the electronics industry will increase from approximately US$738 billion in 2001 to approximately US$857 billion by 2005.

The following graph illustrates the estimated value in US$ of EMS revenue and total electronics cost of goods sold:



Source: Custer Consulting's estimate (Global Electronics Industry — Business Outlook, September 2002)

The Directors have observed the following aspects which the Directors believe that will enable EMS providers to enhance the competitive position of ODMs.

Reducing time-to-market

Electronics products are experiencing increasingly shorter product life cycles, requiring ODMs to continually reduce the time required to bring new products to market. ODMs can significantly improve product development cycles and shorten time-to-market by benefiting from the expertise and infrastructure of EMS providers.

Improving supply-chain management

ODMs of electronics products which manufacture internally are facing greater complexities in planning, procurement and inventory management due to frequent design changes, short product life cycles and product demand fluctuations. Such ODMs may address these complexities by outsourcing to EMS providers who possess sophisticated supply-chain management capabilities and can leverage significant component procurement advantages to lower production costs.

Accessing advanced manufacturing capabilities and process technologies

Electronic products and electronics manufacturing technology have become increasingly sophisticated and complex, making it more difficult for many ODMs to maintain the necessary technological expertise and focus required to efficiently manufacture products internally. By working closely with EMS providers, ODMs may gain access to manufacturing expertise and capabilities in the areas of advanced process, interconnect and test technologies.

Improving access to global markets

For those ODMs which are increasing their international activities in an effort to expand sales through access to foreign markets, EMS providers with production facilities located in different parts of the world are able to offer such ODMs global manufacturing solutions for such ODMs to meet local requirements and distribute products efficiently around the world at lower costs.

ELECTRONIC INTERCONNECT MARKET

Interconnect products which include plain PCBs, PCB assembly, backplanes and backplane assembly, are essentially the backbone of any electronic products. Electronic interconnect products are customised for specific electronic applications and are sold to ODMs and CEMs in volumes that range from several units for prototypes and small quantities for pre-production to large quantities for volume production. However, the proliferation of electronics and the emergence of new technologies have broadened this market and reduced the amplitude of interconnect industry cycles. Electronic interconnects such as rigid PCBs, are now used in a wide variety of products in different markets, including automotive, communications, consumer, business retail, computer, government/military, industrial, instrumentation, and the EMS industry.

Historically, some electronics ODMs used independent PCB manufacturers as offload capacity for their internal facilities. As electronic products become smaller and more complex, the manufacture of interconnect products requires increasingly sophisticated engineering and manufacturing expertise and substantial capital investment. These advanced manufacturing processes and technology requirements have caused some ODMs to rely on independent PCB manufacturers and to reduce dependence on their internal fabrication and assembly facilities.

Latest trends in electronic interconnect market

The Directors consider the following trends to be important in understanding the electronic interconnect industry:

Industry consolidation

The Directors expect that the industry will continue to consolidate as manufacturers are looking to increase profit margins and market share. As a result, the Directors expect that companies with lesser financial and technical resources are likely to exit the industry and larger interconnect companies with sufficient resources will continue to gain market share.

Increasing demand for one-stop solution

The Directors expect that, to avoid delays and costs during the production cycle, ODMs are turning to EMSs which are capable of designing and producing complete products. The accelerated need of time-to-market and time-to-volume from ODMs have resulted in their collaboration with qualified suppliers capable of providing a broad and integrated supply.

New and emerging markets

The markets for electronic products are growing as a result of new product introductions, technological changes, demands for a wider variety of electronic product features, and increasingly powerful and less expensive electronic components. New markets have emerged in the fields of computing, data communications/telecommunications and multimedia. Moreover, existing industries have expanded applications in areas such as computer networking and peripherals, telecommunications, video-on-demand, the Internet/world wide web, instrumentation and industrial controls. The Directors believe that these new and emerging electronic product markets and applications have also contributed to the reduction in the amplitude of the electronic interconnect industry cycles.

Greater demand for complex electronic products

Some electronics ODMs are designing more compact and portable high performance products. The complexity of these new products requires higher performance, smaller size, greater circuitry and component density, and increased reliability. These requirements necessitate greater sophistication in PCB manufacturing and process technologies. The trend towards increasingly sophisticated products also requires greater engineering support and investment in manufacturing and process technology for suppliers to produce high quality electronic interconnect products on-time, in volume, and at acceptable cost.

Printed circuits

Printed circuits are the basic platforms used in interconnect microprocessors, ICs and other components essential for the functioning of electronic products. Printed circuits consist of a pattern of electrical traces etched from copper laminated on an insulated base typically composed of rigid fibreglass or thin flexible circuits.

The PCB manufacturing process consists of photographically imprinting circuit patterns on substrate materials (typically fibreglass or film), which are then permanently incorporated into the PCB through a screen or photo printing process. To meet the increasing requirements of ODMs and CEMs, PCB manufacturers have developed more complex multilayer designs with packaging technologies such as SMT and BGA, narrower widths and separations of copper traces, advanced materials, smaller vias and through-holes to connect internal circuitry.

PCBs are produced in various sizes and specifications, including flexible printed circuits, single and double-sided rigid PCBs, multilayer PCBs and backplanes.

Flexible printed circuits

Flexible printed circuits, due to their mechanical flexure and three-dimensional shape, accommodate packaging contours and motions in a manner that traditional two-dimensional rigid PCBs cannot. The applications of flexible printed circuits include notebook computers, portable communication devices such as cellular phones, pagers, printers, scanners and data storage devices such as compact disk players, cameras and camcorders.

Rigid PCBs

Rigid PCBs are widely used given their lower complexity compared to flexible PCBs and their high volume nature compared to flexible circuits. They can be found in a wide array of products, ranging from personal computers and communications equipment to consumer electronics such as cellular phones, personal digital assistants and DVD players. Rigid PCBs include (1) single-sided and double-sided PCBs and (2) multilayer PCBs.

Single-sided and double-sided PCBs. Single-sided and double-sided PCBs are the most common boards used and are typically the lowest-cost solutions suitable for the consumer market (for example, radios, VCRs, etc.).

Multilayer PCBs. Multilayer PCBs have many functional advantages, including the ability to accommodate a higher packaging density, improve power and ground distribution, lower weight, and permit the use of higher-speed circuitry. Due to such advantages, multilayer boards have become the standard for numerous high-technology applications. Multilayer boards are employed in electronic products which require high-speed and high-frequency interconnect solutions, including communications, computing and instrumentation. Since these products require specialised manufacturing techniques and expertise, multilayer production typically delivers higher margins as well as reduced competition from low-labour-cost fabricators, who typically focus on high-volume low-mix products.

Backplanes

Backplanes are generally larger and thicker printed circuits on which connectors are mounted to the interconnect printed circuits, ICs and other electronic components. A system assembly includes the backplane, power supply, fan card, cables and system chassis.

DEVELOPMENT PROCESS OF PCBs

PCB design and production process

The Directors consider that the development of PCBs usually progresses in four stages, namely: (1) initial design and simulation; (2) schematic capture and layout design; (3) quick-turn prototyping and pre-production; and (4) volume production.

Initial design and simulation

Initial design is performed by the ODMs which encompasses the processes of idea formation, conceptual analysis, engineering design (including specifications and features), functional simulation and simulation of the processed layout of a PCB.

Simulation of proposed locations of holes and conductors (the "layout") provides information regarding potential layout problems to the initial design engineer and creates revised design guidelines for the schematic capture and layout design technicians. If more high-speed devices being used on PCBs, more sophisticated physical layout guidelines must be tailored for each particular design to resolve problems regarding circuit timing, signal-integrity and electromagnetic interference. These problems, if not resolved at the initial stage of layout design, can result in low manufacturing yields and inconsistent product performance that can increase time and cost to market for ODMs.

Schematic capture and layout design

Schematic capture involves the input of an electronic schematic diagram into a high-performance computer workstation that generates a list of electronic components and interconnects required to design a PCB. Layout design is accomplished using specialised CAD software programs. Computer-generated data set out the layout which, along with manufacturing information, may be transmitted electronically from the designer to the manufacturer. When transmitting data to its internal manufacturing division, specialised CAM software is used prior to sending the data to ensure "design-for manufacturability" and "design-for testability" and to help speed up the quick-turn prototyping process. Historically, layout design was the step in the PCB production process least likely to be outsourced by ODMs.

Quick-turn prototyping and pre-production

Quick-turn prototyping is characterised by shorter than standard lead time requirements and involves production of a small quantity, usually fewer than 50 pieces of PCBs. Prototype evaluation is critical to product development and frequently requires several alterations before a design can be finalised. Most prototypes are manufactured on a quick-turn basis. Consequently, high quality and timely delivery are generally the important factors for the quick-turn prototyping market.

Pre-production runs involve the manufacture of limited quantities of PCBs during the transition from prototyping to volume production. Pre-production may require quick-turn delivery because of the overall time-to-market pressures and shorter product life cycles or as a temporary solution in the event of volume production delay. Accordingly, high quality and timely delivery continue to be the factors most important to the ODMs or CEMs, notwithstanding the price factor which is also considered important. Many ODMs take advantage of a PCB manufacturer's quick-turn capability, even when circuit design or volume production is done in-house or by other PCB manufacturers.

Volume production

Volume production is characterised by longer lead time and increased emphasis on lower cost as the product moves to full-scale commercial production. At this stage of production, price, quality, on-time delivery and process capability are the factors important to the ODM or CEM. As product life cycles grow shorter, the ability to meet shorter lead time requirements becomes an important competitive factor.

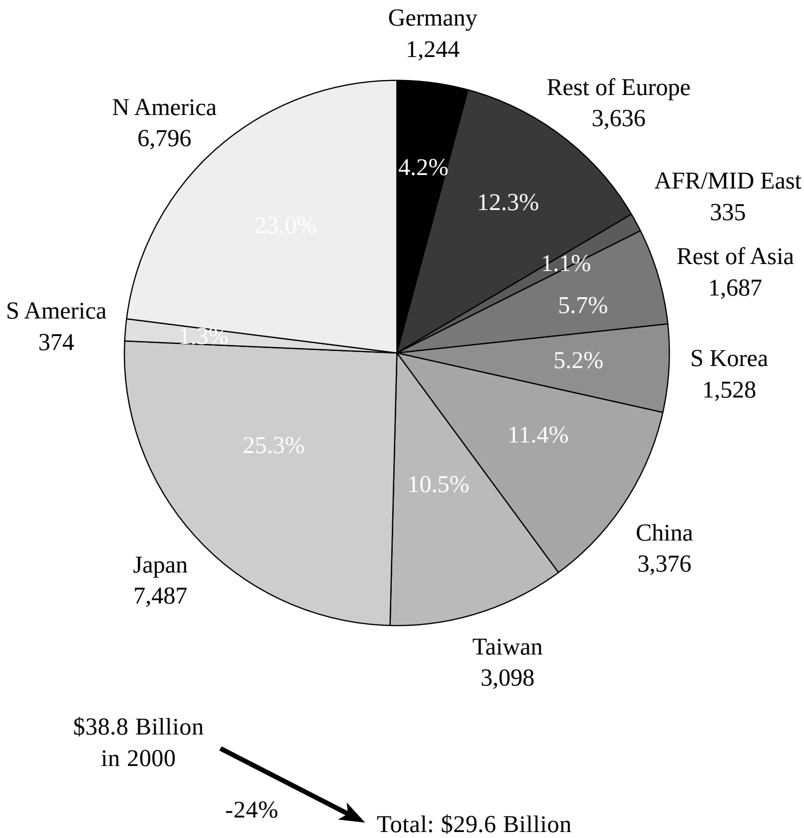
THE GLOBAL PCB MARKET

World PCBs output amounted to approximately US$34.5 billion in 2001, as stated in the report from the Custer Consulting Group in September 2002. According to the report, global rigid PCB production for 2001 was approximately US$29.6 billion, and flexible circuit production was approximately US$3.7 billion. Latest production data for rigid PCB's shows that Japan was ranked first in the global rigid PCB production with a worldwide market share of US$7,487 million or approximately 25.3%, followed by North America, Europe, China/Hong Kong, Taiwan, rest of Asia and South Korea.

The following chart illustrates the share of global rigid PCB production by geographical area for the year 2001:

2001 WORLD RIGID PCB PRODUCTION

By Geographical Area ($M)



Source: IPC TMRC 5/2002 (includes Microvia PCBs & chip packaging substrates)

Fabricating a complex PCB must meet quality control standards and adhere to electrical performance characteristics.

There are eight distinct market segments for PCBs:

Market segments	Examples of applications
Automotive	engine and drive performance, convenience and safety, entertainment and other applications for diagnostic display and security
Business/retail	copy machines, cash registers, "point-of-sale" terminals, teaching machines, business calculators, gas pumps and taxi meters
Communications	mobile radio, portable communication, pagers, data transmissions, microwave relay, telecommunications and telephone switching equipment and navigation instruments
Computer	mainframe computers, mini-computers, broad level processors, add-on memories, input devices, output devices, terminals and printers
Consumer electronics	watches, clocks, portable calculators, musical instruments, electronic games, large appliances, microwave ovens, pinball/arcade games, television/home entertainment, smoke and intrusion detection systems and video records
Government and defence	radars, guidance and control systems, communication and navigation, defence/aerospace electronic warfare, ground support instrumentation, sonar ordinance, missiles and satellite related systems
Industrial electronics	machine and process control, production test measurement, material handling, machining equipment, pollution, energy and safety equipment, numerical control power controllers, sensors and weighing equipment
Instrumentation	test and measurement equipment, medical instruments, medical testers, analytical nuclear, lasers, scientific instruments and implant devices

THE PRC'S PCB INDUSTRY

Ten years ago, the PRC manufactured PCBs were mainly used in domestic home appliances. In recent years, the development of IT in the PRC generated an increased demand for electronics products. The PRC's PCB industry has grown with advances in new technology, material and equipment. Presently the PRC has invested US$5 billion in PRC IC development, which will give rise to PCB development. At the same time, a large portion of PCBs produced in the PRC is for export. The directors believe that the PCB industry of the PRC may be moving towards the direction for shorter lead time, reduced cost and higher competitiveness. It is expected that the manufacturing of PCBs in the PRC will experience changes in terms of both quality and quantity in the next few years.

Growth of PRC electronic information industry

In 2001, Chinese electronic information industry contributed approximately US$164 billion in production value and reached a growth rate of approximately 16.8%. In 2002, the annual growth rate is predicted to be approximately 22% representing an increase of more than 5% as compared to 2001.

Growth of the PRC's PCB market

According to CPCA information center, in the first half of 2002, PCB output increased by approximately 18.48%, of which single-sided PCBs increased by approximately 23.34%, while double-sided PCBs increased by approximately 9.55% and multilayer PCBs increased by approximately 11.73%. In addition, the sales turnover of PCB's increased by approximately 1.21% of which single-sided PCBs increased by approximately 10.95%, while double-sided PCBs increased by approximately 8.69%, and multilayer PCBs decreased by approximately 5.21%.

In recent years, the development of PCB related industry is rapid. There are around 1,800 companies including PCB, equipment and material suppliers and out of those, 90% are small and medium-sized enterprises. Foreign based companies are in dominance in terms of scale, technology, output, and production value. Geographically, 90% of the PCB enterprises are located in Shanghai region and Guangdong region while presently, those PCB companies in the Shanghai region are developing much faster.

Recently, there are many Japanese and Korean and other Asia PCB companies coming to the PRC and many PRC PCB companies purchase products from Asia. In 2001, PRC PCB import increased by approximately 22% while export increased by approximately 1%. For the first half of 2002, the PRC PCB import reached US$1 billion and its export reached US$0.839 billion. Japan and Korea are the main import destinations, while other countries such as Indian, Indonesia, Singapore etc. export many PCBs to the PRC.

HISTORY AND DEVELOPMENT

The origin of the Group dated back to 20 March 1996 when Fuqiang was established in Fuqing City, Fujian Province, the PRC to engage in the manufacture of high precision PCBs. With an initial registered capital of RMB21,000,000, the initial shareholding structure of Fuqiang was as follows:

Entity	Descriptions	Approximate % shareholdings
Qiangwang *(Note)*	a collective enterprise established in the PRC	30%
Lam Ping Tung (林秉通)	a resident of Hong Kong and an independent third party not related to Mr. Lin	25%
Furi Group	a state-owned enterprise established in the PRC	10%
Minxiang	a state-owned enterprise established in the PRC	35%

Note: Qiangwang is an enterprise established in the PRC and wholly beneficially owned by Mr. Lin. The Company's PRC advisers advised that Qiangwang was established under an arrangement entered into on 13 January 1994 between Mr. Lin and the Fuqing City Suburban Enterprise Bureau (福清市鄉鎮企業局) (the "Bureau"), an entity used by the Fuqing City Government to administer collective enterprises in Fuqing City, Fujian Province, the PRC. Under this arrangement, Qiangwang was registered as a collective enterprise under the Bureau. Such arrangement was derived from an administrative concept and encouraged by the local government in the PRC, during the transitional period when the PRC economy was gradually transforming from a planned economy to a more market-oriented economy, as a way to aid the development of local economies in the PRC. On 26 November 2002, Qiangwang was changed into a company with limited liability.

The PRC legal advisers to the Company advised that prior to its becoming a company with limited liability, Qiangwang was subject to《中華人民共和國鄉鎮企業法》as regards to its ownership and transfer of assets. According to《中華人民共和國鄉鎮企業法》, Mr. Lin is the beneficial owner of Qiangwang, who has the right to deal with the properties and assets of Qiangwang (e.g. the right to transfer equity interest owned by Qiangwang). All transfer of Qiangwang's equity interest in Fuqiang was completed in accordance with《中華人民共和國鄉鎮企業法》.

Mr. Lin has entered into a deed of indemnity in favour of the Company (for itself and as trustee for its subsidiaries) whereby Mr. Lin will fully indemnify and at all times keep the Group and any member of the Group fully indemnified on demand without set off or counter claim against any depletion in value and assets, costs, fees, expenses, claims, losses, and liabilities of any nature whatsoever which might be incurred or suffered by any member of the Group relating to or arising out of or as a result of (whether direct or indirect) the ownership arrangement of Qiangwang as described above being declared or determined by any PRC court or relevant government authority to be illegal, invalid or unenforceable in any respect and including, but not limited to, any costs or expenses incurred by the Group in proceedings or inquiries leading to such declaration or determination. Details of the deed of indemnity are set out in the paragraph headed "Other indemnities" under the section headed "Other information" in Appendix IV to this document.

The Group commenced the construction of its PCB fabrication plant in Fuqing City, Fujian Province, the PRC in September 1996. Trial production of double-sided PCBs commenced in April 1997 while volume production commenced in October 1997.

On 20 October 1997, Fuqiang increased its registered capital from RMB21,000,000 to RMB46,000,000 and its total investment (which comprises of both registered capital and shareholders' loans) from RMB30,000,000 to RMB70,000,000. Each of the initial shareholders of Fuqiang, being Qiangwang, Lam Ping Tung, Furi Group and Minxiang, subscribed for the increase in the registered capital of Fuqiang in proportion to their then equity interests. On the same date, for a consideration of RMB2,300,000, Qiangwang transferred 5% of its equity interests in Fuqiang to Furi Group. In addition, for nil consideration (which was subsequently amended to a consideration of RMB16,100,000 pursuant to re-negotiations between Furi Group and Minxiang with regards to the share transfer consideration), Minxiang transferred all of its 35% equity interests in Fuqiang to Furi Group. As a result, the shareholding of Fuqiang was owned as to 25% by Qiangwang, 25% by Lam Ping Tung (林秉通) and 50% by Furi Group.

On 11 June 1998, for a consideration of HK$9,000,000, Lam Ping Tung (林秉通) transferred all of his 25% equity interests in Fuqiang to East Sign, as a result of which the shareholding of Fuqiang was owned as to 25% by Qiangwang, 50% by Furi Group and 25% by East Sign.

During the period from 11 June 1998 up to 14 October 1998, Mr. Lam Ping Tung continued to act as director in the board of directors of Fuqiang under the nomination of East Sign. Mr. Lam Ping Tung confirmed that during his term as a director of Fuqiang, he casted his vote over board decisions and/or resolutions according to the instructions from Mr. Lin.

In August 1998, the Group commenced the second phase construction of its PCB plant for the addition of a multilayer production line capable of fabricating PCBs up to 12 layers, pursuant to which the Group commenced its fabrication of multilayer PCBs in January 1999. In November 1998, the Group was among a group of 28 companies accredited by the Fujian Province Science and Technology Commission (福建省科學技術委員會) as a New and Advanced Technology Enterprise (高新技術企業).

In May 1999, the Group implemented an EMS business development strategy for the provision of design and integrated manufacturing services to its customers. The Group, together with Newland, opened a joint development center in the office of Newland in Fuzhou City, Fujian Province, the PRC, to offer a broader portfolio of development and design services to Newland. This joint development center was established with an intention to assist Newland in bringing its products from concept to volume production in order to improve its competitiveness in the market.

The Group also entered into legally non-binding strategic alliance agreements with each of Newland, Start Network and Amoisonic pursuant to which each of Newland, Start Network and Amoisonic might jointly develop closely allied supply systems with the Group, which allow the Group to have priority in accessing the supply networks of Newland, Start Network and Amoisonic respectively. Under these strategic alliance agreements, the Group intends to provide each of Newland, Start Network and Amoisonic with preferential treatment principally in the delivery time. In addition, the board and the management of each of Newland, Start Network and Amoisonic intends to maintain a long-term interactive relationship with the Group, with an intention to work together effectively in terms of the utilisation of capital and resources. Each of Newland, Start Network and Amoisonic also intends to establish a system for continuous exchange of design, technology, management, training and information with the Group. Each of Newland, Start Network and Amoisonic also intends to consider the establishment of joint development centers for the research, development, manufacture and marketing of their respective products.

The Group's high-mix strategy quickly achieved satisfactory results, as evidenced by a revenue growth of approximately 116% for the year ended 30 June 2000 as compared to the forecasted revenue growth rate of 16% for the PRC printed circuit industry for the corresponding period. During this period, the Group was able to attract orders from both existing and new customers, and its management and marketing personnel were successful in further developing the overseas markets for the Group's products through distributors located in Australia, the US and Germany. During the said period, the Group also produced increasingly complex PCBs with higher density and layer counts, and was capable of manufacturing PCBs of up to 20 layers. Some of the Group's PCB products were also intended to be used in the defence and aerospace industries of the PRC, which signifies the Group's achievement in technology and quality. The after tax but before minority interest profit margin of the Group grew from approximately 9.4% for the year ended 30 June 1999 to approximately 20.2% for the year ended 30 June 2000.

On 20 March 2000, for a consideration of RMB11,500,000, Qiangwang transferred its remaining 25% equity interests in Fuqiang to East Sign. On the same date, pursuant to the corporate reorganisation of Furi Group, Furi Group transferred all of its 50% equity interests in Fuqiang to Furi Electronics. On 19 June 2000, for a consideration of RMB28,300,000, Furi Electronics transferred 40% of its equity interests in Fuqiang to East Sign. On 5 July 2000, for a consideration of RMB41,400,000, which was satisfied by the allotment and issue of one share of US$1.00 in Superford to Mr. Lin, East Sign transferred all of its 90% equity interests in Fuqiang to Superford. As a result, the shareholding of Fuqiang was owned as to 90% by Superford and 10% by Furi Electronics. Mr. Lin confirmed that he was a PRC national when he established Qiangwang and became a Hong Kong resident in January 2000. The Company's PRC legal advisers confirmed that the change in nationality of Mr. Lin would not affect the legality of his beneficial ownership in Qiangwang.

Mr. Lin has been the chairman of the board of directors of Fuqiang since its establishment. Since June 1998, Mr. Lin has control over the majority of the board of directors of Fuqiang and accordingly, Mr. Lin's 50% equity interests in Fuqiang since June 1998 up to June 2000 represented a controlling interest in Fuqiang. The composition of the board of directors of Fuqiang remained the same despite Mr. Lin increased his beneficial interests in Fuqiang through East Sign (and subsequently Superford) from 50% to 90% since 19 June 2000. The directors of Fuqiang unanimously voted in favour of retaining two of the directors of Fuqiang nominated by Furi Electronics based on the reason that those two directors were very experienced in and highly regarded within the electronics industry, and their continuous service as directors of Fuqiang would be beneficial to Fuqiang. In addition, Mr. Lin concurred with such arrangement because he already had majority of the board representation of Fuqiang prior to his increase in the equity interests of Fuqiang to 90% through East Sign. However, as a step to formalise the board representation of Fuqiang to be in accordance with its ownership structure, in April 2001, the two directors of Fuqiang nominated by Furi Electronics resigned and were replaced by two new directors nominated by Superford.

The Directors view that the use of strategic alliance is a cost effective way to enhance its capability in providing value-added engineering design services to its customers. Accordingly, the Group entered into a non-exclusive strategic alliance agreement with Electronic Research Institute, being one of the state-owned research institutions specialising in electronics and communications technology research in July 2000. The strategic alliance agreement aimed to commit the two parties for the development of a joint engineering design center to undertake research and development projects from ODMs. Although such joint engineering design centre is yet to be set up pending appropriate business opportunity, the Group has operated its own design center and would occasionally request design and/or technical assistance from Electronic Research Institute as and when the Group's own design and/or technical capabilities are not sufficient to satisfy its customers' technical requirements.

In order to enhance the Group's capital base and to obtain funding for the expansion plan and the implementation of its EMS strategy, the Company sought for a listing of its Shares on GEM, pursuant to which the Shares were successfully listed on 17 May 2001, raising net proceeds of approximately HK$56 million.

With an aim to further promote the Group's service brandname and increase its local market coverage, the Group established liaison offices in Wuhan and Xian, the PRC in September 2001 and July 2001 respectively.

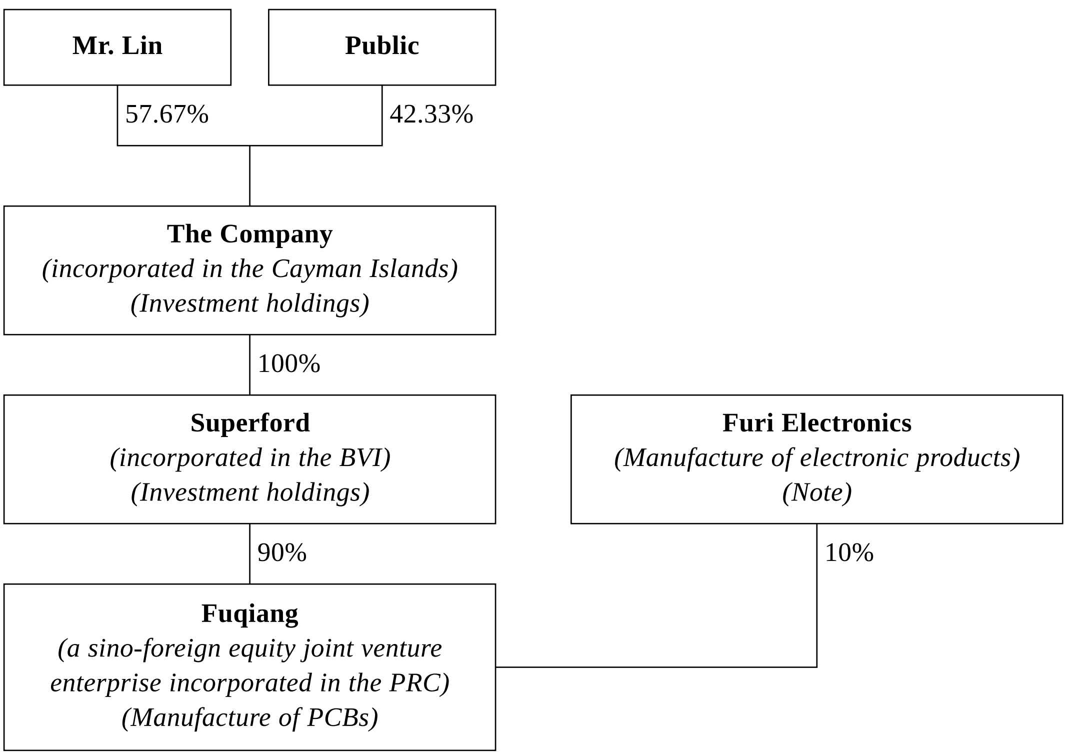
In order to further enhance the capital base of the Company and to procure further funding for the implementation of the business objectives of the Group, the Company underwent two placing of Shares to independent professional, institutional and individual investors in March 2002 and June 2002 respectively, raising total net proceeds of approximately HK$64 million. After the two Share placements, the shareholding interests of Mr. Lin in the Company was reduced to approximately 57.67%.

During the year ended 30 June 2002, the Group successfully developed closer business relationship with its customers, including Guanjie and Chengxin in line with the Group's objective to be a preferred supplier of leaders in the communications and communications related consumer product markets. Guanjie is a well-known ODM and OEM manufacturer of computer monitors, which manufactures monitors bearing its own brandname "AOC" as well as monitors bearing other PRC brandnames. Chengxin, on the other hand, is a recognised manufacturer of computer systems in the PRC.

As the Directors considered that it would enhance the Group's research and development as well as design capabilities, and help to fulfil the Group's long-term objectives in line with those stated under the section head "Statement of business objective" in the Prospectus, the Group acquired 49 shares (representing 49% equity interests) of Floret Industries. Floret Industries is an investment holding company whose sole asset comprises the entire equity interests in Fuzhou Wei Mei, which in turns holds 83% equity interests in Fuzhou Tin Fong as its sole asset. Fuzhou Tin Fong is principally engaged in the research and development of computer hardware, software and systems as well as the provision of ancillary services in relation to power supply systems. These systems and products are composed of a variety of electronic circuitry which, in general, would utilise PCBs as their components.

GROUP STRUCTURE

The following chart illustrates the shareholding structure of the operating members of the Group as at the Latest Practicable Date:



Note: To the best knowledge of the Directors, the business of Furi Electronics includes the manufacture and sale of notebook computers, computer monitors, computer accessories, system integration products and electronic components, which are not in competition with the business of the Group.

BUSINESS OF THE GROUP

The Group is an electronic manufacturing services provider in the PRC offering a range of solutions to electronics ODMs and CEMs throughout the production cycle of PCBs, covering pre-sale engineering services, schematic capture and PCB layout design, quick-turn prototyping and pre-production services as well as volume production and PCB assembly and sub-system creation and testing. The Group derives its revenue principally from the sale of single-sided, double-sided and multilayer PCBs fabricated by the Group under prototyping or volume production arrangements.

The Directors consider that EMS companies can be broadly divided into two different groups based on the different strategies adopted:

- the high-mix strategy focuses on securing a variety of orders with higher margin and smaller production lots and devising flexible manufacturing processes for real-time reconfiguration of production lines and equipment; and

- the low-mix strategy targets to serve fewer ODMs and handles orders in larger production lots with lower margin.

The Directors believe that the high-mix strategy adopted by the Group tends to be more demanding in operational management than the low-mix strategy that is currently adopted by most of the PCB fabricators in the PRC, as it requires frequent set-ups during the manufacturing processes to cater for the change in production mix. By establishing itself in this market, the Group intends to develop a unique competitive niche in the EMS industry in the PRC.

The Group is equipped with PCB fabrication facilities including CAD/CAM workstation, NC drills, multilayer press machines, multilayer measuring system and horizontal browning and etching production lines which enable the Group to manufacture PCBs of up to 30 layers and to fabricate, as estimated by the Directors, approximately 18,000 square metres of PCBs per month.

The Group offers single-sided, double-sided and multilayer PCBs using different materials and technologies, including PCMCIA boards, metal-based multilayer PCBs, thick copper large power supply PCBs, flexible diffraction PCBs and steel flexible diffraction composite PCBs. These PCBs are used in a variety of applications such as personal computers, cellular phones, pagers, printers, air-conditioners, televisions, stereo systems, cameras and personal digital assistants (PDAs).

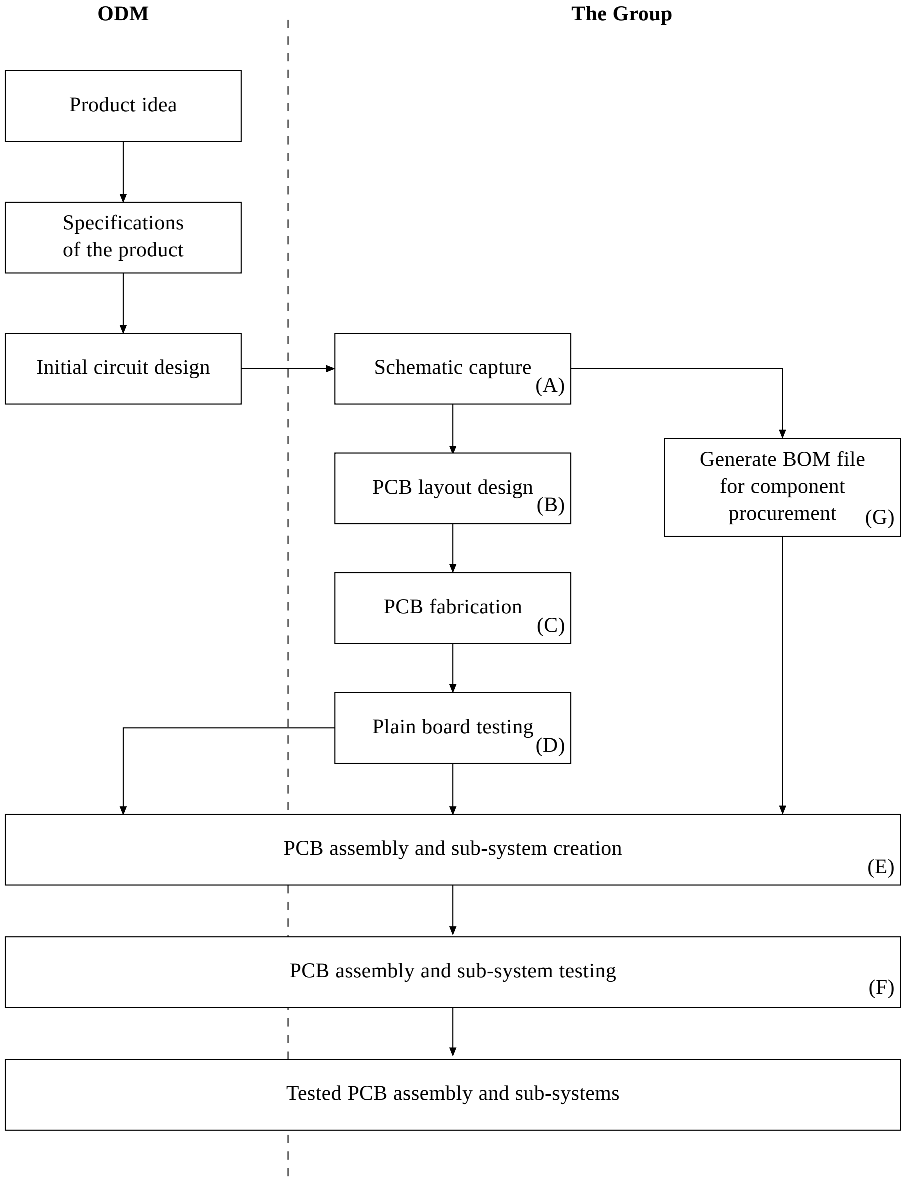
The Directors are of view that the use of strategic alliance is a cost effective way to enhance its capability in providing value-added engineering design services to its customers. In this respect, the Group has successfully established strategic alliances with Newland, Start Network, Amoisonic and Electronic Research Institute. As at the Latest Practicable Date, apart from the joint development centre established jointly with Newland, the Group has not established any other joint development centre with its other strategic allies. On the other hand, pursuant to the non-exclusive strategic alliance agreement entered into between the Group and Electronic Research Institute, the Group would occasionally request design and/or technical assistance from Electronic Research Institute as and when the Group's own design and/or technical capabilities is not sufficient to satisfy its customers' technical requirements.

The Group has established a team to serve certain of the Group's key customers such as Newland, Start Network and Amoisonic as well as other strategic potential customers. As at the Latest Practicable Date, this team is made up of approximately 11 personnel from the areas of marketing, technical support and quality control, and is responsible for addressing issues raised by these key customers or other strategic potential customers. As at the Latest Practicable Date, the Group has employed 23 sales, support and marketing personnel in its manufacturing plant, and a total of 15 sales personnel in 7 offices of the Group who are assigned to geographic territories including Shanghai, Fuzhou, Xiamen, Wuhan, Chengdu, Xian and Shenzhen within the PRC and Hong Kong. For each of the three years ended 30 June 2002, the turnover of the Group amounted to approximately RMB87 million, RMB189 million and RMB204 million respectively.

PRODUCTS AND SERVICES

Service offerings

The following flowchart illustrates the Group's business model and how the Group's EMS business can help its ODM customers during the product development stage:



* *Boxes A, B, C, D and G are the engineering and manufacturing services currently provided by the Group. PCB assembly, sub-system creation and sub-system testing as described in boxes E and F are provided by the technical personnel of the Group in its strategic allies production and/or engineering sites.*

To assist customers with schematic capture and PCB layout design, the Group offers CAM and CAD-based design and engineering for manufacturability. After the completion of the manufacturing process design, the Group offers quick-turn prototyping services. The Group also provides customers with prototyping and volume production services. The following paragraphs illustrate the services provided by the Group:

Pre-sale engineering services

Before accepting orders, the Group's sales representatives and engineers would discuss and liaise with customers in order to understand their requirements in relation to various aspects including materials, technologies, quality and schedule of delivery. The Group's development, process, and production engineers review the product design prior to production to ensure that the product is ready for manufacture and testing. The Group's technical support team also evaluates customer designs and, when appropriate, recommends design changes to reduce manufacturing costs or lead time or to increase manufacturing yields or the quality of finished PCBs. This cooperative process shortens the time in transition from the development of the customers' reference design to volume production, and facilitates the delivery of high quality products to customers in a timely fashion. Process design changes and refinements required for volume production are identified and implemented prior to production.

Schematic capture and PCB layout design

The layout design of PCBs involves a combination of assembly and testing issue. Review of the manufacturing processes and the critique of the component layout and circuitry routing must take place at the design stage, not after the commencement of manufacturing. The Directors believe that ODM customers sometimes need assistance in the early stage of their product development to reflect manufacturing and cost considerations. The Group leverages its manufacturing and technical expertise by providing design and engineering assistance to customers in the early stages of product development, and enables customers to ensure that both electrical and manufacturing considerations are integrated to achieve a high quality and cost effective product for customers. The Group has a team of PCB design engineers that works with its customers with an emphasis on "design- for-manufacturability" and "design-for-testability". Before transmitting production specification data to its internal manufacturing divisions, the Group typically uses specialised CAM software to expedite the quick-turn process.

Quick-turn prototyping and pre-production services

The Group provides quick-turn prototyping services to its customers who require small test quantities, thereby reducing the length of the design/manufacture cycle. As at the Latest Practicable Date, the Group has a prototyping team of six engineers to provide pre-production services to its customers. The Directors believe that by working closely with its customers at the prototyping stage, the Group can develop long-term relationships with its customers.

Volume production

The Group's PCBs are produced in various sizes and specifications, including single-sided PCBs, double-sided PCBs and multiplayer PCBs. The Group's current production facilities are situated in Fuqing City, Fujian Province, the PRC, with an approximate total gross floor area of approximately 17,246 square metres capable of, as estimated by the Directors, producing approximately 18,000 square metres of PCBs per month.

PCB assembly and sub-system creation and testing

In addition to PCB design and fabrication, the Group has extended its service provision to PCB assembly sub-system creation and testing principally to customers located in Fujian Province, the PRC. At present, these services are provided by the Group principally through utilising the PCB assembly facilities of its strategic allies, which have entered into legally non-binding strategic alliance agreement(s) with the Group for, among other matters, better utilisation of capital and resources of the two parties. Such PCB assembly and sub-system creation and testing services are currently targeted at customers requiring sample and/or small quantity of PCB assembly, with an aim to assist them in achieving better time scheduling. Raw materials for such PCB assembly are generally provided by the customers. However, the Group or its relevant strategic ally would provide raw materials for PCB assembly upon request by the customers. As at the Latest Practicable Date, two of the Group's design engineers and one of its quality control personnel are principally involved in the provision of such services. If necessary, they would work with the design engineers of the Group's strategic allies at their production and/or engineering sites with an aim to ensure the quality and timely delivery of assembled PCBs.

In addition to the above service provisions, the Group also employed various inventory management techniques such as JIT and auto replenish programs. The Group's investment in advanced manufacturing equipment and its experience in interconnect products enables the Group to offer a variety of manufacturing solutions.

Product offerings

The Group offers single-sided, double-sided and multilayer PCBs using different materials and technologies for a variety of applications. Electronic products have shown an increasing trend towards miniaturisation in terms of weight, thickness and size. In 2000, the Group successfully acquired the capability in fabricating PCMCIA and metal-based multilayer PCBs which are capable of cooling off heat generated from other electronic components to satisfy the customers' requirements.

Through the Group's internal engineering and service capabilities, the Group also succeeded in developing the technology for the fabrication of thick copper large power supply PCBs, flexible diffraction PCBs and steel flexible diffraction composite PCBs. Due to their mechanical flexure and three-dimensional shape, flexible diffraction PCBs and steel flexible diffraction composite PCBs can accommodate packaging contours and motions in a manner that traditional two-dimensional rigid PCBs cannot. General applications of these flexible diffraction PCBs and steel flexible diffraction composite PCBs include personal computers, portable communication devices such as cellular phones and pagers, printers and cameras.

The Group employs numerous advanced manufacturing techniques and systems, including CAD/CAM workstation, NC drills, dry-film imaging, multi-purpose metal plating, dual- access electrical testing, automated optical inspection, high-volume photoimageable solder mask processing and computer controlled high-volume lamination systems. These manufacturing techniques and systems enable the Group to manufacture complex PCBs of consistent quality, in high-volume and on a timely basis.

PRODUCTION

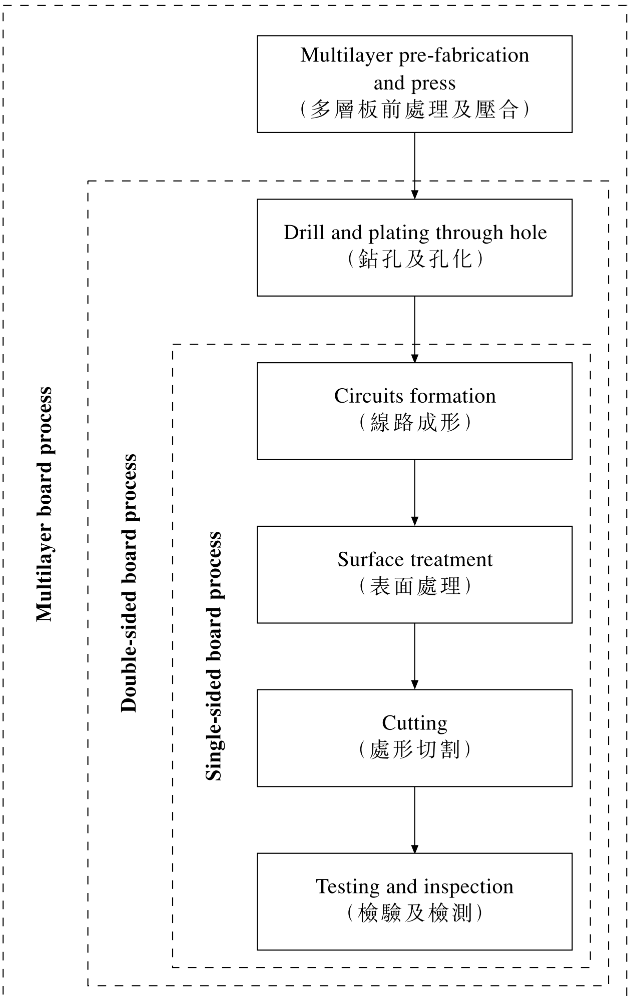
Production facilities

The Group's principal production base is situated at Rong Qiao Industrial Zone, Fuqing City, Fujian Province, the PRC comprising various buildings and structures for the fabrication of PCBs and other related operations.

The Group is equipped with PCB fabrication facilities including CAD/CAM workstation, NC drills, multilayer press machines, multilayer measuring system and horizontal browning and etching production lines which enable the Group to manufacture PCBs of up to 30 layers and to fabricate, as estimated by the Directors, approximately 18,000 square metres of PCBs per month.

Production process and capacity

The Group is capable of fabricating single-sided, double-sided and multilayer PCBs. The PCB fabrication process of the Group can be summarised in the following graphical illustration:



Multilayer pre-fabrication and press

Multilayer pre-fabrication involves the preparation of various PCB layers such as signal layers (信號層), shield layers (屏蔽層), power layers (電源層) and insulation layers (絕緣層). Following pre-fabrication, the various layers are compressed to form a single board, followed by connecting each such compressed layers. Major equipment involved in this fabrication procedure includes IS brushing machines, vacuum press machines and horizontal brown lines. With such equipment, the Group is capable of compressing 0.4 mm to 6 mm multilayer PCBs.

Drill and plating through hole

Holes on PCBs are used for fixation of various components to be mounted on the PCBs, as well as for connection between layers. In this respect, holes on PCBs are drilled at the prescribed locations according to the prescribed size and measurements, and are connected from layer to layer through the application of electro-chemistry. In this respect, the Group's NC drilling machines enable it to drill holes of 0.1 mm with a precision up to 0.076 mm.

Circuits formation

The formation of circuits is a process similar to that of film development pursuant to which the pre-designed circuit lines are printed on the surface of the PCBs. Using the IS brushing machines, exposure machines and etching lines under a dust-free environment, the Group is capable of making circuit lines of 0.1 mm.

Surface treatment

Surface treatment involves machines such as the entek lines for de-humidification, anti-static treatment and anti-oxidisation treatment of the PCBs.

Cutting

Following the above procedures, the large PCBs are then cut into the sizes in accordance with the customers' requirements using equipment such as NC routines. The Group is capable of maintaining a precision level of up to 0.15 mm in this respect.

Testing and inspection

The last procedure of the Group's PCB fabrication is the testing and inspection of the finished PCBs using equipment such as dual electronic testing equipment.

Pursuant to series of expansions in respect of the Group's PCB fabrication capacity, the Group successfully attained the capacity of fabricating approximately 18,000 square metres of PCBs per month. The timing of fabrication of the Group's PCBs varies according to different designs, board layers and surface areas of the PCBs. According to the estimate of the Directors, on the assumption of a continuous production process, the average time required in processing one square metre of PCB under each of the aforesaid procedures is approximately three hours.

As at the Latest Practicable Date, the Group employs a group of technical staff for its design, development, production and quality control activities, of which over 85 are responsible for design, engineering and technical support work.

The Directors advised that all PCBs of the Group were fabricated under its own production facilities, and the Group did not have any out-sourcing in respect of any of its production process to any third-party, nor did it incur any payment for sub-contracting work during the Track Record Period. Accordingly, the Group's sales during the Track Record Period were generated principally from the sale of PCBs manufactured under its own production facilities.

STRATEGIC ALLIANCES

The Directors are of the view that the use of strategic alliance is a cost effective way to enhance its capability in providing value-added engineering design services to its customers. The Group, together with Newland, opened a joint development center in the office of Newland, in Fuzhou City, Fujian Province, the PRC pursuant to an agreement entered into between the Group and Newland in 1999, to offer a broader portfolio of development and design services to Newland. This joint development center was established with an intention to assist Newland in bringing its products from concept to volume production in order to improve its competitiveness in the market. Pursuant to the agreement, each of the Group and Newland would assign its own engineering and technical staff to work in the engineering center, and would share the responsibility of providing the required equipment and design software to facilitate the operation of the joint development center. According to the agreement, the Group and Newland would share the costs of operating the engineering center. The Company's PRC legal advisers advised that the said agreement is legally enforceable and binding. It was so arranged that the Group would be responsible for the costs of its own design personnel assigned to work in the joint development centre, while the costs of operating the joint development centre is borne by Newland. The Directors believe that although all the intellectual property rights created by this joint development centre are owned by Newland, this arrangement is beneficial to the Group because it will enable Newland to better capture its product market, which translates into the placement of increasing orders by Newland to the Group.

As a way to strengthen its strategic relationships with some of its major customers, the Group entered into legally non-binding strategic alliance agreements with each of Newland, Start Network and Amoisonic in July 2000, July 2000 and June 2001 respectively, pursuant to which each of Newland, Start Network and Amoisonic might jointly develop closely allied supply systems with the Group, which allow the Group to have priority in accessing the supply networks of Newland, Start Network and Amoisonic respectively. Under these strategic alliance agreements, the Group intends to provide each of Newland, Start Network and Amoisonic with preferential treatment principally in the delivery time. In particular, the Group intends to give priority to its strategic allies in satisfying the delivery time requirements during times of over-capacity of the Group. In addition, the board and the management of each of Newland, Start Network and Amoisonic intends to maintain a long-term interactive relationship with the Group, with an intention to work together effectively in terms of the utilisation of capital and resources. Each of Newland, Start Network and Amoisonic also intends to establish a system for continuous exchange of design, technology, management, training and information with the Group, which involves the exchange of design, engineering and quality control personnel between the parties concerned. As the design specialty of the Group's design personnel lies more in design-for-manufacturability while the design specialty of the Group's strategic allies are more focused on product applications and functionalities, the Directors consider that the pulling of forces of the Group and these strategic allies can facilitate more timely and cost effective product development. The Directors also consider that through the interactions between the Group's design personnel and the design engineers of its strategic allies, the design capabilities of the Group can be enhanced. Leveraged on such a strategic relationship, the Group can also utilise the SMT facilities of these strategic allies to facilitate its PCB assembly service provision without committing in any capital investment. Under the said legally non-binding strategic alliance agreements, each of Newland, Start Network and Amoisonic also intends to consider the establishment of joint development centers for the research, development, manufacture and marketing of their respective products. The Directors confirmed that save as disclosed above, as at the Latest Practicable Date, the Group has not established any joint development center with any of Newland, Start Network or Amoisonic. The Directors advised that the Group's sales to Newland represented approximately 1%, 14% and 13% respectively of its total sales during the Track Record Period, while sales to Start Network represented approximately 0%, 9% and 7% respectively of its total sales during the Track Record Period, and sales to Amoisonic represented approximately 0%, 1% and 0% respectively of its total sales during the Track Record Period.

With an aim to further enhance its capability in providing value-added engineering design services to its customers, the Group also entered into a non-exclusive strategic alliance agreement with Electronic Research Institute, being one of the state-owned research institutions specialising in electronics and communications technology research in July 2000. The strategic alliance agreement aimed to commit the two parties for the development of a joint engineering design center to undertake research and development projects from ODMs. Although such joint engineering design centre is yet to be set up pending appropriate business opportunity, the Group has operated its own design center and would occasionally request design and/or technical assistance from Electronic Research Institute as and when the Group's own design and/or technical capabilities are not sufficient to satisfy its customers' technical requirements. The Directors believe that the adoption of strategic alliances with each of Newland, Start Network, Amoisonic and Electronic Research Institute has been a successful approach for the Group to enhance its design capabilities and to improve its sales during the Track Record Period.

PURCHASES

For each of the three years ended 30 June 2002, the Group's five largest suppliers in aggregate accounted for approximately 66%, 61% and 82% respectively of the Group's total purchases of raw materials and components. The Directors confirmed that the five largest suppliers of the Group during the Track Record Period have a minimum of two years of business relationship with the Group. For each of the three years ended 30 June 2002, purchases from the Group's largest supplier amounted to approximately 25%, 35% and 61% respectively of the Group's total purchases of raw materials and components. The Directors considered the largest supplier of the Group during the year ended 30 June 2002 was able to offer the Group with raw materials having better quality and price composition relative to other suppliers and make timely delivery to ascertain the Group's production schedules, thus significantly increased its purchases from the said supplier relative to the Group's other suppliers during the said period. None of the Directors, their respective associates (as defined in the Listing Rules) or shareholders who hold more than 5% of the issued share capital of the Company holds any interest in the Group's five largest suppliers.

Purchases of raw materials and components by the Group are mainly sourced in the PRC and Hong Kong and are settled in Renminbi, Hong Kong dollars and US dollars, with credit terms including cash-on-delivery, 60–120 days open accounts and letters of credit of 60–120 days. For each of the three years ended 30 June 2002, approximately 83%, 94% and 94% respectively of the Group's purchases were settled in Renminbi, while approximately 16%, 6% and 4% respectively were settled in US dollars, and the remaining 1%, 0% and 2% respectively of its purchases were settled in Hong Kong dollars.

For each of the three years ended 30 June 2002, approximately 51%, 79% and 77% respectively of the Group's purchases were made by cash on delivery; approximately 36%, 9% and 6% respectively were effected by letters of credit and the remaining approximately 13%, 12% and 17% respectively were on open account basis. The Directors believe that it is the industry practice in the PRC for some of the suppliers to ask for cash on delivery payment terms. The Group recorded accounts payable of RMB5.06 million for over 12 months as at 30 June 2002 mainly for the reasons of (i) certain suppliers had not demanded payment from the Group and hence the Group did not initiate settlement of the outstanding balance; and (ii) the Group had upheld settlement of certain smaller suppliers whose raw materials supplied were found to have minor defects. The Directors advised that approximately RMB1.48 million out of the RMB5.06 million was subsequently settled as at 31 October 2002.

As at the Latest Practicable Date, the Group does not encounter any material disruption of supply of raw materials and components used in the Group's manufacture of PCBs. The Group maintains several vendors for each major material supply in order to diversify its vendor base. As at the Latest Practicable Date, there were no material shortages or price fluctuations which had a materially adverse effect on the Group. The Group also maintains a supplier evaluation program in which potential vendors are evaluated based on a number of factors including quality, timely delivery, cost, technical capability and potential technical advancement. Such evaluation is based on both actual performance and audits of vendors' manufacturing sites. Key suppliers are also reviewed periodically by the Group with an aim to maintain close relationships with these suppliers and to maintain regular dialogue on quality, cost and technical advancement issues.

The Directors consider that it is not economically efficient for the Group to purchase raw materials based on particular customer orders. Personnel in charge of the Group's inventory control are responsible for periodical checks on the Group's stock records to ensure that inventories are maintained at a safety level, and notifies the purchasing department to replenish inventories that are below the safety level.

The management of the Group also performs detailed review on all inventories on hand. Specific provisions are made as and when the management of the Group considers the inventories to be obsolete. An approximately 4% general provision is made on the gross inventory balance after deducting those covered by specific provisions.

Set out below is the amount of provision (write back) of obsolete inventory made by the Group during the Track Record Period:

Type of provision	**Approximate amount of provision made (written back)**		
	Year ended 30 June 2000	**Year ended 30 June 2001**	**Year ended 30 June 2002**
	(RMB '000)	*(RMB '000)*	*(RMB '000)*
General	300	—	—
Specific	250	1,488	(954)
	550	1,488	(954)

In terms of specific provision, the Group made full provision for its laminate (敷銅板) inventories aged over one year in the year ended 30 June 2002. The Group did not make specific provision for its other raw materials as the Directors considered those to be low value consumables and were not subject to quality deterioration over long passage of time. The Group made general provision in the year ended 30 June 2000 as approximately 4% of the net value of inventories (net of specific provision). Such provision was rolled over in the years ended 30 June 2001 and 30 June 2002.

QUALITY CONTROL

The Group's quality assurance staff is involved in various phases of manufacturing to ensure the quality of all products made. In general, products manufactured by the Group are in accordance with the IPC and MIL standards of the US. Moreover, certain products produced by the Group have obtained the safety certifications issued by UL of the US and CCEE of the PRC. These standards are usually included as the specifications of customers' orders. The Group provides after-sales services, which normally include a warranty period of up to 90 days, to assure the quality of its products. In addition, the Group also conducts surveys on customers' demands with an aim of adjusting the design and manufacturing processes of its products in order to satisfy the customers' requirements. The Group is also working on the establishment of a statistical process control system to maintain consistent quality on its products.

The Group's production base located at Rong Qiao Industrial Zone, Fuqing City, Fujian Province, the PRC was awarded ISO 9002:94 in July 1999. In 1999, the ISO certifying organisation announced the new standards ISO/TS16949 which cover the certification requirements of ISO 9001 and QS 9000. The Group has recently 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. The Directors believe that this will enhance the competitive advantage of the Group.

WARRANTY

The Group may provide different warranty periods to different customers. In general, customers of the Group are provided with a three-month warranty on products of the Group. Under the Group's warranty, products of the Group should comply with IPC type standards. For products with quality problems within the warranty period, the Group would first send its engineers to find out the cause(s) of such quality problems. If such problems are caused by the customers, the Group's engineers would try to assist its customers in resolving the quality issues. In the event that the quality problems are caused by the Group, it would either assist its customers to resolve the problems, or take the concerned products back for repair, or provide monetary discount to its customers as compensation, or treat the concerned products as returned goods and refund its customers.

The Directors confirmed that no liability (actual or contingent) was arisen from warranty provided by the Group during the Track Record Period and accordingly no warranty liability (actual or contingent) has been reflected in the accounts.

SALES AND MARKETING

The Group markets its services to customers who, in the opinion of the Directors, currently have, or have the potential to achieve, significant market share in their respective industries. The Group aims to focusing on developing close relationships with customers beginning at the earliest phases of design and development and continuing throughout all stages of production. The Group identifies, develops and markets new solutions whenever possible. The products and services offered by the Group are promoted and marketed through provision of samples and visits of sales personnel to potential customers.

For each of the three years ended 30 June 2002, the Group's five largest customers in aggregate accounted for approximately 88%, 60% and 71% respectively of the Group's total turnover. For each of the three years ended 30 June 2002, sales to the Group's largest customer amounted to approximately 34%, 15% and 18% respectively of the Group's total turnover. The Directors confirmed that the Group's five largest customers for each of three years ended 30 June 2002 has been with the Group for a minimum of two to three years. None of the Directors, their respective associates (as defined in the Listing Rules) or shareholders who hold more than 5% of the issued share capital of the Company holds any interest in any of the Group's five largest customers. The following table illustrates the breakdown of turnover by means of geographical location:

	For the year ended 30 June 2000	**For the year ended 30 June 2001**	**For the year ended 30 June 2002**
	HK$'000	*HK$'000*	*HK$'000*
PRC	62,021	144,804	172,375
Australia	12,361	27,423	16,456
US	4,190	2,853	638
Germany	3,028	3,161	3,118
Others	246	182	—
Total	81,846	178,423	192,587

For each of the three years ended 30 June 2002, sales in Renminbi accounted for approximately 76%, 81% and 90% respectively of the Group's turnover respectively, with the remaining balance denominated in US dollars or Euros. In general, overseas sales of the Group are settled by telegraphic transfer, while domestic sales have credit terms ranging from 90 days to 180 days open accounts.

The Group adopts control and supervision over the credit terms granted to its customers. The Directors confirmed that specific provisions are being made on individual accounts according to their respective recoverability as reviewed by the management of the Group. Furthermore, it is the Group's policy to make a general provision for bad debts of 5% on its gross account receivables after deducting those covered by specific provision. For each of the three years ended 30 June 2002, the provision for bad debts of the Group were approximately HK$4.0 million, HK$5.1 million and HK$1.9 million respectively, of which approximately HK$1.0 million, HK$5.0 million and HK$0.5 million respectively were specific provisions. The Group did not make any write-off of its accounts receivables during the Track Record Period. The Directors confirmed that the Group had not experienced any sales return or any major complaints from its customers during the Track Record Period.

In respect of the existence of trade receivables of the Group exceeding a 6 month credit terms, the Directors advised that it was principally attributable to the lost of sales contract of the Group and billing disputes with its customer(s) due to, among other reasons, product specifications issues. The Directors advised that full provision has been made for trade receivables outstanding for over 6 months after billings. Furthermore, the Directors confirm that the Group does not generally supply goods to debtors with balances that are 6 months overdue, save that the Group may supply goods to such debtors if they would settled the payment upon receipt of the relevant sales invoices.

Production of the Group are backed by its customers' purchase orders. The Group generally does not obtain long-term purchase orders or commitments from its customers, and the orders received by the Group generally require delivery within 60 days. However, some of the Group's customers have maintained long-term purchasing relationships with the Group, and that changes in customers orders in the past did not have a significant impact on the Group's operating results.

The Group has established a team to serve certain of the Group's key customers such as Newland, Start Network and Amoisonic as well as other strategic potential customers. As at the Latest Practicable Date, this team is made up of approximately 11 personnel from the areas of marketing, technical support and quality control, and is responsible for addressing issues raised by these key customers or other strategic potential customers. This focused attention is designed to enable the Group to respond rapidly and efficiently to the specific precision manufacturing needs of these key customers and other strategic potential customers.

The Group markets its services through its own sales force and independent distributors. The Group engages, among others, marketing, quality assurance and operational planning personnel to facilitate its sales efforts. In addition, the Group's executive management team is an integral part of the Group's sales and marketing efforts. As at the Latest Practicable Date, the Group has employed 23 sales, support and marketing personnel in its manufacturing plant, and a total of 15 sales personnel in 7 offices of the Group who are assigned to geographic territories including Shanghai, Fuzhou, Xiamen, Wuhan, Chengdu, Xian and Shenzhen within the PRC and Hong Kong. In particular, the Directors view that Shanghai and Shenzhen are among the economically fastest growing regions within the PRC. In order to provide engineering services to customers around these areas more efficiently and in a timely manner, the Group employed a total of five design engineers as at the Latest Practicable Date in each of its Shanghai and Shenzhen liaison offices to offer a variety of design services with an aim to assist its customers in developing products to the market in a shorter time frame. The Group's presence in the overseas markets is achieved through three distributors in the US, Germany and Australia.

The Group offers flexible delivery programs with an aim to ensure that product shipments are closely coordinated with customers' requirements. The Group arranges product shipments either directly to the customers' premises or to other specific destinations according to customers' instructions. The Directors believe that this service can provide customers of the Group with a more comprehensive solution to their needs and enable them to be more responsive to market demands.

ACQUISITION OF FLORET INDUSTRIES

On 15 August 2002, the Group announced that it entered into a sale and purchase agreement with Mr. Chen Hong Liang, an independent third party not connected with any of the Directors, chief executive, substantial shareholders or management shareholders of the Company or their respective associates as defined in the GEM Listing Rules, to acquire 49 shares (representing 49% equity interests) of Floret Industries. Floret Industries is an investment holding company whose sole asset comprises the entire equity interests in Fuzhou Wei Mei, which in turns holds 83% equity interests in Fuzhou Tin Fong as its sole asset. Accordingly, the Group's effective interests in Fuzhou Tin Fong amounted to approximately 40.67%. Fuzhou Tin Fong is principally engaged in the research and development of computer hardware, software and systems as well as the provision of ancillary services in relation to power supply systems. These systems and products are composed of a variety of electronic circuitry which, in general, would utilise PCBs as their components. According to the understanding of the Directors, some of the employees of Fuzhou Tin Fong are engineers and university graduates. Currently, principal products developed by Fuzhou Tin Fong include various intelligent meter reading systems for water, electricity and gas, which utilise stationary and hand-held communications equipment and paid phones to facilitate the reading, monitoring, analysis and payment functions.

The consideration of the acquisition amounted to RMB47.0 million (equivalent to approximately HK$44.6 million), which was satisfied wholly in cash as announced by the Company on 14 June 2002. The consideration was arrived at after arm's length negotiation and was based on normal commercial terms with reference to the prospective price-earnings multiple of 5.5 of Floret Industries, which was calculated based on the then expected after tax profit of Floret Industries of approximately RMB21 million for the year ending 30 June 2003. As the consideration of the acquisition represented approximately 22.7% of the net tangible assets of the Group as at 31 March 2002, the acquisition constituted a discloseable transaction under Chapter 19 of the GEM Listing Rules and a circular in relation thereto was despatched to the Shareholders on 6 September 2002. As disclosed in the circular, as at 30 June 2002, the unaudited net assets value of Fuzhou Tin Fong amounted to approximately RMB8.7 million. For the period from the date of establishment of Fuzhou Tin Fong up to 30 June 2002, Fuzhou Tin Fong recorded unaudited retained profits of approximately RMB4.5 million, while Floret Industries recorded unaudited consolidated profit attributable to shareholders of approximately RMB1.8 million from the date of its incorporation up to 30 June 2002. The acquisition was completed on 8 October 2002. Following completion of the acquisition, the beneficial interest of Floret Industries was held as to 49% by the Group and 51% by Mr. Chen Hong Liang, and accordingly Floret Industries has been treated as an associated company of the Company following completion of the acquisition.

Fuzhou Tin Fong has been a customer of the Group since November 2001. During the year ended 30 June 2002, sales of the Group to Fuzhou Tin Fong amounted to approximately RMB360,000, representing less than 1% of the Group's total turnovers during that financial year. The Group has been co-operating with Fuzhou Tin Fong in the design of its products and has been providing them with various production services since November 2001. The Group has been engaging in the research and development of technologies in fabricating, among other types, thick copper large power supply PCBs, flexible diffraction PCBs and steel flexible diffraction composite PCBs which can be applied in notebook computers and a variety of portable communication devices. The Group, by way of co-operation in the design and production of Fuzhou Tin Fong's products, has gained considerable technical experiences which enabled the Group to provide to its customers more in-depth design services in relation to computer systems. The Directors believe that the acquisition will further enhance the Group's research and development as well as design capabilities in respect of the fabrication of thick copper large power supply PCBs, flexible diffraction PCBs and steel flexible diffraction composite PCBs.

PLACING OF SHARES

In March 2002, a placing and subscription agreement was entered into among the Company, Mr. Lin and a placing agent, pursuant to which the placing agent had placed 20,000,000 then existing Shares to independent third parties and Mr. Lin had subscribed for 20,000,000 then new Shares, both at HK$1.00 per Share, raising a net proceeds of approximately HK$19 million which had been utilised for general working capital and in furtherance of the business objectives of the Group.

In June 2002, another placing and subscription agreement was entered into among the Company, Mr. Lin and a placing agent, pursuant to which the placing agent had placed 35,000,000 then existing Shares to independent third parties and Mr. Lin had subscribed for 35,000,000 then new Shares, both at HK$1.35 per Share, raising a net proceeds of approximately HK$45 million which had subsequently been utilised for the acquisition of Floret Industries in furtherance of the business objectives of the Group.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

In the Prospectus, certain business objectives of the Group were stated. Set out below is a comparison of the business objectives of the Group from 30 April 2001 up to the Latest Practicable Date as referred to in the Prospectus and the actual business progress of the Group or, if applicable, the changes in such business objectives for the corresponding periods under review:

For the period ended 30 June 2001:

Business objectives	**Actual business progress**
Engineering outsourcing	
• Expand PCB layout design services to some key domestic customers of the Group.	• Having expanded the engineering design services to some of the key domestic customers of the Group, including Start Network, Newland and Amoisonic.
• Provide increasing level of "design-for-manufacturability" services during the early stages of the production cycle through the Group's engineering outsourcing services division to develop process changes and refinements required for volume production.	• Having provided increased level of "design-for-manufacturability" services during the early stages of the production cycle through the Group's engineering outsourcing services division to some of the customers of the Group to develop process changes and refinements required for volume production.
• Start to implement ISO 9001 quality standard.	• Having started the implementation of ISO 9001 quality standard and is in the stage of preparing ISO 9001 quality systems documents.
• Secure at least one strategic partnership capable of bringing in EMS orders based on the Group's then existing ODM/CEM customers through active marketing.	• Having established strategic alliance with Amoisonic, an ODM in the telecommunication sector in the PRC, and procured orders.
PCBs and PCB assembly	
• Shorten the delivery time for its PCB quick-turn services from an average of 72 hours to 36 hours.	• Having shortened the cycle to an average of approximately 32 hours.
• Start and complete the first phase of the expansion plan to increase PCB production capacity for single-sided, double-sided and multilayer PCBs from approximately 3,300 square metres per month to approximately 12,000 square metres per month by purchasing additional NC drillers, multilayer press machines and testing equipment.	• Having purchased machines and equipment such as NC drills and increased the production capacity for single-sided, double-sided and multilayer PCBs to an average of approximately 15,000 square metres per month.

Business objectives	Actual business progress
• Start the second phase of the expansion plan to increase PCB fabrication capacity for single-sided, double-sided and multilayer PCBs by 50%.	• Having commenced the second phase of the expansion plan and is in the process of selecting suitable machineries and equipment to support the targeted increase in PCB fabrication capacity.
• Continue the implementation of the statistical process control system, a system which involves monitoring, controlling and improving a manufacturing process through statistical analysis.	• Having completed the implementation
• Purchase the SMT assembly line and equipment for "thru-hole" assembly line.	• In the process of considering other alternatives including strategic co-operations with and mergers and acquisitions of other factories with SMT assembly capacity with an aim to achieve more efficient utilisation of resources.
• Increase the average layer counts for PCBs produced by the Group to four layers from two layers for the five months ended 30 November 2000, and increase the percentage contribution to total PCB fabrication revenue by the six layer PCBs from 4% for the five months ended 30 November 2000 to 15%; and, depending on customers' demand, expand the proportion of sales generated from 10 to 12 layer PCBs.	• Maintained an approximately 15% contribution by the six-layer PCBs to the total PCB fabrication revenue, with principally unchanged proportion of sales generated from 10 to 12 layer PCBs due to no significant increase on customers' demand.
• Establish the capacity to fabricate PCBs up to 30 layers.	• Having achieved the capacity to fabricate PCBs up to 30 layers, and having purchased the multilayer measuring system.
• Start to implement QS 9000 quality standard, which is a standard approved by the International Standards Organisation for different businesses with different areas of coverage.	• Having started the implementation of QS 9000 quality standard and is in the stage of preparing QS 9000 programme documents.

Business objectives	Actual business progress
Sales and marketing	
• Strengthen the Group's brandname "Fuqiang (富強)" into a highly regarded and widely recognised brandname in the electronic interconnect product market by offering "one-stop" EMS solutions to customers and adding reputable international ODMs to its EMS client list.	• Having expanded its "one-stop" EMS service coverage and continue to offer its "one-stop" EMS solutions to its customers, and having made business contacts with a renowned communications related ODM.
• Increase the percentage of sales to the communications sector, which the Directors consider would have a higher-than-average growth and a higher profit margin, from approximately 35% to 50%.	• Having maintained the percentage of sales to the communications sector at approximately 40%.
• Explore business opportunities in other high growth segments in the PRC, such as medical equipment and instrumentation.	• Having attempted to explore business opportunities in the PRC medical equipment and instrumentation industries but were of the opinion that these markets were relatively less developed. Having re-focused its market strategies to the high-growth telecommunications segment in the PRC and would re-explore business opportunities in the medical equipment and instrumentation industries after the entry of the PRC into the WTO.
Business and human resources developments	
• Establish EMS strategic partnership with at least one ODM during this period. Negotiations with ODMs in the telecommunications sector have already been taking place.	• Having established strategic alliance with Amoisonic, an ODM in the telecommunications sector in the PRC.
• Recruit approximately two additional engineers for its engineering outsourcing division during this period.	• Having recruited five additional engineers.
• Complete the implementation of a computerised ERP system for the integration of material management, engineering production and control.	• Having completed the implementation of the computerised ERP system and integrated the material management, engineering production and control.
• Approach US and European semiconductor makers and offer PCB design solutions for the application of their IC products.	• Having postponed its business developments in the US and Europe and maintain its focus in the PRC market in view of the decline in the world semiconductor industry.

Business objectives	Actual business progress
• Establish a joint engineering design center together with Electronic Research Institute.	• Having operated the Group's own design center and recruited two additional senior engineers and three additional engineers to provide customers with engineering design services such as system design and sub-system design.
• Since universities in the PRC usually have experts who are technically competent and are willing to focus their resources in research and development, the Group plans to enter into formal arrangements with one national university in the PRC to establish joint laboratory for the design of system solutions and other advanced technologies. In this respect, negotiations between the Group and Qinghua University in Beijing, the PRC have already been taking place.	• Continuing to engage in negotiations.

For the six months ended 31 December 2001:

Engineering outsourcing (including research and development)

• Start to offer PCB assembly and sub-system design services to existing customers.	• Having provided sub-system design service for existing customers including Start Network, Newland, Fuzhou Tin Fong, Chengdu Gangshun and PCB assembly service for Chengdu Gangshun and other customers.
• Obtain ISO 9001 quality certification, which is a standard for compliance of certain procedures and practise by business enterprises for maintaining a certain level of quality standards, covering areas including design and development, production, assembly/investment and services.	• In the process of modifying relevant procedural documents according to the ISO 9001 requirements, and having approached third party certification organisations and made certification applications.

PCBs and PCB assembly

• Enhance fabrication facility and develop higher margin customer base through the provision of PCB assembly services to customers who require shorter production time.	• Having provided customers with more comprehensive services through the purchase of additional multilayer equipment like multilayer press machines and horizontal browning and etching production lines and technical improvements and innovations.

Business objectives	Actual business progress
• Conduct the pilot run and pre-production preparation of SMT assembly.	• Having entered into co-operation agreements with the Company's strategic allies, 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, while continued in negotiating for potential acquisition of factories with SMT capacity.
• Continue to increase the proportion of sales generated from 10 to 12 layers PCBs, which are expected to have a higher profit margin due to the increasing complexity on design and fabrication, as compared to the year ending 30 June 2001.	• Having maintained the proportion of sales generated from 10 to 12 layer PCBs due to no significant increase on customers' demand.
• Increase income by selling PCBs with higher number of layers and providing complicated PCB assembly service.	• Having achieved turnover from multilayer PCBs of approximately 52 million, representing an increase of approximately 53.8% over the same period in the preceding year.
• Purchase advanced equipment which permits fabrication of higher layers PCBs.	• Having 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.
• Continue to adjust its fabrication plant to complement the changing needs of its customers.	• Having reduced its production cycle by improving the multilayer PCBs production line, automatic production line and solder mask production line to achieve a shorter leadtime required by the customers; and having adjusted the etching line and purchased an acidic etching line to meet the customers' requirements for thick copper plates and slim thin line PCBs for signal transmission.
• Start the second phase of expansion of assembly line by purchasing additional backplane assembly equipment.	• Due to recession, especially of electronic industry, the Group provided SMT assembly service to its customers with the help from its strategic ally or allies to reduce risks and costs. Meanwhile, the Group is seeking opportunities to acquire SMT assembly factories in due course to realize the goal of providing more value-added services to the customers.

Business objectives	Actual business progress
• Continue the second phase of expansion plan to increase production capacity for single-layer, double-layer and multilayer PCBs by 50%, from approximately 12,000 square metres to 18,000 square metres.	• Having purchased additional equipment including horizontal browning and acidic etching lines to continue the second phase of expansion plan, with average monthly output at approximately 15,000 square metres.
• Obtain QS 9000 quality certification.	• Having revised the original documents of management procedures according to QS 9000 standards, and is approaching a third party certification organisation to discuss matters on certification.
Sales and marketing	
• Undertake a comprehensive marketing program to attract new customers, including subsidiaries of international ODMs in the PRC by offering tailor-made PCB and sub-system design solutions.	• Actively promoting its own value-added services, including sub-system design service and short lead time, and actively making business contacts with certain new customers.
• Focus marketing efforts on ODMs in the high-growth communication, computer and computer peripheral segments of the electronics industry.	• Although the global electronic industry has been sluggish in 2001, the electronics industry in China has achieved a growth rate of over 10%, with major contributors being the telecommunications and computer industries. The marketing activities of the Group, therefore, has focused in these two fields. The Group is under negotiation with certain potential key customers of the Group.
Business and human resources developments	
• Increase revenue through completion of the phase project, including expanding output of PCBs to approximately 18,000 square metres and increasing the output of PCB assembly, to provide services to high profit-margin customers.	• Having achieved a monthly PCB fabrication capacity of approximately 18,000 square metres, with an average monthly output of over 15,000 square metres of PCBs and monthly turnover of approximately RMB16 million.
• Recruit at least one new engineer for its engineering outsourcing division during this period.	• Having recruited at least one additional engineer to work for the outsourcing department.

For the six months ended 30 June 2002:

Business objectives	Actual business progress
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 ally, the Group has provided customers with sub-system design services.
• Establish function test capacity for sub-systems.	• With the support of a strategic ally, the Group has already provided customers with sub-system testing services.
• 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 shifting of development center to Eastern region, the Group has postponed its plan to establish a PCBs prototyping plant in Shenzhen. The Group is currently reassessing its plan in a number of aspects, including the 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 co-operate with other universities as the agreement with Qinghua University has not yet been concluded due to various un-agreeable terms. In this respect, the Group has made contact with a university in Fuzhou, the PRC for possible collaborations.
• Undertake projects to develop emerging technologies including various micro-via processes, horizontal plating, plasma etching and laser drilling.	• The Group has set up a technological research team on specific development projects of micro-via processes and plasma etching.
PCBs and PCB assembly	
• Complete the second phase of the expansion plan which includes the increase of plant 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 enlarged to approximately 18,000 square metres per month. Further capacity expansion plan is still proceeding.

Business objectives	Actual business progress
• Depending on customer demand, increase the layer counts of PCBs to 12 or more, and increase its production capabilities from its current 20 layers to 30 layers.	• Having attained the production capability to manufacture PCBs up to 30 layers.
• Increase the percentage contribution to revenue from the communications segment to 65% of total revenue.	• Owing 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.	• Liaison offices were established in Wuhan and Xian. With Wuhan, as 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 in the provision 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 service, 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.
• 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 for realisation of market expansion, easing its internal operations and management constraints).	• The Group has managed to procure Guanjie and Chengxin as new customers of the Group.
• Recruit at least two new engineers for its engineering outsourcing division during this period.	• Two new engineers were recruited to service in the engineering outsourcing division.

From 1 July 2002 up to the Latest Practicable Date:

Business objectives	Actual business progress
Engineering outsourcing (including research and development)	
• Launch testing services of sub-systems or PCB assembly.	With the support of the Group's strategic allies, the Group has provided customers with sub-systems or PCB assembly services.
• Utilise its EMS capacity and leverage on its established customer base to provide new value-added services which may include supply chain management, repair services and higher level of design services to customers.	Exploring various channels to provide supply chain management services.
• Establish strategic alliances with at least one semiconductor manufacturer to provide PCB design solutions for the application of its IC products.	Still in search for a suitable semiconductor manufacturer to establish a strategic alliance — the Directors are of the opinion that the Group may stand a better chance of locating a suitable semiconductor manufacturer form such a strategic alliance when the PRC semiconductor industry is more mature, possibly in a few years' time.
• Seek opportunities for co-operation with other design houses in the PRC, Taiwan, the US and Japan in the development of certain communication devices.	Still in search for a suitable project(s) and strategic allies in respect of the development of communication devices.
PCB and PCB assembly	
• Complete the second phase of the expansion plan to increase SMT assembly production capacity by 50%.	The Group has yet to make its capital investment in the establishment of its own SMT assembly production capacity.
Sales and marketing	
• Establish a sales representative office outside Hong Kong and the PRC.	Due to the downturn of market development in the overseas electronics industry and the Group's change of market focus to the PRC market, the Group has withhold its plan to establish sales representative office outside of Hong Kong and the PRC.
Business and human resources developments	
• Recruit two new engineers for its engineering outsourcing division during this period.	In the process of screening and recruiting additional engineers for its engineering outsourcing division.

Business objectives	Actual business progress
• Acquire quick-turn prototyping and design facility in an area near its major EMS customers to increase the Group's ability to meet their accelerated time-to-market and time-to-volume requirements.	In the process of selecting a suitable target for acquisition.

The Directors advised that due to the slowdown of growth of the global electronics industry, the Group has postponed its investment into the establishment of its own SMT facilities and further development of its EMS capacity on a temporary basis, including the cancellation of machineries purchase orders amounting to HK$47 million during the year ended 30 June 2002, as a way to reduce risks relating to capital commitment. With an aim to offer SMT services to its customers, the Group has leveraged on its strategic relationships with its strategic allies by utilising their available SMT facilities to serve its customers. The Directors considered that the existing facilities and arrangements enable the Group to serve its customers and fulfill their requirements, and the postponement of capital investment in EMS capacity and SMT facilities does not have any significant negative effect on the business of the Group. It is the present intention of the Directors that they will resume the said capital investment as and when the market conditions become more favourable and render such expansion beneficial.

COMPARISON OF USE OF PROCEEDS RAISED FROM THE COMPANY'S INITIAL PUBLIC OFFER WITH ACTUAL APPLICATION

The Group raised net proceeds of approximately HK$47.6 million from its initial public offer, and approximately HK$8.7 million pursuant to the exercise of the over-allotment option in relation thereto. The following table sets out the intended use of the net proceeds as stated in the Prospectus and the actual application of such net proceeds as at the Latest Practicable Date:

Intended use of net proceeds as stated in the Prospectus:	Application of net proceeds as at the Latest Practicable Date:
• approximately HK$30 million for the expansion of the PCB fabrication plant	• Having utilised approximately HK$28.3 million for the expansion of the PRC fabrication plant. Due to the worldwide recession in the electronics industry, the Group slow down its expansion with an aim to reduce its risk exposure and cost.
• approximately HK$10 million for the development of EMS business and the purchase of related equipment	• No net proceeds have been utilised for the development of EMS business and the purchase of related equipment. In considering the current changes in the electronics industry, especially the shifting of development center to the Eastern region in the PRC, the Group has postponed its plan to establish a PCBs prototyping plant in Shenzhen. The Group is currently reassessing its plan in a number of aspects, including the timing for establishment, location and operational model.

Intended use of net proceeds as stated in the Prospectus:	Application of net proceeds as at the Latest Practicable Date:
• approximately HK$4 million for the construction of a SMT assembly line	• No net proceeds have been utilised for the construction of a SMT assembly line. The Group is currently considering other alternatives including strategic cooperations with and mergers and acquisitions of other factories with SMT assembly capacity with an aim to achieve more efficient utilisation of resources.
• approximately HK$3.3 million for the purchase of advanced testing equipment and software for PCB testing to facilitate the provision of computer-aided testing and assembly of PCBs	• having utilised approximately HK$1 million for the purchase of advanced testing equipment and software for PCB testing to facilitate the provision of computer-aid testing and assembly of PCBs. Purchase of equipment in relation to SMT assembly has been put on hold.
• approximately HK$0.3 million for the establishment of a joint engineering design center with Electronic Research Institute to undertake future research and development projects from ODMs	• having utilised approximately HK$0.3 million for the establishment of the Group's own design center to undertake future development projects from ODMs
• the remaining balance of approximately HK$8.7 million for general working capital	• having utilised the remaining balance of approximately HK$8.7 million for general working capital

The Company has no present intention to change its above planned use of proceeds. It is the present intention of the Directors to continue to apply the above net proceeds of approximately HK$18 million not yet utilised in accordance with the intended use of net proceeds as specified above.

PRINCIPAL STRENGTHS

The Directors believe that the Group has the following principal strengths:

- an established customer base;
- an experienced and committed management team;
- the capability and flexibility to produce both high-mix, low volume, customised complex products and low-mix, high volume products;
- the ability to offer "design-for-manufacturability" capabilities;
- the ability to maintain quality in its products and offer engineering support services;
- the ability to conduct continuous evaluation and adopt new manufacturing and production technologies;

- its manufacturing facilities located in a country with abundant supply of labour, low production costs and a large potential market; and

- strategically located in Fujian Province, one of the recognised manufacturing bases in the PRC for communications and communications-related products.

COMPETITION

The Directors believe that new competitors usually find it difficult to enter the industry of EMS in the interconnect market mainly due to the following reasons:

- this business is relatively complicated, technologically demanding and specialised. Its bulk production requires substantial technical expertise and specialised equipment as well as a long period of development time;

- this business is relatively capital intensive. Production of high-grade products will be impossible if it fails to reach the high technical standard or lacks the advanced equipment;

- this business requires technical skills from various disciplines including electronics, chemical and mechanical engineering. Experts in this field have to be trained through practice; and

- prior to becoming a preferred vendor of an ODM, an EMS company generally must perform, to the satisfaction of that ODM, on a trial basis and pass a series of evaluation procedures prior to obtaining meaningful orders from an ODM. As such, once a close relationship is established with an ODM customer, the relationship is relatively stable.

Due to the above reasons, the Directors believe that other manufacturers who are not on the ODMs' preferred vendor lists often find it difficult to obtain orders.

The Directors confirm that neither Mr. Lin nor any of the other Directors has, or has any present intention to have, any interests in a business apart from the business of the Group which competes or is likely to compete, either directly or indirectly, with the business of the Group.

Furi Electronics, a minority shareholder of Fuqiang, is principally engaged in the manufacture and sale of notebook computers, computer monitors, computer accessories, system integration products and electronic components, which are not in competition with the business of the Group. However, the Directors confirm that Furi Electronics has not undertaken with the Group that it will not engage in any business which is in competition with the Group in the future.

INTELLECTUAL PROPERTY RIGHTS

The Directors believe that, due to rapid technological advances and the limited product life cycles, patent protection is not essential to the success of its business. Besides, the Directors believe that patents require public disclosure of information that may otherwise be subject to trade secret protection, and patent registration is not time and cost effective for the Group's business. The Group does not have, nor does it generally intend to apply for, patent protection on any aspect of its technologies.

The Group's "FUQIANG (富強) " trade mark has been registered with the Trade Marks Bureau (商標註冊局) of China and the Trade Marks Registry of Hong Kong.

According to the Group's internal rules and regulations, employees of the Group are prohibited from stealing any properties from the Group, including know-how, copyright and trade secrets of the Group. However, there can be no assurance that the Group will be able to maintain the confidentiality of its technologies, the dissemination of which could have a materially adverse effect on the Group's business.

As at the Latest Practicable Date, the Group has not engaged in or threatened with any claim for infringement of any intellectual property right, whether as claimant or respondent.

ENVIRONMENT AND SAFETY MATTERS

The Group is subject to the national environmental laws and local environmental rules of the PRC. According to the national environmental laws, the National Environmental Protection Bureau (國家環境保護局) sets the national environmental protection standards, while local environmental protection bureau may set stricter local standards. In the use of its properties and assets and operation of its business, the Directors confirm that the Group has used its best endeavours to ensure that it has complied and is in compliance with, in all material respects, all national, provincial and local laws, rules, regulations and orders relating to the protection of human health and safety, natural resources or the environment, including, but not limited to, water pollution, on-site or off-site hazardous substance discharge, disposal or recovery of toxic or hazardous substances and warning provisions relating to toxic or hazardous substances, or employee safety.

For each of the three years ended 30 June 2002, the Group paid a discharge fee to the government of Fuqing City of approximately RMB130,000, RMB50,000 and RMB252,605 respectively. The Directors believe that the Group's environmental protection system and facilities are adequate for it to comply with applicable national and local environmental protection regulations. However, there can be no assurance that the PRC government will not impose new, stricter regulations which would require additional expenditure on environmental protection.

CONNECTED TRANSACTIONS

The Group, on 1 February 1999, entered into a lease agreement with Ms. He Yu Zhu, the spouse of Mr. Lin, pursuant to which the Group agreed to pay a monthly rental of RMB35,200 in respect of the Group's occupation of 15th Level, Zhong Mei Building, No.107 Gu Tian Road, Fuzhou City, Fujian Province, the PRC for a term of five years commencing on 1 February 1999. The rental is based on normal commercial terms and is conducted in the ordinary and usual course of business of the Group. This transaction, which is expected to continue following the Introduction, constitutes a de minimus on-going connected transaction and will be conducted in accordance with Rule 14.24(5) of the Listing Rules.

As at 30 June 2002, the Group has loan due from Furi Electronics, a substantial shareholder of Fuqiang, of approximately RMB1,325,000 which is unsecured and non-interest bearing. Furi Electronics is not considered as a connected person under the GEM Listing Rules and as such the transaction does not constitute a connected transaction so long as the Company is listed on GEM. However, under the Listing Rules, Furi Electronics is considered to be a connected person of the Company and accordingly the transaction will be considered as a connected transaction upon completion of the Introduction and the Shares being listed on the Main Board. The said advance was repaid in November 2002. The Directors confirmed that the said transaction will not continue following the Introduction.

DIRECTORS

Executive Directors

Mr. Lin Wan Qaing (林萬強), aged 48, is the chairman of the Company and founder of the Group. He is responsible for the Group's overall strategic planning, and is also the compliance officer of the Group. Prior to founding the Group in March 1996, Mr. Lin had gained more than 16 years of entrepreneurial and management experience. Mr. Lin was the deputy chairman and general manager of the Fujian Province Shenlong Enterprise Group Company Limited (福建省神龍企業集團有限公司) ("Shenlong") in 1992 up to 1994. During the time of service of Mr. Lin in Shenlong, the principal activities of Shenlong included the trading of food and beverages and fishery products. Mr. Lin also founded Qiangwong in 1994 to engage in the fishery business. In addition, Mr. Lin was appointed the executive of the standing committee of Young Entrepreneur Association of Fujian Province (福建省青年企業家協會) in May 1999. He has been elected the vice-president of Electronics Industry Branch of Fujian Province of China International Commerce Association (中國國際商會福建電子行商會) since November 1997.

Mr. Liu Zhao Cai (劉兆才), aged 60, is the vice chairman of the Company, Mr. Liu graduated from Northwestern Telecommunication Engineering Institute (西北電訊工程學院) (now known as School of Electronic Engineering (西安電子科技大學)). He was the president of Fujian Province Science and Technology Commission (福建省科學技術委員會) in 1998 for a term of three years, and the president of the 36th research institute of the Research Institute of the Department of Electronics Industry (電子工業部) of the PRC in the period from 1987 to 1995. Mr. Liu became an independent non-executive Director on 8 May 2001. On 22 April 2002, Mr. Liu resigned as independent non-executive Directors and was re-appointed as an executive Director.

Mr. Xiang Song (項松), aged 31, is the managing director of the Company. Mr. Xiang graduated with a bachelor's degree in mechanical engineering from University of Science and Technology of Beijing (北京科技大學) in 1993. Prior to joining the Group in July 1998, Mr. Xiang had gained substantial management experience when he served as the plant general manager and engineer of Guangzhou Printronics Circuit Corp. (廣州普林電路公司). He has more than 7 years of management experience in the PCB industry. Mr. Xiang has been the general manager of Fuqiang since 1998 principally responsible for the supervision of the Group's technology, production and quality control. He was appointed as an executive Director in September 2000.

Mr. Tong Yiu On (唐耀安), aged 36, has been the chief financial officer and the company secretary of the Company since he joined the Company in September 2000. He is responsible for the financial reporting and management and regulatory compliance of the Company. He is an associate member of the Association of Chartered Certified Accountants (ACCA) and the Hong Kong Society of Accountants (HKSA). Prior to joining the Group, Mr. Tong was the financial controller of a wholly owned subsidiary of Sun East Technology (Holdings) Ltd., a Hong Kong listed company, and has gained 9 years of experience from an international accounting firm and a wholly owned subsidiary of a company listed on the Australia stock exchange in auditing and financial management for various industries. Mr. Tong has been appointed as an executive Director since 18 December 2002.

Independent non-executive Directors

Mr. Lam Ming Yung (林明勇), aged 38, was appointed as an independent non-executive director in May 2001. He graduated from the School of Law of East China University of Politics and Law (華東政法學院) in 1987 and was awarded the degree of bachelor of law. Mr. Lam started practising law in 1986 in Fujian Province, the PRC, and moved to Hong Kong in 1993. He was registered as a foreign lawyer with the Hong Kong Law Society in 1995, and is now practising as a senior legal consultant of PRC corporate securities law in the Hong Kong office of Sidley Austin Brown & Wood, an international law firm. Mr. Lam is also an independent non-executive director of Goldigit Atom-tech Holdings Limited.

Mr. Pan Chang Chi (潘昌馳), aged 51, is a senior economist. He graduated from Xiamen University (廈門大學) in 1998 with a master's degree in law. He has gained an extensive experience in financial management while working as a senior economist in the Fuqing branch of the Bank of China. He is currently employed by Fujian International Corporation Limited (福建省國際投資有限公司), and became an independent non-executive Director in May 2001.

Mr. Cai Xun Shan (蔡訓善), aged 60, is an independent non-executive Director. He studied in the Astronomy and Geography Department (天文大地系) of the Surveying Institution of the People's Liberation Army of the PRC (中國人民解放軍測繪學院) and obtained his graduation certificate in 1962. He was appointed as the deputy manager of the Electronics Industrial Company of Fuzhou City (福州市電子工業公司) in 1984. Mr. Cai obtained a certificate from the Fujian Province Human Resources Bureau (福建省人事局) in 1989 certifying that Mr. Cai qualified to be appointed as an economist. On 23 May 1997, Mr. Cai was appointed as the Fuzhou Municipal People's Government's deputy secretary and officer of its Beijing representative office (福州市人民政府副秘書長，駐北京辦事處主任).

SENIOR MANAGEMENT

Mr. Lin Wan Xin (林萬新), aged 48, is an executive vice-president and a director of Fuqiang and a cousin of Mr. Lin. He graduated from Fujian Teachers University (福建師範大學) and has gained extensive administration experience as the production director, administration director and vice-president of the general administration department of Fujian Teachers University (福建師範大學). He joined the Group in March 1998 and was one of the founding members.

Mr. Wang Song Qing (汪嵩慶), aged 57, is the chief engineer of Fuqiang overseeing technology development of the Group. He graduated from the Department of Electronics of Tianjin University (天津大學). Prior to joining the Group in June 1998, Mr. Wang was the technical officer of the 893th Institute under the Department of Electronics Industry (電子工業部) of China and was engaged in the research of micro transistor thin film circuit (微形體管薄膜電路). He was a senior engineer for the headquarters of the 5308th Factory of Department of Weaponry Industry (兵器工業部). In 1983, Mr. Wang was the technical supervisor and was responsible for overseeing the newly imported technology of circuit board assembly line.

Mr. Cai Hua (蔡華), aged 31, is an executive vice-president of marketing of Fuqiang. Prior to joining the Group in May 1998, Mr. Cai was an assistant to the general manager of the sales branch of Guangzhou Printronics Circuit Corp. (廣州普林電路公司). He has gained 8 years of experience in the sales and marketing of PCBs. Mr. Cai also has extensive experience in marketing, strategic planning and development of international sales networks.

Mr. Hu Zhao Rui (胡兆瑞), aged 43, is a director and the financial manager of Fuqiang. He graduated from Fuzhou Technical Institute (福州工業學校) majoring in finance and is a certified public accountant in the PRC. Prior to joining the Group in June 1998, he had around 15 years' experience in accounting and financial management through working as the financial manager of several companies including Fujian Minjiang Shipping Company (福建省閩江航運總公司), Fujian Fuqing Rangqiao Wharf Co. Ltd. (福建福清融僑碼頭港務有限公司), Fujiang Mingjiang Wu Yi Cement Transportation Company Limited (福建閩江武夷散裝水泥聯運公司) and Fujiang Hong Feng Investment & Development Company Limited (福建鴻豐投資發展有限公司).

TECHNOLOGY DEVELOPMENT ADVISORY BOARD

In September 1999, the Company established a technology development advisory board (the "Advisory Board") for the purpose of obtaining input on the newest trends on emerging technologies, the impact of these technologies on the Company's business and the technology direction of the Company.

The Advisory Board comprises four members, namely Mr. Sun Yu (孫玉), Mr. Huang Song En (黃頌恩), Mr. Lin Jin Du (林金堵) and Mr. Yao Shou Ren (姚守仁), who are all very reputable in the fields of electronics and PCB technologies in the PRC. Chaired by Mr. Sun Yu (孫玉), the Advisory Board serves as a channel of communication with decision makers of government to obtain policy information on the electronics industry for the Group.

Apart from being a chairman and chief consultant of the Advisory Board, Mr. Sun Yu (孫玉) is an academician of the China Academy of Engineering (中國工程院院士). He graduated from the Qinghua University (清華大學) in 1962, and was appointed as the chairman of the Communications Testing and Control Technology Research Institute (通信測控技術研究所科技委主任) in 1990. He was appointed as the deputy chairman of the professional committee of the "863" Planned Communications Theme Project ("863"計劃通信主題專家組副組長) in 1993, and was appointed as the chairman of the head-committee of the "Regional Electronics" Communication Functionality Project (「區電」工程通信功能總體組組長) in 1996. He was also appointed as the chairman of the Military Communications Professional Research Committee in 1997 (軍事通信預研專家組組長), and was appointed as the chief engineer of the Guangzhou Jinpeng Group (廣州金鵬集團) 1998. Major publications of Mr. Sun include "Digital Compound Connect Technology" (數字總接技術) in 1983, "Digital Net Traffic Damages" (數字網傳輸損傷) in 1985 and "Digital Net Professional Technologies" (數字網專用技術) in 1988.

Members of the Advisory Board serve on a part-time basis and are neither remunerated nor are appointed with specified terms or service agreement.

The key functions of the Advisory Board include the following:

— provide a group of advisors for the group's management to consult with in the course of key decision in technology direction;

— focus on how to improve the EMS business of the Group;

— assist the Group in establishing strategic alliance with domestic ODMs by capitalising on the industry connection of the board members; and

— provide technology expertise to the engineering design team of the Group.

It is expected that the Advisory Board will hold one or two meetings annually.

DIRECTORS' REMUNERATION

Each of the executive Directors has entered into a service agreement with the Company which took effect from 8 May 2001 save that Mr. Tong Yiu On's service agreement took effect on 18 December 2002.

Brief particulars of these service agreements are set out below:

(i) Each service agreement is for an initial term of three years commencing from the date it taken effect with a fixed term of one year. Each of the executive Directors is entitled to the respective basic salaries set out below (subject to an annual increment after each completed year of service at a rate to be determined at the sole and absolute discretion of the board of Directors, provided that such increase shall not exceed 10% of the then current annual remuneration of the relevant Director). In addition, the executive Directors are also entitled, to a discretionary bonus as the board of Directors may in its absolute discretion determine having regard to the performance of the executive Director and the operating results of the Group which, in respect of any financial year of the Company, shall not be more than 10% of the audited consolidated net profit after taxation and minority interests but before extraordinary and exceptional items of the Group for that financial year, which amount shall be paid within one calendar month after the announcement of the audited final results of the Group for that financial year. The discretionary bonus shall only be payable when the audited consolidated net profit after taxation and minority interests but before extraordinary and exceptional items of the Group and before payment of the total discretionary bonuses payable to all the executive Directors shall exceed HK$80 million.

(ii) Each of Mr. Lin Wan Qaing, Mr. Xiang Song, Mr. Liu Zhao Cai and Mr. Tong Yiu On is entitled to a basic monthly salary of HK$50,000, HK$25,000, HK$25,000 and HK$67,000 respectively.

The executive Directors received remuneration in aggregate of approximately HK$271,000, HK$497,000 and HK$1,736,000 for each of the three years ended 30 June 2002 respectively. Other Independent non-executive Directors did not receive any remuneration or benefits in kind for the three years ended 30 June 2002. It is estimated that approximately HK$1,632,000 (excluding discretionary bonus payable to the executive Directors) in aggregate will be payable to the executive Directors as remuneration or in the form of benefits in kind pursuant to the present arrangements for the year ending 30 June 2003.

In addition, the Directors expect that an aggregate amount of directors' fee of approximately HK$30,000 will be paid to the three independent non-executive directors for the year ending 30 June 2003.

AUDIT COMMITTEE

The Group has established an audit committee with written terms of reference based upon the guidelines published by the Hong Kong Society of Accountants. The primary duties of the audit committee are to review the Group's annual report and accounts and half-year reports and to provide advice and comments thereon to the board of Directors. The audit committee will also be responsible for reviewing and supervising the Group's financial reporting and internal control procedures. The audit committee comprises Mr. Lam Ming Yung, Mr. Pan Chang Chi and Mr. Cai Xun Shan.

STAFF

Staff

As at the Latest Practicable Date, the Group had 499 full-time employees engaged in the following areas:

	The PRC	Hong Kong	Total
Sales and marketing	38	Nil	38
Finance and administration	39	3	42
Research, development and technical support	85	Nil	85
Purchasing	13	Nil	13
Quality control	131	Nil	131
Manufacturing	190	Nil	190
Total	496	3	499

Staff welfare

Hong Kong

Since 1 December 2000, the Group's Hong Kong subsidiaries are required to join the Mandatory Provident Fund (the "MPF") managed by an independent approved MPF trustee under the requirements of the Mandatory Provident Fund Scheme Ordinance.

A new Mandatory Provident Fund scheme (the "MPF Scheme") has been set up by the Group for this purpose and employer's contributions are made under the MPF Scheme. Contributions are made based on 5% of the employees' basic salaries with a cap of HK$1,000 per employee per month, and are charged to the income statement as they became payable in accordance with the rules of the MPF Scheme. Both the Group's and the employees' contributions are subject to a cap of HK$1,000 per month and thereafter are voluntary. The Group's employer contributions vest fully with the employees when contributed to the scheme in accordance with the rules of the MPF Scheme. The statutory contributions made by the Group are not forfeitable under this scheme.

PRC, other than Hong Kong

The PRC subsidiary of the Group participates in a mandatory central pension scheme organised by the PRC government for certain of its employees, the assets of which are held separately from those of the Group. Contributions made are based on a percentage of the eligible employees' salaries and are charged to the income statement as they became payable, in accordance with the rules of the scheme. Contributions made by the Group are not forfeitable under this scheme. The employer's contributions vest fully once they are made.

Under the above scheme, retirement benefits of existing and retired employees are payable by the relevant scheme administrators and the Group has no further obligations beyond the annual contributions.

For each of the three years ended 30 June 2002, the aggregate amount of employer's contributions by the Group in respect of retirement benefits scheme amounted to approximately HK$316,000, HK$529,000 and HK$1,135,000, respectively.

The Directors are aware that, as at the Latest Practicable Date, the following person was interested in 10% or more of the Shares:

Name	**No. of Shares**	**% of issued Shares**
Mr. Lin	232,203,780	57.67%

The Directors are not aware of any arrangement which may at a subsequent date result in a change in control of the Company.

		HK$
Authorised		
1,000,000,000	Shares	100,000,000
In issue:		
402,625,000	Shares	40,262,500

Notes:

1. Assumptions

It does not take into account any Shares which may fall to be issued upon the exercise of any option granted under the Share Option Scheme or may, prior to its termination, be granted thereunder, or which may be granted under, the Proposed Share Scheme, or under the general mandate (see below), or which may be bought back by the Company (see below).

2. Share option schemes

The Company has adopted the Share Option Scheme. In connection with the Introduction and in order to comply with the provisions of the Listing Rules, the Group will, subject to the approval of the shareholders of the Company, adopt the Proposed Share Option Scheme to replace the Share Option Scheme. A summary of the principal terms of the Proposed Share Option Scheme is set out under the paragraph headed "Proposed Share Option Scheme" under the section headed "Share option schemes" in Appendix IV to this document.

3. General mandate to issue Shares

The Directors have, since 24 October 2002, been granted an unconditional general mandate to allot, issue and deal with Shares with a total nominal value of not more than the sum of:

(a) 20% of the total nominal amount of the share capital of the Company issued and to be issued as at 24 October 2002 (as set out in the above table); and

(b) the total nominal amount of the share capital of the Company (if any) bought back by the Company under the general mandate to repurchase Shares.

This mandate does not apply to the situation where the Directors allot, issue or deal with Shares under a rights issue, scrip dividend scheme or similar arrangement, or the issue of Shares on the exercise of options granted under the Share Option Scheme.

This mandate will expire:

(a) at the end of the Company's next annual general meeting; or

(b) at the end of the period within which the Company is required by law or the Articles of Association to hold its next annual general meeting; or

(c) when varied or revoked by an ordinary resolution of its members in general meeting,

whichever is the earliest.

4. General mandate to repurchase Shares

The Directors have, since 24 October 2002, been granted an unconditional general mandate to exercise all the powers of the Company to buy back Shares with a total nominal value of not more than 10% of the total nominal amount of the issued share capital of the Company as at 24 October 2002.

This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognised by the Securities and Futures Commission and the Stock Exchange for this purpose), and which are in accordance with the GEM Listing Rules.

This mandate will expire:

(a) at the end of the Company's next annual general meeting; or

(b) at the end of the period within which the Company is required by law or the Articles of Association to hold its next annual general meeting; or

(c) when varied or revoked by an ordinary resolution of its members in general meeting,

whichever is the earliest.

5. Convertible securities

As at the Latest Practicable Date, the Company has not issued any securities, debentures or loan notes convertible into shares in the Company.

6. Renewal of general mandates to issue securities and repurchase shares

The Directors are of the view that the general mandates to issue securities and repurchase shares referred to in paragraphs no. 3 and 4 of this section are catered for situation that the Shares are listed on GEM. For the purpose of the Introduction, the Directors propose to seek the approvals of the members of the Company at its extraordinary general meeting to be held on 9 January 2003 in respect of the granting to the Directors new general mandates to issue securities and repurchase shares. The terms of the new general mandates are similar to those of the existing general mandates save that:

(i) the new general mandates are catered for the situation that the Shares are listed on GEM and the Main Board;

(ii) the maximum aggregate nominal amount of shares in the Company that may be issued and repurchased respectively under the new general mandates will be determined based on the aggregate nominal amount of shares of the Company in issue as at the conclusion of the aforesaid extraordinary general meeting instead of the date of the last annual general meeting of the Company (i.e. 24 October 2002); and

(iii) the new general mandates will supersede the existing general mandates.

The Directors do not have any present intention to exercise their power under the existing general mandates prior to the listing of Shares on the Main Board. Please refer to the circular of the Company dated 21 December 2002 for details of the new general mandates.

INDEBTEDNESS

Borrowings

As at the close of business on 31 October 2002, being the latest practicable date prior to the printing of this document for the purpose of this indebtedness statement, the Group had aggregate outstanding borrowings of approximately HK$35,660,000, comprising short-term unsecured bank borrowings only.

Contingent liabilities

As at 31 October 2002, the Group had no material contingent liabilities.

Commitments

Pursuant to a resolution passed at the meeting of the board of directors of a subsidiary on 27 June 2001, the subsidiary appointed an independent agent to purchase machinery for the amount of approximately HK$47,000,000, including SMT and prototyping facilities, so as to enhance the Group's service provision. As such, the Group had capital commitment of approximately HK$47,000,000 as at 30 June 2001. On 2 July 2001, the Group entered into a purchase agreement with the independent agent for purchase of machinery with deposit of approximately HK$23,500,000. After the terrorists attacks on the US on 11 September 2001, the Group decided to uphold the purchase as the Directors viewed that the global market was unclear. On 27 November 2001, the Group entered into a supplementary agreement with the independent agent to extend the order confirmation period to 31 May 2002 so as to enable the Group to consider whether the Group should proceed with the said purchases. The Group subsequently came to a decision of not proceeding with the purchases and cancelled the purchases on 9 June 2002. The said deposit was refunded to the Group in July 2002.

As at 31 October 2002, the Group had capital commitment for the acquisition of fixed assets of approximately HK$4,403,000, of which approximately HK$4,403,000 had been contracted but not provided for.

As at 31 October 2002, the Group had commitments to pay approximately HK$1,348,000 in respect of the future minimum lease payments under non-cancellable operating leases of approximately HK$1,348,000 in respect of premises.

Collateral

As at 31 October 2002, the Group had aggregate banking facilities of approximately HK$35,660,000, which were fully utilised as at the date thereof. The banking facilities were secured by corporate guarantees provided by the Company.

Disclaimer

Save as otherwise disclosed herein and apart from intra-group liabilities and normal trade payables, the Group did not have any outstanding loan capital issued or agreed to be issued, bank overdrafts, charges or debentures, mortgages, loans, or other similar indebtedness or any finance lease commitments, hire purchase commitments, liabilities under acceptance (other than normal trade bills) or acceptable credits, or any guarantees or other material contingent liabilities outstanding as at the close of business on 31 October 2002.

The Directors confirm that, save as disclosed above, there has not been any material change in the indebtedness and contingent liabilities of the Group since 31 October 2002.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current assets

As at 31 October 2002, being the latest practicable date for the purpose of the disclosure of balance sheet items, the Group had net current assets of approximately HK$173,721,000. The current assets as at 31 October 2002 comprised inventories of approximately HK$6,773,000, prepayments, deposits and other current assets of approximately HK$5,571,000, cash and bank deposits of approximately HK$124,373,000, advance to suppliers of approximately HK$11,541,000, trade receivables of approximately HK$87,049,000, amount due from a minority shareholder of approximately HK$1,251,000, and amount due from an associate of approximately HK$5,900,000. The current liabilities as at 31 October 2002 comprised trade payables of approximately HK$19,711,000, other payables and accruals of approximately HK$11,751,000, short-term bank borrowings of approximately HK$35,660,000, amount due to a director approximately of HK$254,000 and tax payables of approximately HK$1,361,000.

Borrowings and banking facilities

As at 31 October 2002, being the latest practicable date for the purpose of the disclosure of borrowings and banking facilities, the Group had aggregate unsecured banking facilities of approximately HK$35,660,000, of which approximately HK$35,660,000 were utilised.

WORKING CAPITAL

After taking into consideration the existing financial resources available to the Group, the Directors are of the opinion that the Group has sufficient working capital for its present requirements in the absence of unforeseen circumstances.

FOREIGN EXCHANGE RISK

The Group earns revenue and incurs costs and expenses mainly in Renminbi. The Group does not intend to use any derivative instruments in the foreign currency market to hedge the risk against the fluctuations of Renminbi to other foreign currencies. The Directors believe that having regard to the working capital position of the Group and convertibility of Renminbi to foreign currency in respect of current account items, the Group is able to meet its foreign exchange liabilities as they become due.

DISCLOSURE UNDER PRACTICE NOTE 19 OF THE LISTING RULES

The Directors confirm that, as at the Latest Practicable Date, they were not aware of any circumstances which would give rise to a disclosure requirement under Practice Note 19 of the Listing Rules.

TRADING RECORD

The following table sets forth a summary of the audited consolidated results of the Group for the three years ended 30 June 2002 prepared on the assumption that the current structure of the Group had been in existence throughout the Track Record Period and is extracted from, and has been prepared in accordance with the basis set forth in, section 1 of the accountants' report, the text of which is set forth in Appendix I to this document:

	For the year ended 30 June					
	2000		**2001**		**2002**	
	RMB'000	*HK$'000* *(Note 1)*	*RMB'000*	*HK$'000* *(Note 1)*	*RMB'000*	*HK$'000* *(Note 1)*
Turnover *(Note 2)*	86,756	81,846	189,128	178,423	204,142	192,587
Cost of sales	(47,816)	(45,109)	(91,219)	(86,056)	(100,258)	(94,583)
Gross profit	38,940	36,737	97,909	92,367	103,884	98,004
Other revenue	781	737	604	570	2,321	2,190
Distribution costs	(3,247)	(3,063)	(5,188)	(4,894)	(6,485)	(6,118)
Administrative expenses	(4,596)	(4,336)	(8,306)	(7,836)	(13,464)	(12,702)
Other operating expenses	(5,682)	(5,361)	(8,632)	(8,143)	(3,429)	(3,235)
Profit from operations	26,196	24,714	76,387	72,064	82,827	78,139
Finance costs	(8,708)	(8,215)	(5,198)	(4,904)	(3,567)	(3,365)
Profit from ordinary activities before taxation	17,488	16,499	71,189	67,160	79,260	74,774
Taxation	—	—	(7,622)	(7,191)	(6,656)	(6,279)
Profit from ordinary activities after taxation	17,488	16,499	63,567	59,969	72,604	68,495
Minority interests	(8,358)	(7,885)	(6,737)	(6,356)	(7,837)	(7,393)
Profit attributable to Shareholders	9,130	8,614	56,830	53,613	64,767	61,102
Dividend attributable to the year	—	—	—	—	12,804	12,079
Earnings per Share *(Note 3)*	RMB3 cents	HK3 cents	RMB20 cents	HK19 cents	RMB18 cents	HK17 cents

Notes:

(1) Translation of amounts from Renminbi into Hong Kong dollars is for the convenience of readers only and has been made at the rates of exchange in effect at 30 June 2000, 2001 and 2002 of RMB106 = HK$100. No representation is made that the Renminbi amounts could have been, or could be, converted into Hong Kong dollars at such rates or any other rate. Such translation is only for the convenience of readers and is not intended to and does not conform with accounting principles generally accepted in Hong Kong.

(2) Turnover represents the sale value of goods supplied to customers, which excludes value-added tax and is stated after the deduction of any goods returns and trade discounts.

(3) The calculation of basic earnings per Share for each of the three years ended 30 June 2000, 2001 and 2002 is based on the profit attributable to Shareholders for the respective years and the weighted average of 270,000,000, 279,000,000 and 354,721,000 ordinary Shares respectively in issue during the respective years.

MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

Year ended 30 June 2000

Turnover

Turnover of the Group by geographical location is as follows:

	Year ended 30 June 2000	
	RMB'000	*HK$'000*
Geographical location		
PRC	65,741	62,021
Australia	13,103	12,361
United States of America	4,441	4,190
Germany	3,210	3,028
Others	261	246
	86,756	81,846

Turnover of the Group by product category is as follows:

	Year ended 30 June 2000	
	RMB'000	*HK$'000*
Product category		
Single and double-sided PCBs	56,070	52,896
Multilayer PCBs	30,686	28,950
	86,756	81,846

For the year ended 30 June 2000, the turnover of the Group amounted to approximately HK$81.8 million and was solely contributed by the sales of PCBs. During the year ended 30 June 2000, the Group established its image as a high quality PCB manufacturer and EMS provider, and was able to attract new orders from both existing and new customers. In particular, sales to existing customers who were among the 10 largest customers of the Group during the financial year under review increased by approximately 59%

as compared to the total sales made to them during the previous financial year, while sales to new customers who were among the 10 largest customers of the Group during the financial year under review represented approximately 40% of the Group's total turnover for the financial year under review and approximately 86% of the Group's total turnover for the previous financial year end. During the year ended 30 June 2000, sales within the PRC represented approximately 76% of the Group's total turnover, sales to Australia represented approximately 15% of the Group's total turnover, while sales to the US, Germany and other overseas countries represented the remaining approximately 9% of the Group's total turnover. The Group's management and marketing personnel were successful in further developing the overseas markets for the Group's products through major distributors located in Australia, the US and Germany.

Gross profit

For the year ended 30 June 2000, the gross profit of the Group was approximately HK$36.7 million, representing a gross profit margin of approximately 45%.

Other revenue

Other revenue comprised subsidy and interest income. The subsidy is a non-recurring and one-off grant given annually by a provincial government committee to support the Group's product development projects and was determined on a discretionary basis. For the year ended 30 June 2000, the subsidy granted to the Group amounted to approximately HK$377,000, representing approximately 0.5% of the turnover of the Group. Interest income for the year ended 30 June 2000 amounted to approximately HK$360,000, which was mainly arisen from an unsecured interest bearing loan at interest of 2% per annum to Furi Group, a related company. The said interest bearing loan was fully settled during the year ended 30 June 2000.

Operating expenses

Operating expenses for the Group included distribution costs, administrative expenses and other operating expenses.

Distribution costs of the Group amounted to approximately HK$3.1 million, and were mainly consisted of transportation costs amounted to approximately HK$1.5 million, representing approximately 48% of the total distribution costs.

Administrative expenses of approximately HK$4.3 million mainly included staff costs of approximately HK$1.5 million, representing approximately 35% of the total administrative expenses.

Other operating expenses of approximately HK$5.4 million were mainly attributable to the provision for bad and doubtful debts, of which approximately HK$1.0 million was attributable to specific provision and approximately HK$3.0 million was attributable to general provision. As the Group's policy is to make general provision for doubtful debts at a fixed percentage of gross trade receivables outstanding at the year end after deducting those covered by specific provision as at 30 June 2000, the increase in trade receivables resulted in an increase in the general provision for doubtful debts.

Finance costs

For the year ended 30 June 2000, the finance costs of the Group amounted to approximately HK$8.2 million. The finance costs were due to bank borrowings and their respective interests charged.

Year ended 30 June 2001

Turnover

Turnover of the Group by geographical location is as follows:

	Year ended 30 June 2001		Percentage increase/(decrease) from the year ended 30 June 2000
	RMB'000	*HK$'000*	*%*
Geographical location			
PRC	153,492	144,804	133.5%
Australia	29,068	27,423	121.8%
United States of America	3,024	2,853	(31.9)%
Germany	3,351	3,161	4.3%
Others	193	182	(26.1)%
	189,128	178,423	118.0%

Turnover of the Group by product category is as follows:

	Year ended 30 June 2001	
	RMB'000	*HK$'000*
Product category		
Single and double-sided printed circuit boards	84,264	79,494
Multilayer printed circuit boards	104,864	98,929
	189,128	178,423

For the year ended 30 June 2001, the turnover of the Group amounted to approximately HK$178.4 million, representing an increase of approximately 118% compared with the year ended 30 June 2000. The sales within the PRC contributed approximately 81% of the total turnover for the year ended 30 June 2001, while sales to Australia, US, Germany and other countries accounted for the remaining approximately 19%. With the PRC entering into the WTO, the domestic electronics industry has been expanding. In view of this, the Group focused on developing the PRC market, leading to a significant increase in demand for the Group's PCBs of approximately 133% over the financial year ended 30 June 2000. The increase in the Group's turnover for the year ended 30 June 2001 was mainly due to an increase in sales of multilayer PCBs. In particular, the Group acquired additional multilayer equipment to produce multilayer PCBs. During the year ended 30 June 2001, turnover of multilayer PCBs amounted to approximately HK$98.9 million, representing an increase of approximately 241.7% over the previous financial year.

Gross profit

The gross profit for the year ended 30 June 2001 increased to approximately 52% as compared to approximately 45% in the previous year. The underlying reason of such increase was mainly due to the acquisition of additional machineries and equipment, pursuant to which the Group was able to produce more efficiently and effectively as a result of economies of scales. Another reason for such improvement in gross profit margin was the increase in the Group's sales of multilayer PCBs.

Other revenue

Other revenue for the year ended 30 June 2001 was approximately HK$0.6 million, representing a decrease of approximately 23% as compared with that of the previous year. Save as aforesaid in the year ended 30 June 2000, the annual subsidy received from the PRC provincial government committee was approximately HK$0.4 million. The remaining approximately HK$0.2 million represented bank interest income received for the year ended 30 June 2001. This marked an approximately 46% decrease as compared with the year ended 30 June 2000. Another reason leading to the decrease in other revenue of the Group during the period under review was that no interest income was received from the related company, in particular, the loan to the related company was fully settled in the last financial year.

Operating expenses

Distribution costs for the year under review amounted to approximately HK$4.9 million, representing an increase of approximately 60% as compared with the year ended 30 June 2000. Such increase was in line with the increase in transportation expenses amounting to approximately HK$2.4 million resulting from the significant increase in sales for the year ended 30 June 2001. Other distribution costs mainly comprised entertainment expenses of approximately HK$0.9 million and commission payment of approximately HK$0.7 million.

For the year ended 30 June 2001, administrative expenses amounted to approximately HK$7.8 million, which represented an increase of approximately 81% as compared to the amount for the year ended 30 June 2000. The increase was mainly attributable to the increase in staff costs approximately HK$0.9 million, and consulting fee approximately HK$1.2 million which was paid to PCB specialists to examine the quality of the Group's products and to provide technical support to the Group in respect of the production lines.

Other operating expenses amounted to approximately HK$8.1 million, representing an increase of approximately 52% as compared with that of the year ended 30 June 2000. Such increase was mainly due to the increase in provision for bad and doubtful debts which was attributable to the increase in sales, and the consequential increase in the aging of recovering the trade receivables. Another reason of the increase in other operating expenses was the specific provision of approximately HK$0.9 million made for advance to suppliers for the year ended 30 June 2001.

Finance cost

For the year ended 30 June 2001, finance costs amounted to approximately HK$4.9 million, which represented a decrease of approximately 40% as compared to the previous financial year. The average interest rate varied from 8.07% per annum in 2000 to 7.93% per annum in 2001. During the year ended 30 June 2001, the Group settled approximately HK$35 million of bank loans, leading to the decrease of approximately 47% of bank loans as at 30 June 2001.

Year ended 30 June 2002

Turnover

Turnover of the Group by geographical location is as follows:

	Year ended 30 June 2002		Percentage increase/(decrease) from the year ended 30 June 2001
	RMB'000	*HK$'000*	*%*
Geographical location			
PRC	182,718	172,375	19.0%
Australia	17,443	16,456	(39.9)%
United States of America	676	638	(79.8)%
Germany	3,305	3,118	(1.3)%
Others	—	—	N/A
	204,142	192,587	7.9%

Turnover of the Group by product category is as follows:

	Year ended 30 June 2002	
	RMB'000	*HK$'000*
Product category		
Single and double-sided PCBs	86,745	81,835
Multilayer PCBs	117,397	110,752
	204,142	192,587

The Group's turnover for the year ended 30 June 2002 was approximately HK$193 million, representing an increase of approximately 8% as compared with that of the previous financial year. Such growth was fuelled by an expansion of the Group's customer base mainly in the PRC market. In fact, the terrorist attacks that burst out in the US significantly affected the demand for the Group's products for approximately six months from the overseas market, which represented a drop of approximately 40% for the year ended 30 June 2002 as compared with that of the previous financial year. Having considered the downturn of the global market, the Group placed more effort in expanding the PRC market, including establishing sales offices in Wuhan and Xian, in order to maintain the level of turnover for the year.

Gross profit

With the continuous implementation of ISO 9001 quality standard and close monitoring of the Group's production process, the Group maintained a steady gross profit margin of approximately 51% which was comparable to that for the year ended 30 June 2001.

Other revenue

The Group's other revenue increased by approximately 2.8 times from HK$0.6 million for the year ended 30 June 2001 to approximately HK$2.2 million for the year ended 30 June 2002. During the year ended 30 June 2002, the Group received non-recurring and one-off income of approximately HK$2.1 million pursuant to a co-opeartion agreement for trading of electronic components.

Operating expenses

The distribution costs incurred during the year ended 30 June 2002 amounted to approximately HK$6.1 million, representing an increase of approximately 25% compared with that of the previous year. The increase was mainly attributable to the consulting fee of approximately HK$1.1 million paid during the year ended 30 June 2002 for the promotion of business in the PRC market and for conducting research analysis of the PRC market. Other distribution costs mainly included entertainment and transportation costs of approximately HK$1.1 million and HK$1.8 million respectively.

The administrative expenses for the year ended 30 June 2002 were approximately HK$12.7 million, representing an increase of approximately 62% as compared with that of the year ended 30 June 2001. The increase was mainly attributable to the increase in staff costs of approximately HK$2.6 million by 110% in compared with the previous year. This was mainly because the staff salary and directors' remuneration have been adjusted during the year ended 30 June 2002. Other administrative expenses comprised mainly of consulting fee of approximately HK$1.2 million which was paid to PCB specialists to examine the quality of the Group's products and to provide technical support to the Group in respect of its production lines, depreciation of fixed assets of approximately HK$1.5 million, and rental and rates expenses of approximately HK$1.1 million.

Other operating expenses for the year ended 30 June 2002 amounted to approximately HK$3.2 million, which represented a drop of approximately 60% compared with that of the previous year. The decrease was mainly attributable to the reduction of provision of bad and doubtful debts from approximately HK$5.1 million in 2001 to approximately HK$1.9 million in 2002.

Finance cost

The finance cost for the year ended 30 June 2002 amounted to approximately HK$3.4 million, representing a decrease of approximately 31% as compared with that of the year ended 30 June 2001. During the year ended 30 June 2002, the bank loan interest expenses amounted to approximately HK$2.6 million, of which HK$9 million of bank loans have been fully repaid, leading to the reduction of bank loan balance by approximately 21% compared with that of the year ended 30 June 2001. The interest expenses paid to minority shareholder, Furi Electronics, amounted to only approximately HK$0.8 million because the loan advanced by Furi Electronics has been fully repaid during the year ended 30 June 2002.

Turnover ratios

Set out below is the Group's inventory, debtors' and creditors' turnover days for each of the three years ended 30 June 2002:

	For the year ended 30 June		
	2000	**2001**	**2002**
Inventory turnover days	44 days	17 days	17 days
Debtors' turnover days	198 days	132 days	153 days
Creditors' turnover days	53 days	31 days	34 days

Inventory turnover days

Inventory turnover days of the Group for the year ended 30 June 2000 was significantly higher than that of the following two financial years because of the comparably lower turnover level attained by the Group for the year ended 30 June 2000. This was as a result of the Group starting to maintain a higher raw material level of approximately HK$6 million as at 30 June 2000 in order to cope with the expansion of the Group's business in the coming year, as considered by the Group's Directors to be in conformity to the Group's policy to maintain its inventory at a safety level. The inventory turnover days of the Group remained stable thereafter during the two years ended 30 June 2002.

Debtors' turnover days

Debtors' turnover days of the Group reduced significantly from approximately 198 days for the year ended 30 June 2000 to approximately 132 days for the year ended 30 June 2001 as the Group expanded more efforts to control the recoverability of the Group's receivables. The debtors' turnover days increased by approximately 21 days from approximately 132 days for the year ended 30 June 2001 to approximately 153 days for the year ended 30 June 2002. The Directors attributed such increase principally to the longer credit period granted to its local customers with an aim to improve domestic sales to compensate for the decrease in sales to the Group's overseas customers which was adversely affected by the terrorist attacks in the US on 11 September 2001. The debtors' turnover days of the Group for each of the three years ended 30 June 2002 conformed to the Group's normal receivables collection cycle of 90 to 180 days according to its policy.

Creditors' turnover days

The creditors' turnover days of the Group reduced significantly from approximately 53 days in the year ended 30 June 2000 to approximately 31 days in the year ended 30 June 2001 principally because the Group accelerated repayment to its suppliers during the year ended 30 June 2001 with an aim to promote business relationships with its suppliers. Following the terrorist attacks in the US on 11 September 2001, the Group requested certain of its suppliers for longer credit periods and accordingly, its creditors' turnover days slightly increased again to approximately 34 days in the year ended 30 June 2002. The creditors' turnovers days of the Group for each of the three years ended 30 June 2002 conformed to the Group's normal payables repayment cycle of 0 to 180 days according to its policy.

Other ratios

Set out below is the Group's current ratio, quick ratio and gearing ratio for each of the three years ended 30 June 2002:

	For the year ended 30 June		
	2000	**2001**	**2002**
Current ratio	98%	190%	408%
Quick ratio	89%	180%	396%
Gearing ratio	54%	22%	9%

Current ratio

The Group experienced continuous increase in its current ratio from approximately 98% in the year ended 30 June 2000 to approximately 190% in the year ended 30 June 2001 and to approximately 408% in the year ended 30 June 2002. The Directors attributed such continuous increase mainly to: (i) increase in the Group's cash and bank balances; (ii) repayment of short-term bank loans in each of the two years ended 30 June 2002; and (iii) repayment of loans during the year ended 30 June 2002 which was raised in the year ended 30 June 2001. The Directors confirmed that the source of funds for repayment of bank loans and other loans in each of the two years ended 30 June 2002 was principally cash generated from the Group's operating activities.

Quick ratio

The Group experienced continuous increase in its quick ratio from approximately 89% in the year ended 30 June 2000 to approximately 180% in the year ended 30 June 2001 and to approximately 396% in the year ended 30 June 2002. The Directors attributed such continuous increase mainly to reasons similar to its increase in current ratios during the corresponding periods. The Directors considered the effect of inventories to the two ratios in each of the three years ended 30 June 2002 to be insignificant because the amount of inventories kept were relatively steady during the said periods.

Gearing ratio

Gearing ratio of the Group dropped from approximately 54% in the year ended 30 June 2000 to approximately 22% in the year ended 30 June 2001 and to approximately 9% in the year ended 30 June 2002. The Directors attributed such continuous decrease was mainly due to: (i) reduction in total debts from approximately HK$86 million in the year ended 30 June 2000 to approximately HK$54 million and to approximately HK$31 million in the two years ended 30 June 2002 respectively; and (ii) continuous increase of the Group's total asset during the Track Record Period; under which there was the increase in cash and bank balances from cash generated from the Group's operating activities and the funds raised from the Company's initial public offer in 2001 and the two placing in 2002. Moreover, additional fixed assets were acquired, which were funded from the Group's internal resources and the proceeds from the Company's initial public offer and the two Share placements.

Cashflow

The following table summarises the cash flows during the Track Record Period:

	For the year ended 30 June		
	2000	**2001**	**2002**
	HK$'000	*HK$'000*	*HK$'000*
Net cash from/(used in) operating activities	(992)	71,569	52,406
Net cash from/(used in) investing activities	17,007	(26,928)	(32,563)
Net cash from/(used in) financing activities	(16,062)	11,928	37,684
Net increase/(decrease) in cash and cash equivalents	(47)	56,569	57,527

The net cash used in operating activities was approximately HK$992,000 in 2000, and the net cash from operating activities was approximately HK$71,569,000 in 2001 and HK$52,406,000 in 2002. The increases from 2000 to 2002 were mainly due to the increase in the Group's turnover.

Net cash from investing activities was approximately HK$17,007,000 in 2000, and the net cash used in investing activities was approximately HK$26,928,000 in 2001 and HK$32,563,000 in 2002. The main reason for the increases in the net cash used in investing activities from 2000 to 2002 was the increase in payments for capital expenditures, which increased from approximately HK$4,762,000 in 2000 to approximately HK$19,494,000 in 2001 and to approximately HK$31,774,000 in 2002.

Net cash used in financing activities was approximately HK$16,062,000 in 2000, and the net cash from financing activities was approximately HK$11,928,000 in 2001 and HK$37,684,000 in 2002. The main reason for the increases in the net cash from financing activities from 2000 to 2002 was the net proceeds raised from the Company's initial public offer in 2001 and the two placements made in 2002.

Cash and cash equivalents were approximately HK$3,216,000 as of 30 June 2000, HK$59,785,000 as of 30 June 2001 and HK$117,312,000 as of 30 June 2002. The increases in the cash and cash equivalents from 2000 to 2002 was principally due to an increase in the amount of cash provided by the operating activities and the net proceeds raised from the Company's initial public offer in 2001 and the two Share placements made in 2002.

TAXATION

The Group is subject to Hong Kong and PRC taxation. However, no provision for Hong Kong taxation had been made for the years ended 30 June 2000, 2001 and 2002 as the Group had no assessable profit arising in or derived from Hong Kong during the relevant period.

PRC enterprise income tax

Under the prevailing tax legislation in PRC, Fuqiang, a sino-foreign joint venture established in the open coastal areas of PRC, will be subject to PRC enterprise income tax at a preferential rate of 15% for an unspecified period on its income after offsetting prior years' tax losses. However, Fuqiang is exempted from paying PRC enterprise income tax for two years commenced from the first year of profitable operations after offsetting prior years' tax losses, followed by a 50% tax exemption in the three years thereafter. The tax holiday commenced from 1 January 1999 and Fuqiang was entitled to a tax-free period up to 31

December 2000. Fuqiang is entitled to a 50% reduction on enterprise income tax of 15% for the period from 1 January 2001 to 31 December 2003. However, as advised by the Company's PRC legal advisers, Fuqiang will be subjected to an enterprise income tax of 15% from 1 January 2004.

On 12 June 2001, the PRC Tax Bureau issued a tax assessment to Fuqiang for a total amount of PRC enterprise income tax payable of approximately RMB3,899,000 relating to the profit for the period from 1 January 2000 to 31 December 2000. However, according to the record of Fuqiang, such period should be exempted because Fuqiang was entitled to a tax-free period up to 31 December 2000. Accordingly, the directors of Fuqiang objected to this assessment. However, for sake of prudence, the directors of Fuqiang paid and recorded the amount of approximately RMB3,899,000 as tax expense for the year ended 30 June 2001. In November 2002, the PRC Tax Bureau agreed to the objection and the overpaid tax will be used to net off the payments of Fuqiang's future PRC enterprise income tax.

PRC value-added tax and government surcharges

The Group is subject to PRC value-added tax ("VAT") at 17% of revenue from sale of merchandise, and city and country maintenance tax at 1.75% of the amount of VAT levied. Input VAT paid on purchases will be used to offset the output VAT levied on sales revenue to determine the net VAT payable. Input VAT for each type of raw materials purchased varies at different percentages and some materials may be purchased free of VAT.

DIVIDENDS

The final dividend for the year ended 30 June 2002 proposed after the balance sheet date of 30 June 2002 amounted to approximately HK$12.1 million.

PROPERTY INTERESTS

The Group owns the following property:

Property	Uses	Land lease
A parcel of land, various buildings and structures located at Honglu Town Fuqing City Fujian Province The PRC	For production and ancillary office purposes	Expiry on 21 September 2025

The Group occupies and/or leases the following properties:

Property	Uses	Monthly rental	Tenancy
Flat 4407 on 44th Floor Apartment Tower on the Western Side Convention Plaza No. 1 Harbour Road Wanchai Hong Kong	As staff quarters	HK$23,000	Expiry on 31 July 2003

Property	Uses	Monthly rental	Tenancy
Room 1805 on 18th Floor Harbour Centre No. 25 Harbour Road Wanchai Hong Kong	For office purposes	HK$42,921	Expiry on 14 December 2003
Portion of Level 15 Zhong Mei Building No. 107 Gu Tian Road Fuzhou City Fuzhou Province The PRC	For office purposes	RMB35,200	Expiry on 1 February 2004
Room 1602 on Level 16 Block 7 No. 600 Long Liu Zhou Road Xu Hui District Shanghai City The PRC	For office purposes	RMB3,500	Expiry on 14 January 2003
Room 201 on Level 2 Jin Bao Building Sha Wan Shenzhen City Guangdong Province The PRC	For office purposes	RMB3,450	Expiry on 6 February 2003
Room 403 on Level 4 No. 505 Ke Ji Village Xing Long Road Hu Li District Xiamen City Fujian Province The PRC	For office purposes	RMB3,080	Expiry on 2 February 2003
An office unit on Level 7 No. 8 Chuang Ye Road Gao Xin Da Dao Gao Xin District Chengdu City Sichuan Province The PRC	For office purposes	RMB3,000	Expiry on 2 March 2003

Property	Uses	Monthly rental	Tenancy
Room 615 on Level 6 No. 218 Le Yu Road Wu Chang District Wuhan City Hebei Province The PRC	For office purposes	RMB1,100	Expiry 5 September 2003
An office unit on Level 2 Yuan Nei Xiao Bai Lou No. 115 Wan Shou Road North Xin Cheng District Xian City The PRC	For office purposes	RMB1,600	Expiry 30 June 2003

PROPERTY VALUATION

Sallmanns (Far East) Ltd., an independent property valuation firm, has valued the properties owned and leased by the Group and is of the opinion that property owned by the Group is valued at HK$33,660,000 and properties occupied and/or leased by the Group have no commercial value as at 31 October 2002. The text of its letter, summary of values and valuation certificates are set out in Appendix II to this prospectus.

DIVIDENDS

The statutory accounts of Fuqiang are prepared in accordance with the accounting principles and financial regulations applicable to enterprises established in the PRC ("PRC GAAP"). The dividends which Fuqiang can legally distribute are determined by reference to the profits reflected in the PRC statutory accounts. These profits may differ from those reflected in the consolidated accounts of the Group which are prepared in accordance with accounting principles generally accepted in Hong Kong ("HK GAAP"). The dividends to be distributed by the Group will be determined based on the lower of profits determined under HK GAAP and PRC GAAP.

No dividends have been paid or declared by the Company up to the financial year ended 30 June 2001.

The Directors recommended a final dividend of HK$0.03 per Share for the financial year ended 30 June 2002. The dividend recommendation was dependent upon the Company's earnings, financial condition, cash requirements and availability, and other relevant factors. The payment of final dividends was financed by internal resources of the Group.

DISTRIBUTABLE RESERVES

Under the Companies Law, share premium is distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of share premium, unless immediate following the date on which the distribution or dividend is proposed to be paid, the Company shall be able to pay its debts as they fall due in the ordinary course of business.

As at 30 June 2002, the Company's reserves available for distribution to shareholders amounted to approximately HK$151,494,000 in accordance with the Companies Law and the Articles. This includes the Company's share premium of approximately HK$72,126,000 and distributable reserves of approximately HK$88,554,000, less accumulated deficit of approximately HK$9,186,000 which comprised mainly administrative expenses for the Company acting as cost centre for the Group.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that there has not been any material adverse change in the financial or trading positions or prospects of the Group since 30 June 2002, the date to which the latest published audited financial statements of the Group were made up.

ADJUSTED NET TANGIBLE ASSETS

The following pro forma statement of adjusted net tangible assets of the Group is based on the net tangible assets of the Group as at 30 June 2002 as set out in the accountants' report, the text of which is set out in Appendix I, adjusted as shown below:

	HK$'000
Consolidated net tangible assets of the Group as at 30 June 2002	277,254
Consolidated profit after taxation and minority interests of the Group for the four months ended 31 October 2002 based on its unaudited management accounts	17,704
Deficit arising on revaluation as at 31 October 2002 *(Note 1)*	(903)
Adjusted net tangible assets	294,055
Adjusted net tangible asset value per Share *(Note 2)*	HK72 cents

Notes:

(1) The deficit arising on the revaluation of the Group's property interests as at 31 October 2002 will be incorporated into the Group's financial statements for the year ending 30 June 2003. In this connection, annual depreciation for the year ending 30 June 2003 will be decreased by approximately HK$24,000.

(2) The calculation of adjusted net tangible asset value per Share is based on the 402,625,000 Shares in issue immediately following the Introduction, but taking no account of any Shares which may fall to be allotted and issued pursuant to the exercise of any options granted under the Share Option Scheme or the Proposed Share Option Scheme or upon the exercise by the Directors of the general mandates granted to them to allot and issue securities or repurchase Shares.

OTHERS

It is the present intention of the Directors to continue to issue quarterly reports following the Introduction.

UNAUDITED RESULTS OF THE GROUP FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2002

The following table summaries the unaudited consolidated results of the Group for the three months ended 30 September 2002, which is extracted from the Company's 2002/2003 first quarterly report available on the GEM website at "www.hkgem.com" on the "Information on Listed Companies" page:

	RMB'000
Turnover	61,305
Cost of sales	(29,356)
Gross profit	31,949
Other revenue	90
Distribution costs	(1,057)
Administrative and other operating expenses	(11,433)
Profit form operations	19,549
Finance costs	(534)
Profit from ordinary activities before taxation	19,015
Taxation	(2,206)
Profit from ordinary activities after taxation	16,809
Minority interests	(1,681)
Profit attributable to Shareholders	15,128
Earnings per share	RMB3.76 cents

The Group's business objective is to become a leading EMS provider in the PRC for prominent ODMs in the high growth segments of the communications and communications related industries in the region. The Directors believe that the communications segment would continue to experience a higher-than-average growth, which would generate a higher demand and profit margin for PCBs than other industry sectors. Accordingly, the Group plans to:

- Continue implementing its EMS strategy by further expanding its engineering support and service capacity. In this respect, the Directors plan to allocate a further sum of approximately HK$2.3 million to expand the Group's engineering support and service capacity.

  In order to improve profit margin, the Group intends to continue expanding its EMS business by providing PCB fabrication, PCB assembly and sub-system design services specifically to focused industry sectors and applications. The EMS operation requires significant joint design efforts between the Group and its customers at the beginning of the process. By enhancing the Group's circuit interconnect (PCBs, PCB assembly) and sub-system design capability, the Directors believe that it will encourage its customers to outsource most of their layout designs and some of their sub-system development to the Group, creating an opportunity for the Group to function as an extension of its customers' product development efforts. The Group also intends to continue assuming the responsibility of advancing technology in material usage, PCB fabrication and PCB assembly. The Directors believe that by developing an extensive involvement with its customers at their product design stage and applying technology designed to meet the rapidly changing requirements of its customers, the Group will be able to create a key competitive advantage in the future.

  The Group will also consider strategic acquisitions of companies which can enhance its system design expertise, achieve economies of scale and help fulfil its long-term strategic objectives. In evaluating possible acquisition candidates, the Group considers, among other things, the opportunity for synergistic product offerings, complementary client base, new technological capabilities and potential for extended geographical coverage.

- Further develop the Group's PCB fabrication capacity. The Directors believe that the interconnect industry will continue to consolidate due to the substantial capital investment on production facilities, engineering and manufacturing expertise and technology required to make increasingly sophisticated electronic interconnect products. As a result, the Directors believe that companies with lesser financial and technical resources are likely to exit the industry, while larger interconnect companies with sufficient resources will continue to gain market share. To achieve economies of scale, the Group intends to further upgrade its production plant for fabrication of single-sided, double-sided and multilayer PCBs from the current monthly production capacity of approximately 18,000 square metres as estimated by the Directors, to approximately 27,000 square metres in the next two years. It is the present intention of the Directors to allocate approximately HK$29.1 million for the upgrading of its production capacity.

- Continue its strategy of becoming an integral part of customers' product development and manufacturing process. The Directors believe that in order to avoid logistical complexities and delays in new product introductions and to reduce manufacturing costs, increasing number of ODMs are engaging the few EMS providers with development, design, quick-turn prototyping and pre-production, volume production and PCB assembly capabilities to assist in their development and manufacture of electronic interconnect products.

The Directors consider that in the past when international semiconductor manufacturers tried to market IC products in China, they might experience difficulty in marketing such IC products to local ODMs, as these local ODMs generally lacked the research and development capability which could transfer a prototype design to a manufacturable design.

The Directors believe that the Group can fill this gap by establishing strategic alliance with certain international semiconductor manufacturers and be involved in the early stages of their product localisation by providing IC applications solutions to ODMs in China. The Group intends to target applications for rigid circuit interconnects such as communicaitons products and computers that have been characterised as large volume, high growth and rapidly changing. In these markets, the Group can apply its design skills and manufacturing efficiencies in bringing a product from concept to volume production as rapidly as possible. Likewise, the Directors believe that the Group can leverage the technologies acquired from its existing markets and apply them to new and emerging markets and applications. The Group will continue to target on ODMs which:

(i) are market leaders;

(ii) need rapid response and value-added assembly; and

(iii) will reward initiative with a preferred supplier position.

The Directors believe that these alliances should enable the Group to build stronger strategic relationships with its key customers and become an integral and crucial part of their operations. The Directors plan to allocate approximately HK$10 million in this respect.

- Continue its strategy of becoming a "one-stop-shop" for PCB fabrication, PCB assembly and sub-system design services. The Group intends to offer complete and fully tested circuit interconnects through the provision of custom design, fabrication, assembly and functional testing services to ODMs and CEMs. To achieve the objective of becoming a turnkey interconnect solution provider, the Group intends to expand its PCB assembly facilities. Through the provision of PCB assembly services, the Directors believe that the Group will become one of the few Chinese companies capable in offering significantly shorter turnaround time, lower costs and better quality for customers. The Directors intend to allocate approximately HK$4 million in expanding its PCB assembly capability.

  In addition, the Group believes that the integration of PCB assembly facilities and high-volume production capabilities will, over time, lower the Group's production costs through higher product yields, reduction of inventories and shortened production cycle.

It is the present intention of the Directors to finance its future plans as stipulated above by both the unutilised proceeds and internal resources generated and to be generated by the Group.

The following is the text of a report, prepared for the purpose of incorporation in this document, received from the auditors and the reporting accountants of the Company, Charles Chan, Ip & Fung CPA Ltd., Certified Public Accountants, Hong Kong.

CCIF

Charles Chan, Ip & Fung CPA Ltd.
Certified Public Accountants
37th Floor, Hennessy Centre
500 Hennessy Road
Causeway Bay
Hong Kong

24 December 2002

The Directors
Sinotronics Holdings Limited
Deloitte & Touche Corporate Finance Ltd.
Guotai Junan Capital Limited
CAF Securities Company Limited

Dear Sirs,

We set out below our report on the financial information relating to Sinotronics Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of three years ended 30 June 2000, 2001 and 2002 (the "Relevant period") for inclusion in the introduction document of the Company dated 24 December 2002 (the "Introduction Document").

The Company was incorporated in the Cayman Islands on 29 September 2000 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. Through a reorganisation (the "Reorganisation"), as detailed in the prospectus dated 11 May 2001 issued by the Company, which was completed on 8 May 2001, the Company became the holding company of the Group, details of which are set out in section A below, 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"). The shares of the Company were listed on the GEM of the Stock Exchange with effect from 17 May 2001. The Company has proposed to withdraw its listing on the GEM of the Stock Exchange so as to arrange its shares to be listed on the Main Board of the Stock Exchange.

The statutory financial statements of Fujian Fuqiang Delicate Circuit Plate Co., Ltd. ("Fujian Fuqiang"), a subsidiary of the Company, prepared in accordance with applicable accounting rules and regulations in the People's Republic of China (the "PRC"), were audited by Fujian Long Da Audit Office, Fuzhou Rong Xin C.P.A. and Fujian Min Cai Certified Public Accountants Limited Co., certified public accountants in the PRC, for the years ended 31 December 1999, 2000 and 2001, respectively. We and Arthur Andersen & Co. have performed an independent audit of the financial statements of Fujian Fuqiang for the years ended 30 June 2000 and 2001 in accordance with Statements of Auditing Standards and Guidelines issued by the Hong Kong Society of Accountants ("HKSA") and we have performed an independent audit of the financial statements of Fujian Fuqiang for the year ended 30 June 2002 in accordance with Statements of Auditing Standards and Guidelines issued by the HKSA.

We have audited the financial statements of the Group for the year ended 30 June 2002 in accordance with Statements of Auditing Standards and Guidelines issued by the HKSA, and we and Arthur Andersen & Co. have audited the financial statements of the Group for the years ended 30 June 2000 and 2001 in accordance with Statements of Auditing Standards and Guidelines issued by the HKSA.

For the purpose of this report, we have examined the audited financial statements of the Group for the years ended 30 June 2000, 2001 and 2002 in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountants" issued by the HKSA.

The directors of the Company are responsible for the preparation of the financial statements of the Group for the years ended 30 June 2000, 2001 and 2002 which give a true and fair view. The directors of the respective group companies are responsible for the preparation of the respective financial statements which give a true and fair view. In preparing these financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

In our opinion, for the purpose of this report, the consolidated financial statements give a true and fair view of the consolidated results and cash flows of the Group for the years ended 30 June 2000, 2001 and 2002 and of the state of the Group's affairs as at 30 June 2000, 2001 and 2002; and the financial information relating to the Company gives a true and fair view of the state of the Company's affairs as at 30 June 2001 and 2002.

A. BASIS OF PRESENTATION

The Reorganisation has been accounted for as a reorganisation of businesses under common control under the basis of merger accounting. Accordingly, the consolidated financial statements have been prepared on the basis of historical costs modified by the revaluation of land and buildings as explained in the accounting policies set out below and as if the subsidiaries had been part of 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.

All material intra-group transactions and balances have been eliminated on consolidation.

At the date of this report, the Company has direct and indirect interests in the following subsidiaries, all of which are private companies (or, if incorporated/established outside Hong Kong, have substantially similar characteristics to a Hong Kong private company incorporated in Hong Kong), the particulars of which are set out below:

			Proportion of ownership interest			
Name of company	**Place and date of incorporation**	**Particulars of issued and fully paid share capital/ registered capital**	**Group's effective interest**	**Held by the Company**	**Held by the subsidiary**	**Principal activities**
Superford Holding Limited	British Virgin Islands 5 January 2000	10,001 shares of US$1 each	100%	100%	—	Investment holding
Artic Hong Kong Limited	Hong Kong 8 June 2001	2 shares of HK$1 each	100%	100%	—	Trading of electronic components
Fujian Fuqiang Delicate Circuit Plate Co., Ltd. ("Fujian Fuqiang")	The People's Republic of China (the "PRC") 20 March 1996	RMB46,000,000	90%	—	90%	Provision for electronic manufacturing services and manufacturing and trading of printed circuit boards

Name of company	Place and date of incorporation	Particulars of issued and fully paid share capital/ registered capital	Proportion of ownership interest Group's effective interest	Held by the Company	Held by the subsidiary	Principal activities
Dynamic Fortune Technology Limited	British Virgin Islands 2 January 2002	100 shares of US$1 each	100%	100%	—	Not yet commenced business
China Electronic Holdings Company Limited	Hong Kong 29 June 2001	2 shares of HK$1 each	100%	100%	—	Not yet commenced business

B. CONSOLIDATED FINANCIAL STATEMENTS

1. Consolidated income statements

	Note of section C	For the year ended 30 June 2000 RMB'000	2001 RMB'000	2002 RMB'000
Turnover	2	86,756	189,128	204,142
Cost of sales		(47,816)	(91,219)	(100,258)
Gross profit		38,940	97,909	103,884
Other revenue	3	781	604	2,321
Distribution costs		(3,247)	(5,188)	(6,485)
Administrative expenses		(4,596)	(8,306)	(13,464)
Other operating expenses		(5,682)	(8,632)	(3,429)
Profit form operations		26,196	76,387	82,827
Finance costs		(8,708)	(5,198)	(3,567)
Profit from ordinary activities before taxation	4	17,488	71,189	79,260
Taxation	5(a)	—	(7,622)	(6,656)
Profit from ordinary activities after taxation		17,488	63,567	72,604
Minority interests		(8,358)	(6,737)	(7,837)
Profit attributable to shareholders		9,130	56,830	64,767
Dividend attributable to the year	8	—	—	12,804
Earnings per share Basic	9(a)	RMB3 cents	RMB20 cents	RMB18 cents

The accompanying notes, as set out in sections C to F below, are an integral part of these financial statements.

2. Consolidated statements of recognised gains and losses

	For the year ended 30 June		
	2000	**2001**	**2002**
	RMB'000	*RMB'000*	*RMB'000*
Net gains not recognised in the consolidated income statement			
— Surplus on revaluation of land and buildings	—	256	—
Profit attributable to shareholders	9,130	56,830	64,767
Total recognised gains	9,130	57,086	64,767

The accompanying notes, as set out in sections C to F below, are an integral part of these financial statements.

3. Consolidated balance sheets

	Note of section C	As at 30 June 2000 RMB'000	2001 RMB'000	2002 RMB'000
Non-current assets				
Fixed assets	11	82,752	96,734	93,337
Deposits for purchase of machinery		2,491	1,025	29,708
		85,243	97,759	123,045
Current assets				
Inventories	12	6,585	8,726	7,406
Trade and other receivables	13	73,228	90,555	121,702
Cash at banks and in hand	16	3,409	63,372	124,351
		83,222	162,653	253,459
Current liabilities				
Trade and other payables	17	15,623	41,360	26,551
Short-term bank loans	18	61,586	35,000	33,000
Current portion of bank borrowings	19	7,000	7,000	—
Taxation	5(b)	1,812	2,288	2,580
		86,021	85,648	62,131
Net current assets/(liabilities)		(2,799)	77,005	191,328
Total assets less current liabilities		82,444	174,764	314,373
Non-current liabilities				
Bank borrowings	19	10,000	—	—
Loans from related companies	20	10,621	—	—
Construction cost payable		3,015	—	—
		23,636	—	—
Minority interests		5,881	12,646	20,484
Net assets		52,927	162,118	293,889
Capital and reserves				
Share capital	21	41,400	36,848	42,678
Reserves	22	11,527	125,270	251,211
		52,927	162,118	293,889

The accompanying notes, as set out in Sections C to F below, are an integral part of these financial statements.

4. Consolidated cash flow statements

	For the year ended 30 June					
	2000		2001		2002	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Operating activities						
Profit from ordinary activities before taxation	17,488		71,189		79,260	
Adjustments for:						
Depreciation	6,000		6,532		7,894	
Finance costs	8,708		5,198		3,567	
Interest income	(381)		(204)		(80)	
Provision for obsolete and slow-moving inventories (written back)/made	550		1,488		(954)	
Provision for bad and doubtful debts	4,245		5,386		1,970	
Bad debts written off	—		—		2,167	
Write-off of long outstanding creditors	—		—		(1,459)	
Gain on disposal of fixed assets	(55)		—		(126)	
Operating profit before changes in working capital	36,555		89,589		92,239	
(Increase)/decrease in inventories	7,196		(3,629)		2,274	
Increase in debtors, deposits and prepayments	(40,881)		(14,629)		(34,101)	
Increase/(decrease) in creditors and accrued charges	(5,733)		11,678		1,503	
Increase/(decrease) in other tax payable	1,812		(1,812)		361	
Cash generated from/(used in) operations	(1,051)		81,197		62,276	
Tax paid						
PRC enterprise income tax paid	—		(5,334)		(6,725)	
Net cash from/(used in) operating activities		(1,051)		75,863		55,551
Investing activities						
(Increase)/decrease in deposits for purchase of machinery	(2,491)		1,466		(28,683)	
Payment for purchase of fixed assets	(2,557)		(22,130)		(4,997)	
Proceeds from disposal of fixed assets	154		—		266	
Increase in other receivables	—		(13,908)		—	
Decrease/(increase) in loan receivable	(5,966)		5,966		—	
Increase in amount due from a minority shareholder	—		—		(1,325)	
(Increase)/decrease in amount due from a director	—		(142)		142	
Decrease in amount due from a related company	28,506		—		—	
Interest received	381		204		80	
Net cash from/(used in) investing activities		18,027		(28,544)		(34,517)

	For the year ended 30 June					
	2000		2001		2002	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Financing activities						
Proceeds from issuance of share capital	—		74,054		71,285	
Payment for share issuance expenses	—		(22,032)		(4,281)	
Proceeds from shares issued by a subsidiary	—		83		—	
Proceeds from new short-term bank loans	31,586		41,243		33,000	
Repayment of short-term bank loans	(46,000)		(67,829)		(35,000)	
Proceeds from new long-term bank loans	10,000		—		—	
Repayment of long-term bank loans	(16,586)		(10,000)		(7,000)	
Proceeds from advances from related companies	11,137		4,202		—	
Repayment to related companies	—		(516)		(14,823)	
Proceeds from advances from a director	1,545		2,396		331	
Repayment to a director	—		(3,759)		—	
Interest paid	(8,708)		(5,198)		(3,567)	
Net cash from/(used in) financing activities		(17,026)		12,644		39,945
Net increase/(decrease) in cash and cash equivalents		(50)		59,963		60,979
Cash and cash equivalents at 1 July		3,459		3,409		63,372
Cash and cash equivalents at 30 June		3,409		63,372		124,351
Analysis of the balances of cash and cash equivalents at 30 June:						
Cash at banks and in hand		3,409		63,372		124,351

The accompanying notes, as set out in sections C to F below, are an integral part of these financial statements.

C. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Significant accounting policies

(a) ***Statement of compliance***

These financial statements have been prepared in accordance with the accounting policies set out below. These accounting policies would be acceptable under accounting principles generally accepted in Hong Kong.

These financial statements conforms with the disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange as applicable to Accountants' Report included in Listing Documents.

(b) ***Basis of preparation***

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 set out below.

(c) ***Basis of consolidation***

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 30 June each year. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from or to the date of their acquisition or disposal, as appropriate. All material inter-company transactions and balances are eliminated on consolidation.

As explained in section A above, on 8 May 2001, the Company became the holding company of the Group. The Group has been treated as a continuing entity and accordingly the consolidated financial statements have been prepared on the basis that the Company was the holding company of the Group for the whole of the year ended 30 June 2001, rather than from 8 May 2001. Accordingly, the results and cash flows of the Group for the year ended 30 June 2001 include the results and cash flows of the Company and its subsidiaries with effect from 1 July 2000 or since their respective dates of incorporation, where this is a shorter period.

The figures as at and for the year ended 30 June 2000 have been presented on the same basis.

(d) ***Subsidiaries***

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a subsidiary is consolidated into the consolidated financial statements, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated income statement as they arise.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(g)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.

(e) *Fixed assets*

(i) Fixed assets are carried in the balance sheet on the following bases:

— land and buildings held for own use are stated in the balance sheet at their revalued amount, being their open market value at the date of revaluation, and/or subsequent cost less any subsequent accumulated depreciation (see note 1(f)) and impairment losses (see note 1(g)). Revaluations are performed by qualified valuers with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair values at the balance sheet date;

— construction-in-progress represents buildings under construction and machinery pending for installation. It is stated at cost, which includes construction expenditures incurred, cost of machinery, interest capitalised and other direct costs capitalised during the construction and installation period; and

— machinery and other fixed assets are stated in the balance sheet at cost less accumulated depreciation (see note 1(f)) and impairment losses (see note 1(g)).

(ii) Changes arising on the revaluation of land and buildings held for own use are generally dealt with in property revaluation reserve. The only exceptions are as follows:

— when a deficit arises on revaluation, it will be charged to the income statement, if and to the extent that it exceeds the amount held in the reserve in respect of that same asset, immediately prior to the revaluation; and

— when a surplus arises on revaluation, it will be credited to the income statement, if and to the extent that a deficit on revaluation in respect of that same asset, had previously been charged to the income statement.

(iii) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(iv) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal. Any related revaluation surplus is transferred from the property revaluation reserve to retained profits.

(f) *Depreciation*

(i) No depreciation is provided on construction-in-progress until the construction work is completed.

(ii) Depreciation is calculated to write off the cost or valuation less estimated residual value of other fixed assets over their estimated useful lives as follows:

— leasehold land is depreciated on a straight-line basis over the remaining term of the lease;

— buildings are depreciated on a straight-line basis over the shorter of their estimated useful lives, being 25 years from the date of completion, and the remaining terms of the leases; and

— other fixed assets are depreciated on a straight-line basis over their estimated useful lives as follows:

Machinery	10 years
Furniture and equipment	5 years
Motor vehicles	5 years

(g) *Impairment of assets*

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

— fixed assets (other than properties carried at revalued amounts); and

— investments in subsidiaries.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

(i) *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) *Reversals of impairment losses*

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(h) *Inventories*

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(i) *Deferred taxation*

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

(j) ***Provisions and contingent liabilities***

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(k) ***Revenue recognition***

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group. Revenue is recognised in the income statement as follows:

(i) *Sale of goods*

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

(ii) *Interest income*

Interest income is accrued on a time-apportioned basis by reference to the principal outstanding and the interest rate applicable.

(l) ***Research and development costs***

Research costs are written off as incurred. Development costs are charged against income in the period in which they are incurred, except for those incurred for specific projects which are deferred where recoverability can be foreseen with reasonable assurance and which comply with the following criteria: (i) the costs attributable to the product or process can be separately identified and measured reliably; (ii) the technical feasibility of the product or process can be demonstrated; (iii) there is an intention to produce and market, or use, the product or process; (iv) the ability to produce or use the product or process can be demonstrated; (v) the existence of a market for the product or process or, if it is to be used internally rather than sold, its usefulness, can be demonstrated; and (vi) adequate resources exist, or their availability can be demonstrated, to complete the project and market or use the product or process. Deferred development costs are amortised on a straight-line basis over the period in which the related products or processes are expected to be sold or used, starting from the commencement of sales or the utilisation of the product or process. No development costs were deferred as at 30 June 2000, 2001 and 2002.

(m) ***Operating lease charges***

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset.

(n) ***Translation of foreign currencies***

Individual companies within the Group maintain their books and records in the primary currencies of their respective operations ("functional currencies"). In the accounts of the individual companies, transactions in other currencies during the year are translated into the respective functional currencies at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in other currencies are translated into their respective functional currencies at the applicable exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the income statement of the individual companies.

The Group prepares consolidated financial statements in Chinese Renminbi. For the purpose of consolidation, the results and balance sheet items of subsidiaries with functional currencies other than Chinese Renminbi are translated into Chinese Renminbi at the applicable rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in the exchange reserve. There were no material exchange differences arising on translation during the years ended 30 June 2000, 2001 and 2002.

(o) ***Retirement costs***

The Group's contributions to the retirement benefit schemes are charged to the income statement when incurred.

(p) ***Borrowing costs***

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

(q) ***Cash equivalents***

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired; less advances from banks repayable within three months from the date of the advance.

(r) ***Related parties***

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(s) ***Segment reporting***

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and fixed assets. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

2. Turnover

The Company acts as an investment holding company and the Group is principally engaged in the provision of electronic manufacturing services and 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 any goods returns and trade discounts.

3. Other revenue

	For the year ended 30 June		
	2000	**2001**	**2002**
	RMB'000	*RMB'000*	*RMB'000*
Subsidies*	400	400	—
Income from a co-operation agreement for trading of electronic components (see note 15 below)	—	—	2,241
Interest income from banks	44	204	80
Interest income from a related company	337	—	—
	781	604	2,321

* Subsides represent grants received from a PRC provincial government committee 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):

(a) *Finance costs*

	For the year ended 30 June		
	2000	**2001**	**2002**
	RMB'000	*RMB'000*	*RMB'000*
Interest on bank loans wholly repayable within five years	7,759	4,054	2,739
Interest on loan from Fujian Furi Electronics Co., Ltd. *(note 20(a))*	110	577	828
Interest on loan from Fujian Minxiang Electronics Factory *(note 20(b))*	—	100	—
Interest on loan from Fujian Furi Group Company	458	—	—
Other borrowing costs	381	467	—
Total borrowing costs	8,708	5,198	3,567

(b) *Other items*

	For the year ended 30 June		
	2000	2001	2002
	RMB'000	*RMB'000*	*RMB'000*
Cost of inventories (excluding provision for obsolete and slow-moving of inventories)	47,266	89,731	101,212
Staff costs (including directors' emoluments)	5,619	7,486	10,935
Less: Amount included in cost of sales	(3,712)	(4,449)	(5,109)
Amount included in research and development costs	(518)	(531)	(482)
	1,389	2,506	5,344
Depreciation of fixed assets	6,000	6,532	7,894
Operating lease rentals of premises	455	767	1,291
Research and development costs	567	579	518
Auditors' remuneration			
— current year	65	689	424
— under provision in prior years	—	—	47
Provision for obsolete and slow-moving inventories made/ (written back)	550	1,488	(954)
Provision for bad and doubtful debts	4,245	5,386	1,970
Bad debts written off	—	—	2,167
Write-off of long outstanding creditors	—	—	(1,459)
Gain on disposal of fixed assets	(55)	—	(126)
Net exchange loss/(gain)	94	357	(102)

5. Taxation

(a) Taxation in the consolidated income statements represent:

	For the year ended 30 June		
	2000	2001	2002
	RMB'000	*RMB'000*	*RMB'000*
PRC enterprise income tax (see note (iii) below)	—	7,622	6,656

Notes:

(i) Overseas income tax

The Company was 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 were incorporated under the International Business Companies Acts of the British Virgin Islands and, accordingly, is exempted from payment of the British Virgin Islands income taxes.

(ii) Hong Kong profits tax

No provision for Hong Kong profits tax has been made as the Group did not derive any income subject to Hong Kong profits tax during the years ended 30 June 2000, 2001 and 2002.

(iii) PRC enterprise income tax

Fujian Fuqiang Delicate Circuit Plate Co., Ltd. ("Fujian Fuqiang"), a subsidiary, is a sino-foreign equity joint venture established in Fuqing, PRC, and is subject to PRC enterprise income tax at a 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. Fujian Fuqiang was exempted from PRC enterprise income tax up to 31 December 2000. During the years ended 30 June 2001 and 2002, Fujian Fuqiang provided PRC enterprise income tax at a rate of 7.5%.

On 12 June 2001, the PRC Tax Bureau issued a tax assessment to Fujian Fuqiang for a total amount of PRC enterprise income tax payable of approximately RMB3,899,000 relating to the profit for the period from 1 January 2000 to 31 December 2000. However, according to the record of Fujian Fuqiang, such period should be exempted because Fujian Fuqiang was entitled to a tax-free period up to 31 December 2000. Accordingly, the directors of Fujian Fuqiang objected to this assessment. However, for sake of prudence, the directors of Fujian Fuqiang paid and recorded the amount of approximately RMB3,899,000 as tax expense for the year ended 30 June 2001. In November 2002, the PRC Tax Bureau agreed to the objection and the overpaid tax will be used to net off the payments of Fujian Fuqiang's future PRC enterprise income tax.

(iv) PRC value-added tax and government surcharges

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

(v) Deferred taxation

No provision for deferred taxation for the years ended 30 June 2000, 2001 and 2002 has been made as the effect of all timing differences is immaterial.

(b) Taxation in the consolidated balance sheets represent:

	As at 30 June		
	2000	**2001**	**2002**
	RMB'000	*RMB'000*	*RMB'000*
Provision for PRC enterprise income tax for the current year	—	7,622	6,656
PRC enterprise income tax paid	—	(5,334)	(4,437)
	—	2,288	2,219
Other tax payables	1,812	—	361
	1,812	2,288	2,580

6. Directors' remuneration

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	For the year ended 30 June		
	2000	**2001**	**2002**
	RMB'000	*RMB'000*	*RMB'000*
Fees	—	4	—
Salaries and other emoluments	282	517	1,745
Retirement scheme contributions	5	6	95
	287	527	1,840

Included in the directors' remuneration were fees of RMB Nil, RMB4,000 and RMB Nil paid to the independent non-executive directors during the years ended 30 June 2000, 2001 and 2002 respectively.

Emoluments of each of the four executive directors amounted to approximately RMB78,000, RMB149,000, RMB60,000 and RMB Nil for the year ended 30 June 2000, approximately RMB173,000, RMB323,000, RMB27,000 and RMB Nil for the year ended 30 June 2001, and approximately RMB496,000, RMB806,000, RMB396,000 and RMB142,000 for the year ended 30 June 2002.

No directors waived any emoluments during the years ended 30 June 2000, 2001 and 2002. No incentive payments for joining the Group or compensation for loss of office was paid or is payable to any director for the years ended 30 June 2000, 2001 and 2002. No discretionary bonus was paid or is payable to any director for the years ended 30 June 2000, 2001 and 2002.

The remuneration of the directors is within the following bands:

	For the year ended 30 June		
	2000	**2001**	**2002**
	Number of directors	*Number of directors*	*Number of directors*
RMB Nil – RMB1,060,000 (approximately equivalent to HK$ Nil – HK$1,000,000)	6	6	6

7. Individuals with highest emoluments

Of the five individuals with the highest emoluments during the years ended 30 June 2000, 2001 and 2002, three, two and three respectively are directors whose emoluments are disclosed in note 6. The aggregate of the emoluments in respect of the other two, three and two individuals are as follows:

	For the year ended 30 June		
	2000	**2001**	**2002**
	RMB'000	*RMB'000*	*RMB'000*
Salaries and other emoluments	135	530	949
Retirement scheme contributions	4	6	34
	139	536	983

During the years ended 30 June 2000, 2001 and 2002, no emoluments was paid to the five highest paid individuals (including directors and other employees) as inducement to join or upon joining the Group or as compensation for loss of office, and no discretionary bonus was paid to the five highest paid individuals (including directors and other employees).

The emoluments of the two, three and two individuals with the highest emoluments are within the band of RMB Nil to RMB1,060,000 (approximately equivalent to HK$ Nil to HK$1,000,000) for the years ended 30 June 2000, 2001 and 2002, respectively.

8. Dividend

	For the year ended 30 June		
	2000	**2001**	**2002**
	RMB'000	*RMB'000*	*RMB'000*
Final dividend proposed after the balance date of HK$0.03 (approximately equivalent to RMB0.0318) per ordinary share	—	—	12,804

9. Earnings per share

(a) *Basic earnings per share*

The calculation of basic earnings per share for the years ended 30 June 2000, 2001 and 2002 are based on the profit attributable to shareholders for the respective year and the weighted average of 270,000,000, 279,000,000 and 354,721,000 ordinary shares in issue during the respective year.

(b) *Diluted earnings per share*

Diluted earnings per share is not presented as there were no dilutive potential ordinary shares in existence during the years ended 30 June 2000, 2001 and 2002.

10. Segment reporting

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

(a) *Business segment*

Throughout the years ended 30 June 2000, 2001 and 2002, the Group has been operating in a single business segment, i.e. the manufacture and sales 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 from the PRC (excluding Hong Kong), Australia, United States of America and Germany.

	For the year ended 30 June		
	2000	**2001**	**2002**
	RMB'000	*RMB'000*	*RMB'000*
Revenue from external customers			
— PRC, excluding Hong Kong	65,741	153,492	182,718
— Australia	13,103	29,068	17,443
— United States of America	4,441	3,024	676
— Germany	3,210	3,351	3,305
— Others	261	193	—
Total revenue from external customers	86,756	189,128	204,142
Other revenue			
— PRC, excluding Hong Kong	781	604	2,293
— Others	—	—	28
Total other revenue	781	604	2,321
Total operating revenue	87,537	189,732	206,463
Segment results			
— PRC, excluding Hong Kong	27,639	75,740	89,255
— Australia	5,509	14,344	8,521
— United States of America	1,867	1,492	330
— Germany	1,349	1,654	1,614
— Others	110	95	—
	36,474	93,325	99,720
Unallocated operating income and expenses	(10,278)	(16,938)	(16,893)
Profit from operations	26,196	76,387	82,827
Finance costs	(8,708)	(5,198)	(3,567)
Taxation	—	(7,622)	(6,656)
Minority interests	(8,358)	(6,737)	(7,837)
Profit attributable to shareholders	9,130	56,830	64,767

	For the year ended 30 June		
	2000	2001	2002
	RMB'000	*RMB'000*	*RMB'000*
Depreciation			
— PRC, excluding Hong Kong	4,547	5,216	6,930
— Hong Kong	—	105	151
— Australia	906	988	662
— United States of America	307	103	26
— Germany	222	114	125
— Others	18	6	—
	6,000	6,532	7,894

More than 90% of the segment assets and capital expenditures are in the PRC, including Hong Kong, as at and for the years ended 30 June 2000, 2001 and 2002.

11. Fixed assets

	Land and buildings held for own use	Machinery	Furniture and equipment	Motor vehicles	Construction-in-progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost						
At 1 July 1999	22,816	46,088	1,849	2,356	18,621	91,730
Additions	1,432	2,425	90	—	1,625	5,572
Transfers	3,664	—	—	—	(3,664)	—
Disposals	—	(154)	—	—	—	(154)
At 30 June 2000	27,912	48,359	1,939	2,356	16,582	97,148
Aggregate depreciation						
At 1 July 1999	1,250	5,990	445	766	—	8,451
Charge for the year	1,428	3,910	232	430	—	6,000
Written back on disposals	—	(55)	—	—	—	(55)
At 30 June 2000	2,678	9,845	677	1,196	—	14,396
Net book value						
At 30 June 2000	25,234	38,514	1,262	1,160	16,582	82,752

	Land and buildings held for own use *RMB'000*	Machinery *RMB'000*	Furniture and equipment *RMB'000*	Motor vehicles *RMB'000*	Construction-in-progress *RMB'000*	Total *RMB'000*
Cost or valuation						
At 1 July 2000	27,912	48,359	1,939	2,356	16,582	97,148
Additions	2,387	6,398	531	558	10,356	20,230
Transfers	4,589	3,443	—	—	(8,032)	—
Revaluation surplus	209	—	—	—	75	284
At 30 June 2001	35,097	58,200	2,470	2,914	18,981	117,662
Representing:						
At cost	2,533	58,200	2,470	2,914	7,077	73,194
At valuation by a qualified valuer — 2001	32,564	—	—	—	11,904	44,468
	35,097	58,200	2,470	2,914	18,981	117,662
Aggregate depreciation and depreciation						
At 1 July 2000	2,678	9,845	677	1,196	—	14,396
Charge for the year	1,389	4,616	287	240	—	6,532
At 30 June 2001	4,067	14,461	964	1,436	—	20,928
Net book value						
At 30 June 2001	31,030	43,739	1,506	1,478	18,981	96,734
Cost or valuation						
At 1 July 2001	35,097	58,200	2,470	2,914	18,981	117,662
Additions	421	3,165	590	—	821	4,997
Transfers	11,442	4,873	—	—	(16,315)	—
Disposals	—	—	(330)	—	(360)	(690)
At 30 June 2002	46,960	66,238	2,730	2,914	3,127	121,969
Representing:						
At cost	2,492	66,238	2,730	2,914	3,127	77,501
At valuation by a qualified valuer — 31/3/2001	44,468	—	—	—	—	44,468
	46,960	66,238	2,730	2,914	3,127	121,969
Aggregate depreciation						
At 1 July 2001	4,067	14,461	964	1,436	—	20,928
Charge for the year	1,774	5,063	534	523	—	7,894
Written back on disposals	—	—	(190)	—	—	(190)
At 30 June 2002	5,841	19,524	1,308	1,959	—	28,632
Net book value						
At 30 June 2002	41,119	46,714	1,422	955	3,127	93,337

(a) All land and buildings are located in the PRC and are held under land use right for 25 years up to 2025.

(b) The carrying amounts of the Group's land and buildings of approximately RMB40,145,000 (2001: RMB29,750,000) and construction-in-progress of approximately RMB Nil (2001: RMB11,904,000) as at 30 June 2002 were stated at open market value on 31 March 2001 as determined by Sallmanns (Far East) Ltd., independent qualified valuers, less subsequent accumulated depreciation.

The carrying amounts of the land and buildings and construction-in-progress of the Group at 30 June 2002 would have been RMB39,871,000 (2001: RMB29,541,000) and RMB Nil (2001: RMB11,829,000) respectively had they been carried at cost less accumulated depreciation.

12. Inventories

		As at 30 June	
	2000	**2001**	**2002**
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	5,449	6,000	6,141
Less: Provision for obsolete and slow-moving inventories	(550)	(2,038)	(1,084)
	4,899	3,962	5,057
Work-in-progress	162	1,398	415
Finished goods	1,524	3,366	1,934
	6,585	8,726	7,406

The carrying amounts of raw materials were carried at net realisable value.

13. Trade and other receivables

		As at 30 June	
	2000	**2001**	**2002**
	RMB'000	*RMB'000*	*RMB'000*
Amount due from a director *(note 14)*	—	142	—
Amount due from a minority shareholder	—	—	1,325
Loan receivable	5,966	—	—
Trade receivables	61,904	61,211	88,574
Advances to suppliers for purchase of raw materials	3,172	9,089	11,967
Rental and other deposits	—	99	264
Advances to employees	799	611	576
Other receivables *(note 15)*	—	13,908	16,150
PRC input value-added tax recoverable	—	3,957	2,164
Others	1,387	1,538	682
	73,228	90,555	121,702

All of the trade and other receivables, apart from rental and other deposits, are expected to be recovered within one year.

The amount due from Fujian Furi Electronics Co., Ltd., a minority shareholder of the PRC subsidiary and is not a trade debtor of the Group, is unsecured, non-interest bearing and will be repayable on or before November 2002. The directors of the Company have confirmed that this advance to the minority shareholder will not continue in the future after the listing of the Company's shares on the Main Board of the Stock Exchange.

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

	As at 30 June		
	2000	**2001**	**2002**
	RMB'000	*RMB'000*	*RMB'000*
Current — within 3 months	37,170	60,812	65,715
Current — 3 to 6 months	22,756	3,020	26,661
More than 6 months but less than 12 months overdue	4,945	5,743	1,851
More than 12 months overdue	1,278	1,267	5,948
	66,149	70,842	100,175
Less: Provision for bad and doubtful debts	(4,245)	(9,631)	(11,601)
	61,904	61,211	88,574

Debts are usually due within 180 days from the date of billing. Debtors with balances that are more than 6 months overdue are requested to settle all outstanding balances before any further credit is granted.

14. Amount due from a director

Name of borrower	Mr. Lin Wan Qaing
Position	Director
Terms of the loan	
— duration and repayment terms	Repayable on demand
— interest rate	None
— security	None
Balance of the advance	
— at 1 July 1999	RMB Nil
— at 30 June 2000 and 1 July 2000	RMB Nil
— at 30 June 2001 and 1 July 2001	Approximately RMB142,000
— at 30 June 2002	RMB Nil
Maximum balance outstanding	
— during 2000	RMB Nil
— during 2001	Approximately RMB142,000
— during 2002	Approximately RMB142,000

At 30 June 2000, 2001 and 2002, provision has not been made for the amount due.

15. Other receivables

In June 2001, the Group entered into a co-operation agreement with a private trading company in the PRC ("the Business Partner") for the trading of electronic components. In accordance with the agreement, the Group provided financing to the Business Partner who was responsible for carrying out the related purchases and sales. The estimated financing required from the Group was approximately RMB26,500,000. In return, the Group was entitled to 70% of the profit arising from the sales. As at 30 June 2001, the Group had advanced to the Business Partner approximately RMB13,908,000 for purchases of electronic components, which was recorded as other receivables. During the year ended 30 June 2002, trading transactions had been completed and profit attributable to the Group amounted to approximately RMB2,241,000 had been recognised in the consolidated income statement for the year ended 30 June 2002. An amount of approximately RMB16,150,000 remained receivable from the Business Partner as at 30 June 2002 which was recorded as other receivables. The amount due from the Business Partner was settled in July 2002.

16. Cash at banks and in hand

As at 30 June 2002, the Group's cash at banks and in hand included approximately RMB70,224,000 which remained not freely convertible into foreign currencies.

17. Trade and other payables

	As at 30 June		
	2000	**2001**	**2002**
	RMB'000	*RMB'000*	*RMB'000*
Trade payables	12,422	19,346	18,419
Other payables and accruals	1,322	7,191	7,801
Loans from related companies *(note 20)*	—	10,621	—
Amounts due to related companies	516	4,202	—
Amount due to a director	1,363	—	331
	15,623	41,360	26,551

Amount due to a director is unsecured, non-interest bearing and has no fixed terms of repayment.

All of the trade and other payables are expected to be settled within one year.

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

	As at 30 June		
	2000	**2001**	**2002**
	RMB'000	*RMB'000*	*RMB'000*
Due within 3 month	8,584	10,669	6,929
Due after 3 month but within 6 months	472	2,920	2,537
Due after 6 months but within 12 months	922	3,122	3,891
Due after 12 months	2,444	2,635	5,062
	12,422	19,346	18,419

18. Short-term bank loans

As at 30 June 2000, 2001 and 2002, short-term bank loans of the Group bore interest at approximately 7.02% to 9.36% per annum, 7.02% to 9.36% per annum and 5.84% to 6.903% per annum respectively. Further details of the Group's banking facilities are stated in note 24 below.

19. Bank borrowings

At 30 June 2000, 2001 and 2002, the long-term bank loans were repayable as follows:

	As at 30 June		
	2000	**2001**	**2002**
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year	7,000	7,000	—
After 1 year but within 2 years	10,000	—	—
	17,000	7,000	—
Less: Amounts repayable within 1 year included under current liabilities	(7,000)	(7,000)	—
Non-current portion	10,000	—	—

As at 30 June 2000 and 2001, long-term bank loans bore interest at approximately 7.02% to 9.36% per annum and 7.02% to 9.36% per annum, respectively. Further details of the Group's banking facilities are stated in note 24 below.

20. Loan from related companies

	As at 30 June		
	2000	2001	2002
	RMB'000	*RMB'000*	*RMB'000*
Fujian Furi Electronics Co., Ltd. *(note (a))*	9,056	9,056	—
Fujian Minxiang Electronics Factory *(note (b))*	1,565	1,565	—
	10,621	10,621	—
Less: Amounts repayable within 1 year included under current liabilities	—	(10,621)	—
Non-current portion	10,621	—	—

Notes:

(a) Fujian Furi Electronics Co., Ltd. is a minority shareholder of Fujian Fuqiang, a subsidiary of the Company.

(b) Fujian Minxiang Electronics Factory is wholly owned by Fujian Furi Group Company, the holding company of Fujian Furi Electronics Co., Ltd.

Loans from related companies were unsecured, bore interest at 6.37% per annum and were repaid in May 2002.

21. Share capital

	As at 30 June			
	2001		2002	
	Number of shares	*RMB'000*	*Number of shares*	*RMB,000*
Authorised — Ordinary shares of HK$0.10 (equivalent to RMB0.106) each	1,000,000,000	106,000	1,000,000,000	106,000
Issued and fully paid — Ordinary shares of HK$0.10 (equivalent to RMB0.106) each:				
At 1 July	—	—	347,625,000	36,848
Issue of shares upon incorporation *(note (b))*	1	—	—	—
Issue of shares arising from the Reorganisation *(note (c))*	999,999	106	—	—
Issue of shares on initial public offering *(note (d))*	67,500,000	7,155	—	—
Capitalisation issue of shares *(note (e))*	269,000,000	28,514	—	—
Issue of shares upon exercise of an over-allotment option *(note (f))*	10,125,000	1,073	—	—
Issue shares upon private placements *(note (g))*	—	—	55,000,000	5,830
At 30 June	347,625,000	36,848	402,625,000	42,678

Notes:

(a) The share capital of the Group as at 30 June 2000 represented the aggregate nominal value of the share capital of the Company's subsidiaries at that date.

(b) On 29 September 2000, the Company was incorporated with an authorised share capital of HK$380,000 (equivalent to RMB403,000), divided into 3,800,000 ordinary shares of HK$0.10 each. One ordinary share of HK0.10 each was issued at par, nil paid.

(c) On 8 May 2001, the authorised share capital of the Company was increased to HK$100,000,000 (equivalent to RMB106,000,000) by the creation of an additional 996,200,000 ordinary shares of HK$0.10 each, ranking pari passu with the then existing ordinary shares in all respects.

On the same day, 999,999 ordinary shares of HK$0.10 each were issued at par and credited as fully paid in connection with the Reorganisation.

(d) On 16th May, 2001, 67,500,000 ordinary shares of HK$0.10 each were issued and offered for subscription at a price of HK$0.90 (equivalent to RMB0.954) per ordinary share upon listing of the Company's shares on the GEM of the Stock Exchange, resulting in cash proceeds (net of share issuance expenses) of approximately HK$40,334,000 (equivalent to RMB42,754,000).

(e) On 16th May, 2001, share premium of HK$26,900,000 (equivalent to RMB28,514,000) was capitalised for the issuance of 269,000,000 ordinary shares on a pro-rata basis to the Company's shareholders immediately before the initial public offering described in note (d) above.

(f) On 8th June, 2001, the over-allotment option was exercised and 10,125,000 ordinary shares of HK$0.10 each were issued at HK$0.90 (equivalent to RMB0.954), resulting in cash proceeds (net of share issuance expenses) of approximately HK$8,743,000 (equivalent to RMB9,268,000).

(g) On 25 March 2002 and 13 June 2002, the Company entered into two placing and subscription agreements with Mr. Lin Wan Qaing and a placing agent, under which Mr. Lin Wan Qaing, the controlling shareholder of the Company, placed 20,000,000 ordinary shares and 35,000,000 ordinary shares of the Company at a price of HK$1.00 (equivalent to RMB1.06) per ordinary share and HK$1.35 (equivalent to RMB1.431) per ordinary share respectively and subscribed for 20,000,000 ordinary shares and 35,000,000 ordinary shares of the Company at a price of HK$1.00 (equivalent to RMB1.06) per ordinary share and HK$1.35 (equivalent to RMB1.431) per ordinary share, respectively. The net proceeds of approximately HK$18,726,000 (equivalent to RMB19,850,000) and HK$44,486,000 (equivalent to RMB47,155,000) respectively were used as general working capital of the Group and for the acquisition of potential equity investment.

22. Reserves

	Share premium	Capital reserve	Property revaluation reserve *(note (a))*	Retained profits/ (accumulated losses)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
1 July 1999	—	—	—	(2,341)	(2,341)
Profit attributable to shareholders	—	—	—	9,130	9,130
Increase of effective interest in a subsidiary	—	4,738	—	—	4,738
At 30 June 2000 and 1 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 *(note 21 (d))*	57,240	—	—	—	57,240
Capitalisation issue of share *(note 21 (e))*	(28,514)	—	—	—	(28,514)
Premium on issue of shares upon exercise of an over-allotment option *(note 21 (f))*	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 30 June 2001 and 1 July 2001	15,280	46,115	256	63,619	125,270
Premium on issue of shares upon share placements *(note 21 (g))*	65,455	—	—	—	65,455
Share issuance expenses	(4,281)	—	—	—	(4,281)
Profit attributable to shareholders	—	—	—	64,767	64,767
At 30 June 2002	76,454	46,115	256	128,386	251,211

Notes:

(a) The capital reserve of the Group represents (i) capital reserve of a subsidiary and (ii) the difference between the nominal value of the ordinary shares issued by the Company and the aggregate of the share capital and share premium of a subsidiary acquired through an exchange of shares pursuant to the Reorganisation.

(b) As stipulated by rules and regulations in the PRC, Fujian Fuqiang, a sino-foreign equity joint venture established in the PRC, is required to appropriate part of its after-tax profit (after offsetting prior year losses) to a general reserve fund and enterprise expansion reserve fund at rates determined by the board of directors. During the years ended 30 June 2000, 2001 and 2002, the board of directors of Fujian Fuqiang determined not to make any appropriation to the general reserve fund and enterprise expansion reserve fund.

23. Retirement benefits schemes

Hong Kong

Since 1 December 2000, the Hong Kong subsidiaries are required to join the Mandatory Provident Fund (the "MPF"), managed by an independent approved MPF trustee, under the requirements of the Mandatory Provident Fund Scheme Ordinance.

A new Mandatory Provident Fund scheme (the "MPF Scheme") has been set up by the Group for this purpose and employer's contributions are made under the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they became payable in accordance with the rules of the MPF Scheme. Both the Group's and the employees' contributions are subject to a cap of HK$1,000 per month and thereafter are voluntary. The Group's employer contributions vest fully with the employees when contributed to the scheme in accordance with the rules of the MPF Scheme. The statutory contributions made by the Group are not forfeitable under this scheme.

PRC, other than Hong Kong

The PRC subsidiary of the Group participates in a mandatory central pension scheme organised by the PRC government for certain of its employees, the assets of which are held separately from those of the Group. Contributions made are based on a percentage of the eligible employees' salaries and are charged to the income statement as they became payable, in accordance with the rules of the scheme. Contributions made by the Group are not forfeitable under this scheme. The employer's contributions vest fully once they are made.

Under the above scheme, retirement benefits of existing and retired employees are payable by the relevant scheme administrators and the Group has no further obligations beyond the annual contributions.

During the years ended 30 June 2000, 2001 and 2002, the aggregate amount of employer's contributions by the Group in respect of retirement benefits scheme dealt with in the consolidated income statements of the Group amounted to approximately RMB335,000, RMB561,000 and RMB1,203,000, respectively.

24. Banking facilities

As at 30 June 2000, 2001 and 2002, the Group had loan facilities of approximately RMB78,586,000, RMB42,000,000 and RMB33,000,000 from several banks which were fully utilised as at the same date. As at 30 June 2000 and 2001 the loan facilities were secured by guarantees provided by Fujian Furi Electronics Co., Ltd., a minority shareholder of a PRC subsidiary, and Fujian Furi Group Company, the holding company of Fujian Furi Electronics Co., Ltd. As at 30 June 2002, the loan facilities were unsecured.

25. Commitments

(a) Capital commitments outstanding at 30 June 2000, 2001 and 2002 not provided for in the consolidated financial statements were as follows:

		As at 30 June	
	2000	**2001**	**2002**
	RMB'000	*RMB'000*	*RMB'000*
Acquisition of fixed assets			
— contracted for	100	7,167	5,890
— authorised but not contracted for	—	49,820*	—
	100	56,987	5,890

* Pursuant to a resolution passed at the meeting of the board of directors of a subsidiary on 27 June 2001, the subsidiary appointed an independent agent to purchase machinery for the amount of approximately HK$47,000,000 so as to enhance the Group's production line. On 2 July 2001, the Group entered into a purchase agreement with this independent agent with deposit of approximately RMB24,900,000 which was included in "Deposits for purchases of machinery" as at 30 June 2002. After the terrorists attacks on the US in 11 September 2001, the Group decided to uphold the purchase as the directors of the Company viewed that the global market was unclear. On 27 November 2001, the Group entered into a supplementary agreement with the independent agent to extend the order confirmation period to 31 May 2002 so as to enable the Group to consider whether the Group should proceed with the said purchases. The Group subsequently came to a decision of not proceeding with the purchases and cancelled the purchases on 9 June 2002. The said deposit was refunded to the Group in July 2002.

(b) At 30 June 2000, 2001 and 2002, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	As at 30 June		
	2000	**2001**	**2002**
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year	579	955	1,388
After 1 year but within 5 years	1,341	779	524
	1,920	1,734	1,912

26. Related party transactions

During the Relevant Period, particulars of significant transactions between the Group and related parties were as follows:

(a) *Recurring transactions*

During the Relevant Period, details of material transactions between the Group and related parties were as follows:

	For the year ended 30 June		
	2000	**2001**	**2002**
	RMB'000	*RMB'000*	*RMB'000*
Transportation fees charged by Fujian Furi Container Freight Transport Company *(note (i))*	711	2,181	1,036
Lease rental charged by He Yu Zhu *(note (ii))*	475	422	422

Notes:

(i) This company is owned by Fujian Furi Group Company, the holding company of Fujian Furi Electronics Co., Ltd., a minority shareholder of the PRC subsidiary.

As at 30 June 2000, 2001 and 2002, the Group had an amount due to Fujian Furi Container Freight Transport Company of approximately RMB92,000, RMB1,051,000 and RMB895,000 respectively, arising from transportation fees charged by this related company included in trade payables. Such amount is unsecured, non-interest bearing and without pre-determined repayment terms.

(ii) During the Relevant Period, the Group entered into lease arrangement with Ms. He Yu Zhu, the spouse of Mr. Lin Wan Qaing who is the controlling shareholder and a director of the Company, for leasing of an office property in Fuzhou, the PRC.

(b) *Non-recurring transactions*

During the Relevant Period, the details of material transactions between the Group and related parties were follows:

	For the year ended 30 June		
	2000	**2001**	**2002**
	RMB'000	*RMB'000*	*RMB'000*
Interest charged by			
— Fujian Furi Electronics Co., Ltd. *(note 20)*	110	577	828
— Fujian Minxiang Electronics Factory *(note 20)*	—	100	—
— Fujian Furi Group Company	458	—	—
	568	677	828
Interest earned from Fujian Furi Group Company	337	—	—
Guarantee fees charged by Fujian Furi Group Company	381	—	—

(c) During the Relevant Period, Fujian Furi Electronics Co., Ltd. and Fujian Furi Group Company provided corporate guarantees to secure the banking facilities granted to the Group. As at 30 June 2000, 2001 and 2002, such bank facilities together with the utilised amounts were as follows:

	For the year ended 30 June		
	2000	**2001**	**2002**
	RMB'000	*RMB'000*	*RMB'000*
Facilities amounts	78,586	42,000	—
Utilised	78,586	42,000	—

The above corporate guarantees expired in February 2002.

The directors of the Company are of the opinion that the above related party transactions were conducted on normal commercial terms and in the ordinary course of business and have confirmed that the above transactions except items (b) and (c), will continue in the future after the listing of the Company's shares on the Main Board of the Stock Exchange.

D. SUBSEQUENT EVENTS

The following significant events took place subsequent to 30 June 2002:

(a) On 15 August 2002, the Group entered into an agreement with Mr. Chen Hong Liang ("Mr. Chen"), an independent third party, for the acquisition by the Group from Mr. Chen of his entire 49% equity interest in Floret Industries Limited for a consideration of RMB47,000,000. Further details of the acquisition of Floret Industries Limited are set out in the paragraph headed "Acquisition of Floret Industries" under the section headed "Business" in the Introduction Document and a circular dated 6 September 2002 issued by the Company.

(b) After the balance sheet date, the directors of the Company proposed a final dividend. Further details are disclosed in note 8 of Section C.

E. FINANCIAL INFORMATION RELATING TO THE COMPANY

		As at 30 June	
		2001	**2002**
	Note	*RMB'000*	*RMB'000*
Non-current assets			
Fixed assets	1	297	97
Investments in subsidiaries	2	93,973	93,974
		94,270	94,071
Current assets			
Amount due from subsidiaries	3	22,435	58,561
Prepayments, deposits and other receivables		804	5
Cash at banks and in hand		25,375	51,251
		48,614	109,817
Current liabilities			
Accruals and other payables		689	626
Net current assets		47,925	109,191
Net assets		142,195	203,262
Capital and reserves			
Share capital		36,848	42,678
Reserves	4	105,347	160,584
		142,195	203,262

The balance sheet at 30 June 2000 is not presented as the Company was incorporated after 30 June 2000.

Notes:

1. Fixed assets

	Furniture and equipment
Cost	
Additions during the year ended 30 June 2001 and at 30 June 2001 and at 1 July 2001	404
Additions during the year ended 30 June 2002	51
Disposals during the year ended 30 June 2002	(330)
At 30/6/2002	125
Aggregate depreciation	
Charge for the year ended 30 June 2001 and at 30 June 2001 and at 1 July 2001	107
Charge for the year ended 30 June 2002	111
Written back on disposals for the year ended 30 June 2002	(190)
At 30 June 2002	28
Net book value	
At 30 June 2001	297
At 30 June 2002	97

2. Investments in subsidiaries

	As at 30 June	
	2001	**2002**
	RMB'000	*RMB'000*
Unlisted shares, at cost	93,973	93,974

The underlying value of the subsidiaries is, in the opinion of the Company's directors, not less than the carrying value as at 30 June 2001 and 2002.

3. Amounts due from subsidiaries

The amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

4. Reserves

	Share premium *RMB'000*	**Contributed surplus** *RMB'000*	**Retained profits/ (accumulated losses)** *RMB'000*	**Total** *RMB'000*
At 1 July 2000	—	—	—	—
Effect of the Reorganisation	—	93,867	—	93,867
Premium on issue of shares on initial public offering *(note 21 (d) of section C)*	57,240	—	—	57,240
Capitalisation of share premium *(note 21 (e) of section C)*	(28,514)	—	—	(28,514)
Premium on issue of shares upon exercise of an over-allotment option *(note 21 (f) of section C)*	8,586	—	—	8,586
Share issuance expenses	(22,032)	—	—	(22,032)
Loss attributable to shareholders	—	—	(3,800)	(3,800)
At 30 June 2001 and 1 July 2002	15,280	93,867	(3,800)	105,347
Premium on issue of shares upon share placements *(note 21 (g) of section C)*	65,455	—	—	65,455
Share issuance expenses	(4,281)	—	—	(4,281)
Loss attributable to shareholders	—	—	(5,937)	(5,937)
At 30 June 2002	76,454	93,867	(9,737)	160,584

The contributed surplus of the Company represents the difference between the nominal value of the ordinary shares issued by the Company and the net asset value of subsidiaries acquired through an exchange of shares pursuant to the Reorganisation.

Under the Companies Law (Revised) of the Cayman Islands, share premium and contributed surplus are distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of share premium and contributed surplus if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital account.

As at 30 June 2002, the Company's reserves available for distribution to shareholders amounted to approximately RMB160,584,000 (2001: RMB105,347,000) computing in accordance with the Companies Law (Revised) of the Cayman Islands and the Company's articles of association. This includes the Company's share premium and contributed surplus of approximately RMB76,454,000 (2001: RMB15,280,000) and RMB93,867,000 (2001: RMB93,867,000), respectively, less accumulated losses of approximately RMB9,737,000 (2001: RMB3,800,000), which is available for distribution provided that immediately following the date on which the dividend is proposed, the Company will be able to pay off its debts as they fall due in the ordinary course of business.

5. Contingent liabilities

As at 30 June 2002, there were contingent liabilities in respect of corporate guarantee given to banks by the Company in respect of banking facilities granted to a PRC subsidiary amounting to RMB33,000,000 (2001: RMB Nil).

F. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group, the Company or any of its subsidiaries have been prepared in respect of any period subsequent to 30 June 2002.

Yours faithfully,

Charles Chan, Ip & Fung CPA Ltd.
Certified Public Accountants
Chan Wai Dune, Charles
Practising Certificate Number P00712

The following is the text of a letter, summary of values and valuation certificates, received from Sallmanns (Far East) Limited, an independent valuer, in connection with their valuation of the property interests of the Group as at 31 October 2002.

Sallmanns

Professional valuation and consultancy

www.sallmanns.com

15/F Trinity House
165-171 Wanchai Road
Hong Kong
Tel: (852) 2169 6000
Fax: (852) 2528 5079

24 December 2002

The Directors
Sinotronics Holdings Limited
Room 1805 on 18th Floor
Harbour Centre
No. 25 Harbour Road
Wanchai
Hong Kong

Dear Sirs,

In accordance with your instructions to value the property interests in which Sinotronics Holdings Limited (hereinafter referred to as the "Company") and its subsidiaries (hereinafter together referred to as the "Group") have interests in Hong Kong and the People's Republic of China (the "PRC"), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the value of the property interests as at 31 October 2002.

Wherever possible, our valuations of the property interests are our opinion of the open market value which we would define as intended to mean "the best price at which an interest in a property would have been completed unconditionally for cash consideration on the date of the valuation assuming:

(a) a willing seller;

(b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of price and terms and for the completion of the sale;

(c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;

(d) that no account is taken of any additional bid by a prospective purchaser with a special interest; and

(e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion."

The property interests in Groups I and III which are rented to the Group have no commercial value due mainly to the short term nature or prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rents or insufficient proof of legal title to the property interests.

For the property interest in Group II, our valuations of the property interest is our opinion of its fair market value. Fair market value is defined as the estimated amount at which the subject property in its continued use might be expected to be purchased and sold between a willing buyer and a willing seller, neither being under compulsion, each having a reasonable knowledge of all relevant facts, with equity to both for continuation of the current operation of the property as part of on-going business. This opinion of fair market value is not necessarily intended to represent the amount that might be realised from disposition of the property in the open market, and this basis has been used due to the lack of an established market upon which to base comparable transactions.

Due to the nature of the buildings and structures constructed on the property interest in Group II, there are no readily identifiable market comparables and the buildings and structures cannot be valued by direct comparison approach. They have therefore been valued by depreciated replacement cost approach. Depreciated replacement cost approach considers the cost to reproduce or replace in new condition the property appraised in accordance with current construction cost for similar property in the locality, with allowance for accrued depreciation as evidenced by observed condition or obsolescence present, whether arising from physical, functional or economic causes. The depreciated replacement cost approach generally furnishes the most reliable indication of value for property interests in the absence of a known market based on comparable sales.

In our valuations, we have complied with all the requirements contained in the Practice Note 12 to the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange of Hong Kong Limited.

The current status regarding major approvals, title documents and other documents required in the PRC of the property interest have been verified by the Group's PRC legal adviser, Chen & Co. and is set out as follows:

	Document/Approval			
Property	**Land Use Rights Certificate**	**Building Ownership Certificate**	**State-owned Land Use Rights Grant Contract**	**Tenancy Agreement**
Group II — Property interest held and occupied by the Group in the PRC				
3.	Yes	Yes	Yes	N/A
Group III — Property interests rented and occupied by the Group in the PRC				
4.	N/A	N/A	N/A	Yes
5.	N/A	N/A	N/A	Yes
6.	N/A	N/A	N/A	Yes
7.	N/A	N/A	N/A	Yes
8.	N/A	N/A	N/A	Yes
9.	N/A	N/A	N/A	Yes
10.	N/A	N/A	N/A	Yes

N/A: Not applicable

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the relevant property interests but have assumed that the site areas shown on the documents and official site plans handed to us are correct. Based on our experience of valuation of similar property interests in Hong Kong and the PRC, we consider the assumptions so made to be reasonable. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurements have been taken.

We have relied to a considerable extent on the information provided by the Group and the legal opinion of the Group's legal adviser and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, occupation, lettings, rentals, site and floor areas and all other relevant matters.

We have been shown copies of various title documents and official site plans relating to the property interest that are held by the Group in the PRC. However, we have not searched the original documents to verify ownership or to verify any lease amendments which may not appear on the copies handed to us. Due to nature of the land registration system in the PRC, we are unable to search the original documents to verify the existing title of the property interests or any material encumbrances that might be attached to the property interests.

We have inspected the exterior and, where possible, the interior of the property interests included in the attached valuation certificates, in respect of which we have been provided with such information as we have required for the purpose of our valuations. However, no structural survey has been made, but in the course of our inspection we did not note any apparent serious defects. We are not, however, able to report that the property interests are free from rot, infestation or any other structural defects. No tests were carried out to any of the services.

No allowance has been made in our report for any charges, mortgages or amounts owing on the property interests nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought and received confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary amounts stated in this report are in Hong Kong Dollars. The exchange rate adopted in our valuations as at 31 October 2002 being HK$1=RMB1.055. It has no significant fluctuation in the exchange rate between that date and the date of this letter.

Our valuations are summarised below and the valuation certificates are attached.

Yours faithfully,
for and on behalf of
SALLMANNS (FAR EAST) LTD.
Paul L. Brown
BSc FRICS FHKIS
Director

Note: Paul L. Brown is a Chartered Surveyor who has 19 years' experience in the valuation of properties in the PRC and 22 years' experience in the valuation of properties in Hong Kong, the United Kingdom and the Asia-Pacific region.

SUMMARY OF VALUES

Group I — Property interests rented and occupied by the Group in Hong Kong

	Property	Open market value in existing state as at 31 October 2002 *HK$*
1.	Flat 4407 on 44th Floor Apartment Tower on the Western Side Convention Plaza No. 1 Harbour Road Wanchai Hong Kong	No commercial value
2.	Room 1805 on 18th Floor Harbour Centre No. 25 Harbour Road Wanchai Hong Kong	No commercial value
	Sub-total:	Nil

Group II — Property interest held and occupied by the Group in the PRC

	Property	Fair market value in existing state as at 31 October 2002 *HK$*	Interest attributable to the Group	Fair market value attributable to the Group as at 31 October 2002 *HK$*
3.	A parcel of land, various buildings and structures located at Honglu Town Fuqing City Fujian Province The PRC	37,400,000	90%	33,660,000
			Sub-total:	33,660,000

Group III — Property interests rented and occupied by the Group in the PRC

	Property	Open market value in existing state as at 31 October 2002 *HK$*
4.	Portion of Level 15 Zhong Mei Building No. 107 Gu Tian Road Fuzhou City Fujian Province The PRC	No commercial value
5.	Room 1602 on Level 16 Block 7 No. 600 Long Liu Zhou Road Xu Hui District Shanghai City The PRC	No commercial value
6.	Room 201 on Level 2 Jin Bao Building Sha Wan Shenzhen City Guangdong Province The PRC	No commercial value
7.	Room 403 on Level 4 No. 505 Xing Long Ke Ji Village Hu Li District Xiamen City Fujian Province The PRC	No commercial value
8.	An office unit on Level 7 No. 8 Chuang Ye Road Gao Xin Da Dao Gao Xin District Chengdu City Sichuan Province The PRC	No commercial value
9.	Room 615 on Level 6 No. 218 Luo Yu Road Wu Chang District Wuhan City Hubei Province The PRC	No commercial value

	Property	Open market value in existing state as at 31 October 2002 *HK$*
10.	An office unit on Level 2 Yuan Nei Xiao Bai Lou No. 115 Wan Shou Road North Xin Cheng District Xian City Shanxi Province The PRC	No commercial value
	Sub-total:	Nil
	Total:	33,660,000

VALUATION CERTIFICATE

Group I — Property interests rented and occupied by the Group in Hong Kong

	Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at 31 October 2002 *HK$*
1.	Flat 4407 on 44th Floor Apartment Tower on the Western Side Convention Plaza No. 1 Harbour Road Wanchai Hong Kong	The property comprises a residential unit on 44th floor of a 45-storey residential building completed in about 1990. The property has a gross floor area of 772 sq.ft. or thereabouts. The property is rented to Artic Hong Kong Limited from an independent third party for a term of 2 years from 1 August 2001 to 31 July 2003 at an monthly rental of HK$23,000 including management fees and rates from 1 August 2002 to 31 July 2003.	The property is currently occupied by the Group as staff quarters.	No commercial value

Note:

1. Artic Hong Kong Limited is a wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at 31 October 2002 *HK$*
2.	Room 1805 on 18th Floor Harbour Centre No. 25 Harbour Road Wanchai Hong Kong	The property comprises an office unit on 18th floor of a 33-storey office building completed in about 1983. The property has a lettable area of 1,811 sq.ft. or thereabouts. The property is rented to Artic Hong Kong Limited from an independent third party for a term of 2 years from 15 December 2001 to 14 December 2003 at an monthly rental of HK$42,920.70 exclusive of rates and air-conditioning management and normal cleaning charges and all other outgoings.	The property is currently occupied by the Group for office purposes.	No commercial value

Note:

1. Artic Hong Kong Limited is a wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

Group II — Property interest held and occupied by the Group in the PRC

	Property	Description and tenure	Particulars of occupancy	Fair market value in existing state as at 31 October 2002 *HK$*
3.	A parcel of land, various buildings and structures located at Honglu Town Fuqing City Fujian Province The PRC	The property comprises a parcel of land with a site area of approximately 34,775 sq.m. (374,318.1 sq.ft.) on which various buildings and ancillary structures completed in various stages between 1997 to 1999 are erected. The property has a total gross floor area of 17,246.07 sq.m. (185,636.7 sq.ft.) or thereabouts. The major buildings include a 3-storey office building, two 2 to 3 storey factories, a 5-storey dormitory building and a 2-storey canteen and a single storey warehouse. The land use rights of the property were granted for a term of 25 years expiring on 21 September 2025.	The property is currently occupied by the Group for production and ancillary office purposes.	37,400,000 (90% interest attributable to the Group: HK$33,660,000)

Notes:

1. Pursuant to a Land Use Rights Transfer Contract dated 21 September 2000 entered into between the Land Administrative Bureau of Fuqing City and Fujian Fuqiang Delicate Circuit Plate Co., Ltd. ("Fuqiang"), a 90% owned indirect subsidiary of the Company, the land use rights of the property with a site area of 34,775 sq.m. were agreed to transfer to Fuqiang for a term of 25 years expiring on 21 September 2025 for industrial uses at the consideration of RMB2,347,312.5.

2. Pursuant to a State-owned Land Use Rights Certificate, Rong Hong Guo Yong (001) Zi No. 03126 dated 15 March 2001 issued by the Land Administrative Bureau of Fuqing City, the land use rights of the property with a site area of approximately 34,775 sq.m. were granted to Fuqiang for industrial uses.

3. Pursuant to a Building Ownership Certificate, Rong Fang Quan Zheng R Zi Di No. 0010301 dated 1 March 2001 issued by the People's Government of Fuqing City, the following 9 buildings with a total gross floor area of approximately 17,246.07 sq.m. are held by Fuqiang.

Use	Gross Floor Area *(sq.m.)*	Use	Gross Floor Area *(sq.m.)*
Workshop	3,611	Canteen	1,061.62
Workshop	7,990.97	Electricity Distribution Room	152
Warehouse	990.36	Sewage Treatment	113.68
Office	863.44	Guard House	16
Dormitory	2,447		
		Total Area:	17,246.07

4. We have been provided with a legal opinion on the title to the property interest by the Group's PRC legal adviser, Chen & Co. which contains, inter alia, the following information:

   a. the land use rights of the land are vested in Fuqiang and can be freely transferred, let and mortgaged by Fuqiang.

VALUATION CERTIFICATE

Group III — Property interests rented and occupied by the Group in the PRC

	Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at 31 October 2002 *HK$*
4.	Portion of Level 15 Zhong Mei Building No. 107 Gu Tain Road Fuzhou City Fujian Province The PRC	The property comprises a portion of level 15 of a 27-storey composite building completed in about 1998. The property has a gross floor area of 880 sq.m. or thereabouts. The property is rented to Fujian Fuqiang Delicate Circuit Plate Co., Ltd. from an independent third party for a term of 5 years from 1 February 1999 to 1 February 2004 at a monthly rental of RMB35,200.	The property is currently occupied by the Group for office purposes.	No commercial value

Notes:

1. Fujian Fuqiang Delicate Circuit Plate Co., Ltd. is a 90% owned indirect subsidiary of the Company.

2. We have been provided with a legal opinion on the title to the property interest by the Group's PRC legal adviser, Chen & Co., which contains, inter alia, the following information:

   a. the Tenancy Agreement is lawful and enforceable.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at 31 October 2002 *HK$*
5.	Room 1602 on Level 16 Block 7 No. 600 Long Liu Zhou Road Xu Hui District Shanghai City The PRC	The property comprises an office unit on level 16 of a 20-storey composite building completed in about 1995. The property has a saleable area of 110 sq.m. or thereabouts. The property is rented to Fujian Fuqiang Delicate Circuit Plate Co., Ltd. from an independent third party for a term of 5 years from 15 January 1998 to 14 January 2003 at a monthly rental of RMB3,500.	The property is currently occupied by the Group for office purposes.	No commercial value

Notes:

1. Fujian Fuqiang Delicate Circuit Plate Co., Ltd. is a 90% owned indirect subsidiary of the Company.

2. We have been provided with a legal opinion on the title to the property interest by the Group's PRC legal adviser, Chen & Co., which contains, inter alia, the following information:

   a. the Tenancy Agreement is lawful and enforceable.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at 31 October 2002 *HK$*
6.	Room 201 on Level 2 Jin Bao Building Sha Wan Shenzhen City Guangdong Province The PRC	The property comprises an office unit on level 2 of a 10-storey composite building completed in about 1993. The property has a gross floor area of 115 sq.m. or thereabouts. The property is rented to Fujian Fuqiang Delicate Circuit Plate Co., Ltd. from an independent third party for a term of 5 years from 6 February 1998 to 6 February 2003 at a monthly rental of RMB3,450.	The property is currently occupied by the Group for office purposes.	No commercial value

Notes:

1. Fujian Fuqiang Delicate Circuit Plate Co., Ltd. is a 90% owned indirect subsidiary of the Company.

2. We have been provided with a legal opinion on the title to the property interest by the Group's PRC legal adviser, Chen & Co., which contains, inter alia, the following information:

   a. the Tenancy Agreement is lawful and enforceable.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at 31 October 2002 *HK$*
7.	Room 403 on Level 4 No. 505 Xing Long Ke Ji Village Hu Li District Xiamen City Fujian Province The PRC	The property comprises an office unit on level 4 of a 6-storey composite building completed in about 1996. The property has a gross floor area of 120 sq.m. or thereabouts. The property is rented to Fujian Fuqiang Delicate Circuit Plate Co., Ltd. from an independent third party for a term of 5 years from 3 February 1998 to 2 February 2003 at a monthly rental of RMB3,080.	The property is currently occupied by the Group for office purposes.	No commercial value

Notes:

1. Fujian Fuqiang Delicate Circuit Plate Co., Ltd. is a 90% owned indirect subsidiary of the Company.

2. We have been provided with a legal opinion on the title to the property interest by the Group's PRC legal adviser, Chen & Co., which contains, inter alia, the following information:

   a. the Tenancy Agreement is lawful and enforceable.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at 31 October 2002 *HK$*
8.	An office unit on Level 7 No. 8 Chuang Ye Road Gao Xin Da Dao Gao Xin District Chengdu City Sichuan Province The PRC	The property comprises an office unit on level 7 of a 9-storey composite building completed in about 1996. The property has a gross floor area of 120 sq.m. or thereabouts. The property is rented to Fujian Fuqiang Delicate Circuit Plate Co., Ltd. from an independent third party for a term of 5 years from 2 March 1998 to 2 March 2003 at a monthly rental of RMB3,000.	The property is currently occupied by the Group for office purposes.	No commercial value

Notes:

1. Fujian Fuqiang Delicate Circuit Plate Co., Ltd. is a 90% owned indirect subsidiary of the Company.

2. We have been provided with a legal opinion on the title to the property interest by the Group's PRC legal adviser, Chen & Co., which contains, inter alia, the following information:

   a. the Tenancy Agreement is lawful and enforceable.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at 31 October 2002 *HK$*
9.	Room 615 on Level 6 No. 218 Luo Yu Road Wu Chang District Wuhan City Hubei Province The PRC	The property comprises an office unit on level 6 of a 6-storey composite building completed in about 1998. The property has a gross floor area of 80 sq.m. or thereabouts. The property is rented to Fujian Fuqiang Delicate Circuit Plate Co., Ltd. from an independent third party for a term of 2 years from 6 September 2001 to 5 September 2003 at a monthly rental of RMB1,100.	The property is currently occupied by the Group for office purposes.	No commercial value

Notes:

1. Fujian Fuqiang Delicate Circuit Plate Co., Ltd. is a 90% owned indirect subsidiary of the Company.

2. We have been provided with a legal opinion on the title to the property interest by the Group's PRC legal adviser, Chen & Co., which contains, inter alia, the following information:

   a. the Tenancy Agreement is lawful and enforceable.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at 31 October 2002 *HK$*
10.	An office unit on Level 2 Yuan Nei Xiao Bai Lou No. 115 Wan Shou Road North Xin Cheng District Xian City Shaanxi Province The PRC	The property comprises an office unit on level 2 of a 2-storey composite building completed in about 1998. The property has a gross floor area of 80 sq.m. or thereabouts. The property is rented to Fujian Fuqiang Delicate Circuit Plate Co., Ltd. from an independent third party for a term of 2 years from 1 July 2001 to 30 June 2003 at a monthly rental of RMB1,600.	The property is currently occupied by the Group for office purposes.	No commercial value

Notes:

1. Fujian Fuqiang Delicate Circuit Plate Co., Ltd. is a 90% owned indirect subsidiary of the Company.

2. We have been provided with a legal opinion on the title to the property interest by the Group's PRC legal adviser, Chen & Co., which contains, inter alia, the following information:

   a. the Tenancy Agreement is lawful and enforceable.

Set out below is a summary of certain provisions of the memorandum of association of the Company (the "Memorandum") and the Articles and of certain aspects of the Companies Law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 29 September 2000 under the Companies Law. The Memorandum and the Articles comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

(a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person, irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

(b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 8 May 2001. The following is a summary of certain provisions of the Articles:

(a) Directors

(i) *Power to allot and issue shares and warrants*

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) *Power to dispose of the assets of the Company or any subsidiary*

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iii) *Compensation or payments for loss of office*

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) *Loans and provision of security for loans to Directors*

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) *Disclosure of interests in contracts with the Company or any of its subsidiaries*

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board in respect of any contract or arrangement or other proposal in which he is to his knowledge materially interested but this prohibition shall not apply to any of the following matters, namely:

(aa) any contract or arrangement for giving of any security or indemnity to the Director in respect of money lent or obligations incurred or undertaken by him at the request of or for the benefit of the Company or any of its subsidiaries;

(bb) any contract or arrangement for the giving by the Company of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director has himself assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director is or is to be interested as a participant in the underwriting or sub-underwriting of the offer;

(dd) any contract or arrangement in which the Director is interested in the same manner as other holders of shares or debentures or other securities of the Company or any of its subsidiaries by virtue only of his interest in shares or debentures or other securities of the Company;

(ee) any contract or arrangement concerning any other company in which he is interested only, whether directly or indirectly, as an officer or executive or a shareholder other than a company in which the Director together with any of his associates (as defined by the rules, where applicable, of any Designated Stock Exchange (as defined in the Articles)) is beneficially interested in 5% or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest is derived); or

(ff) any proposal concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director as such any privilege or advantage not accorded to the employees to which such scheme or fund relates.

(vi) *Remuneration*

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) *Retirement, appointment and removal*

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not greater than one third) will retire from office by rotation provided that no Director holding office as chairman and/or managing director shall be subject to retirement by rotation, or be taken into account in determining the number of Directors to retire. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by a special resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office or director shall be vacated:

(aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board whereupon the Board resolves to accept such resignation;

(bb) becomes of unsound mind or dies;

(cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;

(dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;

(ee) if he is prohibited from being a director by law;

(ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) *Borrowing powers*

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(ix) *Proceedings of the Board*

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) *Register of Directors and Officers*

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within 30 days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to confirm any amendment to the Articles or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

(i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;

(ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;

(iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares as the directors may determine;

(iv) sub-divided its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares;

(v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or share premium account or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking pari passu therewith.

(e) Special resolution-majority required

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than 21 clear days' notice has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights (generally and on a poll) and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a show of hands, every member who is present in person or by proxy or being a corporation, is present by its duly authorised representative shall have one vote and on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share. Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a member which is a clearing house (or its nominee), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by (i) the chairman of the meeting or (ii) at least three members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting or (iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting or (iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

If a recognised clearing house is a member of the Company it may authorise such person or persons (or its nominee) as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee) which he represents as that clearing house (or its nominee) could exercise if it were an individual member of the Company.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of incorporation (within a period of not more than 15 months after the holding of the last preceding annual general meeting or a period of 18 months from the date of incorporation, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than 21 days before the date of the meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by at least 21 clear days' notice in writing, and any other extraordinary general meeting shall be called by at least 14 clear days' notice (in each case exclusive of the day on which the notice is served or deemed to be served and of the day for which it is given). The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

(i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and

(ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

(aa) the declaration and sanctioning of dividends;

(bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;

(cc) the election of directors in place of those retiring;

(dd) the appointment of auditors and other officers;

(ee) the fixing of the remuneration of the directors and of the auditors; and

(ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than 20% in nominal value of its existing issued share capital.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in such other form as the board may approve and which may be under hand or, if the transferror or transferee is a clearing house or its nominees(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferror and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferror shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferror or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferror to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole 30 days in any year.

(k) Power for the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange.

(l) Power for any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(m) Dividends and other methods of distribution

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or instalments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than 14 clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding 20% per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two hours on every business day by members without charge, or by any other person upon a maximum payment of HK$2.50 dollars, at the registered office or such other place in the Cayman Islands at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK$1.00 or such lesser sum specified by the Board (excluding photocopying charges), at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed pari passu amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums or shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner or purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business. A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions.

If any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m)., above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the court shall direct.

Any shareholder of a company may petition the court which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the Company's memorandum and articles of association.

(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the Company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Council:

(1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and

(2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 24 October 2000.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(n) Winding up

A company may be wound up by either an order of the court or by a special resolution of its members. The court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the court, just and equitable that such company be wound up.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above. Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

A company is placed in liquidation either by an order of the court or by a special resolution of its members. A liquidator is appointed whose duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting shall be called by Public Notice or otherwise as the Registrar of Companies may direct.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidator; and the Court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Courts. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting shareholders of a United States corporation.

(p) Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court of the Cayman Island within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, Cayman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents delivered to the registrar of companies and available for inspection" in Appendix V to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

FURTHER INFORMATION ABOUT THE COMPANY

Incorporation

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 29 September 2000 with an authorised share capital of HK$380,000 divided into 3,800,000 Shares, of which one Share was issued nil paid on 29 September 2000 to Codan Trust Company (Cayman) Limited and subsequently transferred to Mr. Lin on the same day.

The Company has established a place of business in Hong Kong at Room 1805, 18th Floor, Harbour Centre, 25 Harbour Road, Wanchai, Hong Kong. The Company was registered as an overseas company under Part XI of the Companies Ordinance on 1 February 2001. Mr. Lin of Flat 4407, 44th Floor, Apartment Tower on the Western Side, Convention Plaza, No. 1 Harbour Road, Wanchai, Hong Kong and Tong Yiu On of Flat 7A, 7th Floor, Wang Fung Building, 33 Chi Kiang Street, Tokwawan, Kowloon, Hong Kong have been appointed as the authorised representatives of the Company for the acceptance of service of process and notices on behalf of the Company in Hong Kong.

As the Company is incorporated in the Cayman Islands, it is subject to the Cayman Islands company law. Its constitution comprises a memorandum of association and the articles of association. A summary of certain relevant parts of the Company's constitution and certain relevant aspects of the Cayman Islands company law is set out in appendix III to this document.

Changes in share capital of the Company

As at its date of incorporation, the authorised share capital of the Company was HK$380,000 divided into 3,800,000 Shares of a nominal value of $0.10 each. On 29 September 2000, the one subscriber Share of HK$0.10, issued nil paid, in the share capital of the Company, was transferred from Codan Trust Company (Cayman) Limited to Mr. Lin.

On 8 May 2001, the authorised share capital of the Company was increased from HK$380,000 to HK$100,000,000 by the creation of an additional 996,200,000 Shares.

On 8 May 2001, in accordance with the sale and purchase agreement referred to in the sub-paragraph headed "Summary of material contracts" under the paragraph headed "Further information about the business of the Company" in this appendix, the Company acquired from Mr. Lin, Ms. Kwok Kin Kwok ("Ms. Kwok") and Ms. Pok Lo Ha ("Ms. Pok"), the entire issued share capital of Superford, and in consideration thereof (i) 860,013 Shares, 69,993 Shares and 69,993 Shares, credited as fully paid up, were allotted and issued to Mr. Lin, Ms. Kwok and Ms. Pok respectively; and (ii) the existing one Share issued nil paid on 29 September 2000 and held by Mr. Lin was credited as fully paid up at par.

On 11 May 2001, the Company allotted and issued a total of 67,500,000 Shares at HK$0.90 per Share through an initial public offering by way of placing, and a total of 269,000,000 Shares, credited as fully paid, to holders of Shares whose names appeared on the register of members of the Company at the close of business on 8 May 2001 in proportion to their then existing shareholdings of the Company, by way of capitalizing HK$26,900,000 standing to the credit of the share premium account of the Company.

On 8 June 2001, the Company allotted and issued a total of 10,125,000 Shares at HK$0.90 per Share pursuant to the exercise of an over-allotment option relating to the aforesaid initial public offering.

On 25 March 2002, Guotai Junan Securities (Hong Kong) Limited, acting as the placing agent, agreed to place initially 15,000,000 Shares (together with a maximum of 5,000,000 Shares upon the exercise of the over-allocation option) held by Mr. Lin to independent third parties at HK$1.00 per Share. At the same time, Mr. Lin agreed to subscribe for initially 15,000,000 new Shares (together with a maximum of 5,000,000 new Shares upon the exercise of the over-allocation option) at the placing price of HK$1.00 per Share. The net proceeds from the subscription of approximately HK$19,000,000 was applied as general working capital of the Group in facilitation of its specific business objectives for the remaining nine months ended 31 December 2002.

On 13 June 2002, Guotai Junan Securities (Hong Kong) Limited, acting as the placing agent, agreed to place 35,000,000 Shares held by Mr. Lin to independent third parties at HK$1.35 per Share. Meanwhile, Mr. Lin agreed to subscribe for 35,000,000 new Shares at the placing price of HK$1.35 per Share. The net proceeds from the subscription of approximately HK$45,000,000 will be used for potential equity investment(s) in business(es) which would enhance the Company's system design expertise.

As at the Latest Practicable Date, the authorised share capital of the Company was HK$100,000,000 divided into 1,000,000,000 Shares and the issued share capital was HK$40,262,500 divided into 402,625,000 Shares, each of which was allotted fully paid or credited as fully paid, and 597,375,000 Shares remained unissued. Other than the Shares issuable pursuant to the exercise of any options which are granted under the Share Option Scheme or may, prior to its termination, be granted thereunder or which may be granted under the Proposed Share Option Scheme if the same are approved by the Shareholders, the Directors have no present intention to issue any part of the authorised but unissued capital of the Company and, without the prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

Save as disclosed herein, there has been no alteration in the share capital of the Company since the date of its incorporation.

Changes in share capital of subsidiaries

The Company's subsidiaries are referred to in the accountants' report, the text of which is set out in appendix I to this document.

Artic Hong Kong Limited

On 8 June 2001, Artic Hong Kong Limited ("Artic") was incorporated with limited liability in Hong Kong with an authorised share capital of HK$10,000 divided into 10,000 shares of HK$1.00 each. The 2 shares issued by Artic are held by the Company (as to 1 share) and Mr. Lin (as to 1 share). Pursuant to a declaration of trust dated 22 June 2001 made by Mr. Lin in favour of the Company. Mr. Lin agreed to hold his single share in Artic as nominee in trust for the Company.

China Electronic Holdings Company Limited

On 29 June 2001, China Electronic Holdings Company Limited ("China Electronic") was incorporated with limited liability in Hong Kong with an authorised share capital of HK$10,000 divided into 10,000 shares of HK$1.00 each. The 2 shares issued by China Electronic are held by the Company (as to 1 share) and Mr. Lin (as to 1 share). Pursuant to a declaration of trust dated 1 August 2001 made by Mr. Lin in favour of the Company. Mr. Lin agreed to hold his single share in Artic as nominee in trust for the Company.

Dynamic Fortune Technology Limited

On 2 January 2002, Dynamic Fortune Technology Limited ("Dynamic") was incorporated in the BVI as an international business company with an authorised share capital US$50,000 divided into 50,000 shares of US$1.00 each. On 3 June 2002, the Company subscribed for 100 shares of US$1.00 each in Dynamic and was duly allotted and issued by Dynamic.

Save as disclosed herein, there has been no alteration in the share capital of any of the subsidiaries of the Company within the two years preceding the date of this document.

Repurchase by the Company of its own Shares

This paragraph includes the information required by the Listing Rules to be included in this document concerning the Repurchase Mandate.

(a) *Source of funds*

Repurchase must be paid out of funds legally available for the purpose in accordance with the Company's memorandum and articles of association, the applicable laws and regulations of the Cayman Islands and the GEM Listing (prior to the listing of Shares on the Main Board) or the Listing Rules (after the listing of Shares on the Main Board). A company whose shares are listed on the Stock Exchange may not repurchase its own shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange in force from time to time.

(b) *Reasons for repurchases*

The Directors believe that it is in the best interest of the Company and its Shareholders for the Directors to have a general authority from the Shareholders to enable the Directors to repurchase on behalf of the Company Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net assets and/or earnings per Share and will only be made if the Directors believe that such repurchases will benefit the Company and its Shareholders.

(c) *Exercise of the Repurchase Mandate*

On the basis of the current financial position of the Group as disclosed in this document and taking into account the current working capital position of the Group, the Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of the Group as compared with the position disclosed in this document. However, the Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements or the gearing level of the Group which in the opinion of the Directors are from time to time appropriate for the Group.

The exercise in full of the Repurchase Mandate, on the basis of 402,625,000 Shares would be in issue as at 9 January 2003 (being the expected date of approval of the Repurchase Mandate), would result in up to 40,262,500 Shares being repurchased by the Company during the period in which the Repurchase Mandate remains in force.

(d) *General*

The Company has not repurchased any of its Shares since its incorporation. None of the Directors nor, to the best of their knowledge and belief having made all reasonable enquiries, any of their respective associates (as defined in the Listing Rules), has any present intention to sell any Shares to the Company.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules, the memorandum and articles of association of the Company and the applicable laws of the Cayman Islands.

If, as a result of a share repurchase pursuant to the Repurchase Mandate, a shareholder's proportionate interest in the voting rights of the Company is increased, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a shareholder or a group of shareholders acting in concert could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

The full exercise of the Repurchase mandate will not result in the number of Shares held by the public being reduced to less than the minimum prescribed percentage (as defined under the Listing Rules) of the Shares then in issue.

No connected person (as defined in the Listing Rules) has notified the Company that he has a present intention to sell Shares to the Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

The highest and lowest prices at which the Shares have traded on GEM during each of the 12 months before the Latest Practicable Date are as follows:

	Price Per Share	
	Highest	**Lowest**
	HK$	*HK$*
November 2002	0.96	0.83
October 2002	0.97	0.84
September 2002	1.03	0.95
August 2002	1.15	0.99
July 2002	1.34	1.00
June 2002	1.51	1.30
May 2002	1.36	1.12
April 2002	1.19	1.10
March 2002	1.15	0.88
February 2002	0.86	0.78
January 2002	0.84	0.79
December 2001	0.93	0.80

FURTHER INFORMATION ABOUT THE BUSINESS OF THE COMPANY

Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by the members of the Group within the two years preceding the date of this document and are or may be material:

(a) an agreement dated 8 May 2001 entered into between the Company, Mr. Lin, Ms. Kwok and Ms. Pok in relation to the sale and purchase of shares in Superford, pursuant to which Mr. Lin, Ms. Kwok and Ms. Pok transferred all their shareholding in Superford, being the entire issued share capital of Superford, to the Company and the Company, in consideration thereof, (i) allotted and issued 860,013 Shares, 69,993 Shares and 69,993 Shares, credited as fully paid up, to each of Mr. Lin, Ms. Kwok and Ms. Pok respectively, and (ii) credited as fully paid up at par the existing one Share issued nil paid on 29 September 2000 and held by Mr. Lin;

(b) deed of indemnity dated 8 May 2001 executed by Mr. Lin in favour of the Company (for itself and as trustee for its subsidiaries) containing the indemnity in connection with the ownership of Qiangwang and PRC export/domestic sales ratio and referred to in the sub-paragraph headed "Other indemnities" under the paragraph headed "Other information" in this appendix;

(c) the conditional underwriting agreement entered into on 11 May 2001 between the Company, the executive Directors, Mr. Lin, DTCFL, JS Cresvale International Limited, Guotai Junan Securities (Hong Kong) Limited and the underwriters named therein in relation to the placing of 67,500,000 Shares (subject to over-allotment option);

(d) deed of taxation indemnity dated 11 May 2001 executed by Mr. Lin in favour of the Company (for itself and as trustee for its subsidiaries) containing the indemnities in respect of taxation referred to in the sub-paragraph headed "Estate duty and tax indemnity" under the paragraph headed "Other information" in this appendix;

(e) a placing and subscription agreement dated 25 March 2002 entered into by the Company, Mr. Lin and Guotai Junan Securities (Hong Kong) Limited in relation to (i) a placing of 15,000,000 Shares (together with a maximum of 5,000,000 Shares upon exercise of the over-allocation option) held by Mr. Lin to independent third parties at a placing price of HK$1.00 per Share, and (ii) a subscription of 15,000,000 Shares (together with a maximum of 5,000,000 new Shares upon exercise of over-allocation option) by Mr. Lin at HK$1.00 per Share;

(f) a placing and subscription agreement dated 13 June 2002 entered into by the Company, Mr. Lin and Guotai Junan Securities (Hong Kong) Limited in relation to (i) a placing of 35,000,000 Shares held by Mr. Lin to independent third parties at a placing price of HK$1.35 per Share, and (ii) a subscription of 35,000,000 new Shares by Mr. Lin at HK$1.35 per Share; and

(g) the conditional sale and purchase agreement dated 15 August 2002 entered into between Dynamic Fortune Technology Limited as purchaser and Chen Hong Liang as vendor, whereby the purchaser agreed to purchase and the vendor agreed to sell 49 shares of Floret Industries, representing 49% of the issued share capital of Floret Industries at a consideration of RMB47 million (equivalent to approximately HK$44.6 million).

Intellectual property

As at the Latest Practicable Date, the Group owned, or had registered the following trademarks:

Trademark	Class	Items covered	Country/ Region of registration	Registration number	Renewal date
富强 FUQIANG	9	Printed circuit board, positive polar place, resistance material, photoconductor, electrode, integrated printed circuit board, electric wire connector, terminals, integrated circuit, capacitor panel (electric current)*	PRC	1316277	20 September 2009
富强 FUQIANG	9 (Part B)	Printed circuit boards, electrical resistance materials, photoconductors, electronic, integrated circuits, integrated circuit boards, electric wire connectors, binding post terminals, electrical capacitor panels and passive polar plates, all included in Class 9	Hong Kong	B03809	2 January 2008

* *English translation of items covered*

As at the Latest Practicable Date, the Group has registered the following domain name:

Domain Name	Registration Date	Expiry Date
sinotronics.com.cn	27 September 2000	27 September 2003

Information about the Group's PRC subsidiary

The Company has interests in the following PRC subsidiary:

Fuqiang

Nature:	Sino-foreign joint venture
Registered capital:	RMB46,000,000
Total investment:	RMB70,000,000
Joint venture parties:	Superford and Furi Electronics
Attributable interest of the Company:	90%
Date of establishment:	22 March 1996
Term of joint venture:	15 years commencing from 22 March 1996 to 20 March 2011
Profit and loss sharing ratio:	in accordance with the ratio of their respective equity interests
Restriction on transfer of equity interest:	other party has pre-emption right
Asset distribution upon termination:	in accordance with the ratio of equity interests

The chairman of the board of directors of Fuqiang does not have any casting vote under the articles of association of Fuqiang. The following are directors of Fuqiang and their respective dates of appointment:

Name	**Date of Appointment**
Lin, Wan Qaing (林萬強) nominated by Superford	16 March 1996
He, Yu Zhu (何玉珠) nominated by Superford	16 March 1996
Lin, Wan Xin (林萬新) nominated by Superford	2 February 1997
Lin, Wan Liang (林萬良) nominated by Superford	15 October 1998
Li, Yun Wu (李運武) nominated by Furi Electronics	27 October 1999
Zhang, Xiong Ming (張雄明) nominated by Superford	13 April 2001
Hu, Zhao Rui (胡兆瑞) nominated by Superford	13 April 2001

FURTHER INFORMATION ABOUT DIRECTORS, MANAGEMENT AND STAFF

Disclosure of interest

The beneficial interest of the Directors in the share capital of the Company and the associated corporations (within the meaning of the SDI Ordinance) of the Company which will have to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which they are taken or deemed to have taken under section 31 of or Part 1 of the Schedule to the SDI Ordinance) once the Shares are listed on the Main Board, or will be required, pursuant to section 29 of the SDI Ordinance, to be entered in the register required to be kept therein once the Shares are listed on the Main Board, or will be required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Listing Rules to be notified to the Company and the Stock Exchange once the Shares are listed on the Main Board, or will be (assuming that their interests will remain unchanged after the Latest Practicable Date up to the commencement of listing of Shares on the Main Board):

Name of Company	Name of Director	Personal interest	Family interest	Corporate interest	Other interest	Total
The Company	Mr. Lin	232,203,780 Shares Approximately 57.67% shareholding interest				232,203,780 Shares Approximately 57.67% shareholding interest

Particulars of service contracts

Each of Mr. Lin, Mr. Liu Zhao Cai, Mr. Xiang Song and Mr. Tong Yiu On has entered into a service agreement with the Company. Particulars of these agreements, except as indicated, are in all material respects identical and are set out below:

(a) each service agreement of Mr. Lin and Mr. Xiang Song is of an initial term of three years with fixed term of one year commencing on 8 May 2001 and shall continue for successive terms of one year commencing from the day next after the expiry of the then current term unless terminated;

(b) the service agreement of Mr. Liu Zhao Cai is of an initial term of three years with fixed term of one year commencing on 22 April 2002 and shall continue for successive terms of one year commencing from the day next after the expiry of the then current term unless terminated;

(c) the service agreement of Mr. Tong Yiu On is of an initial term of three years with fixed term of one year commencing on 18 December 2002 and shall continue for successive terms of one year commencing from the day next after the expiry of the then current term unless terminated;

(d) Each of the executive Directors is/will be entitled to the respective basic salaries set out below (subject to an annual increment after each completed year of service at a rate to be determined at the sole and absolute discretion of the board of Directors, provided that such increase shall not exceed 10% of the then current annual remuneration of the relevant Director). In addition, the executive Directors are also entitled, to a discretionary bonus as the board of Directors may in its absolute discretion determine having regard to the performance of the executive Director and the operating results of the Group which, in respect of any financial year of the Company, shall not be more than 10% of the audited consolidated net profit after taxation and minority interests but before extraordinary and exceptional items of the Group for that financial year, which amount shall be paid within one calendar month after the announcement of the audited final results of the

Group for that financial year. The discretionary bonus shall only be payable when the audited consolidated net profit after taxation and minority interests but before extraordinary and exceptional items of the Group and before payment of the total discretionary bonuses payable to all the executive Directors shall exceed HK$80 million. An executive Director may not vote on any resolution of the Directors regarding the amount of the bonus payable to him; and

(e) The basic monthly salaries of the executive Directors are as follows:

Name	**Amount** *(HK$)*
Mr. Lin	50,000
Mr. Liu Zhao Cai	25,000
Mr. Xiang Song	25,000
Mr. Tong Yiu On	67,000

Save as disclosed above, none of the Directors has entered or has proposed to enter into any service agreements with the Company or any members of the Group (other than contracts expiring or determinable by the employer within one year without payment of compensation or other statutory corporation).

Directors' remuneration

During the year ended 30 June 2002, the aggregate remuneration paid and benefits in kind granted to the Directors who acted in the capacity as a director of the Group were approximately HK$1,736,000.

Under the present arrangements, the aggregate of the remuneration paid or payable to, and benefits in kind received or receivable by, the Directors for the year ending 30 June 2003 are estimated to be approximately HK$1,632,000 (excluding management bonuses, if any, payable to the Directors).

Disclaimers

Save as disclosed in this document:

(a) none of the Directors or chief executives has for the purpose of section 28 of the SDI Ordinance, nor is any of them taken to or deemed to have under section 31 of, or Part I of the Schedule to, the SDI Ordinance, any interests in the securities of the Company or any associated corporations (within the meaning of the SDI Ordinance) or any interests which will have to be entered in the register to be kept by the Company pursuant to section 29 of the SDI Ordinance or are required pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules relating to securities transactions by Directors, or will be required pursuant to the Model Code for Securities Transactions by Directors of listed Companies as set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange;

(b) none of the Directors or the experts named in the paragraph headed "Qualification of experts" of this appendix is interested in the promotion of, or has any direct or indirect interest in, any assets which were acquired or disposed of by or leased to, any member of the Group within the two years immediately preceding the date of this document or which are proposed to be acquired or disposed of by or leased to any member of the Group;

(c) no Director is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to the business of the Group taken as a whole; and

(d) none of the experts named in the paragraph headed "Qualification of experts" of this appendix has any shareholding in any company in the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any company in the Group.

Substantial shareholder

So far as the Directors are aware, before and immediately following the Introduction, the Shareholder will be interested or deemed to be interested under the SDI Ordinance in 10% or more of the Shares then in issue will be as follows:

Name	Number of Shares	Percentage of issued Shares
Mr. Lin	232,203,780	57.67%

SHARE OPTION SCHEMES

Share Option Scheme

If approved by the Shareholders at the extraordinary general meeting of the Company to be held on 9 January 2003, the Share Option Scheme as detailed in the Prospectus will be superseded by the Proposed Share Option Scheme upon commencement of trading in Shares on the Main Board, which is expected to be at 9:30 a.m. on 20 January 2003. As at the date hereof, no option has been or has agreed to be granted pursuant to the Share Option Scheme.

Proposed Share Option Scheme

The following is the principal terms of the Proposed Share Option Scheme proposed to be adopted at the Shareholders at the extraordinary general meeting of the Company to be held on 9 January 2003 to replace the Share Option Scheme:

1. *Purpose*

The purpose of the Proposed Share Option Scheme is to enable the Company to grant options to employees (whether full time or part time), executives or officers of the Company or any of its subsidiaries (including executive and non-executive directors of the Company or any of its subsidiaries) and any business consultants, agents, legal or financial advisers who the Board considers, in its sole discretion, will contribute or have contributed to the Company or any of its subsidiaries as incentives and rewards for their contribution to the Company or such subsidiaries.

2. *Who may join*

The Board may, at its discretion, offer eligible participants (being employees (whether full time or part time) or executives or officers of the Company or any of its subsidiaries (including executive and non-executive directors of the Company or any of its subsidiaries) and business consultants, agents, legal or financial advisers who the Board considers, in its sole discretion, will contribute or have contributed to the Company or any of its subsidiaries) ("Eligible Participants"), options to subscribe for such number of new Shares as the Board may determine at an exercise price determined in accordance with paragraph 5 below. Upon acceptance of the option, the grantee shall pay HK$1.00 to the Company by way of consideration for the grant.

3. *Maximum number of Shares*

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Proposed Share Option Scheme and any other share option scheme(s) of the Company must not exceed 10% of the Shares (i.e., assuming that no further options are granted until the date of the extraordinary general meeting, 40,262,510 Shares) in issue on the date of approval and adoption of the Proposed Share Option Scheme by the Shareholders (which is expected to be 9th January, 2003, being the date of the extraordinary general meeting). Options lapsed in accordance with the terms of such share option scheme(s) will not be counted for the purpose of the 10% limit. Subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Board may:

(a) refresh this limit at any time to 10% of the Shares in issue as at the date of the approval by the Shareholders in general meeting (options previously granted under any share option schemes of the Company (including those outstanding, cancelled, lapsed in accordance with such schemes or exercised options) will not be counted for the purpose of calculating the limit as refreshed); and/or

(b) grant options beyond the 10% limit to Eligible Participants specifically identified by the Board whereupon the Company shall send a circular to the Shareholders containing, amongst others, a generic description of the specified participants who may be granted such options, the number and terms of the options to be granted and the purpose of granting options to the specified participants with an explanation as to how the options serve such purpose.

Notwithstanding the foregoing, the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Proposed Share Option Scheme and any other share option scheme(s) of the Company at any time shall not exceed 30% of the Shares in issue from time to time. No options shall be granted under any scheme(s) of the Company or any of its subsidiaries if this will result in the 30% limit being exceeded.

4. *Maximum number of options to any one individual*

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Proposed Share Option Scheme and any other share option scheme(s) of the Company (including exercised, cancelled and outstanding options) to each Eligible Participant in any 12-month period up to the date of grant shall not exceed one per cent of the Shares in issue as at the date of grant.

Any further grant of options in excess of this one per cent limit shall be subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting with such Eligible Participant and his associates (as defined in the Listing Rules) abstaining from voting and/or other requirements prescribed under the Listing Rules from time to time.

5. *Price of Shares*

The subscription price for a Share in respect of any particular option granted under the Proposed Share Option Scheme (which shall be payable upon exercise of the option) shall be such price as the Board in its absolute discretion shall determine, save that such price must not be less than the highest of (a) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of offer to grant option, which must be a business day; (b) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheet for the five (5) business days immediately preceding the date of offer to grant option; and (c) the nominal value of a Share.

6. *Granting options to connected persons*

Any grant of options to a director, chief executive or substantial shareholder of the Company or any of their respective associates (as defined in the Listing Rules) is required to be approved by the independent non-executive directors (excluding the independent non-executive director who is the grantee of the options).

If the Company proposes to grant options to a substantial shareholder (as defined in the Listing Rules) or an independent non-executive director of the Company or their respective associates (as defined in the Listing Rules) which will result in the number of Shares issued and to be issued upon exercise of all options granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of the offer of such grant:

(a) representing in aggregate over 0.1% of the Shares in issue on the date of the offer; and

(b) having an aggregate value in excess of HK$5 million, based on the closing price of the Shares at the date of each offer,

such further grant of options will be subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting on a poll at which all connected persons (as defined in the Listing Rules) of the Company shall abstain from voting, and/or such other requirements prescribed under the Listing Rules from time to time. A connected person (as defined in the Listing Rules) of the Company will be permitted to vote against the grant only if his intention to do so has been stated in the circular.

7. *Restrictions on the time of grant of options*

An offer to grant option may not be made after a price-sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price-sensitive information has been announced pursuant to the requirements of the Listing Rules. In particular, no options may be offered to be granted during the period commencing one month immediately preceding the earlier of (a) the date of the Board meeting for the approval of the Company's annual or interim results; and (b) the deadline for the Company to publish its interim or annual results announcement under the listing agreement and ending on the date of actual publication of the results announcement.

8. *Rights are personal to grantee*

An option is personal to the grantee and the grantee may not in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to any option or attempt to do so.

9. *Time of exercise of option*

There is no general requirement that an option must be held for any minimum period before it can be exercised but the Board is empowered to impose at its discretion any such minimum period at the time of grant of any particular option. The Board is currently unable to determine such minimum period. The date of grant of any particular option is the date when the duplicate offer document constituting acceptance of the option duly signed by the grantee, together with a remittance in favour of the Company of HK$1.00 by way of consideration is received by the Company, such date must be on or before the 30th day after the option is offered to the relevant grantee. The period during which an option may be exercised will be determined by the Board at its absolute discretion, save that no option may be exercised more than 10 years from the date of grant. No option may be granted more than 10 years after the date of approval of the Proposed Share Option Scheme. Subject to earlier termination by the Company in general meeting, the Proposed Share Option Scheme shall be valid and effective for a period of 10 years from the date of adoption of the Proposed Share Option Scheme by Shareholders by resolution at a general meeting.

10. *Performance Target*

The Board has the discretion to require a particular grantee to achieve certain performance targets specified at the time of grant before any option granted under the Proposed Share Option Scheme can be exercised. There are no specific performance targets stipulated under the terms of the Proposed Share Option Scheme and the Board is currently unable to determine such restriction on the exercise of the options granted under the Proposed Share Option Scheme.

11. *Rights on ceasing to be an Eligible Participant and death*

In the event of the grantee ceasing to be an Eligible Participant for any reason (including his or her death) other than (i) the termination of his or her relationship with the Company and/or any of its subsidiaries on one or more of the grounds specified in paragraph 12 below; or (ii) the termination of the same for any reason during the 12-month period following the date upon which the relevant option is deemed to be granted and accepted in accordance with the Proposed Share Option Scheme, the grantee may exercise the option up to his or her entitlement at the date of cessation of being an Eligible Participant (to the extent not already exercised) within the period of six (6) months following the date of such cessation, which date shall be the last actual working day on which the grantee was at work with the Company or its relevant subsidiary on which salary is paid whether in lieu of notice or not, or such longer period as the Board may in its absolute discretion determine.

12. *Lapse of option on misconduct, bankruptcy or dismissal etc.*

If a grantee ceases to be an Eligible Participant by reason of the termination of his relationship with the Company and/or any of its subsidiaries on any one or more of the grounds that he has been guilty of serious misconduct, or has committed any act of bankruptcy or is unable to pay his or her debts or has become insolvent or has made any arrangement or has compromised with his or her creditors generally, or has been convicted of any criminal offence involving his or her integrity or honesty or in relation to an employee of the Company and/or any of its subsidiaries (if so determined by the Board) on any other ground on which an employer would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the Grantee's service contract with the company or the relevant subsidiary, his or her option will lapse and not be exercisable on the date of termination of his or her relationship with the Company and/or any of its subsidiaries.

13. *Rights on general offer*

If a general offer, whether by way of takeover, share repurchase offer or scheme of arrangement or otherwise in like manner, is made to all the holders of Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror) and such offer becomes or is declared unconditional (with the meaning of the Hong

Kong Code on Takeovers and Mergers), the grantee shall be entitled to exercise the option in full or in part (to the extent not already exercised) at any time within 1 month after the date on which the offer becomes or is declared unconditional.

14. *Rights on compromise or arrangement between the Company and its members or creditors*

If, pursuant to the Companies Laws, a compromise or arrangement between the Company and its members and/or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company or companies, the Company shall give notice thereof to all the grantees (together with a notice of the existence of the provisions of this paragraph) on the same day as it despatches to members and/or creditors of the Company a notice summoning the meeting to consider such a compromise or arrangement, and thereupon each grantee shall be entitled to exercise all or any of his/her options in whole or in part at any time prior to 12:00 noon (Hong Kong time) on the business day immediately preceding the date of the meeting directed to be convened by the relevant court for the purposes of considering such compromise or arrangement and if there are more than one meeting for such purpose, the date of the first meeting. With effect from the date of such meeting, the rights of all grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapsed and determined. The Company Board shall endeavour to procure that the Shares issued as a result of the exercise of options in such circumstances shall for the purposes of such compromise or arrangement form part of the issued share capital of the Company on the effective date thereof and that such Shares shall in all respects be subject to such compromise or arrangement. If for any reason such compromise or arrangement is not approved by the relevant court (whether upon the terms presented to the relevant court or upon any other terms as may be approved by such court) the rights of the grantees to exercise their respective options shall with effect from the date of the making of the order by the relevant court be restored in full as if such compromise or arrangement had not been proposed by the Company and no claim shall lie against the Company or any of its officers for any loss or damage sustained by any grantee as a result of the aforesaid suspension.

15. *Rights on winding-up*

In the event a notice is given by the Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall on the same date as or soon after it despatches such notice to each member of the Company give notice thereof to all grantees (together with a notice of the existence of the provisions of this paragraph) and thereupon, each grantee shall be entitled to exercise all or any of his or her options (to the extent not already exercised) at any time not later than two business days prior to the date of the proposed general meeting of the Company by giving notice in writing to the Company, accompanied by a remittance for the full amount of the aggregate exercise price for the Shares in respect of which the notice is given, whereupon the Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting referred to above, allot and issue the relevant number of Shares to the grantee credited as fully paid.

16. *Lapse of the options*

An option will lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

(a) the expiry date relevant to that option;

(b) the expiry of any of the periods referred to in paragraphs 11 or 14 above;

(c) the date of commencement of the winding-up of the Company (as determined in accordance with the applicable law) as referred to in paragraph 15 above;

(d) the date on which the scheme for the reconstruction of the Company or its amalgamation with any other company or companies, becomes effective as referred to in paragraph 14 above;

(e) the date on which the grantee ceases to be an Eligible Participant by reason of the termination of his relationship with the Company and/or any of its subsidiaries on any one or more of the grounds specified in paragraph 12 above. A resolution of the Board or the board of directors of the relevant subsidiary to the effect that the employment of a grantee has or has not been terminated on one or more of the grounds specified in paragraph 12 above shall be conclusive;

(f) the date on which the Board shall exercise the Company's right to cancel the option at any time after the grantee commits a breach of the prohibitions specified in paragraph 8 above or the options are cancelled in accordance with paragraph 20 below;

(g) the date on which the grantee ceases to be so employed by the Company and/or any of its subsidiaries during the 12-month period following the date on which the option is deemed to be granted and accepted in accordance with the Proposed Share Option Scheme;

(h) the date on which the grantee ceases to be an Eligible Participant on or after committing any act of bankruptcy or becoming insolvent or making any arrangements or composition with his creditors generally.

17. *Ranking of Shares*

The Shares to be allotted upon the exercise of an option will not carry voting rights until completion of the registration of the grantee (or such other person nominated by the grantee) as the holder thereof and will be subject to all the provisions of the articles of association of the Company for the time being in force and will rank pari passu in all respects with the fully paid Shares in issue on the relevant date of allotment. In particular, such Shares will rank pari passu in respect of voting, transfer and other rights, including those arising on liquidation of the Company and rights in respect of any dividend or other distribution paid or made after the relevant date of issue other than any dividend or other distributions previously declared or recommended or resolved to be paid or made if the record date therefor shall be on or before the relevant date of issue as attached to the other fully-paid Shares in issue on the date of issue.

18. *Effect of alterations to capital*

In the event of capitalisation of profits or reserves, rights issue, consolidation, sub-division or reduction of the share capital of the Company, the Company shall instruct the auditors to and the auditors shall, at the request of the Company, certify in writing such corresponding alterations (if any) made in (except on an issue of securities of the Company as consideration in a transaction which shall not be regarded as circumstances requiring alteration or adjustment) the number of Shares subject to any option or the exercise price thereof so far as such option or any part thereof remains unexercised, either generally or as regards any particular grantee to be in their opinion fair and reasonable, provided that any such alterations shall be made on the basis that a grantee shall have the same proportion of the equity capital of the Company as that to which he or she was entitled to subscribe had he or she exercised all the options held by him or her immediately before such adjustments and the aggregate exercise price payable by a grantee on the full exercise of any option shall remain as nearly as possible the same as (but shall not be greater than) it was before such event and that no such alterations shall be made the effect of which would be to enable a Share to be issued at less than its nominal value. The capacity of the auditors in this paragraph is that of experts and not of arbitrators and their certification, in the absence of manifest error, shall be final and conclusive and binding on the Company and the grantees. The costs and expenses in connection with the issue of such certificate by the auditors shall be borne by the Company.

19. *Alteration of Proposed Share Option Scheme*

The Proposed Share Option Scheme may be altered in any respect by resolution of the Board except that:

(a) any alteration to the advantage of the grantees or the Eligible Participants (as the case may be) in respect of the matters contained in Rule 17.03 of the Listing Rules;

(b) any change to the authority of the Board or scheme administrators in relation to any alteration to the terms of the Proposed Share Option Scheme; and

(c) any material alteration to the terms and conditions of the Proposed Share Option Scheme or any change to the terms of options granted (except any alterations which take effect automatically under the terms of the Proposed Share Option Scheme),

must be made with the prior approval of the shareholders of the Company in general meeting provided that no alteration shall operate to adversely affect the terms of issue of any option granted or agreed to be granted prior to the date of alteration or to reduce the proportion of the equity capital to which any person was entitled pursuant to such option prior to the alteration except with the sanction obtained in accordance with the terms of the Proposed Share Option Scheme.

20. *Cancellation of options*

Any cancellation of options granted but not exercised must be approved by the grantee of the relevant options. Where the Company cancels options and issues new ones to the same grantee, the issue of such new options may only be made under the Proposed Share Option Scheme with available unissued options (excluding the cancelled options) within the limit approved by Shareholders.

21. *Termination of the Proposed Share Option Scheme*

The Company may by resolution in general meeting or the Board may at any time terminate the Proposed Share Option Scheme and in such event no further option shall be offered but the provisions of Proposed Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any option granted prior to the termination or otherwise as may be required in accordance with the provisions of the Proposed Share Option Scheme. Options granted prior to such termination shall continue to be valid and exercisable in accordance with the Proposed Share Option Scheme.

22. *Condition of the Proposed Share Option Scheme*

The Proposed Share Option Scheme is conditional on (a) the Shareholders' approval of the adoption of the Proposed Share Option Scheme and termination of the Share Option Scheme at the extraordinary general meeting to be held on 9 January 2003; (b) the Listing Committee of the Stock Exchange granting approval for the listing of, and permission to deal in, the Shares which may fall to be issued pursuant to the exercise of options granted pursuant thereto; and (c) the dealings of Shares on the Main Board commence.

23. *Disclosure in annual and interim reports*

The Company will disclose details of the Proposed Share Option Scheme in its annual and interim reports including the number of options, date of grant, exercise price, exercise period, vesting period and (if appropriate) a valuation of options granted during the financial year/period in the annual/interim reports in accordance with the Listing Rules in force from time to time.

24. *Present status of the Proposed Share Option Scheme*

Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares which may fall to be issued pursuant to the exercise of the options granted under the Proposed Share Option Scheme.

OTHER INFORMATION

Estate duty and tax indemnity

Mr. Lin (the "Indemnifier") entered into a deed of taxation indemnity on 11 May 2001 (the "Effective Date") with and in favour of the Company (for itself and as trustee for its subsidiaries) (being material contract (d) as referred to in the sub-paragraph headed "Summary of material contracts" under the paragraph headed "Further information about the business of the Company" in this Appendix) to provide indemnities in respect of, among other matters, any liability for Hong Kong estate duty which might be incurred by any member of the Group by reason of any transfer of property (within the meaning of section 35 of the Estate Duty Ordinance of the Laws of Hong Kong) to any member of the Group on or before the date on which the placing becomes unconditional pursuant to the conditional underwriting agreement dated 11 May 2001 (being material contract (c) as referred to in the sub-paragraph headed "Summary of material contracts" under the paragraph headed "Further information about the business of the Company" in this Appendix).

Under the deed of taxation indemnity, the Indemnifier has also given indemnities to the Group in relation to taxation which might be payable by any member of the Group in respect of any income, profits or gains earned, accrued or received on or before the Effective Date.

The aforesaid indemnities do not apply in certain circumstances including (i) where such liability for taxation would not have arisen but for some act or omission of or transaction voluntarily effected by any member of the Group (whether alone or in conjunction with any other act, omission or transaction, whenever occurring) without the prior written consent or agreement of the Indemnifier other than any such act, omission or transaction (a) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets on or before the Effective Date; or (b) carried out, made or entered into pursuant to a legally binding commitment created on or before the Effective Date; or (c) consisting of any member of the Group ceasing or being deemed to cease to be a member of the Group or being associated with any other company for taxation purposes; and (ii) where provisions have been made in the audited accounts of the Group up to 30 June 2000. Further, the said deed of indemnity does not cover any Taxation Claim (as defined therein) to the extent that such Taxation Claim arises or is incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law or practice by the Hong Kong Inland Revenue Department or any of the relevant authorities coming into force after the date of the deed of taxation indemnity or to the extent that such Taxation Claim arises or is increased by an increase in rates of taxation after such date with retrospective effect.

Other indemnities

Mr. Lin also entered into a deed of indemnity on 8 May 2001 in favour of the Company, for itself and as trustee for its subsidiaries, (being material contract (b) as referred to in the sub-paragraph headed "Summary of material contracts" under the paragraph headed "Further information about the business of the Company" in this Appendix), whereby Mr. Lin will fully indemnify and at all times keep the Group and any member of the Group fully indemnified on demand without set off or counterclaim against (i) any depletion in value and assets, costs, fees, expenses, claims, losses, and liabilities of any nature whatsoever which might be incurred or suffered by any member of the Group relating to or arising out of or as a result of (whether direct or indirect) the ownership arrangement of Qiangwang being declared or determined by any PRC court or relevant government authority to be illegal, invalid or unenforceable in any respect and including, but not limited to any costs or express incurred by the Group in proceedings or inquiries leading to such declaration or determination and (ii) of all action, proceedings, claims, demands, losses, payments, liabilities, penalties, damages, costs, charges and expenses which any member of the Group may incur, suffer or sustain directly or indirectly in connection with or arising out of the non-compliance of PRC export/domestic sales ratio by Fuqiang.

Litigation

As at the Latest Practicable Date, no member of the Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

Sponsors

DTCFL, Guotai Junan and CAF Securities have, on behalf of the Company, made an application to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, all the Shares in issue and any Shares which may fall to be issued pursuant to the exercise of any options which were granted or may, prior to its termination, be granted under the Share Option Scheme or which may be granted under the Proposed Share Option Scheme on the Main Board of the Stock Exchange.

Promotor

The promotor of the Company is Mr. Lin. Save as pursuant to his director's service agreement with the Company, within two years preceding the date of this document, no amount or benefit has been paid or given to the promotor in connection with the Introduction or the related transactions described herein.

Expenses

The estimated expenses in respect of the Introduction are approximately HK$6.8 million and are payable by the Company.

Qualification of experts

The qualification of the experts who have given their opinion which is contained in the document are as follows:

Name	Qualifications
DTCFL	a registered investment adviser and securities dealer under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong)
Guotai Junan	a registered investment adviser under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong)
CAF Securities	a registered investment adviser and securities dealer under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong)
Charles Chan, Ip & Fung CPA Ltd.	certified public accountants
Sallmanns (Far East) Limited	property valuer
Conyers Dill & Pearman, Cayman	Cayman Islands attorney-at-law
Chen & Co.	legal advisers on PRC law

Consents of experts

Each of DTCFL, Guotai Junan, CAF Securities, Charles Chan, Ip & Fung CPA Ltd., Sallmanns (Far East) Limited, Conyers Dill & Pearman, Cayman and Chen & Co. has given and has not withdrawn its written consent to the issue of this document with the inclusion of its report and/or letter and/or valuation certificate and/or opinion and/or the references to its name included herein in the form and context in which it is respectively included.

Miscellaneous

(a) Save as disclosed in this document:

(i) within the two years preceding the date of this document, no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued as fully or partly paid up either for cash or for a consideration other than cash, and no commission, discount, brokerage or other special terms have been granted in connection with the issue or sale of any share or loan capital of the Company or its subsidiaries; and

(ii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option.

(b) the Company has no founders, management or deferred shares.

(c) Necessary arrangements have been made with HKSCC for the Shares to continue to be accepted as eligible securities of CCASS.

(d) No major change in the nature of the business of the Group is being contemplated by the Directors following the listing of the Shares on the Main Board.

Copies of the following documents will be available for inspection at the offices of Sidley Austin Brown & Wood, 49/F., Bank of China Tower, 1 Garden Road, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this document:

(a) the Prospectus;

(b) the memorandum of association of the Company and the Articles;

(c) the accountants' report prepared by Charles Chan Ip & Fung CPA Ltd., the texts of which are set out in Appendix I to this document;

(d) the annual reports of the Company for each of the two financial years ended 30 June 2002 and the quarterly report of the Company for the three months ended 30 September 2002;

(e) the letter, summary of values and valuation certificate prepared by Sallmanns (Far East) Limited, the texts of which are set out in Appendix II to this document;

(f) the rules of the Proposed Share Option Scheme;

(g) the Companies Law;

(h) the letter prepared by Conyers Dill & Pearman, Cayman summarising certain aspects of Cayman Islands company law as referred to in Appendix III to this document;

(i) the material contracts referred to in the sub-paragraph headed "Summary of material contracts" under the paragraph headed "Further information about the business of the Company" in Appendix IV to this document; and

(j) the written consents of experts referred to in the sub-paragraph headed "Consents of experts" under the paragraph headed "Other information" in Appendix IV to this document.