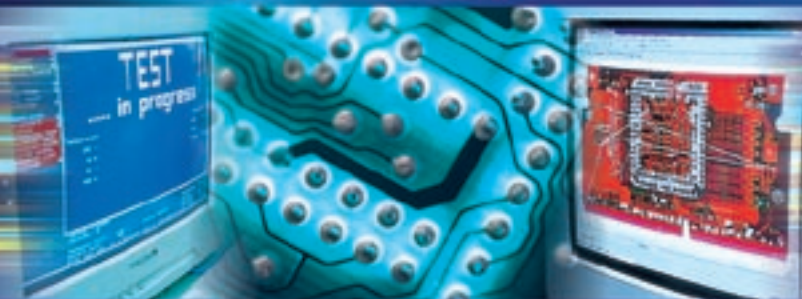




SINOTRONICS HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)



PLACING

Sponsor

**Deloitte & Touche
Corporate Finance Ltd**

Co-Sponsor

JS CRESVALE

Joint Lead Managers



Guotai Junan Securities (Hong Kong) Limited

JS Cresvale International Limited

IMPORTANT

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



SINOTRONICS HOLDINGS LIMITED (華翔電路控股有限公司)*

(Incorporated in the Cayman Islands with limited liability)

LISTING ON THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED

BY WAY OF PLACING

Number of Placing Shares : 67,500,000 Shares (subject to
Over-allotment Option)
Issue Price : HK\$0.90 per Share
Nominal Value : HK\$0.10 each
Stock Code : 8115

Sponsor

**Deloitte & Touche
Corporate Finance Ltd**

Co-Sponsor

JS CRESVALE

Joint Lead Managers



Guotai Junan Securities (Hong Kong) Limited

JS Cresvale International Limited

Underwriters

Guotai Junan Securities (Hong Kong) Limited
DBS Asia Capital Limited
Kingsway SW Securities Limited

JS Cresvale International Limited
Deloitte & Touche Corporate Finance Limited
Shenyin Wanguo Capital (H.K.) Limited

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, 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 prospectus.

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents delivered to the Registrar of Companies and available for inspection" in Appendix VII to this prospectus, has been registered with the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance. The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any of the other documents referred to above.

11th May, 2001

CHARACTERISTICS OF GEM

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

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

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

CONTENTS

DISCLAIMER

You should rely only on the information contained in this prospectus to make your investment decision.

The Company has not authorised any person to provide you with information that is different from what is contained in this prospectus.

Any information or representation not made in this prospectus must not be relied on by you as having been authorised by the Company, the Sponsors, the Joint Lead Managers, the Underwriters, any of their respective directors or any other person or party involved in the Placing.

This Prospectus does not constitute an issue or invitation in any place in which, or to any person to whom, it would not be lawful to make such an issue or invitation.

	<i>Page</i>
Expected timetable	<i>iv</i>
Summary	1
Definitions	15
Glossary of technical terms	21
Risk factors	27
Waivers in respect of the GEM Listing Rules and Companies Ordinance	38
Information about this prospectus and the Placing	41
Directors and parties involved in the Placing	44
Corporate information	47
Industry overview	49
Group structure	63

CONTENTS

	<i>Page</i>
Business	
History and development	64
Strategic alliance with a recognised research institution	67
Business of the Group	68
Business model	70
Products and services	72
Quality control	73
Distribution	73
Purchases	74
Sales and marketing	75
Strengths	76
Competition	77
Intellectual property rights	77
Environmental and safety matters	78
Possible competing business by Furi Electronics	78
Connected transaction	78
Statement of active business pursuits	79
Statement of business objectives	85
Directors, senior management and staff	98
Substantial shareholder, Initial Management Shareholder and Significant Shareholders	103
Share capital	106
Financial information	108
Sponsors' interests	125
Underwriting	126
Structure of the Placing	129
Appendices	
I — Accountants' report	132
II — Pro forma financial information	156
III — Profit forecast	159
IV — Property valuation	162
V — Summary of the constitution of the Company and Cayman Islands company law	173
VI — Statutory and general information	197
VII — Documents delivered to the Registrar of Companies and available for inspection	225

EXPECTED TIMETABLE

2001

Announcement of the level of indication of interests in the Placing
to be published on the GEM Website on or before Wednesday, 16th May,

Allotment of the Placing Shares on or before Wednesday, 16th May,

Despatch of share certificates on or before Wednesday, 16th May,

Dealings in the Shares on GEM to commence on Thursday, 17th May,

Note:

1. All times refer to Hong Kong local time.
2. The share certificate(s) is/are expected to be deposited into CCASS on 16th May, 2001 for credit to the respective CCASS participants' stock accounts of the Underwriters on the places under the Placing. No temporary documents of title will be issued.
3. For details of the structure of the Placing, including the conditions thereto, see the section headed "Structure of the Placing" in this prospectus.
4. Shares will be traded in board lots of 4,000 Shares.

SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read the prospectus in its entirety before you decide to invest in the Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Shares are set out in the section headed "Risk factors". You should read that section carefully before you decide to invest in the Shares.

BUSINESS

The Group is an electronic manufacturing services provider in the PRC offering a full range of solutions to electronics ODMs and CEMs throughout the production cycle of PCBs, which covers layout design, development, prototyping, fabrication and testing. In order to provide comprehensive solutions to customers, the Group also assists its customers to arrange PCB assembly and sub-system testing.

The Group commenced the construction of its PCB fabrication plant in Fuqing City, Fujian Province, the PRC in September 1996. Volume production of double-sided PCBs commenced in October 1997, while the fabrication of multilayer PCBs commenced in January 1999. In November 1998, the Group was among a group of 28 companies accredited by Fujian Province Science and Technology Commission[#] (福建省科學技術委員會) as a new and advanced technology enterprise[#] (高新科技企業).

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 an engineering centre in Fuzhou City, Fujian Province, the PRC, to offer a broader portfolio of engineering services to Newland. This engineering centre was established with the intention to assist Newland in bringing its products from concept to volume production in order to improve its competitiveness in the market. The range of services provided by this engineering centre covers CAM and CAD-based design, "design-for-manufacturability", PCB layout design and testing development. Since November 1998, the Group has also devoted substantial efforts in the research and development of PCMCIA and metal-based multilayer PCBs.

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. On the other hand, the low-mix strategy targets to serve fewer ODMs and handles orders in larger production lots with lower margin. With the capability of adopting both high-mix and low-mix strategies, the Group focuses more on the high-mix strategy by structuring a mix of medium and small size production lots in its order list.

SUMMARY

The Group's high-mix, "one-stop" EMS strategy quickly achieved satisfactory result, as evidenced by an approximately 116 per cent. revenue growth for the year ended 30th June, 2000. The after-tax profit margin before minority interests of the Group also grew from approximately 9.4 per cent. for the year ended 30th June, 1999 to approximately 20.2 per cent. for the year ended 30th June, 2000. During this period, the Group 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 PCBs are also intended for use in the defence and aerospace industries of the PRC, which signifies the Group's achievement in technology and product quality. With its well equipped facilities and PCB design expertise, the Directors believe that the Group is one of the leading providers of PCB design and manufacturing solutions in Fujian Province, the PRC.

STRATEGIC ALLIANCE WITH A RECOGNISED RESEARCH INSTITUTION

The Group entered into a non-exclusive strategic alliance agreement with Electronic Research Institute, an independent third party, in July 2000. Electronic Research Institute is one of the state-owned research institutions specialising in electronics and communications technology research. It has undertaken a variety of state and provincial level research projects such as CD-09 Pupil Tester[#] (CD-09瞳孔測試儀), Multi-usage Chinese Information Management System[#] (多用途漢字信息處理系統), JX Interest Calculation computer[#] (JX型計息電腦), 60JKQ Multi-user Remote Control Exchanger[#] (60JKQ程控用戶交換器), CAT-F1 Micro Auxiliary Electrical Engineering Testing System[#] (CAT-F1微機輔助電機測試系統), Micro Electric Power Adjustment System[#] (微機電力調度系統), Micro-type All-purpose Electric Voltage Testing System[#] (微機型全能電參量測試系統), CRST-B LCD[#] (液晶體顯示CRST-B型) and Bar-Code Attendance System[#] (條碼考勤機). The strategic alliance between the Group and Electronic Research Institute aims to commit the two parties in the development of a joint engineering design centre to undertake future research and development projects from ODMs. This joint engineering design centre, which is expected to be established by June 2001, will serve as an outsourcing alternative to the Group's in-house engineering support team. According to this strategic alliance agreement, allocation of profits will be determined on a project-by-project basis based on the expected contribution by each partner. Engineering services to be offered by this joint engineering design centre include the following:

- initial design of PCBs and PCB layout design;
- sub-system level design services for electronics and communications products;
- system design services for communications and communications related consumer products; and
- system-level applications and technology solutions development in the communications sector.

Electronic Research Institute will provide necessary research and development supports to the Group, while the Group will market the engineering services offered by the joint engineering design centre by capitalising on its existing business connections and customer base.

SUMMARY

BUSINESS OBJECTIVES

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. Under its EMS strategy, the Group aims to keep track of the rapidly changing needs of its customers and develop EMS solutions that can accommodate their needs. Focusing on its EMS strategy, the Group intends to achieve the following goals over the next two to three years:

- continuing implementation of its EMS strategy by expanding its engineering support and service capacity;
- development of PCB fabrication capacity of 27,000 square metres (based on the Directors' estimation of a future product mix of approximately 25 per cent. single and double-sided PCBs and approximately 75 per cent. multilayer PCBs) to achieve economies of scale;
- become an integral part of the customers' product development and manufacturing strategy;
- become a "one-stop-shop" for PCB fabrication, PCB assembly and sub-system design services; and
- expansion of its global sales network.

STRENGTHS

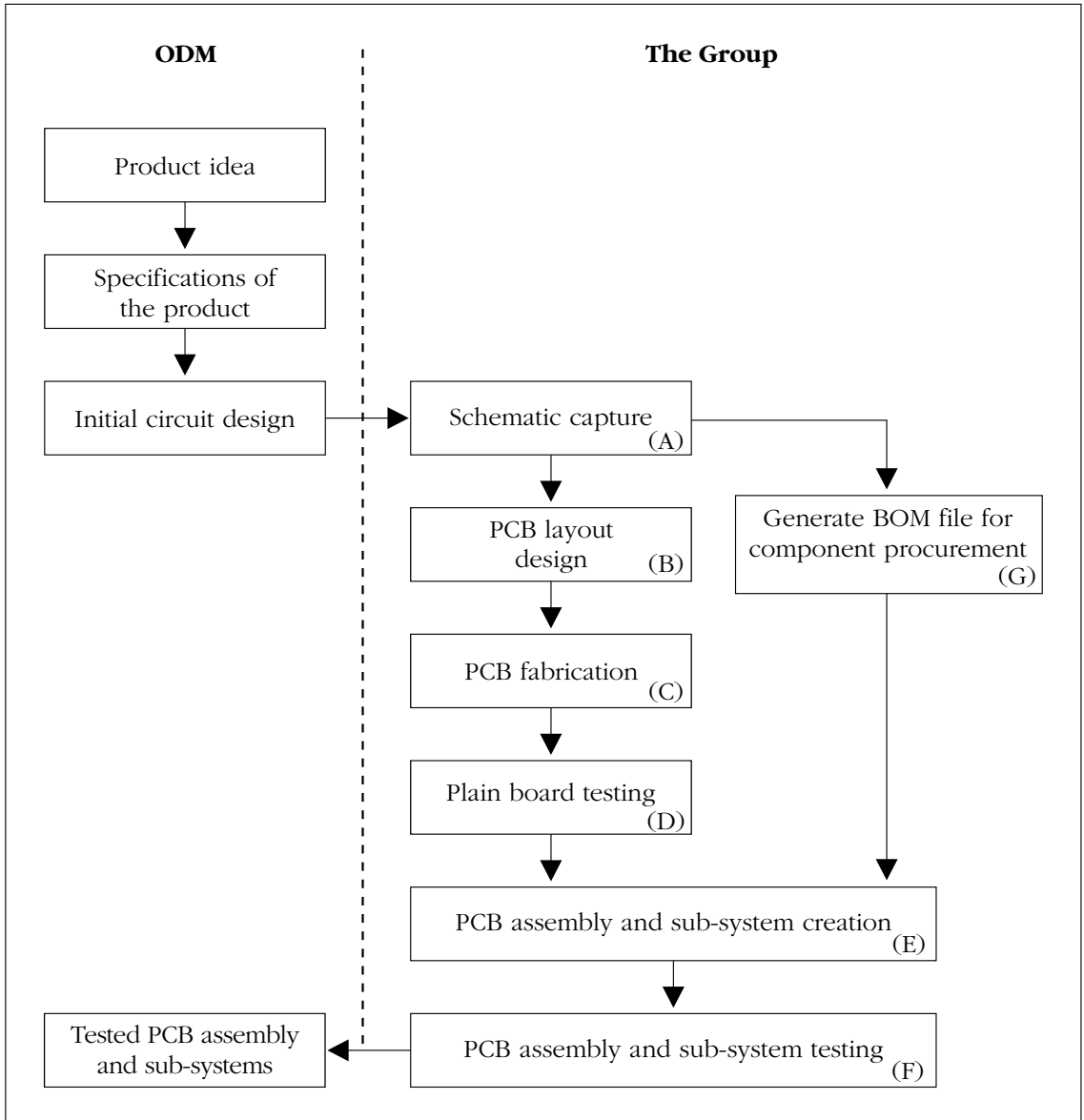
The Directors believe that the Group has the following strengths:

- a well-established customer base;
- an experienced and committed management team capable of attracting talented employees;
- 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 high quality in its products and offer outstanding engineering support services;
- the ability to conduct continuous evaluation and adopt new manufacturing and production technologies;
- 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 major manufacturing bases in the PRC for communications and communications related products.

SUMMARY

BUSINESS MODEL

The following flowchart illustrates the Group's current 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 customers' production and/or engineering sites.

SUMMARY

FUTURE PLANS & STRATEGIES

Continuing implementation of its EMS strategy by expanding engineering support and service capacity

The Group intends to expand its EMS business by providing PCB fabrication, PCB assembly and sub-system design services specifically to focused industry sectors and applications. The Group will also encourage its customers to outsource most of their layout designs and some of their sub-system development to the Group. 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.

Development of PCB fabrication capacity to achieve economies of scale

To achieve economies of scale, the Group intends to upgrade its production plant for fabrication of single-sided, double-sided and multilayer PCBs from the current monthly production capacity of approximately 12,000 square metres, as estimated by the Directors based on an estimated product mix of approximately 60 per cent. single and double-sided PCBs and approximately 40 per cent. multilayer PCBs to approximately 27,000 square metres, as estimated by the Directors based on an estimated product mix of approximately 25 per cent. single and double-sided PCBs and approximately 75 per cent. multilayer PCBs, in two to three years.

Become an integral part of the customers' product development and manufacturing strategy

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.

As a step to capture the market potential, the Directors also intend to establish strategic partnerships with certain international semiconductor manufacturers for the provision of IC applications solutions to ODMs in China.

Become 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 establish its own PCB assembly facilities.

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, faster production ramps, reduced inventories and shortened production cycle.

SUMMARY

Expansion of global sales network

The Group intends to establish direct global independent sales representatives and domestic branches. The Directors plan to further expand the Group's sales network, which is expected to make continuous and significant contribution to the Group's future business growth.

REASONS FOR THE PLACING AND USE OF PROCEEDS

The Placing will enhance the Group's capital base and provide funding for the expansion plan and the implementation of its EMS strategy. It is estimated that the net proceeds from the Placing before the exercise of the Over-allotment Option and after deducting related expenses are estimated to be approximately HK\$47.6 million. The Group currently intends to use such net proceeds as follows:

- approximately HK\$30 million for the expansion of the PCB fabrication plant;
- approximately HK\$10 million for the development of EMS business and the purchase of related equipment;
- approximately HK\$4 million for the construction of a SMT assembly line;
- 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; and
- approximately HK\$0.3 million for the establishment of a joint engineering design centre with Electronic Research Institute to undertake future research and development projects from ODMs.

Should the Over-allotment Option be exercised in full, the Company will receive additional net proceeds of approximately HK\$8.7 million. The Directors intend to use such additional proceeds for general working capital of the Group.

SUMMARY OF RISK FACTORS

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

SUMMARY

Risks relating to the Group

- Reliance on the PRC market
- Limited profit history
- Expansion may strain management and resources of the Group
- Intellectual property rights
- Reliance on key personnel
- Liquidity of the Group
- Financing risks
- Potential product liability
- PRC export/domestic sales ratio
- Reliance on the Group's major customers
- Possible competing business by Furi Electronics
- Risks relating to the Group's strategies, future operations and resources

Risks relating to the electronics industry

- The demands and uncertainties of the electronics industry
- Reliance on suppliers and availability of raw materials and components
- Competition
- Environmental matters
- Industry information

SUMMARY

Risks relating to the PRC

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

Risks relating to the Placing

- No prior public market for the Placing Shares

Risks relating to statements made in this prospectus

- Forward-looking statements contained in this prospectus may differ materially from those discussed in this prospectus

INITIAL MANAGEMENT SHAREHOLDER AND SIGNIFICANT SHAREHOLDERS OF THE COMPANY

The following sets out the respective shareholding interests of the Initial Management Shareholder and the Significant Shareholders immediately after the Placing and the Capitalisation Issue (assuming the Over-allotment Option is not exercised), and the restriction on disposal or transfer of the shares to which they are subject immediately after the Placing and the Capitalisation Issue (assuming the Over-allotment Option is not exercised):

Name	Number of Shares held immediately after the Placing	Approximate percentage of Shares held immediately after the Placing	Moratorium period	Date of first entry	Approximate cost of investment	Approximate cost of investment per Share
Initial Management Shareholder						
Mr. Lin	232,203,780	68.80%	6+6 months <i>(note 1)</i>	20th March, 1996 <i>(note 2)</i>	RMB46,000,000	RMB0.20
Significant Shareholders						
Ms. Kwok Kin Kwok <i>(note 3)</i>	18,898,110	5.60%	6 months <i>(note 5)</i>	28th September, 2000	HK\$15,960,000	HK\$0.84
Ms. Pok Lo Ha <i>(note 4)</i>	18,898,110	5.60%	6 months <i>(note 5)</i>	28th September, 2000	HK\$15,960,000	HK\$0.84

SUMMARY

Notes:

- 1. Mr. Lin has undertaken to the Company, the Sponsors and the Stock Exchange that, save as provided in Rule 13.17 of the GEM Listing Rules, he will not sell, transfer or otherwise dispose of (or enter into any agreement to sell, transfer or otherwise dispose of) or permit the registered holder to sell, transfer or otherwise dispose of (or enter into any agreement to sell, transfer or otherwise dispose of) any of his direct or indirect interests in any of the Shares held by him as at the Listing Date during: (i) a period of six months commencing from the Listing Date ("First Relevant Lock Up Period"); and (ii) the second six months commencing from the expiry of the First Relevant Lock Up Period if immediately following such sale, transfer or disposal, Mr. Lin would cease to control, directly or indirectly, less than 35 per cent. of the issued share capital of the Company.*
- 2. Fuqiang was established on 20th March, 1996 and Mr. Lin held an indirect interest through Qiangwang. Details of the initial shareholding structure of Fuqiang are set out in the section headed "Business" in this prospectus.*
- 3. Ms. Kwok Kin Kwok is a Hong Kong permanent resident and is engaged in various investment activities in the PRC including agriculture, hotel management and information technology. Ms. Kwok is an independent third party not connected with the Company, the Directors, its chief executive, management shareholders, substantial shareholders and any of their respective associates, and her holding of the equity interests in the Company is for investment purposes.*
- 4. Ms. Pok Lo Ha is a Hong Kong permanent resident and is engaged in various trading and investment activities in the PRC. Ms. Pok is an independent third party not connected with the Company, the Directors, its chief executive, management shareholders, substantial shareholders and any of their respective associates, and her holding of the equity interests in the Company is for investment purposes.*
- 5. Each of the Significant Shareholders has severally undertaken to the Company, the Sponsors and the Stock Exchange that, save as provided in Rule 13.19 of the GEM Listing Rules, she will not sell, transfer or otherwise dispose of (or enter into any agreement to sell, transfer or otherwise dispose of) or permit the registered holder to sell, transfer or otherwise dispose of (or enter into any agreement to sell, transfer or otherwise dispose of) any of the direct or indirect interests in any of the Shares held by her (excluding any Shares subscribed or purchased pursuant to the Placing) as at the Listing Date for a period of six months from the Listing Date.*

SUMMARY

TRADING RECORD

The following is a summary of the combined results of the Group for each of the two years ended 30th June, 2000 and the five months ended 30th November, 2000 (collectively, the “Relevant Period”) which have been extracted from the accountants’ report set out in Appendix I to this prospectus. Basis of preparation is disclosed in section 1 of the accountants’ report set out in Appendix I to this prospectus.

	Notes	For the year ended 30th June, 1999		For the year ended 30th June, 2000		For the five months ended 30th November, 2000	
		RMB'000	HK\$'000 (Note 1)	RMB'000	HK\$'000 (Note 1)	RMB'000	HK\$'000 (Note 1)
Turnover	2	40,475	37,827	86,756	81,846	66,137	62,394
Cost of sales		(24,968)	(23,335)	(47,816)	(45,109)	(32,484)	(30,645)
Gross profit		15,507	14,492	38,940	36,737	33,653	31,749
Distribution and selling expenses		(1,260)	(1,178)	(2,732)	(2,577)	(1,678)	(1,583)
General and administrative expenses		(7,737)	(7,231)	(10,793)	(10,183)	(3,237)	(3,054)
Profit from operations		6,510	6,083	25,415	23,977	28,738	27,112
Subsidy		200	187	400	377	400	377
Interest income		2,572	2,404	381	360	20	19
Finance costs		(5,464)	(5,107)	(8,708)	(8,215)	(2,714)	(2,560)
Profit before taxation		3,818	3,567	17,488	16,499	26,444	24,948
Taxation		—	—	—	—	—	—
Profit after taxation but before minority interests		3,818	3,567	17,488	16,499	26,444	24,948
Minority interests		(1,909)	(1,784)	(8,358)	(7,885)	(2,644)	(2,495)
Profit attributable to shareholders		<u>1,909</u>	<u>1,783</u>	<u>9,130</u>	<u>8,614</u>	<u>23,800</u>	<u>22,453</u>
Dividend		<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Earnings per share – Basic	3	<u>RMB0.71 cents</u>	<u>HK0.66 cents</u>	<u>RMB3.38 cents</u>	<u>HK3.19 cents</u>	<u>RMB8.81 cents</u>	<u>HK8.32 cents</u>

Notes:

- (1) Translation of amounts from Chinese Renminbi (“RMB”) into Hong Kong dollars (“HK\$”) is for the convenience of readers and has been made at the rates of exchange in effect at 30th June, 1999 of RMB107 = HK\$100, 30th June, 2000 of RMB106 = HK\$100 and 30th November, 2000 of RMB106 = HK\$100. No representation is made that the Chinese 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.

SUMMARY

- (2) Turnover represents the net invoiced value (excluding value-added tax) of merchandise sold after allowances for returns and discounts.
- (3) The calculation of basic earnings per share for each of the two years ended 30th June, 2000 and the five months ended 30th November, 2000 is based on the profit attributable to shareholders during these years/period and assuming 270,000,000 Shares in issue and issuable, comprising 1,000,000 Shares in issue as at the date of this prospectus and 269,000,000 Shares to be issued pursuant to the Capitalisation Issue as described in Appendix VI to this Prospectus.

Under paragraph 27 of Part I of the Third Schedule to the Companies Ordinance, a listing applicant is required to set out in its listing document a statement as to the gross trading income or sales turnover (as may be appropriate) of the Group during the three preceding years. Paragraph 31 of Part II of the Third Schedule to the Companies Ordinance requires a listing applicant to set out a report, prepared by its auditors and reporting accountants, containing its financial information in respect of each of the three financial years immediately preceding the issue of the listing document.

The Company has sought a certificate of exemption from the SFC from strict compliance with Section 342(1) of the Companies Ordinance pursuant to which a prospectus is required to contain matters specified in Part I of the Third Schedule to the Companies Ordinance and reports specified in Part II of the Third Schedule to the Companies Ordinance.

The SFC has granted an exemption from strict compliance with Section 342(1) of the Companies Ordinance, in particular, paragraph 27 of Part I and paragraph 31 of Part II of the Third Schedule to the Companies Ordinance, so that the Group is only required to include in this prospectus its trading record, financial results and information covering the two financial years ended 30th June, 2000 and the five months ended 30th November, 2000 – see paragraph headed “Exemption from compliance with Section 342(1) of the Companies Ordinance” under the section headed “Waivers in respect of the GEM Listing Rules and Companies Ordinance” in this prospectus.

The Directors confirm that they have performed sufficient due diligence on the Group to ensure that, up to the date of issue of this prospectus, there has been no material adverse change in the financial position of the Group since 30th November, 2000, and there is no event which would materially affect the information shown in the accountants’ report set out in Appendix I to this prospectus.

SUMMARY

Set out below are the pro forma combined results of the Group for each of the two years ended 30th June, 2000 as if the Group's 90 per cent. interest in Fuqiang, the interest owned by the Group since 19th June, 2000 onwards, had been held since 1st July, 1998. Further details about the basis of preparation are set out in Appendix II to this prospectus.

	Pro forma for the year ended 30th June,			
	1999		2000	
	<i>RMB'000</i>	<i>HK\$'000</i>	<i>RMB'000</i>	<i>HK\$'000</i>
Turnover	40,475	37,827	86,756	81,846
Cost of sales	(24,968)	(23,335)	(47,816)	(45,109)
Gross profit	15,507	14,492	38,940	36,737
Distribution and selling expenses	(1,260)	(1,178)	(2,732)	(2,577)
General and administrative expenses	(7,737)	(7,231)	(10,793)	(10,183)
Profit from operations	6,510	6,083	25,415	23,977
Subsidy	200	187	400	377
Interest income	2,572	2,404	381	360
Finance costs	(5,464)	(5,107)	(8,708)	(8,215)
Profit before taxation	3,818	3,567	17,488	16,499
Taxation	—	—	—	—
Profit after taxation but before minority interests	3,818	3,567	17,488	16,499
Minority interests	(382)	(357)	(1,749)	(1,650)
Profit attributable to shareholders	<u>3,436</u>	<u>3,210</u>	<u>15,739</u>	<u>14,849</u>

SUMMARY

PROFIT FORECAST FOR THE YEAR ENDING 30TH JUNE, 2001

Forecast combined profit after taxation and minority interests
but before extraordinary items ⁽¹⁾ not less than RMB55 million
(equivalent to approximately HK\$52 million)

Forecast earnings per Share:
weighted average ⁽²⁾ HK\$0.187
pro forma fully diluted ⁽³⁾ HK\$0.159

- (1) The forecast combined profit after taxation and minority interests but before extraordinary items of the Group for the year ending 30th June, 2001 has been arrived at on the bases and assumptions set out in Appendix III to this prospectus.
- (2) The calculation of the forecast earnings per share on a weighted average basis is based on the forecast combined profit after taxation and minority interests but before extraordinary items for the year ending 30th June, 2001 and the weighted average number of 278,506,850 Shares expected to be in issue during the year ending 30th June, 2001 (based on the total of 337,500,000 Shares expected to be in issue immediately following the Placing and the Capitalisation Issue and assuming no exercise by the Directors of the general mandate granted to allot and issue Shares, or which may be repurchased by the Company). The calculation assumes that the Over-allotment Option was not exercised.
- (3) The calculation of the forecast pro forma fully diluted earnings per share is based on the forecast combined profit after taxation and minority interests but before extraordinary items for the year ending 30th June, 2001 and on the assumption that the Company had been listed since 1st July, 2000 and that 337,500,000 Shares were in issue throughout the year. The forecast combined profit after taxation and minority interests but before extraordinary items for the year ending 30th June, 2001 has been adjusted to take into account the interest income that would have been earned if the net proceeds from the Placing were received on 1st July, 2000 and assuming a net after-tax interest rate of 4 per cent. per annum earned from such date to 16th May, 2001 (being the expected date of receipt of the estimated net proceeds from the Placing). The calculation assumes that the Over-allotment Option was not exercised.

The forecast combined profit after taxation and minority interests but before extraordinary items of the Group for the year ending 30th June, 2001 increases substantially when compared with the pro forma combined profit after taxation and minority interests but before extraordinary items of the Group for the year ended 30th June, 2000. The Directors considered that such substantial increase in the Group's forecasted profit is attributable to the Group's successful EMS strategies and strong demand for the Group's products and services in the forecasted financial year. Risks relating to such substantial increase are discussed in the paragraph headed "Limited profit history" under the section headed "Risk factors" in this prospectus. Further information about the profit forecast is set out in the paragraph headed "Profit forecast, dividends and working capital" under the section headed "Financial information" in this prospectus.

SUMMARY

PLACING STATISTICS

Market capitalisation (<i>Note 1</i>)	HK\$303,750,000
Prospective price/earnings multiple	
– weighted average (<i>Note 2</i>)	4.8 times
– pro forma fully diluted (<i>Note 3</i>)	5.7 times
Adjusted net tangible asset value per share (<i>Note 4</i>)	HK39.9 cents

Notes:

- (1) The calculation of market capitalisation of the Shares is based on an Issue Price of HK\$0.90 per Share and 337,500,000 Shares in issue immediately after the completion of the Placing and the Capitalisation Issue, but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option or options which may be granted under the Share Option Scheme or which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares described in the paragraph headed “Written resolutions of the sole shareholder of the Company passed on 8th May, 2001” in Appendix VI to this prospectus.
- (2) The prospective price/earnings multiple on a weighted average basis is based on the above forecast earnings per share on a weighted average basis of HK\$0.187 for the year ending 30th June, 2001.
- (3) The prospective price/earnings multiple on a pro forma fully diluted basis is based on the above forecast earnings per share on a fully diluted basis of HK\$0.159 for an Issue Price of HK\$0.90 for the year ending 30th June, 2001 assuming that the Over-allotment Option is not exercised and that 337,500,000 Shares were issued on 1st July, 2000.
- (4) The adjusted net tangible asset value per share has been arrived at after making the adjustments referred to in the paragraph headed “Adjusted net tangible assets” under the section headed “Financial information” to this prospectus and on the basis of an aggregate of 337,500,000 Shares in issue and to be issued as mentioned herein but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option or upon the exercise of options which may be granted under the Share Option Scheme or which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares described in the paragraph headed “Written resolutions of the sole shareholder of the Company passed on 8th May, 2001” in Appendix VI to this prospectus.

DEFINITIONS

In this prospectus, 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
“Capitalisation Issue”	the issue of Shares to be made upon the capitalisation of part of the share premium account of the Company referred to in the paragraph headed “Changes in share capital of the Company” under the section headed “Further information about the Company” in Appendix VI to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by Hongkong Clearing
“Companies Law”	the Companies Law (2000 Revision) 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 29th September, 2000 under the Companies Law
“Controlling Shareholder”, “Initial Management Shareholder” or “Mr. Lin”	Mr. Lin Wan Qaing, the chairman of the Group and the controlling shareholder and an initial management shareholder of the Company having the meaning ascribed to it under Rule 1.01 of the GEM Listing Rules and as described under the section headed “Substantial shareholder, Initial Management Shareholder and Significant Shareholders” in this prospectus
“DTCFL” or “Sponsor”	Deloitte & Touche Corporate Finance Limited, an investment adviser and securities dealer registered under the Securities Ordinance and the sponsor of the Placing
“Director(s)”	the director(s) of the Company

DEFINITIONS

“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
“Forward Looking Period”	the period commencing on the Latest Practicable Date and ending on 30th June, 2003
“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 third party independent of the Company. It owned 10 per cent. shareholding interests of Fuqiang and was 72.7 per cent. owned by Furi Group as at the Latest Practicable Date and is principally engaged in the manufacture and sale of televisions, computers and computer accessories, telecommunication 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 per cent. of Furi Electronics and a third party independent of the Company
“Fuqiang”	Fujian Fuqiang Delicate Circuit Plate Co., Ltd. (福建福強精密印制綫路板有限公司), a sino-foreign joint venture established in the PRC on 20th March, 1996 in which 90 per cent. interest is indirectly held by the Company through Superford and the remaining 10 per cent. interest by Furi Electronics
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Committee”	the listing committee of the Stock Exchange with responsibility for GEM
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange
“GEM Website”	<i>http://www.bkgem.com</i> , being the internet website operated by the Stock Exchange for the purposes of GEM
“Group”	the Company and its subsidiaries or, where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries or their respective businesses, the present subsidiaries of the Company or some or any of them

DEFINITIONS

“Guotai Junan”	Guotai Junan Securities (Hong Kong) Limited, an investment adviser and securities dealer registered under the Securities Ordinance and one of the Joint Lead Managers
“Hongkong Clearing”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong GAAP”	generally accepted accounting principles in Hong Kong
“Issue Price”	HK\$0.90 per Placing Share (subject to adjustment and exclusive of brokerage and Stock Exchange transaction levy) at which the Shares are to be subscribed and issued pursuant to the Placing
“Joint Lead Managers”	Guotai Junan and JS Cresvale, the joint lead managers of the Placing
“JS Cresvale” or “Co-Sponsor”	JS Cresvale International Limited, an investment adviser and securities dealer registered under the Securities Ordinance, the co-sponsor of the Placing and one of the Joint Lead Managers
“Latest Practicable Date”	30th April, 2001, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus
“Listing Date”	the date on which the Shares commence trading on GEM
“Minxiang”	Fujian Minxiang Electronics Factory* (福建閩鄉電子廠), 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
“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
“Over-allotment Option”	the option granted by the Company to the Underwriters exercisable by Guotai Junan, on behalf of the Underwriters under the Underwriting Agreement, pursuant to which the Company may be required to issue and allot up to an aggregate of 10,125,000 additional Shares, representing 15 per cent. of the Shares initially available under the Placing, at the Issue Price to cover over-allocations in the Placing

DEFINITIONS

“Overseas Chinese Electronics”	Xiamen Overseas Chinese Electronics Co., Ltd. (廈門華僑電子企業有限公司), a company established in the PRC 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 consumer electronic products
“Placing”	the conditional placing of the Placing Shares as described under the section headed “Structure of the Placing” in this prospectus
“Placing Shares”	the 67,500,000 new Shares initially being offered under the Placing as described in the section headed “Structure of the Placing” in this prospectus
“PRC” or “China”	the People’s Republic of China, which, for the purposes of this prospectus, excludes Hong Kong, Macau and Taiwan
“PRC GAAP”	general accepted accounting principles in the PRC
“Qiangwang”	Fujian Fuqing Qiangwang Fishery Product Development Corporation [#] (福建福清強旺水產開發公司), an enterprise established in 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 [#] (集體所有制企業). It is principally engaged in cultivating, wholeselling and retailing of freshwater eels and freshwater fishes
“Reorganisation”	the corporate reorganisation of the Group in preparation for the Placing, details of which are set out in the paragraph headed “Corporate Reorganisation” under the section headed “Further information about the Company” in Appendix VI in this prospectus
“SAST”	Shenzhen SAST Electronics Co., Ltd. (深圳先科電子股份有限公司), a company established in the PRC 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 audio and video products
“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))

DEFINITIONS

“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
“Share Option Scheme”	the share option scheme conditionally adopted by the sole shareholder of the Company on 8th May, 2001, the principal terms of which are set out in the paragraph headed “Share Option Scheme” under the section headed “Further information about Directors, senior management and staff” in Appendix VI to this prospectus
“Shinco”	Jiangsu Shinco Electronics Group Co. (江蘇新科電子集團公司), a company established in the PRC 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 home audio and video products
“Significant Shareholders”	Ms. Kwok Kin Kwok and Ms. Pok Lo Ha, the significant shareholders of the Company having the meaning ascribed to it under Rule 1.01 of the GEM Listing Rules and as described under the section headed “Substantial shareholder, Initial Management Shareholder and Significant Shareholders” in this prospectus
“Sponsors”	DTCFL and JS Cresvale
“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 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 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 British Virgin Islands on 5th January, 2000 and a wholly-owned subsidiary of the Company
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers, as amended from time to time
“Underwriters”	Guotai Junan, JS Cresvale, DBS Asia Capital Limited, DTCFL, Kingsway SW Securities Limited and Shenyin Wanguo Capital (H.K.) Limited

DEFINITIONS

“Underwriting Agreement”	the conditional underwriting and placing agreement relating to the Placing entered into on 11th May, 2001 between, amongst other, the Company, the Directors, the Initial Management Shareholder, the Sponsors and the Underwriters, as described in the section headed “Underwriting” in this prospectus
“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”	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 prospectus, 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 purpose of illustration only, into Hong Kong dollars using the following rate:

US\$1 = HK\$7.80

HK\$1 = RMB1.06

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

denotes the English translation of the name of the enterprise/governmental department/institution which is for identification purposes only

GLOSSARY OF TECHNICAL TERMS

“backplane”	large circuit board that contains circuitry and sockets to which additional electronic devices or other circuit boards or card can be plugged
“Berne Convention”	an international copyright treaty (formally International Convention For the Protection of Literary and Artistic Works) adopted by an international conference in Berne in 1886 and subsequently modified several times and has 147 contracting states as at 15th January, 2001. The core of the Berne Convention is its provision that each of the contracting countries shall provide automatic protection for works first published in other contracting countries and for unpublished works whose authors are citizens of or residents in such other countries. The convention requires member states to recognise the moral rights of integrity and attribution. Apart from the copyright protection within the country’s own legal system, the convention grants economic rights – exclusive rights to translate, reproduce, perform, or adapt protected works for as long as the life of the author plus 75 years
“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, companies who manufacture electronic equipment on behalf of an ODM customer, in which the design and brandname belongs to the ODM
“circuit design”	design of circuit logic that allows electronic components to perform a specific function

GLOSSARY OF TECHNICAL TERMS

“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 electronics products. During the product design stage, the product should be designed in a way that it can be tested for its functionality so that one can insure that the product meets the requirement(s) of its customer/user/owner/regulator. In order to improve timeliness and cost, great care should be taken to design the product to be easily tested
“design-for-testability”	a design approach to design products with an aim to enable that prototypes manufactured from such design will be testable
“DVD”	digital versatile disk
“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. In terms of production cost, it is more expensive than a liquid photoimageable solder mask
“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 brand name
“ERP”	enterprise resource planning, an information system for effective planning and control of all enterprise-wide resources needed 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 faults internal to components
“horizontal plating”	a new 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

GLOSSARY OF TECHNICAL TERMS

“IC applications solutions”	in the context of this prospectus, it means PCB design solutions that target at maximising the performance of a new IC design. To provide this solution, companies must understand the function and design of an IC, and proactively develop a new PCB to complement the design of the new IC solution during the development of a new product
“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 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

GLOSSARY OF TECHNICAL TERMS

“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 which owns the brand name and traditionally designs, manufactures, markets, and provides customer support for its product
“outsourcing”	the practice of subcontracting
“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 prospectus, 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 physics, 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 new technology for drilling holes that are less than 0.2mm in diameter
“prototype”	a working model of a product used to demonstrate the product, test design ideas for a complete version

GLOSSARY OF TECHNICAL TERMS

“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 and 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 parameter and functional specifications. Test types include in-circuit, functional, system-level, reliability and environmental

GLOSSARY OF TECHNICAL TERMS

“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 subcontractor all aspects of manufacturing including materials acquisition, assembly and testing. Its opposite is consignment, where the outsourcing company provides all materials required for the products and the subcontractor provides only assembly equipment and labour
“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
“Universal Copyright Convention”	an international copyright treaty adopted by an international conference in Geneva in 1952, which took effect in 1955 with an aim to ensure in all countries protection of literary, scientific and artistic works without impairing international systems already in force so as to facilitate a wider dissemination of works of human mind. The Universal Copyright Convention exists alongside the Berne Convention, which takes priority over it. The Convention provides for the same protection of foreign works as for domestic works in all countries, regardless of where the work was first published; it also provides exclusivity for translation rights of up to 7 years. The minimum term of copyright in member nation must be the life of the author plus 25 years and a formal copyright notice/symbol must appear in all copies of a work
“VCD”	video compact disk
“VCR”	video cassette recorder

RISK FACTORS

As investment of the Placing Shares involves a high degree of risk and is speculative, prospective investors in the Placing Shares should carefully consider all the information set out in this prospectus and, in particular, should evaluate the following risks in connection with any investment in the Company, certain of which may not be typically associated with investing in equity securities of companies in Hong Kong or other economically advanced jurisdictions, before making any investment decision in relation to the Company.

RISKS RELATING TO THE GROUP

Reliance on the PRC market

During each of the two years ended 30th June, 2000 and the five months ended 30th November, 2000, sales of the Group's products in the PRC accounted for approximately 95 per cent., 76 per cent. and 73 per cent. of the total turnover of the Group respectively. 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 domestic demands for the Group's products in the PRC. There is no assurance that such changes will not adversely affect the performance and the profitability of the Group.

Limited profit history

The Group has a limited profit history for prospective investors to evaluate its business and prospects. The Group recorded net profits attributable to shareholders of approximately HK\$1.8 million, HK\$8.6 million and HK\$22.5 million respectively for each of the two years ended 30th June, 2000 and the five months ended 30th November, 2000. In addition, the Group also forecasts a combined profit after taxation and minority interests before extraordinary items of approximately HK\$52 million for the year ending 30th June, 2001. The Directors considered that such substantial increase in the Group's forecasted profit is attributable to the Group's successful EMS strategies and strong demand for the Group's products and services in the forecasted financial year. However, the Directors cannot be certain that the Group will achieve its business objectives or that the Group will be able to maintain its existing level of operations or manage a sufficient level of growth in its business, in particular, the Group is in its development stage and is operating in the new and rapidly changing high technology sector of the electronics industry. Should the Group fail to materialise its business objectives or continue to implement its EMS strategies in the future or should demand for the Group's products fail to sustain in the future, the Group's future profitability may be adversely affected.

Expansion may strain management and resources of the Group

The Group is currently experiencing a period of significant growth in terms of sales volume and profits. The Directors anticipate that further expansion will be required in order to capitalise on the growth potential of the Group's businesses. Due to the capital intensive nature of the Group's businesses, such expansion may place a strain on the Group's management and financial resources.

RISK FACTORS

To manage the expected growth of its operations, the Group may be required to further recruit key personnel in the future. In addition, the Group will be required to improve its existing and adopt new management, operational and financial systems, procedures and controls, and to expand, train and manage its growing employee base. All these measures will incur additional costs which will place a burden on the Group's financial condition.

Furthermore, the Group may 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, that the Group will be able to recruit, retain and motivate personnel or that the Group will be able to identify, manage and exploit existing and new relationships with various parties and market opportunities. Failure of the Group to manage growth effectively could have a material adverse effect on the Group's business, results of operations and financial condition.

Intellectual property rights

From time to time, the Group develops intellectual property rights over its electronic manufacturing services and products. Some of the Group's intellectual property rights are capable of being protected from exploitation by third parties by way of registration. The Group has registered its trademark and logo as referred to in the section headed "Business" and the paragraph headed "Intellectual property" in Appendix VI to this prospectus. The Group's designs are also protected by copyrights by virtue of first publication in the PRC, which is a member of the Berne Convention and Universal Copyright Convention. The Group, however, has not filed any patent application in respect of any of its new inventions. The Group relies on confidentiality products and contractual restrictions 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 services, products and new inventions. In that event, the Group's resources may be significantly drained for such purposes which may adversely affect the Group's ability to materialise its business objectives.

Reliance on key personnel

The Group's future success depends to a large extent upon the continued services of key managerial and technical employees such as Mr. Xiang Song, Mr. Wang Song Qing, Mr. Edgar Xiong, Mr. Cai Hua and Mr. Tong Yiu On. Each of these key managerial and technical employees has entered into a service contract with Fuqiang for a term of one year and each of the executive directors of the Company has entered into a service contract with the Company for a term of three years, effective from the date on which Board approval is obtained, which is expected to be shortly before listing of the Company. The loss of services of any of the Group's key employees could have a material adverse effect on the Group.

RISK FACTORS

The Group believes that its future success depends on its continuing ability to attract and retain highly qualified technical, managerial and marketing personnel. 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. If the Group is unable to hire and retain key personnel, the Group's business, financial condition and results of operations may be adversely affected.

Liquidity of the Group

The Group is heavily capitalised as evidenced by the fact that the amounts of its non-current assets are relatively substantial. The Group has financed its operations and capital expenditure requirements primarily through significant borrowings from financial institutions. To the extent that the net proceeds from the Placing and cash flows from operations shall not be sufficient to finance its operations and capital expenditure requirements, the Group may need to raise additional funds from financial institutions. In the event that high interest rates are required to be paid or that the Group cannot obtain such financings, this may have a negative impact on the Group's working capital and the implementation of its business plan and its profitability may be adversely affected.

Financing risks

Furi Electronics, a minority shareholder of Fuqiang, has provided a loan of HK\$8,543,000 to Fuqiang (the "Loan") on 30th May, 2000. The loan is unsecured and bears interest at 0.531 per cent. per month. Such interest is payable on the 20th day of the last month of every quarter. The principal is repayable in May 2002 and the Directors anticipate that the loan will not be repaid within the next twelve months from the Listing Date. The Directors intend to repay the Loan upon maturity by either internal resources or by bank borrowings. However, there is no assurance that the Group will have sufficient internal resources to repay the Loan in full and there is a risk that the Group will not be able to source additional funding from financial institutions to finance such repayment. Terms of the Loan are also set out in the paragraph headed "Related party transactions" under the section headed "Financial Information" in this prospectus.

The Group's banking facilities are guaranteed by Furi Electronics and Mr. Lin, as the case may be. The relevant banks have agreed, in principle, to release the corporate guarantees provided by Furi Electronics and the personal guarantee provided by Mr. Lin upon listing of the Shares on GEM and for replacement of them by corporate guarantees of the Company and/or other security provided by members of the Group. However, if Furi Electronics or Mr. Lin withdraws any or all such guarantees and if the Group fails to procure the completion of the aforesaid arrangements and if the Group is not able to substitute new guarantor(s) acceptable to the relevant banks, the relevant banks may terminate such loan agreements and demand repayments from the Group prior to the due dates, which may adversely affect the working capital and the operations of the Group.

RISK FACTORS

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 and services provided by the Group throughout the history of the Group, 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 the 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.

PRC export/domestic sales ratio

According to the “Approval in relation to the establishment of a Sino-foreign joint venture”, Fujian Fuqiang Delicate Circuit Plate Co., Ltd.* (關於成立中外合資福建福強精密印刷線路板有限公司的批覆) issued by Fuqing City Foreign Economic and Trade Commission* (福清市對外經濟貿易委員會) in 1996 with respect to the establishment of Fuqiang, Fuqiang was subject to an export/domestic sales ratio of 40/60. However, Fuqiang did not comply with the export/domestic sales ratio during the Track Record Period.

Fuqiang has not been penalised by any PRC government authorities for such non-compliance with respect to its export/domestic sales ratio. According to the legal opinion issued by the PRC legal advisers to the Company, the relevant government authorities in the PRC do not normally penalise non-compliance with such export/domestic sales ratio, and that there are no relevant provision in the PRC laws/regulations in relation to the penalty(ies) imposed for such non-compliance. However, there is no assurance that Fuqiang will not be penalised by the relevant PRC government authorities for such non-compliance in the future. Possible sanctions could include the imposition of fines or restrictions which could affect the operations, hence the profitability, of the Group.

Reliance on the Group’s major customers

For each of the two years ended 30th June, 2000 and the five months ended 30th November, 2000, the Group’s five largest customers in aggregate accounted for approximately 79 per cent., 88 per cent. and 65 per cent. respectively of the Group’s total turnover. The largest customer accounted for approximately 64 per cent., 34 per cent. and 22 per cent. respectively of the Group’s turnover for each of the two years ended 30th June, 2000 and the five months ended 30th November, 2000. If this major customer significantly reduces the orders it places with the Group, there could be a material adverse impact on the Group’s turnover if the Group is not able to replace such lost business on a timely basis. In addition, no long-term commitments or volume guarantees are usually procured from the Group’s customers. As a result, the Group’s customers may cancel, delay or reduce orders without any penalty.

RISK FACTORS

Possible competing business by Furi Electronics

Furi Electronics, a minority shareholder of Fuqiang, is mainly engaged in the manufacture of televisions, computers and peripheral products, electronics products and communication equipment, household appliances, electronics equipment and spare parts, which are not competing businesses with the Group. However, there is no guarantee that Furi Electronics will not conduct any businesses which may directly or indirectly compete with those of the Group in the future. In the event that Furi Electronic 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.

Risks relating to the Group's strategies, future operations and resources

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 strategies. The success of such strategies depends upon a number of factors. The implementation of future strategies involves numerous risks including failure to react and adapt to 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 cannot implement its strategies, the Group's business and financial condition in the future may be adversely affected.

Potential investors should also note that the net proceeds from the Placing will not be sufficient to finance all of the Group's business objectives. As indicated in the paragraph headed "Specific business objectives prior to the year ending 30th June, 2003" under the section headed "Statement of business objectives" in this prospectus, based on an Issue Price of HK\$0.90 per Share, internal resources of approximately HK\$27.4 million are expected to be utilised in financing the Group's planned business objectives. Accordingly, the Group may require further financing in pursuit of its future business expansions. There can be no assurance that additional financing will be available on terms favourable to the Group. If no adequate funds are available or are available on acceptable terms, the Group may not be able to fund its expansion to pursue its strategies, develop or enhance services or products or respond to competitive pressures. Such inability could have a material adverse effect on the Group's business, operating results and financial condition.

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 subject to significant economic downturns characterised by diminished product demand, rapid declines in average selling prices and over-capacity. When these factors adversely affect the Group's customers, demand for the Group's products may also be adversely affected.

RISK FACTORS

Moreover, the level and timing of orders placed by the Group's customers vary due to a number of factors, including customer 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 volumes 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 released backlog at any time may be subject to cancellation or postponement without penalty. The Group cannot assure timely replacement of cancelled, delayed or reduced orders. 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.

Reliance on suppliers and availability of raw materials and components

The Group has to order from outside suppliers some of the 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. 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 were to occur, the Group's operating results would be materially adversely affected.

RISK FACTORS

Competition

The electronic interconnect industry is highly 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 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. In the view of the Directors, 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.

Environmental matters

The Group is subject to a variety of local and central government environmental laws and regulations 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. Moreover, the Group's failure to comply with present or future 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.

Industry information

Certain industry information in the sections headed "Glossary of Technical Terms", "Risk factors", "Industry overview" and "Business" in this prospectus relating to PRC electronics 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.

RISK FACTORS

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.

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 RMB 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 RMB into foreign currencies. Upon the execution of the unitary managed-floating-rate system in 1994, the RMB was devaluated by 50 per cent. against the US dollars. Since then, the exchange rate between the RMB and US dollar has been generally stable. However, there can be no assurance that the RMB will not become volatile against other currencies. In the event of a major devaluation of the RMB, the Group may incur capital depreciation on its investments in the PRC as well as 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 the RMB, 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 RMB earnings into foreign currency for the purpose of dividends distribution, there is no guarantee that the PRC government will not introduce more restrictive foreign exchange measures that could adversely affect the Group's ability to convert its RMB earnings into foreign currencies.

RISK FACTORS

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 the RMB 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 1st December, 1998, through a foreign exchange swap centre. With effect from 1st July, 1996, FIEs may exchange amounts in RMB 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 RMB. Foreign exchange transactions under the “capital account” 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 1st December, 1998, the swap centres 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 RMB 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 centres, the procedures and requirements for exchanging RMB amounts into foreign currencies remain unchanged.

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

RISK FACTORS

WTO

The PRC is currently seeking membership of the WTO. Notwithstanding that the PCB industry in the PRC is currently accessible by foreign investors, the Directors consider that as 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 not be significant. The Directors also anticipate that such foreign investments are more likely to 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. However, the admission of the PRC into the WTO is nonetheless likely to result in increased indirect 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 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.

RISKS RELATING TO THE PLACING

No prior public market for the Placing Shares

Before the Placing, there was no public market for any of the Shares. There can be no guarantee that an active trading market for the Shares will develop, or if it does develop, that it will be sustained following completion of the Placing or that the market price of the Shares will not decline below the Issue price.

RISK FACTORS

RISKS RELATING TO STATEMENTS MADE IN THIS PROSPECTUS

Forward-looking statements contained in this prospectus may differ materially from those discussed in this prospectus

The “Statement of business objectives” section of this prospectus contains certain forward-looking statements relating to the Group’s plans, objectives, expectations and intentions. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Group, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on assumptions set out under the paragraph headed “Bases and assumptions” in the “Statement of business objectives” section below regarding the Group’s present and future business strategies and the environment in which the Group will operate in the future. The Group’s actual results, performance or achievements may differ materially from those discussed in this prospectus. These forward-looking statements speak only as of the Latest Practicable Date.

WAIVERS IN RESPECT OF THE GEM LISTING RULES AND COMPANIES ORDINANCE

For the purpose of the listing of the Shares on GEM, the Company has sought a number of waivers from the GEM Listing Division in relation to certain requirements under the GEM Listing Rules. Details of such waivers are set out below.

MORATORIUM PERIOD

The GEM Listing Rules require every initial management shareholder of a new issuer to undertake to the new issuer and the Stock Exchange, for a period of two years from the listing date, not to dispose of (or enter into any agreement to dispose of) or permit the registered holder to dispose of (or to enter into any agreement to dispose of) any direct or indirect interest in relevant securities (as defined in the GEM Listing Rules) (the “Relevant Securities”).

Under the GEM Listing Rules, the Initial Management Shareholder would ordinarily be subject to a moratorium period of two years. As a result of an application made on behalf of the Company, the Stock Exchange has granted a waiver to shorten the two-year moratorium period imposed on the Initial Management Shareholder to six months provided that the Initial Management Shareholder is not allowed to dispose of (or entering into agreements to dispose of) any direct or indirect interest in the Relevant Securities in the second six-month period after listing if such disposal would result in the Initial Management Shareholder ceasing to have control over 35 per cent. of the voting rights at general meetings of the Company.

Stock borrowing

In order to facilitate settlement of over-allocations in connection with the Placing, Guotai Junan may borrow Shares from Mr. Lin under a stock borrowing arrangement pending exercise of the Over-allotment Option and/or acquisition of Shares in the secondary market. As the Shares held by Mr. Lin are subject to the moratorium period as described above, an application has been made to the Stock Exchange for a waiver from strict compliance with Rule 13.16 of the GEM Listing Rules (as explained in the paragraph headed “Moratorium period” above) for the purpose of implementing the stock borrowing arrangement. A waiver has been granted by the Stock Exchange on the conditions that:

- (i) such stock borrowing arrangement with Mr. Lin will only be effected by Guotai Junan for settlement of over-allocations in connection with the Placing;
- (ii) the maximum number of Shares to be borrowed from Mr. Lin will be limited to 10,125,000 Shares, which is the maximum number of Shares which may be issued upon exercise of the Over-allotment Option;
- (iii) the same number of Shares borrowed will be returned to Mr. Lin or his nominee(s) (as the case may be) not later than three business days following the earlier of (a) the last day on which the Over-allotment Option may be exercised or (b) the day on which the Over-allotment Option is exercised in full;
- (iv) the returned Shares will be deposited with an escrow agent acceptable to the Stock Exchange as soon as practicable;

WAIVERS IN RESPECT OF THE GEM LISTING RULES AND COMPANIES ORDINANCE

- (v) the stock borrowing arrangement will be effected in compliance with all applicable laws and regulatory requirements; and
- (vi) no payments will be made to Mr. Lin by Guotai Junan in relation to such stock borrowing arrangement.

SHARE OPTION SCHEME

The Share Option Scheme was conditionally adopted by a resolution in writing passed by the sole shareholder of the Company on 8th May, 2001. Rule 23.03(2) of the GEM Listing Rules requires that the total number of Shares subject to the Share Option Scheme and any other schemes must not, in aggregate, exceed 10 per cent. of the issued share capital of the Company from time to time (the "General Mandate Limit"). The Company has applied for and has been granted a waiver from strict compliance with Rule 23.03(2) of the GEM Listing Rules so that the total number of Shares subject to the Share Option Scheme and any other schemes can be increased from 10 per cent. to 30 per cent. of the issued share capital of the Company from time to time subject to the following conditions:

- (1) the total number of Shares which may be issued pursuant to the exercise of options under the Share Option Scheme and any other schemes must not, in aggregate, exceed 30 per cent. of the issued share capital of the Company from time to time;
- (2) subject to (1) above, the shareholders of the Company may authorise the Directors to grant options under the Share Option Scheme and any other schemes to existing participants to subscribe for Shares pursuant to the exercise of options representing up to the General Mandate Limit which may be renewed, if approved, by shareholders in general meeting from time to time;
- (3) subject to (1) above, the Company may seek a separate shareholders' approval in general meeting to grant options beyond the General Mandate Limit to participants specified by the Company before such approval is sought;
- (4) any grant of option to a connected person (as defined in the GEM Listing Rules) must be approved by all independent non-executive Directors;
- (5) where options are proposed to be granted to a connected person, who is also a substantial shareholder (as such term is defined in the GEM Listing Rules) or any of its associates, and the proposed grant of options, when, aggregated with the options already granted to that connected person in the past 12-month period, would entitle him to receive more than 0.1 per cent. of the total number of issued Shares for the time being and the value of which is in excess of HK\$5,000,000, the granting of such option will be subject to independent shareholders' approval at general meeting in which the connected person involved and all other connected persons of the Company must abstain from voting (except where any connected person intend to vote against the proposed grant). A circular explaining the proposed grant, disclosing the number and terms of the options to be granted and containing a recommendation from the independent non-executive Directors on whether or not to vote in favour of the proposed grant must be sent to the shareholders of the Company; and

WAIVERS IN RESPECT OF THE GEM LISTING RULES AND COMPANIES ORDINANCE

- (6) details of options granted to each Director and all the other participants, and a summary of the major terms of each share option scheme approved by shareholders of the Company must be disclosed in the annual and interim reports of the Company in addition to the disclosures required under Rule 23.08 of the GEM Listing Rules.

EXEMPTION FROM COMPLIANCE WITH SECTION 342(1) OF THE COMPANIES ORDINANCE

Under paragraph 27 of Part I of the Third Schedule to the Companies Ordinance, a listing applicant is required to set out in its listing document a statement as to the gross trading income or sales turnover (as may be appropriate) of the Group during the three preceding years. Paragraph 31 of Part II of the Third Schedule to the Companies Ordinance requires a listing applicant to set out a report, prepared by its auditors and reporting accountants, containing its financial information in respect of each of the three financial years immediately preceding the issue of the listing document.

The Company has sought a certificate of exemption from the SFC from strict compliance with Section 342(1) of the Companies Ordinance pursuant to which a prospectus is required to contain matters specified in Part I of the Third Schedule to the Companies Ordinance and reports specified in Part II of the Third Schedule to the Companies Ordinance.

The SFC has granted an exemption from strict compliance with Section 342(1) of the Companies Ordinance, in particular paragraph 27 of Part I and paragraph 31 of Part II of the Third Schedule to the Companies Ordinance, so that the Group is only required to include in this prospectus its trading record, financial results and information covering the two financial years ended 30th June, 2000 and the five months ended 30th November, 2000.

The Directors confirm that they have performed sufficient due diligence on the Group to ensure that, up to the date of issue of this prospectus, there has been no material adverse change in the financial position of the Group since 30th November, 2000, and there is no event which would materially affect the information shown in the accountant's report set out in Appendix I to this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance, the Securities (Stock Exchange Listing) Rules 1989 of Hong Kong (as amended) and the GEM Listing Rules for the purposes of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

1. the information contained in this prospectus is accurate and complete in all material respects and not misleading;
2. there are no other matters the omission of which would make any statement in this prospectus misleading; and
3. all opinions expressed in this prospectus have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

FULLY UNDERWRITTEN

This prospectus is published in connection with the Placing which is sponsored by DTCFL and co-sponsored by JS Cresvale. The Placing Shares are fully underwritten by the Underwriters pursuant to the Underwriting Agreement. For further information relating to the underwriting arrangements, please see the section headed "Underwriting" in this prospectus.

RESTRICTIONS ON SALE OF SHARES

No action has been taken in any jurisdiction other than Hong Kong to permit an offering of the Placing Shares or the distribution of this prospectus to the public in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering of the Placing Shares in certain jurisdictions may be restricted by law.

The Placing Shares are offered solely on the basis of the information contained and the representations made in this prospectus. No person is authorised in connection with the Placing to give any information or make any representation not contained in this prospectus. Any information or representation not contained in this prospectus must not be relied upon as having been authorised by the Company, the Sponsors, the Joint Lead Managers, the Underwriters, any of their respective directors or any other person involved in the Placing.

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

Foreign selling restrictions

No action has been taken to register or qualify the Placing Shares or the Placing, or otherwise to permit a public offering of the Placing Shares, in any jurisdiction outside Hong Kong.

The distribution of this prospectus in jurisdictions outside Hong Kong may be restricted by law and therefore persons into whose possession this prospectus comes should inform themselves about, and observe, any such restrictions. Any failure to comply with these restrictions may constitute a violation of applicable securities laws.

Cayman Islands

No offer of Shares may be made to the public in the Cayman Islands.

Each person acquiring the Placing Shares will be required to, or be deemed by his acquisition of Placing Shares to, confirm that he is aware of the restrictions on offers of the Placing Shares described in this prospectus.

APPLICATION FOR LISTING ON GEM

Application has been made to the GEM Listing Committee for the listing of, and permission to deal in, the Shares in issue, the Shares to be issued pursuant to the Placing and the Capitalisation Issue, Shares which may be issued pursuant to the exercise of the Over-allotment Option, and Shares which may fall to be issued upon exercise of options granted under the Share Option Scheme. Only Shares which are registered on the Hong Kong branch share register of the Company may be traded on GEM and no part of the share or loan capital of the Company is listed or dealt in on any other stock exchange and at present no such listing by the Company of or permission to deal in the Shares on any other stock exchange is being proposed to be sought.

Pursuant to Rule 11.23(1) of the GEM Listing Rules, at all times after the listing, the Company must maintain the “minimum prescribed percentage” of 20 per cent. of the issued share capital of the Company in the hands of the public.

STAMP DUTY

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

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

PROFESSIONAL TAX ADVICE RECOMMENDED

If you are unsure about the taxation implications of the subscription, purchase, holding or disposal of, dealing in, or the exercise of any rights in relation to the Placing Shares, you should consult an expert.

The Company, the Directors, the Underwriters, the Sponsors, the Joint Lead Managers, their respective directors, agents and advisers and any other person involved in the Placing do not accept responsibility for any tax effects on, or liabilities of, any person resulting from the subscription for, or purchase, holding or disposal of, or dealing in or the exercise of any rights in relation to, the Placing Shares.

STRUCTURE OF THE PLACING

Details of the structure of the Placing are set out in the section headed “Structure of the Placing” in this prospectus.

SHARES WILL BE ELIGIBLE FOR CCASS

Subject to the granting of listing of, and permission to deal in, the Shares on GEM as well as compliance with stock admission requirements of Hongkong Clearing, the Shares will be accepted as eligible securities by Hongkong Clearing for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on GEM or on any other date that Hongkong Clearing chooses. Investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements as such arrangements will affect their rights and interests. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

DIRECTORS AND PARTIES INVOLVED IN THE PLACING

DIRECTORS

Executive Directors

Name	Address	Nationality
LIN WAN QAING <i>(Chairman)</i>	Flat 316, 3rd Floor, Block A Viking Villas 70 Tin Hau Temple Road North Point Hong Kong	Chinese (Hong Kong)
XIANG SONG	Room 702, Block III Jing Ying Garden Yi Yuan Nan Road Guangzhou, Guangdong Province PRC	Chinese
LIN WAN PENG	Room 502, 5th Floor Units 15 and 16 Guxi Road Gulou District Fuzhou, Fujian Province PRC	Chinese

Independent non-executive Directors

LIU ZHAO CAI	Room 506, 5th Floor Jixiong Ge, Yangqiao Garden 145 Yangqiao Zhong Road Gulou District Fuzhou, Fujian Province PRC	Chinese
LAM MING YUNG	Room B, 4th Floor Bayview Garden 633 Castle Peak Road New Territories Hong Kong	Chinese (Hong Kong)
PAN CHANG CHI	39 Dongmen Road Rong Town Fuqing City Fujian Province PRC	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE PLACING

PARTIES INVOLVED

Sponsor

Deloitte & Touche Corporate Finance Limited

21st Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

Co-Sponsor

JS Cresvale International Limited

6th & 7th Floor, Asia Pacific Finance Tower
Citibank Plaza, 3 Garden Road
Central
Hong Kong

Joint Lead Managers

Guotai Junan Securities (Hong Kong) Limited

Suite 2509-2510, Asia Pacific Finance Tower
Citibank Plaza, 3 Garden Road
Central
Hong Kong

JS Cresvale International Limited

6th & 7th Floor, Asia Pacific Finance Tower
Citibank Plaza, 3 Garden Road
Central
Hong Kong

Underwriters

Guotai Junan Securities (Hong Kong) Limited

Suite 2509-2510, Asia Pacific Finance Tower
Citibank Plaza, 3 Garden Road
Central
Hong Kong

JS Cresvale International Limited

6th & 7th Floor, Asia Pacific Finance Tower
Citibank Plaza, 3 Garden Road
Central
Hong Kong

DBS Asia Capital Limited

16th Floor, Man Yee Building
68 Des Voeux Road Central
Hong Kong

Deloitte & Touche Corporate Finance Limited

21st Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

Kingsway SW Securities Limited

5th Floor, Hutchison House
10 Harcourt Road
Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE PLACING

	<p>Shenyin Wanguo Capital (H.K.) Limited 28th Floor, Citibank Tower Citibank Plaza, 3 Garden Road Central Hong Kong</p>
Legal advisers to the Company	<p><i>as to Hong Kong law</i> Sidley Austin Brown & Wood 49th Floor, Bank of China Tower 1 Garden Road Central Hong Kong</p> <p><i>as to PRC law</i> Trend Associates 28th Floor, Zhongshan Tower Hudong Road Fuzhou Fujian PRC</p> <p><i>as to Cayman Islands law</i> Conyers Dill & Pearman, Cayman Zephyr House Mary Street George Town Grand Cayman Cayman Islands British West Indies</p>
Legal advisers to the Underwriters	<p>Jones, Day, Reavis & Pogue 31st Floor, Edinburgh Tower The Landmark 15 Queen's Road Central Hong Kong</p>
Auditors and reporting accountants	<p>Arthur Andersen & Co <i>Certified Public Accountants</i> 21st Floor, Edinburgh Tower The Landmark 15 Queen's Road Central Hong Kong</p> <p>Charles Chan, Ip & Fung CPA Ltd. <i>Certified Public Accountants</i> 37th Floor, Hennessy Centre 500 Hennessy Road Causeway Bay Hong Kong</p>
Property valuer	<p>Sallmanns (Far East) Ltd. 15th Floor, Trinity House 165-171 Wanchai Road Wanchai Hong Kong</p>

CORPORATE INFORMATION

Registered office	Zephyr House P.O. Box 2681 George Town Grand Cayman Cayman Islands British West Indies
Head office and principal place of business	Room 2807, 28th Floor China Resources Building 26 Harbour Road Wanchai Hong Kong
Website	www.sinotronics.com.cn
Company secretary	Mr. Tong Yiu On, <i>AHKSA, ACCA</i>
Qualified accountant	Mr. Tong Yiu On, <i>AHKSA, ACCA</i>
Compliance officer	Mr. Lin Wan Qaing
Audit committee	Mr. Liu Zhao Cai Mr. Lam Ming Yung Mr. Pan Chang Chi
Authorised representatives	Mr. Lin Wan Qaing Mr. Tong Yiu On, <i>AHKSA, ACCA</i>
Principal bankers	The Agricultural Bank of China Hua Lin Branch No. 78, Hua Lin Road Fuzhou PRC The China Construction Bank Chen Dong Branch No. 96, Gu Tiam Road Fuzhou PRC Bank of China Fuqing Branch No. 101 Tian Qiang Road Fuqing City PRC

CORPORATE INFORMATION

**Principal share registrar
and transfer office**

Bank of Butterfield International (Cayman) Ltd.
Butterfield House
Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands
British West Indies

**Hong Kong branch share registrar
and transfer office**

Hong Kong Registrars Limited
2nd Floor, Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

INDUSTRY OVERVIEW

The information provided in this section is derived from various sources and/or government publications. This information has not been independently verified by the Company, the Sponsors, the Underwriters or their respective legal or financial advisers.

INTRODUCTION

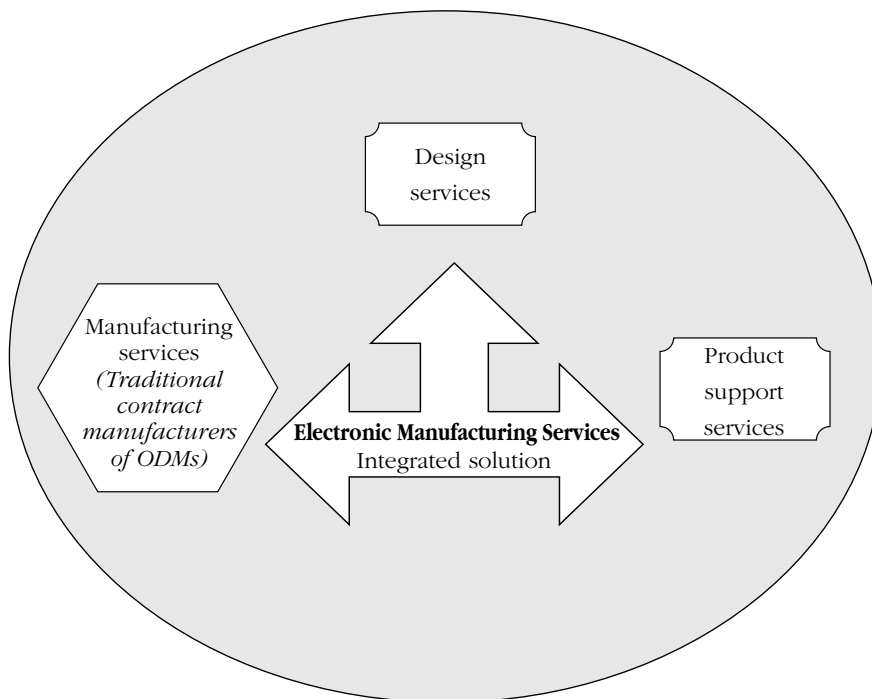
Traditionally, ODMs of electronics products were companies that designed, manufactured, marketed and provided customer support for their products. They often were vertically integrated and invested significantly in manufacturing assets and facilities around the world. EMS providers emerged as ODMs began to outsource some of their labour-intensive manufacturing functions to obtain additional capacity during periods of high demand. Early EMS providers were essentially subcontractors, providing production capacity on a transactional basis. However, with significant advances in manufacturing process technology, EMS providers developed additional capabilities and were able to provide engineering services which improve product quality and reduce ODMs' costs. Furthermore, as the capabilities of EMS companies expanded, an increasing number of ODMs were adopted and became dependent upon EMS outsourcing strategies.

In recent years, major ODMs such as IBM, Cisco Systems, Dell, Nortel, Nokia and Ericsson have adopted plans to outsource everything from production to after-sales services and even new product developments to EMS providers. EMS companies have become the beneficiaries of this trend and have grown to become the global giants in recent years. In 1996, Solectron Corporation was the only EMS company with more than US\$3 billion in sales. It grew quickly to US\$6 billion in sales and ranked third after America Online, Inc. and Dell Computer Corporation according to the Infotech 100 Plus Survey published by Business Week Magazine in June 1999. Among the top 50 EMS companies in 1998, 3 companies passed the US\$3 billion revenue benchmark.

EMS companies do not have their own brand names. Instead, they add value by focusing on combining production and services such as design and after-sales support and running production lines in a highly efficient way. According to a report published by Custer Consulting Group, an EMS industry research firm, approximately 17 per cent. of all electronics production globally passed through the hands of CEMs in 1998. Within a decade, the industry is expected to account for 50 per cent. or more of all electronics production.

INDUSTRY OVERVIEW

The following diagram describes the difference in services offered by EMS companies and traditional contractors of ODMs.



A number of international EMS providers have further expanded their range of services to include advanced manufacturing, packaging and distribution and overall supply-chain management. In addition, many ODMs are reducing the number of vendors from which outsourced services are purchased, and are partnering with EMS providers that can provide a total service solution on a national or global basis, in order to further lower costs and increase supplier accountability.

THE EMS INDUSTRY

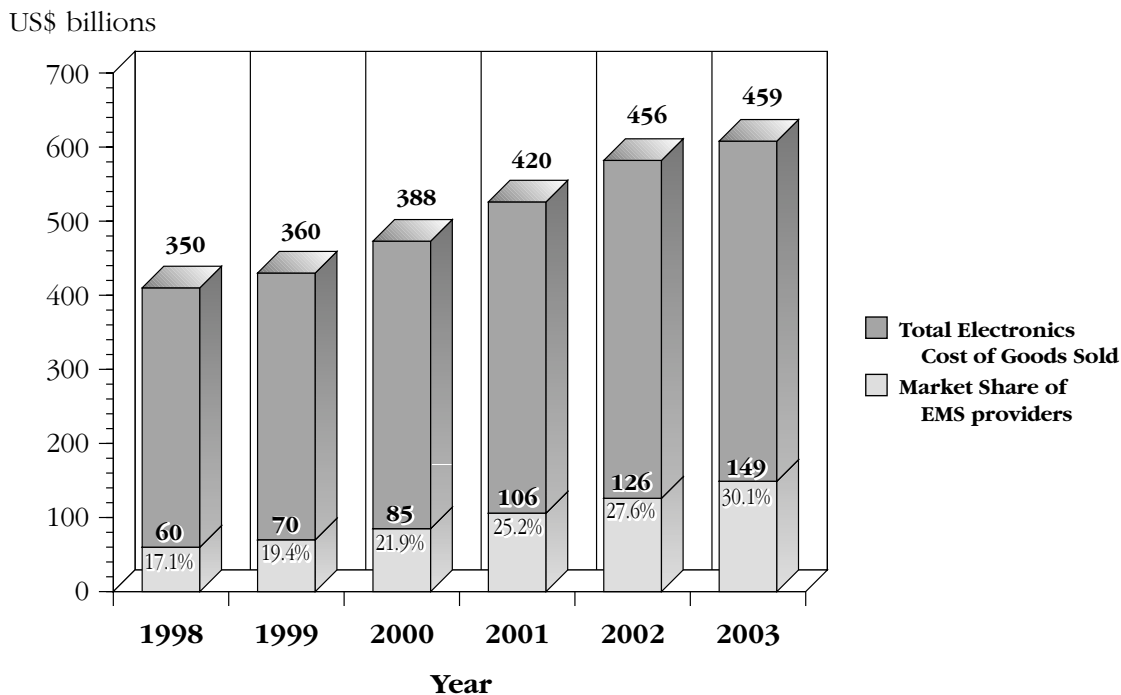
Overviews and market trends

The world's EMS market continues to grow rapidly resulting from the global outsourcing trend. Revenues generated by the EMS industry are relatively concentrated among the computing and communications sectors. By using EMS providers, ODMs are able to focus on their core competencies, including product development and sales and marketing, whilst leveraging on manufacturing efficiency and capital investment of EMS providers.

According to a report published by the Custer Consulting Group, an EMS industry research firm, the global EMS industry revenue is forecasted to grow at a compound annual growth rate of approximately 20 per cent., from approximately US\$60.0 billion in 1998 to approximately US\$149.4 billion in 2003. It is further estimated that the percentage of total cost of goods sold in the electronics industry which is outsourced for manufacturing by EMS providers will increase from approximately 17.1 per cent. in 1998 to approximately 30.1 per cent. by 2003.

INDUSTRY OVERVIEW

The following graph illustrates the estimated value of outsourcing by ODMs against the gross value of electronics cost of goods sold:



Source: Custer Consulting's estimate (PWB Outlook, June 2000)

The Directors have observed the following aspects which 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 enhance time-to-market by benefiting from the expertise and infrastructure of EMS providers.

Improving supply-chain management

ODMs who manufacture internally are faced with greater complexities in planning, procurement and inventory management due to frequent design changes, short product life cycles and product demand fluctuations. ODMs can 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.

INDUSTRY OVERVIEW

Accessing advanced manufacturing capabilities and process technologies

Electronic products and electronics manufacturing technology have become increasingly sophisticated and complex, making it 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 can gain access to manufacturing expertise and capabilities in the areas of advanced process, interconnect and test technologies.

Improving access to global markets

ODMs are generally 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 ODMs global manufacturing solutions, enabling ODMs to meet local content 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. PCB assembly services hold the biggest share of EMS providers' business. In the US, sales of PCB assembly services among the top 50 CEMs amounted to approximately US\$16.3 billion in 1998. 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 significantly broadened this market and reduced the amplitude of interconnect industry cycles in the 1990s. Electronic interconnects such as rigid PCBs, flexible circuits and backplanes are now used in a wide variety of industries and products, including data communications, telecommunications, workstations, servers, personal computers, computer peripherals, industrial automation, instrumentation, medical equipment, transportation and military and aerospace.

Historically, electronics ODMs used independent PCB manufacturers as offload capacity for their internal facilities. During economic downturns, independent facilities lost production orders as ODMs produced a greater percentage of demand internally. 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 ODMs to rely more heavily on independent manufacturers and reduce dependence on their internal fabrication and assembly facilities.

INDUSTRY OVERVIEW

Latest trends in electronic interconnect market

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

Industry consolidation

The Directors believe that the industry will continue to consolidate due to the substantial capital investment in advanced production facilities, engineering and manufacturing expertise and technologies required to make increasingly sophisticated electronic interconnect products. The increased investment requirement for state-of-the-art production facilities has accelerated consolidation in the electronic interconnect industry and resulted in the exit of smaller companies. As a result, the Directors believe 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

To avoid delays and costs during the production cycle, ODMs are increasingly turning to suppliers capable of producing electronic interconnect products from development, design, quick-turn prototyping and pre-production through volume production and backplane assembly. The accelerated need of time-to-market and time-to-volume from ODMs have resulted in increased collaboration with qualified suppliers capable of providing a broad and integrated supply. To meet their rapidly changing electronic interconnect requirements, many ODMs have moved to limit their vendor base to a smaller number of technically qualified suppliers capable of providing both quick-turn prototyping and pre-production quantities as well as cost-competitive volume production.

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 significantly expanded applications in areas such as computer networking and peripherals, digital and mobile communications, 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

Advanced communications equipment, as well as computer chips and microprocessors, require interconnect systems that operate at high speed and high frequencies with minimal signal loss and distortion. Furthermore, 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, including advanced materials, more layers, narrower line widths and spacing, smaller vias to connect internal circuitry, and more precise positioning of traces and pads to accommodate a greater density of SMT components. 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.

Shorter product life cycles for electronic products

Rapid changes in technology have significantly shortened the life cycle of complex electronic products and placed increased pressure on ODMs to develop new products as quickly as possible. The time-to-market considerations of ODMs have increased emphasis on the engineering and quick-turn production of small unit volumes of electronic interconnects in the prototype development stage. In addition, the success of first-to-market products has heightened the emphasis on volume manufacturing expertise and technologically advanced manufacturing infrastructure.

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 that is typically composed of rigid fibreglass or thin flexible circuits.

The PCB manufacturing process consists of photographically imprinting circuit patterns on to 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 SMT, BGA and other attachment technologies, narrower widths and separations of copper traces, advanced materials, and 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.

INDUSTRY OVERVIEW

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 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, low 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 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.

At present, in terms of sales volume, PCBs with 1 to 6 layers capture approximately 80 per cent. of the market share and are widely used. Higher layers PCBs are often used in high-tech equipment such as complex telecommunications and network equipment. Considerably few equipment use PCBs with more than 20 layers except some advanced applications such as equipment used in aerospace and defence industries.

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. Due to the increasing number of high-speed devices being used on PCBs, 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 describe 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. As PCB related “design-for manufacturability” becomes more complex, more ODMs are relying on outside sources for these services.

INDUSTRY OVERVIEW

Quick-turn prototyping and pre-production

Quick-turn prototyping is characterised by shorter than standard lead time requirements, typically one to ten days, 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. Due to the time critical factor, most prototypes are manufactured on a quick-turn basis. Consequently, high quality and timely delivery are generally the most 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 significant. 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

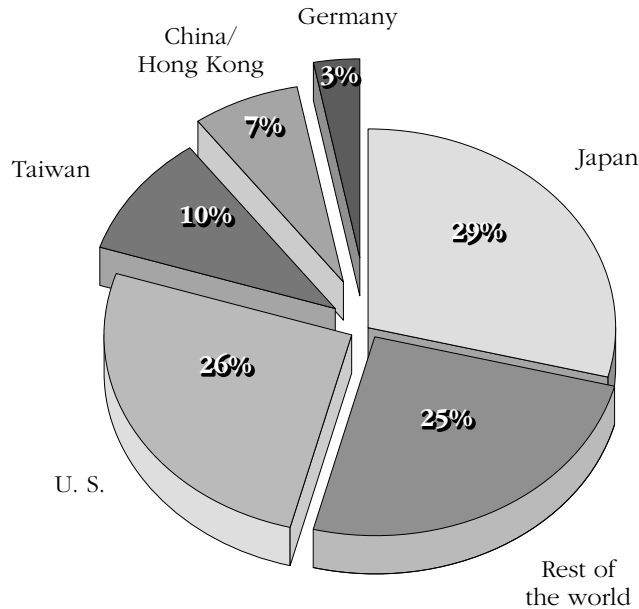
Volume production is characterised by longer lead time and increased emphasis on lower cost as the product moves to full-scale commercial production. At this stage of production, price, quality, on-time delivery and process capability are the factors most important to the ODM or CEM. As product life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

THE GLOBAL PCB MARKET

World production of PCBs amounted to approximately US\$36.2 billion in 1999, according to statistics in the Report on the World Market for Printed Circuit Boards and Substrate Materials published by the IPC Technology Market Research Council ("TMRC") in June 2000. TMRC is an industry forum for the active exchange of information and data regarding the PCB industry. According to the report, global rigid PCB production for 1999 was approximately US\$32.8 billion, and flexible circuit production was approximately US\$3.4 billion. Japan was ranked first in the global rigid PCB production, followed by the US, Taiwan, China/Hong Kong and Germany.

INDUSTRY OVERVIEW

The following chart illustrates the share of global rigid PCB production by region for the year 1999:



Source: IPC

In 1999, multilayer PCBs accounted for approximately 42 per cent. of all types of laminate consumed based on gross production area, while paper-based laminate accounted for approximately 36 per cent. Single- and double-sided glass and composite-based laminate accounted for the remaining 22 per cent. World consumption of laminate for rigid PCBs is estimated at approximately 230 million square metres.

Fabricating a complex PCB must meet stringent quality control standards and adhere to strict electrical performance characteristics. These requirements include tight etching and lamination tolerances, and are especially critical for boards with ten or more layers.

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

INDUSTRY OVERVIEW

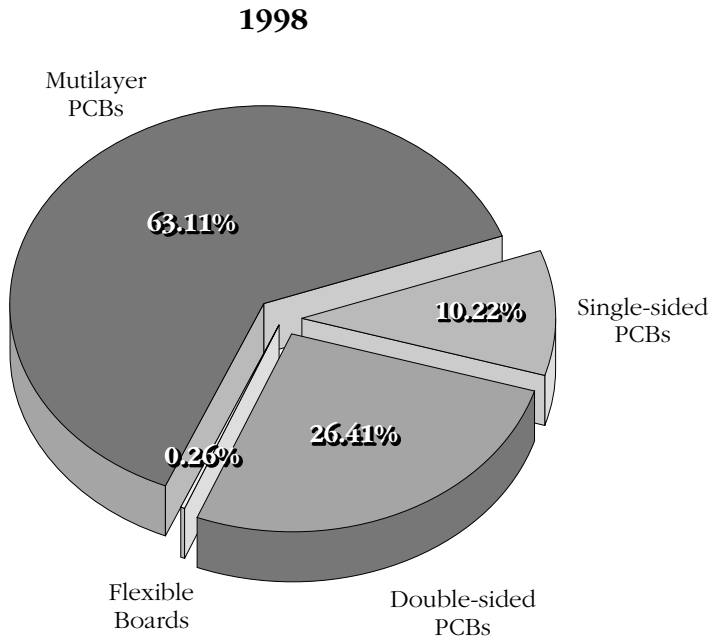
Communications	mobile radio, portable communication, pagers, data transmissions, microwave relay, telecommunications and telephone switching equipment and navigation instruments
Computer	mainframe computers, mini-computers, broad level processors, add-on memories, input devices, output devices, terminals 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 MARKET

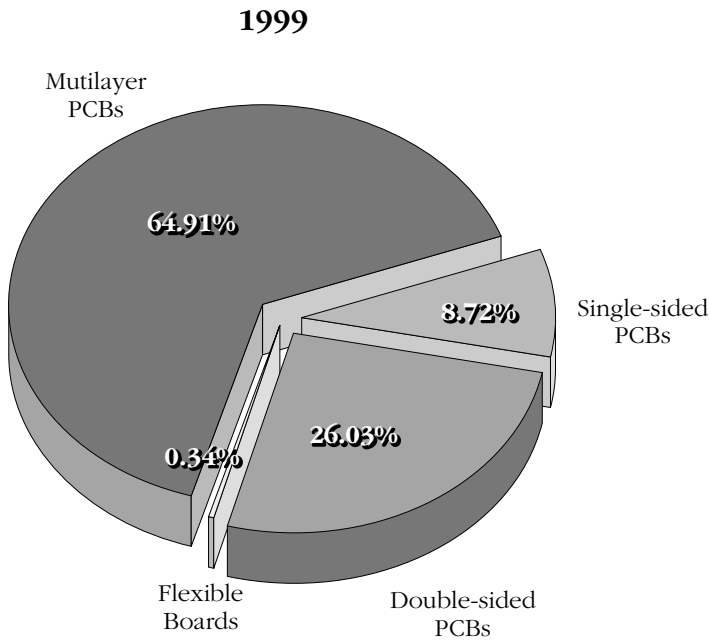
Ten years ago, the PRC manufactured PCBs which were mainly used in domestic home appliances. In recent years, the rapid development of IT in the PRC generated an increased demand for electronics products, especially with a population of 1.3 billion people who are just starting to purchase electronic and computer products such as personal computers, cellular phones, cameras and audio/video electronic appliances. The PRC's PCB industry has grown rapidly in the past three years and has become one of the most promising industries in China. In view of the complicated technical processes involved and increasingly stringent environmental requirements, PCB manufacturers in Europe and the US have already formulated plans to make investments in countries with cheaper labour such as the PRC and other southeast Asian countries, through acquisition of, or merger with, established PCB manufacturers in those countries. At the same time, existing purchasers have also started to procure from the PRC. It is expected that the manufacturing of PCBs in the PRC will experience substantial changes in terms of both quality and quantity in the next few years.

INDUSTRY OVERVIEW

The following pie charts illustrate the breakdown of the PRC's PCB output value in terms of different types of PCBs for the years 1998 and 1999 respectively:



Source: CPCA



Source: CPCA

INDUSTRY OVERVIEW

Growth of PRC electronics market

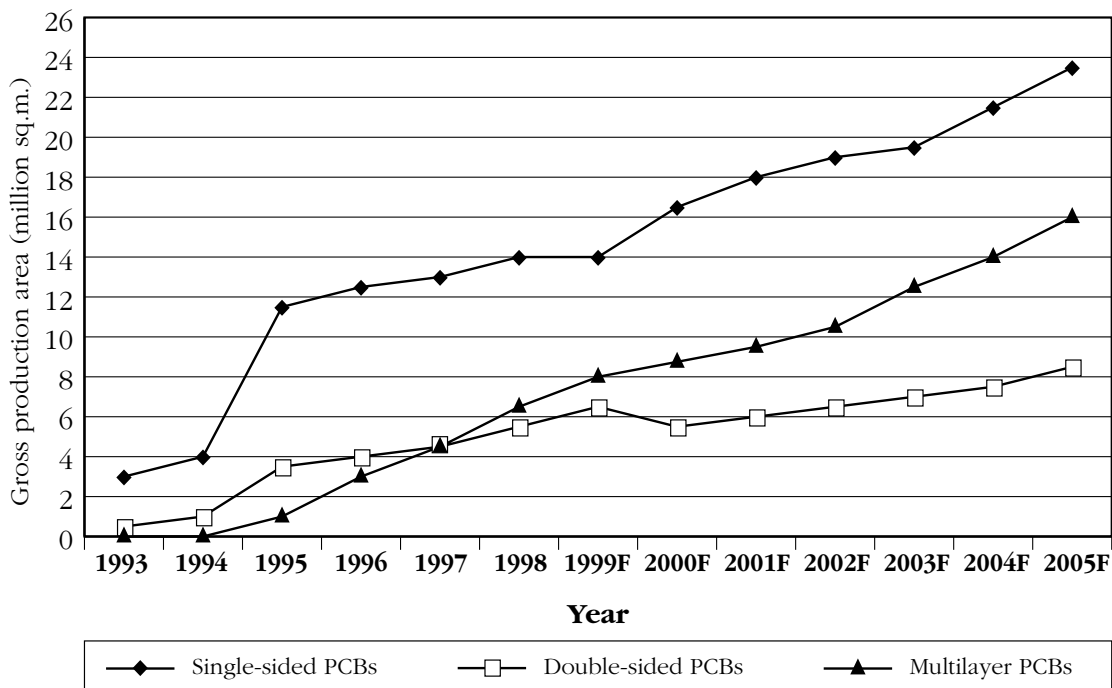
In 1998, the total output value of China's electronics manufacturing reached approximately RMB547.7 billion, while the total sales turnover of the electronics market was approximately RMB320 billion. According to CPCA, the product output value for electronic components is expected to reach RMB5 billion, and the PRC will become a world leader in the electronics industry by 2010. The average growth rate of the electronics industry is around 15 per cent. to 20 per cent. The investment-type electronics market is still dominated by the communications and computer industries. According to the analysis of the Ministry of Electronics Industry, the communications equipment with an annual growth rate of approximately 8 per cent., occupies a global market share of 8 to 9 per cent., and the computers and related accessories industry, with an annual growth rate of approximately 40 per cent., occupies the largest global market share. Since PCBs are the backbone of most electronic components, the future growth rate of China's PCBs industry is expected to keep pace with the growth of electronic manufacturing industries.

Growth of the PRC's PCB market

According to a survey of CPCA, China's PCB production output (excluding Taiwan and Hong Kong) was approximately 5 million square metres with total sales of less than RMB5 billion at the end of the 1980s. In 1998, the number surged to more than 26.7 million square metres for gross production volume while total sales climbed to approximately RMB19.13 billion, representing an approximately 434 per cent. growth in output volume and an approximately 283 per cent. growth in output value. It is estimated that the aggregate production for PCBs in the PRC may reach RMB22.5 billion and RMB36.2 billion in the years 2000 and 2005 respectively.

INDUSTRY OVERVIEW

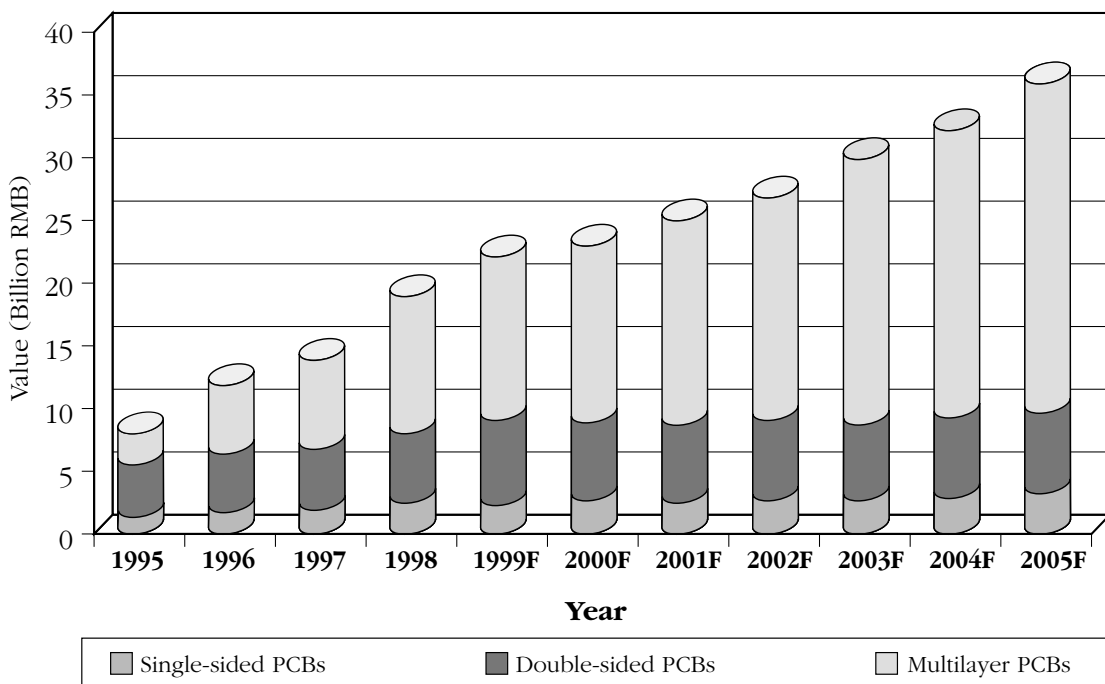
The following chart illustrates the historical and forecasted gross production area of PCBs in the PRC from 1993 to 2005:



Note: F denotes forecasted figures

Source: CPCA

The following chart illustrates the historical and forecasted value of PCB production output in the PRC from 1995 to 2005:

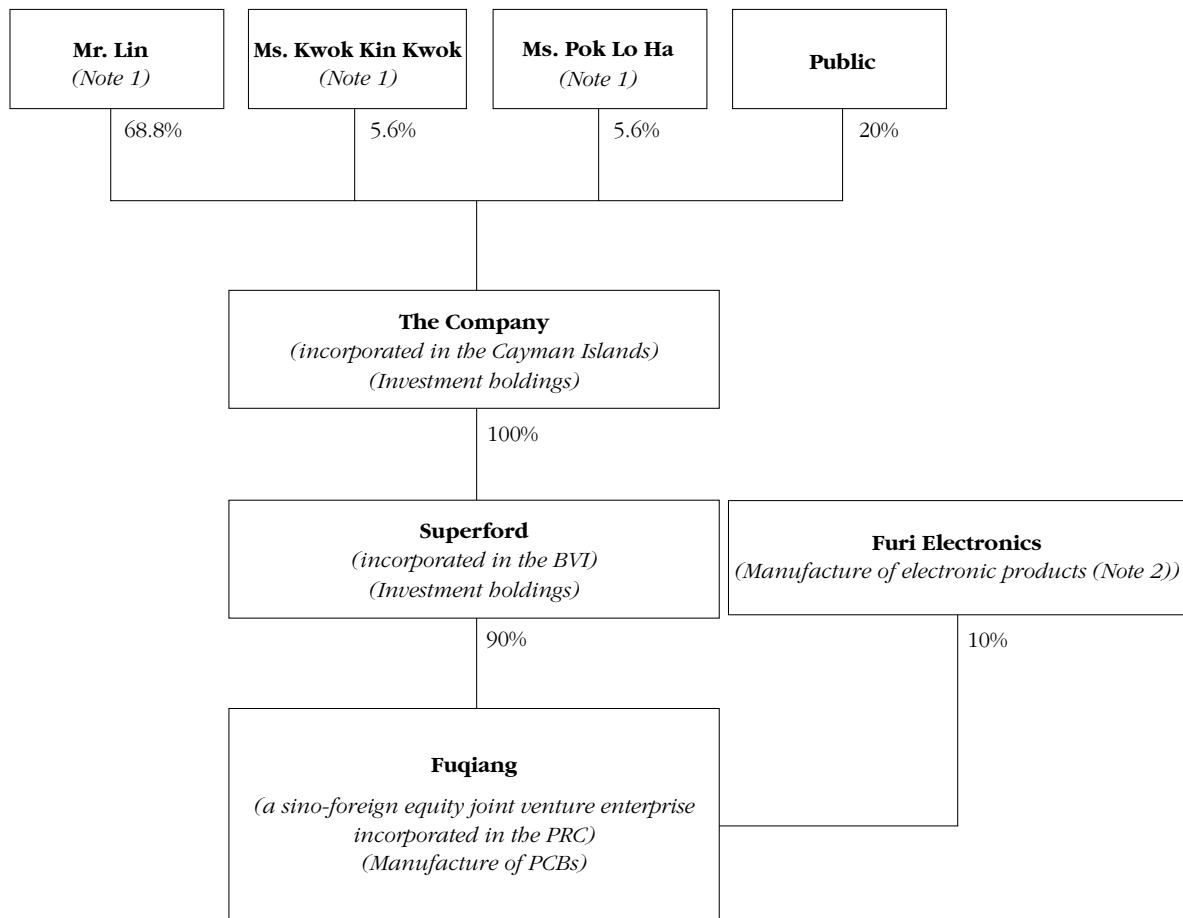


Note: F denotes forecasted figures

Source: CPCA

GROUP STRUCTURE

The Company was incorporated under the laws of the Cayman Islands on 29th September, 2000. Except for Fuqiang and Superford, it does not presently have any subsidiary or shareholding or investment in any other company or entity. The following chart illustrates the shareholding structure of the Group immediately after the completion of the Placing and the Capitalisation Issue (assuming that the Over-allotment Option is not exercised):



Notes:

1. The respective shareholding interests held by each of Mr. Lin, Ms. Kwok Kin Kwok and Ms. Pok Lo Ha are subject to a lock-up period, details of which are set out in the section headed “Substantial shareholder, Initial Management Shareholder and Significant Shareholders” in this prospectus.
2. As at the Latest Practicable Date, the business of Furi Electronics includes manufacturing of televisions, computers and computer accessories, communication products and electronic components, which were not in competition with the business of the Group. Furi Electronics has not undertaken to the Group that it will not engage in business which is in competition with the Group.

BUSINESS

HISTORY AND DEVELOPMENT

The origin of the Group dated back to 20th March, 1996 when Fuqiang was established in Fuqing City, Fujian Province, the PRC. The Group was the first company to be engaged in the manufacture of high precision PCBs in Fujian Province, the PRC.

The initial registered capital of Fuqiang was RMB21,000,000, and its initial shareholders were as follows:

Entity	Descriptions	Approximate % shareholdings
Qiangwang (<i>Note 1</i>)	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 1:

Qiangwang, an enterprise established in the PRC and wholly beneficially owned by Mr. Lin, was established under an arrangement entered into on 13th 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* (福清市人民政府) to administer collective enterprises in Fuqing City, Fujian Province, the PRC. Under this arrangement, Qiangwang was registered as a collective enterprise* (集體所有制企業) under the Bureau. The directors of Qiangwang believed that under this arrangement, Qiangwang would be able to enjoy the recognition and certain administrative and/or operational expedience generally enjoyed by state-owned and collective enterprises in the PRC. 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.*

The PRC legal advisers to the Company has advised that Qiangwang is 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 VI to this prospectus.

BUSINESS

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 20th October, 1997, Fuqiang increased its registered capital from RMB21,000,000 to RMB46,000,000, and its total investment, which comprises both registered capital and shareholders' loan, from RMB30,000,000 to RMB70,000,000. The initial shareholders of Fuqiang, being Qiangwang, Lam Ping Tung (林秉通), 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 per cent. 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, as the relevant government authority indicated that it did not agree with the "nil consideration" proposal, whereby Furi Group and Minxiang re-negotiated the share transfer consideration), Minxiang transferred all of its 35 per cent. equity interests in Fuqiang to Furi Group. As a result, the shareholding of Fuqiang was owned as to 25 per cent. by Qiangwang, 25 per cent. by Lam Ping Tung (林秉通) and 50 per cent. by Furi Group.

In August 1998, the Group started its second phase of its PCB plant construction to add a multilayer production line capable of fabricating PCBs of up to 12 layers. The fabrication of multilayer PCBs commenced in January 1999. In November 1998, the Group was among a group of 28 companies accredited by 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). On 11th June, 1998, for a consideration of HK\$9,000,000, Lam Ping Tung (林秉通) transferred all of his 25 per cent. equity interests in Fuqiang to East Sign. As a result, the shareholding of Fuqiang was owned as to 25 per cent. by Qiangwang, 50 per cent. by Furi Group and 25 per cent. by East Sign.

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 an engineering centre in Fuzhou City, Fujian Province, the PRC, to offer a broader portfolio of engineering services to Newland. This engineering centre was established with an intension to assist Newland in bringing its products from concept to volume production in order to improve its competitiveness in the market. The range of services provided by this engineering centre covers CAM and CAD-based design, "design for manufacturability", PCB layout design and testing development. Since November 1998, the Group has also devoted substantial efforts in the research and development of PCMCIA and metal-based multilayer PCBs.

BUSINESS

The Group also entered into two separate strategic agreements with each of Newland and Start Network, pursuant to which each of Newland and Start Network would jointly develop closely allied supply systems with the Group, which would allow the Group to have priority in accessing the supply networks of Newland and Start Network respectively. The Group would also provide Newland and Start Network with preferential treatment in pricing, delivery time and payment terms. In addition, the board and the management of the respective parties agreed 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 and Start Network also committed to establish a system which mutually assists the management of the parties, including the continuous exchange of design, technology, management, training and information, with the Group. The relevant parties to each of the strategic agreements would also consider the establishment of joint development centres for the research, development, manufacture and marketing of the products of each of Newland and Start Network respectively. The existing strategic agreements only set out the general terms of the arrangements, and the detailed terms will be determined at a later stage, subject to further negotiations and discussions between Fuqiang and the respective parties. Additional and supplemental provisions and separate definitive cooperative agreements will be appended to these strategic agreements and the implementation of which must be approved by the board of directors of the respective parties.

With the capability of adopting both high-mix and low-mix strategies, the Group focuses more on the high-mix strategy by structuring a mix of medium and small size production lots in its order list. The Group's high-mix, "one-stop" EMS strategy quickly achieved satisfactory results. The Group experienced approximately 116 per cent. revenue growth for the year ended 30th June, 2000, compared with the forecasted revenue growth rate for the PRC printed circuit industry of 16 per cent. for the corresponding period. The after tax profit margin before minority interests of the Group also grew from approximately 9.4 per cent. for the year ended 30th June, 1999 to approximately 20.2 per cent. for the year ended 30th June, 2000. During this period, the Group 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 are also intended to be used in the defence and aerospace industries of the PRC, which signifies the Group's achievement in technology and quality. With its advanced facilities and PCB design expertise, the Directors believe that the Group is one of the leading providers of PCB design and manufacturing solutions in Fujian Province, the PRC.

On 20th March, 2000, for a consideration of RMB11,500,000, Qiangwang transferred its remaining 25 per cent. 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 per cent. equity interests in Fuqiang to Furi Electronics. On 19th June, 2000, for a consideration of RMB28,300,000, Furi Electronics transferred 40 per cent. of its equity interests in Fuqiang to East Sign. On 5th July, 2000, for a consideration of RMB41,400,000, which was satisfied by, at the direction of East Sign, the allotment and issue of one share of US\$1.00 in Superford to Mr. Lin, East Sign transferred all of its 90 per cent. equity interests in Fuqiang to Superford. As a result, the shareholding of Fuqiang was owned as to 90 per cent. by Superford and 10 per cent. by Furi Electronics.

The composition of the board of directors of Fuqiang remained the same despite Mr. Lin increased its beneficial interests in Fuqiang through East Sign (and subsequently Superford) from 50 per cent. to 90 per cent. since 19th June, 2000. The directors of Fuqiang unanimously voted in favour of retaining two of the directors of Fuqiang nominated by Furi Electronic 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 per cent. 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.

STRATEGIC ALLIANCE WITH A RECOGNISED RESEARCH INSTITUTION

The Directors view that the use of strategic partnerships is a cost effective way to enhance its capability in providing value-added engineering design services to its customers. In this respect, the Group entered into a non-exclusive strategic alliance agreement with Electronic Research Institute, an independent third party, in July 2000. Electronic Research Institute is one of the state-owned research institutions specialising in electronics and communications technology research. It has undertaken a variety of state and provincial level research projects such as CD-09 Pupil Tester[#](CD-09瞳孔測試儀), Multi-usage Chinese Information Management System[#](多用途漢字信息處理系統), JX Interest Calculation computer[#](JX型計息電腦), 60JKQ Multi-user Remote Control Exchanger[#](60JKQ程控用戶交換器), CAT-F1 Micro Auxiliary Electrical Engineering Testing System[#](CAT-F1微機輔助電機測試系統), Micro Electric Power Adjustment System[#](微機電力調度系統), Micro-type All-purpose Electric Voltage Testing System[#](微機型全能電參量測試系統), CRST-B LCD[#](液晶體顯示CRST-B型) and Bar-Code Attendance System[#](條碼考勤機). Although no separate legal entity will be formed, the aim of such strategic alliance is to commit the two parties for the development of a joint engineering design centre to undertake future research and development projects from ODMs. Under this strategic alliance agreement, the number of staff contributed by each party will depend on the nature of projects to be undertaken by the Group. This joint engineering design centre, which is expected to be established by June 2001, will serve as an outsourcing alternative to the Group's in-house engineering support team. According to this strategic alliance agreement, allocation of profits will be determined on a project-by-project basis based on the expected contribution by each partner. Engineering services to be offered by this joint engineering design centre include the following:

- initial design of PCBs and PCB layout design;
- sub-system level design services for electronics and communications products;
- system design services for communications and communications related consumer products; and
- system-level applications and technology solutions development in the communications sector.

BUSINESS

According to the strategic alliance agreement, the joint engineering design centre will become the foundation of future cooperation between the two entities. Leveraging on the strong research and development capabilities of Electronic Research Institute, the Group will market the engineering services offered by the joint engineering centre by capitalising on its existing business connections and customer base. The degree of commitment by the parties is not specified in the strategic alliance agreement, however, the Group plans to use approximately HK\$3 million for the establishment of the joint engineering design centre (of which HK\$0.3 million will be funded by the net proceeds from the Placing with the balance to be funded by internal resources of the Group), which will be used mainly for rental expenses and production facilities. The Directors believe that the joint engineering design centre will complement the Group's existing engineering design capability and will provide a cost efficient outsourcing alternative to its EMS business. The Group intends to develop similar strategic partnerships and/or cooperative arrangements with other research institutions in the future.

BUSINESS OF THE GROUP

The Group is an electronic manufacturing services provider in the PRC offering a full range of solutions to electronics ODMs and CEMs throughout the production cycle of PCBs, which covers layout design, development, prototyping, fabrication and testing. In order to provide comprehensive solutions to customers, the Group also assists its customers to arrange PCB assembly and sub-system testing.

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

- (1) 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
- (2) The low-mix strategy targets to serve fewer ODMs and handles orders in larger production lots with lower margin.

The Directors reference the production orders with volume of less than 50m² and production lead time of less than two weeks as small orders, while production orders with volume of between 50m² to 100m² and production lead time of between two to four weeks as medium orders, and production orders with volume over 100m² and production lead time of over four weeks as large orders.

BUSINESS

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 China. The Directors consider that the high-mix market has long been under-served in China with a lot of untapped business potentials. The high-mix strategy can be much more costly for competitors of the Group in China who have not learnt to adjust their manufacturing processes to handle the frequent set-ups required for changing the production mix. By establishing an expertise in this area, the Group intends to develop a unique competitive niche in the EMS industry in China.

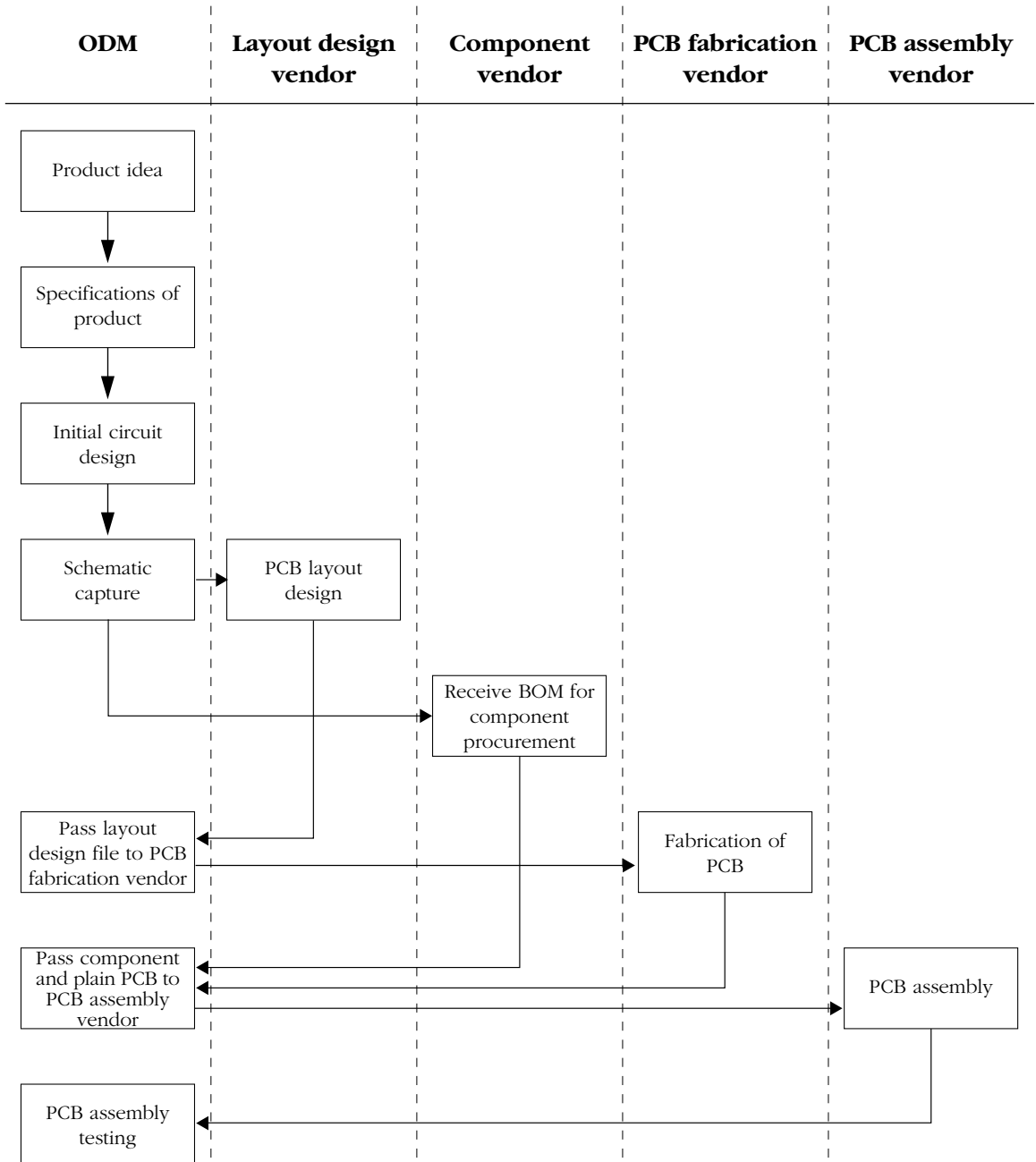
The Group provides solutions to a number of key electronics industry segments including telecommunications, computers, information technology, industrial electronics and consumer electronics. Products of the Group are used in, among others, network devices, computers and telecommunication products by some well-known international and PRC corporations.

The Group also produces a small volume of high precision advanced PCBs primarily for the high performance market. These PCBs, which are intended to be used in the defence and aerospace applications, are designed to function in high temperature environments with greater density.

BUSINESS

Business model

The Directors believe that the following flowchart explains the traditional model of PCB manufacturing and PCB assembly development process and the relationship between ODMs and other vendors:

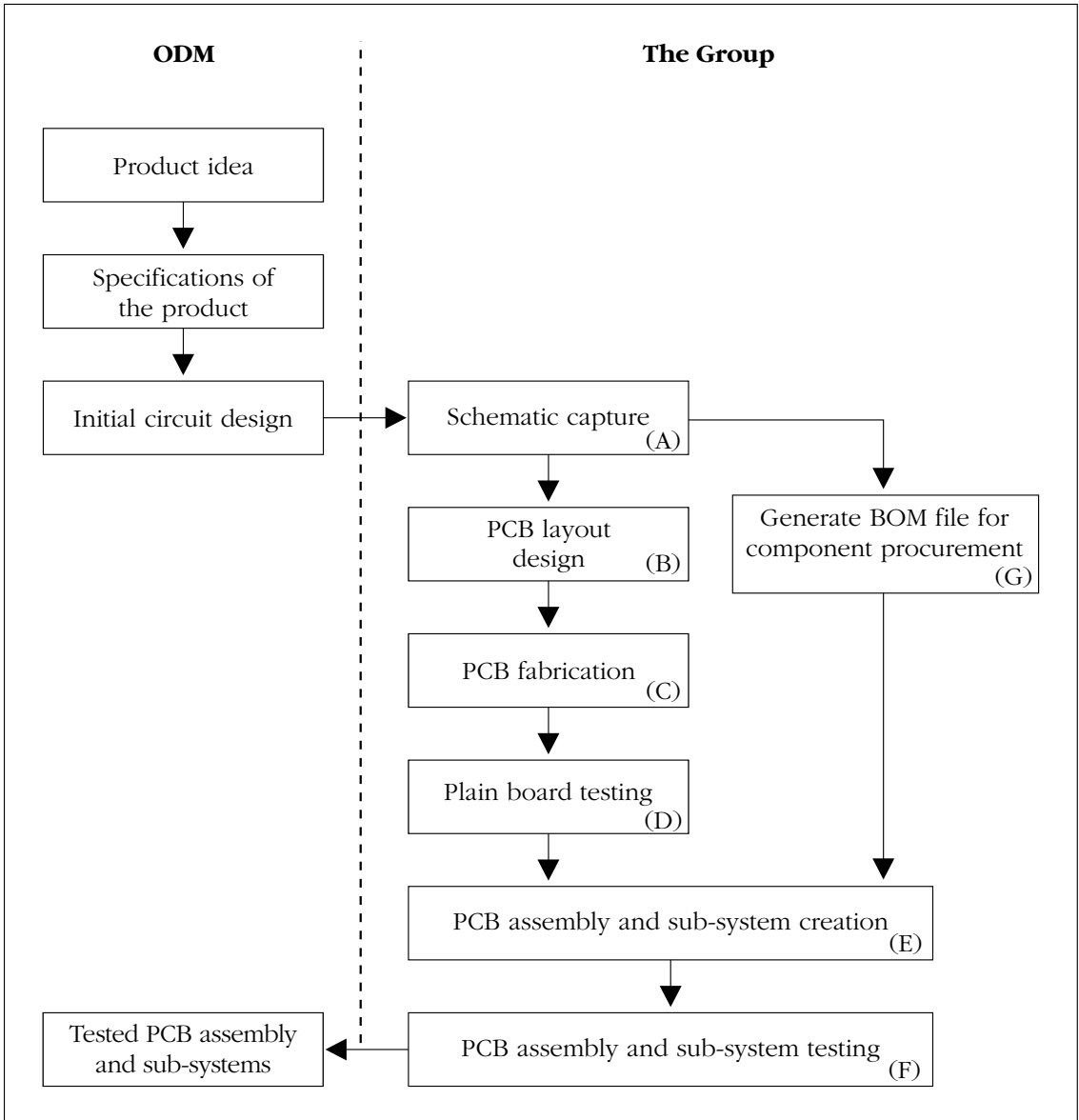


In the opinion of the Directors, due to a short development history and limited financial resources, many ODMs in China have a limited pool of engineering talents. The Directors are of the opinion that the trend of shrinking product life cycles will force them to become more dependent on outsourcing vendors in providing critical engineering and design services to facilitate the delivery of products sooner

BUSINESS

than their competitors. These outsourcing services can be invaluable to some of their customers in certain aspects of their product strategy. Being a specialist in PCBs, PCB assembly and sub-system design, the Group can utilise its resources efficiently to assist its customers in certain aspects of new product implementation. The Directors believe that engineering outsourcing services will likely to experience tremendous growth in the context of the outsourcing trends of ODMs.

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 customers' production and/or engineering sites.

Products and services

Recently, the Group has taken steps to expand the spectrum of its EMS business. To assist customers with 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 assists customers with the transition from the prototyping stage to volume production. The following paragraphs illustrate the services provided by the Group:

Pre-sale engineering services

Before accepting orders, the Group's sales representatives and engineers will 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.

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 assembly moves into 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 helps 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 closely 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

The Group provides quick-turn prototyping services to its customers who require small test quantities, thereby reducing the length of the design/manufacture cycle. The Group has a prototyping team of five engineers to provide pre-production services to its customers. By working closely with its customers at the prototyping stage, the Group can strengthen long-term relationships with its customers and gain advantage in securing a preferred vendor status when customers begin volume production.

Volume production

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. With an estimated product mix of approximately 60 per cent. single and double-sided PCBs and approximately 40 per cent. multilayer PCBs, the Directors estimate that these production facilities are capable of producing over 140,000 square metres of high precision single-sided, double-sided and multilayer PCBs per year. While customers increasingly demand a quick transition, only few PRC PCB manufacturers can provide complex PCBs with eight or more layers in the volume as the Group's facilities are capable of.

The Group employs various inventory management techniques such as JIT, ship-to-stock and auto replenish programs. The Group's investment in advanced manufacturing equipment and its experience in interconnect technologies enable the Group to offer a variety of advanced manufacturing solutions.

The Group employs numerous advanced manufacturing techniques and systems, including CAM systems, numeric controlled drilling and routing, 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 techniques enable the Group to manufacture complex PCBs of consistent quality, in high-volume and on a timely basis. By adopting these advanced systems and techniques, the Group would enhance its competitiveness by expanding its capacities for orders which require advanced manufacturing technologies.

Quality control

The Group's quality assurance staff is involved in all phases of manufacturing to ensure the quality of all products made. Products manufactured by the Group have met the IPC and MIL standards of the US. Moreover, 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.

Distribution

The Group offers flexible, JIT delivery programs that allow product shipments to be closely coordinated with customers' inventory requirements. The Group arranges product shipments either directly to the end-customers 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.

Purchases

For each of the two years ended 30th June, 2000 and the five months ended 30th November, 2000, the Group's five largest suppliers, in aggregate, accounted for approximately 34 per cent., 66 per cent. and 53 per cent. respectively of the total of purchases of raw materials and components. For each of the two years ended 30th June, 2000 and the five months ended 30th November, 2000, purchases from the Group's largest supplier amounted to approximately 11 per cent., 25 per cent. and 25 per cent. respectively of the Group's total purchases of raw materials and components. None of the Directors, their respective associates (as defined in the GEM Listing Rules) or shareholders who hold more than 5 per cent. 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 are settled in RMB, Hong Kong dollars and US dollars, with credit terms mainly include cash-on-delivery, 30-60 days open accounts and letters of credit of 60-120 days. For each of the two years ended 30th June, 2000 and the five months ended 30th November, 2000, approximately 41 per cent., 51 per cent. and 71 per cent. respectively of the Group's purchases were made by cash on delivery; approximately 19 per cent., 36 per cent. and 15 per cent. respectively were effected by letters of credit and the remaining approximately 40 per cent., 13 per cent. and 14 per cent. 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.

Historically, the majority of raw materials and components used in the Group's manufacture of PCBs have been readily available. The Group maintains several vendors for each major material supply in order to diversify its vendor base. To date, material shortages or price fluctuations have not had a materially adverse effect on the Group. The Group also maintains a supplier certification program in which potential vendors are evaluated based on a number of factors including quality, timely delivery, cost, technical capability and potential technical advancement. Certification 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 to purchase common raw materials based on particular customer orders. Personnel in charge of the Group's inventory control performs 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 specific 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 per cent. general provision is made on the gross inventory balance after deducting those covered by specific provisions.

BUSINESS

Sales and marketing

For each of the two years ended 30th June, 2000 and the five months ended 30th November, 2000, the Group's five largest customers, in aggregate, accounted for approximately 79 per cent., 88 per cent. and 65 per cent. respectively of the Group's total turnover. For each of the two years ended 30th June, 2000 and the five months ended 30th November, 2000, sales to the Group's largest customer amounted to approximately 64 per cent., 34 per cent. and 22 per cent. respectively of the Group's total turnover. None of the Directors, their respective associates (as defined in the GEM Listing Rules) or shareholders who hold more than 5 per cent. 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 30th June, 1999	For the year ended 30th June, 2000	For the five Months ended 30th November, 2000
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
PRC	35,826	62,021	45,817
Australia	1,214	12,361	13,966
US	—	4,190	1,489
Germany	787	3,028	1,122
Hong Kong	—	246	—
	37,827	81,846	62,394
	37,827	81,846	62,394

For each of the two years ended 30th June, 2000 and the five months ended 30th November, 2000, sales in RMB accounted for approximately 95 per cent., 76 per cent. and 74 per cent. 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 periods ranging from 60 days to 180 days. The Group adopts stringent control and supervision over the credit terms granted to its customers. The Directors confirm that specific provisions are being made on individual accounts according to their respective recoverability as reviewed by the management of the Group on a case-by-case basis. Furthermore, it is the Group's policy to make a general provision for bad debts of 5 per cent. on its account receivables. For each of the two years ended 30th June, 2000 and the five months ended 30th November, 2000, the provision for bad debts of the Group were HK\$2.1 million, HK\$4.0 million and HK\$0.2 million respectively. The Group had not experienced any significant sales return or any major complaints from its customers.

Production of the Group are backed by 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, many 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.

BUSINESS

The Group has established a dedicated team to serve certain key customers. This team is made up of personnel from the areas of marketing, planning, technical support and quality assurance, and is responsible for addressing issues raised by these key customers to ensure continuity from PCBs design through distribution. This focused attention is designed to enable the Group to respond rapidly and efficiently to these key customers' specific precision manufacturing needs.

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 employed 23 sales, support and marketing personnel in its manufacturing plant. In addition, the Group employed a total number of nine sales personnel in six sales offices who are assigned to geographic territories including Shanghai, Fuzhou, Xiamen, Chengdu and Shenzhen within the PRC and Hong Kong. The Group's presence in the overseas markets is achieved through three distributors in the United States, Germany and Australia.

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 focuses 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 technologies that benefit its customers, and aims to position itself as an important source for these solutions. The products and services offered by the Group are promoted and marketed through provision of samples and visits of sales personnel to potential customers.

Strengths

The Directors believe that the Group has the following strengths:

- a well-established customer base;
- an experienced and committed management team capable of attracting talented employees;
- 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 high quality in its products and offer outstanding engineering support services;
- the ability to conduct continuous evaluation and adopt new manufacturing and production technologies;
- 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 major 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 complicated, technologically demanding and highly professional. Its bulk production requires substantial technical expertise and specialised equipment as well as a long period of development time.
- this business is capital intensive. Production of high-grade products and bulk production of low-to-medium grade products will be impossible if it fails to reach the high professional standard or lacks the advanced equipment.
- this business requires technical skills from various disciplines including electronics, petrochemistry and mechanical engineering. Experts in this field have to be trained through practice.
- 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 certification 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 ODMs' vendor lists often find it difficult to obtain orders.

Intellectual property rights

The Directors believe that, due to its customers' demands for rapid technological advances and the resulting 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 efficient 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)" trademark and logo have been registered with the Trade Marks Bureau[#] (商標註冊局) of China. Furthermore, the Group submitted its application to the Trademark Registry of Hong Kong for registration of the "Fuqiang(富強)" trademark and logo in January 2001. Subject to any queries that the Trademark Registry of Hong Kong may raise, the Directors expect to obtain the certificate of registration by the end of 2001.

According to the Group's internal rules and regulations, employees of the Group are prohibited from using any know-how, copyright and trade secrets belonging to the Group or disclosing the same to any unauthorised parties, whether during the term of their employment. However, there can be no assurance that the Group will be able to maintain the confidentiality of its technologies, dissemination of which could have a materially adverse effect on the Group's business.

BUSINESS

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

Environmental 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 bureaus 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 statutes, 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, training, information and warning provisions relating to toxic or hazardous substances, or employee safety.

For each of the two years ended 30th June, 2000, the Group paid a discharge fee to the government of Fuqing City of approximately RMB354,000 and RMB130,000, 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.

POSSIBLE COMPETING BUSINESS BY FURI ELECTRONICS

Furi Electronics, a minority shareholder of Fuqiang, is principally engaged in the manufacture and sale of televisions, computers, computer accessories, telecommunications 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.

CONNECTED TRANSACTION

The Group, on 1st 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, PRC for a term of five years commencing on 1st 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 after the Listing Date constitutes a de minimus on-going connected transaction and will be conducted in accordance with Rule 20.25(3) of the GEM Listing Rules.

STATEMENT OF ACTIVE BUSINESS PURSUITS

ACTIVE BUSINESS PURSUITS

During the year ended 30th June, 1999, the Group was principally engaged in the fabrication of PCBs. During the year ended 30th June, 2000, the Group gradually extended its operations into the EMS business which included the design, development and provision of comprehensive PCB solutions. The business carried out by the Group during this period included the following :

- (1) pre-sale engineering services;
- (2) PCB layout design;
- (3) quick-turn prototyping and pre-production; and
- (4) volume production.

Set out below is a summary of the active business pursuits of the Group for the period from 1st July, 1998 up to the Latest Practicable Date.

Business development during the year ended 30th June, 1999

Revenue and profit

- Total turnover of approximately HK\$37.8 million with profit after tax and minority interests of approximately HK\$1.8 million.
- During this year, approximately 95 per cent. of the Group's sales were domestic sales in the PRC.

Product and service launches

- During the period, the Group was engaged in the fabrication of high precision double-sided PCBs while commencing volume production on multilayer PCBs. The Group also introduced advanced equipment and devices for the production and testing of PCBs from manufacturers of the US, Germany, Italy, Belgium and Japan. Such equipment enabled the Group to meet the stringent requirements for producing high precision PCBs.
- In May 1999, the Group established an EMS steering committee whose duties include overseeing the implementation of the Group's EMS strategy and related new business developments.

STATEMENT OF ACTIVE BUSINESS PURSUITS

— The following table sets out the details of the PCBs manufactured by the Group during this period:

Type	Sales <i>(in HK\$'000)</i>	Gross area <i>(in square metres)</i>	Gross profit margin <i>(%)</i>
Single and double-sided PCBs	30,065	45,139	34.44
Multilayer PCBs	7,762	5,767	53.31
Total	37,827	50,906	

— Attained the UL safety standard of the US and CCEE of the PRC.

— Able to comply with the IPC and the MIL standards in the US.

Research and development

— Commenced the development of metal-based multilayer PCBs (which are capable of cooling off heat generated from other electronic components.)

— Maintained a team of 67 development, process and production engineers.

Sales and marketing

— As at 30th June, 1999, the Group had a sales force comprising 22 sales and 4 marketing personnel.

— Sold to over 59 customers.

— Secured major new customers including Newland in the computer industry, Start Network in the information technology industry, Amoisonic, Overseas Chinese Electronics and SAST in the consumer electronics industry.

— Established sales offices in Hong Kong, Chengdu, Fuzhou, Xiamen, Shenzhen and Shanghai.

Human resources

— The Group successfully recruited some industry specialists in the PCB industry to assist in the development of its PCB business with a total headcount of over 300 employees as at 30th June, 1999.

STATEMENT OF ACTIVE BUSINESS PURSUITS

Capital

- Received in December 1998 a RMB200,000 endowment technology research fund, being the first instalment of the total subsidy of RMB300,000 from the Fujian Province Science and Technology Commission* (福建省科學技術委員會), for the development of fabrication technology on eight to 12 layers PCBs. This research fund was granted on a project by project basis with no specific restrictions on the application of funds granted.

Award and certification

- Accredited by the Fujian Province Science and Technology Commission* (福建省科學技術委員會) as a new and high technology enterprise in both November 1998 and March 1999.

Business development during the year ended 30th June, 2000

Revenue and profit

- Total turnover of approximately HK\$81.8 million with profit after tax and minority interests of approximately HK\$8.6 million, representing approximately 116 per cent. and 383 per cent. increase over the previous year respectively.
- During this period, approximately 76 per cent. of the Group's sales were domestic sales in the PRC, while overseas sales represented the remaining approximately 24 per cent..

Product and service launches

- During this period, the Group achieved the technology of fabricating 12 layers PCBs and successfully improved its capability to fabricate PCBs of up to 20 layers. The Group also commenced preparatory work for the provision of EMS, which included employment and redeployment of staff, research and development and planning.
- The following table sets out the details of the PCBs manufactured by the Group during this period:

Type	Sales <i>(in HK\$'000)</i>	Gross area <i>(in square metres)</i>	Gross profit margin <i>(%)</i>
Single and double-sided PCBs	52,896	79,581	38.57
Multilayer PCBs	28,950	18,334	56.43
Total	<u>81,846</u>	<u>97,915</u>	

- During the year ended 30th June, 2000, the Group established an engineering outsourcing team of 4 engineers for the provision of “design-for-manufacturability” services to two of its key customers.

STATEMENT OF ACTIVE BUSINESS PURSUITS

Research and development

- Commenced the development of PCMCIA PCBs.
- Expanded its engineering team to 93 development, process and production engineers.

Sales and marketing

- As at 30th June, 2000, the Group's sales force comprised 21 sales and five marketing personnel.
- Sold to over 75 customers.

Human resources

- At 30th June, 2000, the number of employees of the Group increased to 474, of whom 75 were engaged in research, product development and design, 45 in management and administration, 30 in quality control, 291 in production, 26 in sales and marketing and nine in finance.

Capital

- Received in July 1999 RMB100,000 from Fujian Province Science and Technology Commission[#] (福建省科學技術委員會), being the balance of the endowment technology research fund for the development of fabrication technology on eight to 12 layers PCBs, as mentioned under the paragraph headed "Capital" in the period ended 30th June, 1999 in this section of this prospectus.
- Received in March 2000 a RMB300,000 endowment technology research fund from the Fujian Province Science and Technology Commission[#] (福建省科學技術委員會) for the development of fabrication technology on metal-based multilayer PCBs to be used in the aerospace industry in the PRC. This research fund was granted on a project by project basis with no specific restrictions on the application of funds granted.

Award and certification

- In July, 1999, the Group received ISO 9002 certification (please refer to the description under the paragraph headed "Quality control" under the section headed "Business" in this prospectus).

STATEMENT OF ACTIVE BUSINESS PURSUITS

Business development from 1st July, 2000 up to the Latest Practicable Date

Revenue and profit (for the five months ended 30th November, 2000)

- Total turnover of approximately HK\$62.4 million with profit after tax and minority interests of approximately HK\$22.5 million.
- During this period, approximately 73 per cent. of the Group's sales were domestic sales in the PRC, while the remaining approximately 27 per cent. represented overseas sales.

Research and business development

- In December 2000, Superford entered into a lease agreement with an independent third party for the leasing of office premises at Room 2807, 28th Floor, China Resource Building, 26 Harbour Road, Wanchai, Hong Kong with a gross floor area of approximately 1,239 square feet. The lease is for a term of one year nine months and sixteen days commencing from 1st October, 2000 to 16th July, 2002.
- In order to promote further development, the Group has established strategic partnerships with two customers, namely Newland and Start Network, with an aim to consolidate and capitalise on the technology, resources and competitive advantages of the Group and these customers for more efficient product development and commercialisation.
- In July 2000, the Group entered into a non-exclusive strategic alliance agreement with Electronic Research Institute. According to the agreement, a joint engineering design centre will be established to engage in, among others, the initial design of PCBs, PCB layout design, sub-system design services, and system-level applications and technology solutions development.
- In December 2000, the Group established its headquarters in Hong Kong for the purposes of, among others, future business developments in the overseas market and future corporate activities of the Group.

Sales and marketing

- As at the Latest Practicable Date, the Group's sale force comprised 24 sales and eight marketing personnel.

Human resources

- As at the Latest Practicable Date, the total number of employees of the Group increased to 498, of whom 80 were engaged in engineering design and support, 44 in management and administration, 30 in quality control, 30 in product testing, 32 in sales and marketing and 11 in finance.

STATEMENT OF ACTIVE BUSINESS PURSUITS

Capital

- Received in August 2000 a RMB100,000 endowment technology research fund for the development of GaN-based blue laser diodes (氮化鎵藍光二極管) from the Fujian Province Bureau of Science and Technology# (福建省科學技術廳), and in November 2000 a RMB300,000 endowment technology research fund for the development of fabrication technology on PCMCIA PCBs from the Fujian Province Bureau of Science and Technology# (福建省科學技術廳). These research funds were granted on a project by project basis with no specific restrictions on the application of the funds granted.

STATEMENT OF BUSINESS OBJECTIVES

BUSINESS OBJECTIVES

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. To achieve this business objective, the Group has established an EMS steering committee for the purpose of developing and promoting EMS and other related business. The Directors plans to expand its EMS business by providing "one-stop" design and engineering outsourcing services of PCBs, PCB assemblies and sub-system level solutions. Under its EMS strategy, the Group aims to keep track of the rapidly changing needs of its customers and develop EMS solutions that can accommodate their needs. Focusing on its EMS strategy, the Group intends to achieve the following goals over the next two to three years:

- continuing implementation of its EMS strategy by expanding its engineering support and service capacity;
- development of PCB fabrication capacity of 27,000 square metres (based on the Directors' estimation of a future product mix of approximately 25 per cent. single and double-sided PCBs and approximately 75 per cent. multilayer PCBs) to achieve economies of scale;
- become an integral part of the customers' product development and manufacturing strategy;
- become a "one-stop-shop" for PCB fabrication, PCB assembly and sub-system design services; and
- expansion of its global sales network.

The Directors believe that the communications segment would experience a higher-than-average growth, which would generate a higher demand and profit margin for PCBs than other industry sectors. Accordingly, it is the Group's EMS strategy to increase its revenue and improve its profitability by providing turnkey solutions and services to a diversified customer base in the communications segment and by capitalising on business opportunities arising from the communications and communication related industries.

BUSINESS POTENTIALS

Engineering outsourcing market

The Directors believe that a lot of potentials exist in the PRC EMS market. Traditionally, different stages of the PCB development process require substantially different capabilities, and as a result most companies specialise in only one stage of the whole process. Due to this phenomenon, ODMs and CEMs use different suppliers at each stage, which require costly and time-consuming duplicative tooling and pre-production engineering. As ODMs face increasing competition and shortening product life cycles, strategic outsourcing has become a preferred strategy for many leading ODMs and CEMs. The Directors believe that among all the market segments for PCB applications, communications and communications-related consumer products will be among the segments that will experience the engineering outsourcing trend in China.

STATEMENT OF BUSINESS OBJECTIVES

PCB market

The Directors believe that the overall market and demand for PCBs will continue to grow during the Forward Looking Period, in terms of the total units demanded, the variety of applications and the diversity of user groups. The high-end markets, which include high layer-count and advanced material PCBs, are likely to grow significantly faster than that of the PCB industry as a whole. As higher layer counts generally represents higher profit margin, the Directors believe that the Group's emphasis on its sales and engineering efforts in this high growth areas will position itself for rapid growth.

In the Directors' opinion, high-mix PCB shipments in China is going to experience high growth, in which six to 10 layer PCBs are expected to experience the highest growth while single and double-sided PCBs are going to grow more slowly. The Directors believe that there is likely to be a shortage in the supply of six to 10 layers PCBs in 2001.

The drivers of the Group's future revenue and profit growth include:

- (i) growth in the communications segment and its related consumer electronics markets;
- (ii) the emerging global EMS market and the increase in the purchase of PCBs by international ODMs; and
- (iii) rapid advancement in technology.

The Directors are of the view that currently, the Group is approaching full production capacity utilisation. By expanding its production capacity and solving its production bottlenecks, the Directors expect that the Group will substantially increase its revenue and improve its operating results.

FUTURE PLANS AND STRATEGIES

Continuing implementation of its EMS strategy by expanding engineering support and service capacity

In order to improve profit margin, the Group intends to expand its EMS business by providing PCB fabrication, PCB assembly and sub-system design services specifically to focused industry sectors and applications.

STATEMENT OF BUSINESS OBJECTIVES

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 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 assume 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.

Development of PCB fabrication capacity to achieve economies of scale

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 upgrade its production plant for fabrication of single-sided, double-sided and multilayer PCBs from the current monthly production capacity of approximately 12,000 square metres, as estimated by the Directors based on an estimated product mix of approximately 60 per cent. single and double-sided PCBs and approximately 40 per cent. multilayer PCBs, to approximately 27,000 square metres, as estimated by the Directors based on an estimated product mix of approximately 25 per cent. single and double-sided PCBs and approximately 75 per cent. multilayer PCBs, in two to three years.

Become an integral part of the customers' product development and manufacturing strategy

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.

In the past, when international semiconductor manufacturers tried to market IC products in China, they often experienced difficulty in marketing a product design to local ODMs, as these local ODMs generally lacked the research and development capability which could transfer a prototype-reference design to a manufacturable design.

STATEMENT OF BUSINESS OBJECTIVES

The Directors believe that the Group can fill this gap by establishing strategic partnerships 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 communications 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 the new and emerging markets and applications. The Group will 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 partnerships should enable the Group to build stronger strategic relationships with its key customers and become an integral and crucial part of their operations.

Become 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 establish its own 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 of offering significantly shorter turnaround time, lower costs and better quality for customers.

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, faster production ramps, reduced inventories and shortened production cycle.

Expansion of global sales network

The Group intends to establish direct global independent sales representatives and domestic branches. The Directors plan to further expand the Group's sales network, which is expected to make continuous and significant contribution to the Group's future business growth.

SPECIFIC BUSINESS OBJECTIVES PRIOR TO THE YEAR ENDING 30TH JUNE, 2003

The Group intends to achieve the following specific objectives prior to the year ending 30th June, 2003, and will review the response to its developments from time to time.

STATEMENT OF BUSINESS OBJECTIVES

From the Latest Practicable Date to 30th June, 2001

Engineering outsourcing (including research and development)

- expand PCB layout design services to some key domestic customers of the Group;
- 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;
- start to implement ISO 9001 quality standard; and
- 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.

PCBs and PCB assembly

- shorten the delivery time for its PCB quick-turn services from an average of 72 hours to 36 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;
- start the second phase of the expansion plan to increase PCB fabrication capacity for single-sided, double-sided and multilayer PCBs by 50 per cent.;
- continue the implementation of the statistical process control system, a system which involves monitoring, controlling and improving a manufacturing process through statistical analysis;
- purchase the SMT assembly line and equipment for “thru-hole” assembly line;
- increase the average layer counts for PCBs produced by the Group to four layers from two layers for the five months ended 30th November, 2000, and increase the percentage contribution to total PCB fabrication revenue by the six layer PCBs from 4 per cent. for the five months ended 30th November, 2000 to 15 per cent.; and, depending on customers’ demand, expand the proportion of sales generated from 10 to 12 layer PCBs;
- establish the capacity to fabricate PCBs up to 30 layers; and
- 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.

STATEMENT OF BUSINESS OBJECTIVES

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;
- 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 per cent. to 50 per cent.; and
- explore business opportunities in other high growth segments in the PRC, such as medical equipment and instrumentation.

Business and human resources developments

- establish EMS strategic partnership with at least one ODM during this period. Negotiations with ODMs in the telecommunication sector have already been taking place;
- recruit approximately two additional engineers for its engineering outsourcing division during this period;
- complete the implementation of a computerised ERP system for the integration of material management, engineering production and control;
- approach US and European semiconductor makers and offer PCB design solutions for the application of their IC products;
- establish a joint engineering design centre together with Electronic Research Institute; and
- 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.

Cost to be incurred

Based on the Directors' estimate, the total cost to be incurred by the Group in respect of the implementation of its planned strategies during the six months ending 30th June, 2001 would amount to approximately HK\$40 million, which will be funded by the net proceeds from the Placing.

STATEMENT OF BUSINESS OBJECTIVES

Six months ending 31st December, 2001

Engineering outsourcing (including research and development)

- start to offer PCB assembly and sub-system design services to existing customers; and
- obtain ISO 9001 quality certification, which is a standard for compliance of certain procedures and practices by business enterprises for maintaining a certain level of quality standards, covering areas including design and development, production, assembly/investment and services.

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;
- conduct the pilot run and pre-production preparation of SMT assembly;
- 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 30th June, 2001;
- increase revenue through the sale of higher layers PCBs and complex PCB assembly;
- purchase advanced equipment which permits fabrication of higher layers PCBs;
- continue to adjust its fabrication plant to complement the changing needs of its customers;
- start the second phase of expansion of assembly line by purchasing additional backplane assembly equipment;
- continue the second phase of the expansion plan to increase production capacity for single-sided, double-sided and multilayer PCBs by 50 per cent. from approximately 12,000 square metres to approximately 18,000 square metres; and
- obtain QS 9000 quality certification.

Sales and marketing

- undertake a comprehensive marketing program to attract new customers including subsidiaries of international ODMs in the PRC and domestic ODMs by offering tailor-made PCB and sub-system design solutions; and
- focus marketing efforts on ODMs in the high-growth communications, computer and computer peripheral segments of the electronics industry.

STATEMENT OF BUSINESS OBJECTIVES

Business and human resources developments

- increase revenue through completion of the first phase of the development plan, which includes the expansion of its PCB production capacity to approximately 18,000 square metres and adding PCB assembly capacity to service its higher margin customers; and
- recruit at least one new engineer for its engineering outsourcing division during this period.

Cost to be incurred

The Directors estimate that the costs incurred by the Group in respect of the above expansion plans would amount to approximately HK\$16 million, of which approximately HK\$7.6 million will be funded by the net proceeds from the Placing, with the balance of approximately HK\$8.4 million to be funded by internal resources of the Group.

Six months ending 30th June, 2002

Engineering outsourcing (including research and development)

- launch turnkey sub-system solutions designed by the Group and Electronic Research Institute for communications and communications related segments;
- establish function test capacity for sub-systems;
- plan for the construction of PCB prototyping facilities and the establishment of an EMS branch office in Shenzhen, the PRC;
- establish a joint laboratory with a national university in the PRC for the research of advanced materials used in the fabrication of PCBs. In this respect, the Group is undergoing negotiations with Qinghua University in Beijing, the PRC; and
- undertake projects to develop emerging technologies including various micro-via processes, horizontal plating, plasma etching and laser drilling.

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;
- depending on the customers' demand, increase the layer counts of PCBs to 12 or more, and increase its production capabilities from its current 20 layers to 30 layers; and
- increase the percentage contribution to revenue from the communications segment to 65 per cent. of total revenue.

STATEMENT OF BUSINESS OBJECTIVES

Sales and marketing

- target customers with latest technologies, including broadband technologies such as optical networking, wireless applications, and data storage technologies.

Business and human resources developments

- improve the gross margin of the Group by 15 per cent. through the increase in the provision of higher margin, value added, high-mix and EMS strategies;
- 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 constrains); and
- recruit at least two new engineers for its engineering outsourcing division during this period.

Cost to be incurred

The Directors estimate that the costs incurred by the Group in respect of the above expansion plans would amount to approximately HK\$10 million, which will be funded by internal resources of the Group.

Six months ending 31st December, 2002

Engineering outsourcing (including research and development)

- launch testing services of sub-systems or PCB assembly;
- 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;
- establish strategic alliances with at least one semiconductor manufacturer to provide PCB design solutions for the application of its IC products; and
- seek opportunities for co-operation with other design houses in the PRC, Taiwan, the US and Japan in the development of certain communication devices.

PCBs and PCB assembly

- complete the second phase of the expansion plan to increase SMT assembly production capacity by 50 per cent.

STATEMENT OF BUSINESS OBJECTIVES

Sales and marketing

- establish a sales representative office outside Hong Kong and the PRC.

Business and human resources developments

- recruit two new engineers for its engineering outsourcing division during this period; and
- acquire of 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.

Cost to be incurred

The Directors estimate that the costs incurred by the Group in respect of the above expansion plans would amount to approximately HK\$8 million, which is expected to be funded by internal resources of the Group.

Six months ending 30th June, 2003

Engineering outsourcing (including research and development)

- pursue long-term supply agreements with large international ODMs in the communications segment through the provision of integrated PCB fabrication, PCB assembly and material procurement services;
- recruit at least one new engineer for its engineering outsourcing division during this period;
- roll out an increasing level of its engineering outsourcing services including “design-for-manufacturability”, PCB layout design, assembly, system level solution and “design-for-testability” prior to other competitors in order to establish a significant leading market position; and
- increase revenue generating from its EMS business to approximately 70 per cent. of the Group's total revenue by establishing closer strategic business relationships with and by providing more value-added services to its customers.

PCBs and PCB assemblies

- start to use alternative high performance materials such as Teflon, GETEK, OHMEG-PLY(r), cyan ate ester and polyimide for high temperature, fast signal speed and other high-performance requirements.

STATEMENT OF BUSINESS OBJECTIVES

Sales and marketing

- target the PRC as its key market for the expansion of its engineering outsourcing services.

Business and human resources developments

- explore opportunities to acquire or form alliances with companies in the communications and IT sectors which can provide synergies and technological support to the Group;
- establish broader sales and marketing channels by recruiting more marketing personnel and appointing two additional independent distributors in Europe and the US; and
- invest in or establish partnership with companies which have complete system design capabilities.

Cost to be incurred

The Directors estimate that the costs to be incurred by the Group in respect of the above expansion plans would amount to approximately HK\$1 million which will be funded by internal resources of the Group.

Bases and assumptions

The business objectives of the Group stated above are based on the following bases and assumptions:

1. the business objectives for any of the specified periods have been stated on the basis that they may have to be revised or adjusted by the Group from time to time in light of factors such as changes in market conditions, market response to particular products and whether the Group has successfully achieved its stated business objectives in the preceding period or periods. It is also assumed that the Group does not experience significant delay in achieving its stated business objectives in any of the specific periods;
2. the Group does not encounter any significant difficulty in the research and development of any of its new products or solutions;
3. the Group does not encounter any significant problem or disruption adversely affecting its operations or business objectives in any ways including but not limited to:
 - failure in the Group's software and hardware systems; and
 - the Group being involved in future litigation with respect to technology rights and proprietary rights which disrupt the Group's business operations;
4. the interconnect industry and the EMS industry continue to develop and grow as anticipated;

STATEMENT OF BUSINESS OBJECTIVES

5. the Group is not materially adversely affected by any change in existing government policies or political, legal (including changes in legislation or regulations or rules), fiscal or economic conditions in Hong Kong, the PRC or any of the countries in which the Group carries on business or to which it exports or imports its merchandise or sources supplies;
6. the Group is not materially adversely affected by any change in bases or rates of taxation in the PRC or in any other places in which the Group operates or is incorporated; and
7. the Group is not materially adversely affected by any change in interest rates or exchange rates from those currently prevailing.

Reference is made to the risk factors set out in the section headed “Risk factors” in this prospectus, the occurrence of any of which may delay or otherwise adversely affect the attainment by the Group of any of its business objectives.

Human resources deployment

The headcount projection for each of the year ending 30th June, 2003 is set out in the following table:

	(Actual)	(Projected)		
	Year ended 30th June, 2000	Year ending 30th June, 2001	Year ending 30th June, 2002	Year ending 30th June, 2003
Engineering and research and development	75	100	200	234
Sales and marketing (including sales engineers)	26	33	40	45
Finance, accounting, operation and administration	373	383	655	748
	474	516	895	1,027

The above projection assumes that the Group will expand and thus increase its headcount through organic growth, and does not take into account any headcount increase as a result of potential acquisitions by the Group.

STATEMENT OF BUSINESS OBJECTIVES

REASONS FOR THE PLACING AND USE OF PROCEEDS

The Placing will enhance the Group's capital base and provide funding for the expansion plan and the implementation of its EMS strategy. It is estimated that the net proceeds from the Placing before the exercise of the Over-allotment Option and after deducting related expenses are estimated to be approximately HK\$47.6 million. The Group currently intends to use such net proceeds as follows:

- approximately HK\$30 million for the expansion of the PCB fabrication plant;
- approximately HK\$10 million for the development of EMS business and the purchase of related equipment;
- approximately HK\$4 million for the construction of a SMT assembly line;
- 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; and
- approximately HK\$0.3 million for the establishment of a joint engineering design centre with Electronic Research Institute to undertake future research and development projects from ODMs.

It is estimated that a total sum of approximately HK\$42 million will be required for the expansion of PCB fabrication plant from the existing production capacity of approximately 12,000 square metres to the Group's targeted production capacity of approximately 27,000 square metres, of which approximately HK\$30 million will be financed by the net proceeds from the Placing, and the balance of HK\$12 million will be financed by internal resources.

Should the Over-allotment Option be exercised in full, the Company will receive additional net proceeds of approximately HK\$8.7 million which, together with the net proceeds from the Placing and after deducting related expenses, will amount to approximately HK\$56.3 million. The Directors intend to use such additional proceeds for general working capital of the Group.

To the extent that the net proceeds from the Placing are not immediately applied for the above purposes, it is the present intention of the Directors that they will be placed on short-term interest-bearing deposits with licenced banks in Hong Kong.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

DIRECTORS

Executive Directors

Mr. Lin Wan Qiang (林萬強), aged 46, 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 gained more than 16 years of entrepreneurial and management experience. 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. Xiang Song (項松), aged 29, 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 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), one of the earliest PCB sino-foreign joint venture PCB companies in the PRC. He has more than 7 years of management experience in the PCB industry.

Mr. Lin Wan Peng (林萬鵬), aged 38, is an executive director of the Company. He is primarily responsible for overseeing the financial management of the Group. He graduated with a bachelor's degree in industrial accounting from Xiamen University (廈門大學) and is a certified public accountant in the PRC. He gained extensive financial experience while working as the financial controller of the Fujian Province Equipment Procurement and Distribution Corporation[#] (福建省機械供銷總公司) under Fujian Province Bureau of Machinery[#] (福建省機械廳), Fujian Tourist Bureau[#] (福建省旅遊局) and Fujian Shen Long Group[#] (福建省神龍集團).

Independent non-executive Directors

Mr. Liu Zhao Cai (劉兆才), aged 58, 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 has extensive technical experience and has worked as a senior engineer in the 36th research institute of the Department of Electronics Industry[#] (電子工業部) of the PRC. He was the president of Fujian Province Science and Technology Commission[#] (福建省科學技術委員會) in 1998, 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 1987 for a term of three years. Mr. Liu became an independent non-executive Director on 8th May, 2001.

Mr. Lam Ming Yung (林明勇), aged 37, graduated with a bachelor's degree in law from East China University of Politics and Law (華東政法學院) and practiced as a lawyer in the Fujian Province of China from August 1986 to July 1993. He was registered as a foreign lawyer under the Law Society of Hong Kong 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. He became an independent non-executive Director on 8th May, 2001.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Mr. Pan Chang Chi (潘昌馳), aged 49, is a senior economist. He graduated from Xiamen University (廈門大學) in 1998 with a master's degree in law. He has 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 on 8th May, 2001.

SENIOR MANAGEMENT

Mr. Edgar Xiong (熊克明), aged 40, is an executive vice-president of Fuqiang and is responsible for overseeing the development of the Group's EMS business. He obtained a bachelor's degree in electronic engineering from Southeast University (東南大學) in the PRC in 1983 and obtained a master's degree in electrical engineering from Missouri University in the United States in 1989. Before joining the Group in May 2000, Mr. Xiong had gained many years of experience in system development and evaluation mainly in the communications and communications related consumer product segments while working in a number of international technology companies including Zilog, Inc., Samsung Semiconductor, Inc. and NEC Electronics Inc. in the US. He was seconded to China by LSI Logic International Services Inc. as the country-marketing manager in charge of PRC market development in 1999.

Mr. Lin Wan Xin (林萬新), aged 46, is an executive vice-president 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 56, 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) in 1967. 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 29, 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.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Mr. Tong Yiu On (唐耀安), aged 34, is the company secretary and chief financial officer of the Company. 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 in September 2000, 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. Hu Zhao Rui (胡兆瑞), aged 42, is 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), Fujian Mingjiang Wu Yi Cement Transportation Company Limited[#] (福建閩江武夷散裝水泥聯運公司) and Fujian 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 its 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.

As 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 in 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) in 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.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

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 partnership 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. Each agreement will commence from 8th May, 2001 (the "Effective Date").

Brief particulars of these service agreements are set out below:

- (i) Each service agreement is for an initial term of three years 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 per cent. 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 per cent. 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 and Mr. Lin Wan Peng shall be entitled to a basic monthly salary of HK\$50,000, HK\$25,000 and HK\$25,000 respectively.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

The executive Directors received remuneration of approximately HK\$162,000, HK\$271,000 and HK\$129,000 for each of the two years ended 30th June, 2000 and the five months ended 30th November, 2000 respectively. Other non-executive Directors did not receive any remuneration or benefits in kind for the two years ended 30th June, 2000 and the five months ended 30th November, 2000. It is estimated that approximately HK\$434,000 (excluding discretionary bonus payable to the executive Directors) in aggregate will be payable to the executive Directors or companies controlled by them as remuneration or in the form of benefits in kind pursuant to the present arrangements for the year ending 30th June, 2001.

In addition, an annual fee of HK\$10,000 is payable to each of the three independent non-executive Directors.

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, half-year reports and quarterly 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. Liu Zhao Cai and Mr. Lam Ming Yung.

STAFF WELFARE

In the PRC, there is a statutory requirement to appropriate general reserve fund, enterprise expansion fund and staff welfare and bonus fund. Fuqiang being a sino-foreign joint venture in the PRC, is not required to appropriate general reserve fund and enterprise expansion fund as this is not mandatory for a sino-foreign joint venture. Fuqiang's Articles of Association has not specified a policy on appropriation to staff welfare and bonus fund as this is discretionary and the board has decided not to make such appropriation.

SUBSTANTIAL SHAREHOLDER, INITIAL MANAGEMENT SHAREHOLDER AND SIGNIFICANT SHAREHOLDERS

SUBSTANTIAL SHAREHOLDER

So far as the Directors are aware, immediately after the completion of the Placing and the Capitalisation Issue (assuming the Over-allotment Option is not exercised), the only person directly or indirectly holding interest in 10 per cent. or more of the Shares for the purposes of the SDI Ordinance will be as follows:

Name	Number of Shares	Approximate percentage of holding	Approximate cost of investment (RMB)	Approximate cost of investment per Share (RMB)
Mr. Lin <i>(note)</i>	232,203,780	68.80%	46,000,000	0.20

Note:

Mr. Lin is also the Controlling Shareholder for the purpose of the GEM Listing Rules.

INITIAL MANAGEMENT SHAREHOLDER

Name	No of Shares after the Capitalisation Issue and before the Placing	Approximate percentage of holding before the Placing	Approximate percentage of holding after the Placing
Mr. Lin <i>(note)</i>	232,203,780	86.00%	68.80%

Immediately after the completion of the Placing and the Capitalisation Issue (assuming the Over-allotment Option is not exercised), Mr. Lin is interested in an aggregate of 231,203,780 Shares and will be entitled to exercise or control the exercise of or interested in approximately 68.80 per cent. of the issued share capital of the Company.

Note:

Mr. Lin is the Controlling Shareholder and Initial Management Shareholder for the purpose of the GEM Listing Rules. He is subject to the moratorium period as set out in Rule 13.16 of the GEM Listing Rules.

Mr. Lin has undertaken to the Company, the Sponsors and the Stock Exchange that, save as provided in Rule 13.17 of the GEM Listing Rules, he will not sell, transfer or otherwise dispose of (or enter into any agreement to sell, transfer or otherwise dispose of) or permit the registered holder to sell, transfer or otherwise dispose of (or enter into any agreement to sell, transfer or otherwise dispose of) any of his direct or indirect interests in any of the Shares held by him as at the Listing Date (the "Relevant Securities") during: (i) a period of six months commencing from the Listing Date (the "First Relevant Lock Up Period"); and (ii) the second six months commencing from the expiry of the First Relevant Lock Up Period if immediately following such sale, transfer or disposal, Mr. Lin would cease to control, directly or indirectly, less than 35 per cent. of the issued share capital of the Company.

SUBSTANTIAL SHAREHOLDER, INITIAL MANAGEMENT SHAREHOLDER AND SIGNIFICANT SHAREHOLDERS

Mr. Lin shall place in escrow, with an escrow agent acceptable to the Stock Exchange, his Relevant Securities during the First Relevant Lock Up Period and, to the extent appropriate, during the second six months commencing from the expiry of the First Relevant Lock Up Period on terms acceptable to the Stock Exchange.

Under Rule 17.43 of the GEM Listing Rules, the Company shall publish an announcement on being informed of, or on otherwise becoming aware of, any matter referred to in the undertakings mentioned above concerning the pledging or charging of any interests in the Relevant Securities by Mr. Lin. In these circumstances, the information to be announced will include the number and class of securities being pledged or charged, the purpose for which the pledge or charge is made, and in the event that the pledgee or chargee has disposed of or intends to dispose of any securities, details of the same, including the number of securities affected or to be affected.

SIGNIFICANT SHAREHOLDERS

So far as the Directors are aware, immediately after the completion of the Placing and the Capitalisation Issue (assuming the Over-allotment Option is not exercised), the persons directly or indirectly holding interest in 5 per cent. or more of the Shares, apart from the Initial Management Shareholder referred to above, will be as follows:

Name	Number of Shares	Approximate percentage of holding	Approximate cost of investment (HK\$)	Cost of investment per Share (HK\$)
Ms. Kwok Kin Kwok <i>(note)</i>	18,898,110	5.60%	15,960,000	0.84
Ms. Pok Lo Ha <i>(note)</i>	18,898,110	5.60%	15,960,000	0.84

Note:

Ms. Kwok Kin Kwok is a Hong Kong permanent resident and is engaged in various investment activities in the PRC including agriculture, hotel management and information technology. Ms. Kwok is an independent third party not connected with the Company, the Directors, its chief executive, management shareholders, substantial shareholders and any of their respective associates, and her holding of the equity interests in the Company is for investment purposes.

Ms. Pok Lo Ha is a Hong Kong permanent resident and is engaged in various trading and investment activities in the PRC. Ms. Pok is an independent third party not connected with the Company, the Directors, its chief executive, management shareholders, substantial shareholders and any of their respective associates, and her holding of the equity interests in the Company is for investment purposes.

Both Ms. Kwok Kin Kwok and Ms. Pok Lo Ha are Significant Shareholders for the purpose of the GEM Listing Rules. Each of Ms. Kwok and Ms. Pok is subject to the moratorium period as set out in Rule 13.18 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDER, INITIAL MANAGEMENT SHAREHOLDER AND SIGNIFICANT SHAREHOLDERS

Each of the Significant Shareholders has severally undertaken to the Company, the Sponsors and the Stock Exchange that, (i) she will place in escrow, with an escrow agent acceptable to the Stock Exchange, the Shares held by her (excluding any Shares subscribed or purchased pursuant to the Placing) as at the Listing Date (the "Other Relevant Securities") for a period of six months from the Listing Date on terms acceptable to the Stock Exchange; and (ii) she will not, save as provided in Rule 13.19 of the GEM Listing Rules, sell, transfer or otherwise dispose of (or enter into any agreement to sell, transfer or otherwise dispose of) or permit the registered holder to sell, transfer or otherwise dispose of (or enter into any agreement to sell, transfer or otherwise dispose of) any of the direct or indirect interests held by her (excluding any Shares subscribed or purchased pursuant to the Placing) as at the Listing Date for a period of six months from the Listing Date.

Under Rule 17.43 of the GEM Listing Rules, the Company shall publish an announcement on being informed of, or on otherwise becoming aware of, any matter referred to in the undertakings mentioned above concerning the pledging or charging of any interests in the Relevant Securities by Ms. Kwok Kin Kwok or Ms. Pok Lo Ha. In these circumstances, the information to be announced will include the number and class of securities being pledged or charged, the purpose for which the pledge or charge is made, and in the event that the pledgee or chargee has disposed of or intends to dispose of any securities, details of the same, including the number of securities affected or to be affected.

SHARE CAPITAL

HK\$

Authorised share capital:

	1,000,000,000 Shares	100,000,000
--	----------------------	-------------

Issued and to be issued, fully paid or credited as fully paid:

	1,000,000 Shares in issue	100,000
	269,000,000 Shares to be issued pursuant to the Capitalisation Issue	26,900,000
	67,500,000 Shares to be issued under the Placing	6,750,000
	337,500,000 Shares	33,750,000

Notes:

Minimum Public Float

Pursuant to Rule 11.23(1) of the GEM Listing Rules, at the time of listing and at all times thereafter, the Company must maintain the “minimum prescribed percentage” of its issued share capital in the hands of the public which, in the case of the Company, is not less than 20 per cent.

Assumption

This table assumes that the Placing and the Capitalisation Issue becomes unconditional.

It takes no account of any Shares which may be issued under the general mandate to issue Shares (see below) or Shares which may be repurchased by the Company (see below) or Shares which may be issued upon exercise of options granted under the Share Option Scheme.

Over-allotment Option

If the Over-allotment Option is exercised in full, the Company will issue a further 10,125,000 Shares.

Ranking

The Shares to be issued under the Placing and the Over-allotment Option will rank equally with all Shares now in issue or to be issued as mentioned in this prospectus and will qualify for all dividends or other distributions declared, made or paid after the date of this prospectus.

General mandate to issue Shares

Subject to the Placing becoming unconditional, the Directors have been granted a general unconditional mandate to allot or issue and deal with unissued Shares with an aggregate nominal value of not more than:

- (a) 20 per cent. of the aggregate nominal value of the share capital of the Company in issue immediately following the completion of the Placing and the Capitalisation Issue (such share capital shall include the Shares which may be issued pursuant to the Over-allotment Option); and
- (b) the aggregate nominal value of the share capital of the Company repurchased by the Company (if any).

SHARE CAPITAL

This mandate does not cover the Shares to be allotted, issued or dealt with under, among other things, a rights issue.

The mandate will expire:

- at the conclusion of the next annual general meeting of the Company; or
- at the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the Articles to be held; or
- when varied or revoked by an ordinary resolution of shareholders of the Company in general meeting,

whichever is the earliest.

For further details of this general mandate, see the paragraph headed “Written resolutions of the sole shareholder of the Company passed on 8th May, 2001” in Appendix VI to this prospectus.

General mandate to repurchase Shares

Subject to the Placing becoming unconditional, the Directors have been granted a general unconditional mandate to exercise all the powers of the Company to repurchase Shares with a total nominal value of not more than 10 per cent. of the aggregate nominal value of the share capital of the Company in issue following the completion of the Placing and Capitalisation Issue (such share capital shall include the Shares which may be issued pursuant to the Over-allotment Option).

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 SFC and the Stock Exchange for this purpose), and which are in accordance with all applicable laws and the requirements of the GEM Listing Rules. A summary of the relevant GEM Listing Rules is set out in the paragraph headed “Repurchase by the Company of its own securities” in Appendix VI to this prospectus.

The mandate will expire:

- at the conclusion of the next annual general meeting of the Company;
- at the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the Articles to be held; or
- when varied or revoked by an ordinary resolution of shareholders of the Company in general meeting;

whichever is the earliest.

FINANCIAL INFORMATION

INDEBTEDNESS

Borrowings

As at the close of business on 31st March, 2001, being the latest practicable date for the indebtedness statement prior to the printing of this prospectus, the Group had aggregate outstanding borrowings of approximately HK\$62,540,000, comprising short-term bank borrowings of HK\$23,585,000, trust receipt loans of HK\$5,499,000 amount due to a minority shareholder of a subsidiary of approximately HK\$2,885,000, amount due to Mr. Lin, a director, of approximately HK\$4,514,000, non-current payables (representing loan from a related company) of approximately HK\$1,476,000, long-term bank borrowings of approximately HK\$16,038,000 and loan from a minority shareholder of a subsidiary of approximately HK\$8,543,000.

Contingent liabilities

As at 31st March, 2001, the Group had no material contingent liabilities.

Collaterals

As at 31st March, 2001, the Group's bank borrowings amounted to approximately HK\$45,122,000, of which approximately HK\$38,518,000 were secured by corporate guarantees provided by Furi Electronics and personal guarantee provided by Mr. Lin. The corporate guarantees provided by Furi Group on bank borrowings amounting to approximately HK\$6,604,000 were not renewed after expiring on December 2000 and March 2001.

The relevant banks have agreed, in principle, to release the above corporate and personal guarantees provided by Furi Electronics and Mr. Lin respectively upon listing of the Shares on GEM and for replacement of them by corporate guarantees of the Company and/or other security provided by members of the Group.

Each of Furi Electronics and Mr. Lin has undertaken to the Company to continue to provide the respective guarantees for the existing bank borrowings until the expiry of them in case the relevant banks refuse to release such guarantees.

Disclaimer

Save as aforesaid and apart from intra-group liabilities and trade payables, neither the Company nor any of its subsidiaries at the close of business on 31st March, 2001 had any outstanding loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptable credits, debentures, mortgages, charges, finance lease or hire purchase commitments, guarantees or other material contingent liabilities.

Save as disclosed above, the Directors have confirmed that there has not been any material change in the indebtedness, commitments and contingent liabilities of the Group since 31st March, 2001.

FINANCIAL INFORMATION

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current assets

As at 31st March, 2001, the Group had net current assets of approximately HK\$33,974,000. Current assets comprised cash and bank balances of approximately HK\$26,490,000, inventories of approximately HK\$6,267,000, prepayments, deposits and other current assets of approximately HK\$22,808,000, due from a related company of approximately HK\$1,366,000, and trade receivables of approximately HK\$48,605,000. The current liabilities comprised trade payables of approximately HK\$15,738,000, tax payable of HK\$2,269,000, other payables and accruals of approximately HK\$9,995,000, short-term bank borrowings of approximately HK\$23,585,000, trust receipt loans of approximately HK\$5,499,000, long-term bank borrowings, current portion, of approximately HK\$6,604,000, due to a director of approximately HK\$4,514,000 which is temporary in nature and will be settled upon listing of the Company, trade payables to a related company of approximately HK\$473,000 and due to a minority shareholder of a subsidiary of approximately HK\$2,885,000.

Commitments

As at 31st March, 2001, the Group had commitments of approximately HK\$1,861,000 relating to certain non-cancellable operating lease agreements.

As at 31st March, 2001, the Group had capital commitment for acquisition of fixed assets of approximately HK\$11,212,000.

Financial resources

The Group generally finances its operations and meets its debt servicing with cash generated from its business operations and banking facilities provided by its principal bankers and loans from related companies.

As at 31st March, 2001, the Group had an outstanding loan of HK\$8,543,000 due to Furi Electronics, a minority shareholder of Fuqiang. The loan is unsecured, bears interest at 6.37% per annum and will be repayable by May 2002.

As at 31st March, 2001, the Group had a non-current payable to Minxiang of approximately HK\$1,476,000. The balance is unsecured, bears interest at 6.37% per annum and will be repayable by May 2002.

As at 31st March, 2001, the Group had aggregate loan facilities of approximately HK\$39,623,000 from several banks, which were secured by the corporate guarantees from Furi Electronics. As at 31st March, 2001, all of the available bank loan facilities had been utilised.

As at 31st March, 2001, the Group had trade financing facilities of approximately HK\$6,241,000 of which approximately HK\$742,000 were not utilised as at the same date. The trade financing facilities were secured by the personal guarantee provided by Mr. Lin.

FINANCIAL INFORMATION

PROFIT FORECAST, DIVIDENDS AND WORKING CAPITAL

Profit forecast

The Directors forecast that in the absence of unforeseen circumstances and on the bases and assumptions made by the Directors, the principal assumptions of which are set out in Appendix III to this Prospectus, the combined profit after taxation and minority interests but before extraordinary items of the Group for the year ending 30th June, 2001 will amount to not less than RMB55,000,000 (equivalent to approximately HK\$52,000,000). The Directors are not aware of any extraordinary items which have arisen or are likely to arise in the year ending 30th June, 2001.

The forecast combined profit after taxation and minority interests before extraordinary items of the Group for the year ending 30th June, 2001 increase substantially when compared with the pro forma combined profit after taxation and minority interests before extraordinary items of the Group for the year ended 30th June, 2000. The Directors considered that such substantial increase in the Group's forecasted profit is attributable to the Group's successful EMS strategies and strong demand for the Group's products and services in the forecasted financial year. The Directors consider the use of pro forma combined results for comparison purpose provides a better presentation as both the pro forma combined results for each of the two years ended 30th June, 2000 and the forecast combined results for the year ending 30th June, 2001 are prepared on the basis of a 90 per cent. equity interest of Fuqiang.

On the basis of the above profit forecast and the weighted average number of 278,506,850 Shares expected to be in issue during the year ending 30th June, 2001 (assuming that the Over-allotment Option is not exercised), the forecast earnings per Share for the year ending 30th June, 2001 would amount to HK\$0.187, representing a price earnings multiple on a weighted average basis of 4.8 times based on an Issue Price of HK\$0.90 per Share. Based on the above profit forecast and on the assumptions that (i) the Company has been listed since 1st July, 2000 and that 337,500,000 Shares had been in issue during the year ending 30th June, 2001; and (ii) the interest income net of tax that would have been earned if the net proceeds from the Placing based on an Issue Price of HK\$0.90 per Share had been received on 1st July, 2000 and had earned interest at 4 per cent. per annum, the pro forma fully diluted earnings per Share would fall within the range of HK\$0.159, representing a prospective price/earnings multiple ranging from 5.7 times based on an Issue Price of HK\$0.90 per Share.

The full texts of the letters from the auditors and reporting accountants, Arthur Andersen & Co, and Charles Chan, Ip & Fung CPA Ltd. and from DTCFL and JS Cresvale, in respect of the profit forecast are set out in Appendix III to this prospectus.

FINANCIAL INFORMATION

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 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 since its incorporation.

The Directors presently do not intend to recommend any dividend for the financial year ending 30th June, 2001. The Directors expect that, in future, dividend recommendation will be dependent upon the Company's earnings, financial condition, cash requirements and availability, and other relevant factors.

It is the present intention of the Directors that, in future years, interim and final dividends will be payable in or around April and November of each year respectively and that interim dividends will normally represent approximately one-third of the expected total dividends for the entire year.

Working capital

The Directors are of the opinion that, after taking into consideration the existing financial resources available to the Group, the expected internally generated funds and the estimated net proceeds of the Placing, the Group has sufficient working capital for its present requirements.

Foreign exchange risk

The Group earns revenue and incurs costs and expenses mainly in RMB. This will continue to be the case following the listing of the Shares on GEM. After listing of its Shares on GEM, the Group's accounts will be stated in RMB whilst the payment of dividends will be in HK dollars. The amount of dividends paid by the Company will be translated into RMB for inclusion in the Group's accounts. The Group does not presently intend to use any derivative instruments in the foreign currency market to hedge the risk against fluctuations of RMB to other foreign currencies. The Directors believe that having regard to the working capital position of the Group and convertibility of RMB to foreign currency in respect of current account items, the Group is able to meet its foreign exchange liabilities as they become due.

Rules 17.15 to 17.21 of the GEM Listing Rules

The Directors have confirmed that, as at the Latest Practicable Date, the Group was not aware of any circumstances which would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

FINANCIAL INFORMATION

TRADING RECORD

The following is a summary of the combined results of the Group for each of the two years ended 30th June, 2000 and the five months ended 30th November, 2000 (collectively, the “Relevant Periods”) which have been extracted from the accountants’ report set out in Appendix I to this prospectus. Basis of preparation is disclosed in section 1 of the accountants’ report set out in Appendix I to this prospectus.

	Notes	For the year ended 30th June, 1999		For the year ended 30th June, 2000		For the five months ended 30th November, 2000	
		RMB'000	HK\$'000 (Note 1)	RMB'000	HK\$'000 (Note 1)	RMB'000	HK\$'000 (Note 1)
Turnover	2	40,475	37,827	86,756	81,846	66,137	62,394
Cost of sales		(24,968)	(23,335)	(47,816)	(45,109)	(32,484)	(30,645)
Gross profit		15,507	14,492	38,940	36,737	33,653	31,749
Distribution and selling expenses		(1,260)	(1,178)	(2,732)	(2,577)	(1,678)	(1,583)
General and administrative expenses		(7,737)	(7,231)	(10,793)	(10,183)	(3,237)	(3,054)
Profit from operations		6,510	6,083	25,415	23,977	28,738	27,112
Subsidy		200	187	400	377	400	377
Interest income		2,572	2,404	381	360	20	19
Finance costs		(5,464)	(5,107)	(8,708)	(8,215)	(2,714)	(2,560)
Profit before taxation		3,818	3,567	17,488	16,499	26,444	24,948
Taxation		—	—	—	—	—	—
Profit after taxation but before minority interests		3,818	3,567	17,488	16,499	26,444	24,948
Minority interests		(1,909)	(1,784)	(8,358)	(7,885)	(2,644)	(2,495)
Profit attributable to shareholders		<u>1,909</u>	<u>1,783</u>	<u>9,130</u>	<u>8,614</u>	<u>23,800</u>	<u>22,453</u>
Dividend		<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Earnings per share – Basic	3	<u>RMB0.71 cents</u>	<u>HK0.66 cents</u>	<u>RMB3.38 cents</u>	<u>HK3.19 cents</u>	<u>RMB8.81 cents</u>	<u>HK8.32 cents</u>

FINANCIAL INFORMATION

Notes:

- (1) Translation of amounts from Chinese Renminbi (“RMB”) into Hong Kong dollars (“HK\$”) is for the convenience of readers and has been made at the rates of exchange in effect at 30th June, 1999 of RMB107 = HK\$100, 30th June, 2000 of RMB106 = HK\$100 and 30th November, 2000 of RMB106 = HK\$100. No representation is made that the Chinese 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 net invoiced value (excluding value-added tax) of merchandise sold after allowances for returns and discounts.
- (3) The calculation of basic earnings per share for each of the two years ended 30th June, 2000 and the five months ended 30th November, 2000 is based on the profit attributable to shareholders during these years/period and assuming 270,000,000 Shares in issue and issuable, comprising 1,000,000 Shares in issue as at the date of this prospectus and 269,000,000 Shares to be issued pursuant to the Capitalisation Issue as described in Appendix VI to this Prospectus.

Under paragraph 27 of Part I of the Third Schedule to the Companies Ordinance, a listing applicant is required to set out its listing document a statement as to the gross trading income or sales turnover (as may be appropriate) of the Group during the three preceding years. Paragraph 31 of Part II of the Third Schedule to the Companies Ordinance requires a listing applicant to set out a report, prepared by its auditors and reporting accountants, containing its financial information in respect of each of the three financial years immediately preceding the issue of the listing document.

The Company has sought a certificate of exemption from the SFC from strict compliance with Section 342(1) of the Companies Ordinance pursuant to which a prospectus is required to contain matters specified in Part I of the Third Schedule to the Companies Ordinance and reports specified in Part II of the Third Schedule to the Companies Ordinance.

The SFC has granted an exemption from strict compliance with Section 342(1) of the Companies Ordinance, in particular, paragraph 27 of Part I and paragraph 31 of Part II of the Third Schedule to the Companies Ordinance, so that the Group is only required to include in this prospectus its trading record, financial results and information covering the two financial years ended 30th June, 2000 and the five months ended 30th November, 2000 – see paragraph headed “Exemption from compliance with Section 342(1) of the Companies Ordinance” under the section headed “Waivers in respect of the GEM Listing Rules and Companies Ordinance” in this prospectus.

The Directors confirm that they have performed sufficient due diligence on the Group to ensure that, up to the date of issue of this prospectus, there has been no material adverse change in the financial position of the Group since 30th November, 2000, and there is no event which would materially affect the information shown in the accountants’ report set out in Appendix I to this prospectus.

FINANCIAL INFORMATION

Set out below are the pro forma combined results of operations of the Group for each of the two years ended 30th June, 2000 as if the Group's 90 per cent. interest in Fuqiang, the interest owned by the Group since 19th June, 2000 onwards, had been held since 1st July, 1998. Further details about the basis of preparation is set out in Appendix II to this prospectus.

	Pro forma for the year ended 30th June,			
	1999		2000	
	<i>RMB'000</i>	<i>HK\$'000</i>	<i>RMB'000</i>	<i>HK\$'000</i>
Turnover	40,475	37,827	86,756	81,846
Cost of sales	<u>(24,968)</u>	<u>(23,335)</u>	<u>(47,816)</u>	<u>(45,109)</u>
Gross profit	15,507	14,492	38,940	36,737
Distribution and selling expenses	(1,260)	(1,178)	(2,732)	(2,577)
General and administrative expenses	<u>(7,737)</u>	<u>(7,231)</u>	<u>(10,793)</u>	<u>(10,183)</u>
Profit from operations	6,510	6,083	25,415	23,977
Subsidy	200	187	400	377
Interest income	2,572	2,404	381	360
Finance costs	<u>(5,464)</u>	<u>(5,107)</u>	<u>(8,708)</u>	<u>(8,215)</u>
Profit before taxation	3,818	3,567	17,488	16,499
Taxation	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Profit after taxation but before minority interests	3,818	3,567	17,488	16,499
Minority interests	<u>(382)</u>	<u>(357)</u>	<u>(1,749)</u>	<u>(1,650)</u>
Profit attributable to shareholders	<u><u>3,436</u></u>	<u><u>3,210</u></u>	<u><u>15,739</u></u>	<u><u>14,849</u></u>

FINANCIAL INFORMATION

Management discussion and analysis

Year ended 30th June, 1999

Turnover

Turnover of the Group by geographical location is as follows:

Geographical location:	Year ended	
	30th June, 1999	
	RMB'000	HK\$'000
PRC	38,334	35,826
Australia	1,299	1,214
US	—	—
Germany	842	787
Others	—	—
	<u>40,475</u>	<u>37,827</u>

For the year ended 30th June, 1999, turnover of the Group amounted to approximately HK\$37.8 million, of which approximately 95 per cent. were sales within the PRC, while sales to Australia and Germany accounted for the remaining approximately 5 per cent. Turnover for single-sided and double-sided PCBs amounted to approximately HK\$30 million, while turnover for multilayer PCBs amounted to approximately HK\$7.8 million.

Gross profit

For the year ended 30th June, 1999, the gross profit of the Group was approximately HK\$14.5 million. Gross profit for single-sided and double-sided PCBs amounted to approximately HK\$10.4 million, while gross profit for multilayer PCBs amounted to approximately HK\$4.1 million.

Other income

Other income comprised subsidy and interest income. During the year ended 30th June, 1999, the subsidy amounted to approximately HK\$0.2 million, while the interest income, amounting to approximately HK\$2.4 million, which was mainly derived from loan to a related company.

FINANCIAL INFORMATION

Selling and administration expenses

For the year ended 30th June, 1999, the selling and administration expenses amounted to approximately HK\$8.4 million. The major items in selling expenses are staff salaries and entertainment which together amounted to approximately HK\$0.5 million. The major items in administration expenses is provision for bad and doubtful debts which amounted to approximately HK\$2.1 million.

Finance cost

The finance cost comprised interest expenses only. For the year ended 30th June 1999, the finance cost amounted to approximately HK\$5.1 million.

Year ended 30th June, 2000

Turnover

Turnover of the Group by geographical location is as follows:

	Year ended	
	30th June, 2000	
	<i>RMB'000</i>	<i>HK\$'000</i>
Geographical location:		
PRC	65,741	62,021
Australia	13,103	12,361
US	4,441	4,190
Germany	3,210	3,028
Others	261	246
	<u>86,756</u>	<u>81,846</u>

FINANCIAL INFORMATION

For the year ended 30th June, 2000, the turnover of the Group amounted to approximately HK\$81.8 million, representing an increase of approximately 116.4 per cent. compared with the year ended 30th June, 1999. The increase in sales was contributed by the following factors:

During the year ended 30th 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. During the year ended 30th June, 2000, sales within the PRC represented approximately 76 per cent. of the Group's total turnover, sales to Australia represented approximately 15 per cent. of the Group's total turnover, while sales to the US, Germany and other overseas countries represented the remaining approximately 9 per cent. 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 the US, Australia and Germany. This was witnessed by an increase of sales to overseas in the proportion of the Group's total turnover from approximately 5 per cent. for the year ended 30th June, 1999 to approximately 24 per cent. for the year ended 30th June, 2000, of which sales to Australia increased from approximately HK\$1.2 million for the year ended 30th June, 1999 to approximately HK\$12.4 million for the year ended 30th June, 2000, representing an increase of approximately HK\$11.2 million.

Furthermore, the Group started to operate its production facilities 24 hours a day in the latter half of the year ended 30th June, 2000. Hence, the Group's production capacity has been more effectively and efficiently utilised to support the increasing demand for the Group's products. As a result, compared with the year ended 30th June, 1999, the Group has an approximately 92 per cent. increase in production volume from approximately 50,906 metres to approximately 97,915 metres for the year ended 30th June, 2000.

During the year ended 30th June, 2000, the Group devoted more resources on the promotion of multilayer PCBs. As a result, sales of multilayer PCBs increased to approximately HK\$29 million, represented an increase of approximately HK\$21 million when compared with the year ended 30th June, 1999.

Gross Profit

For the year ended 30th June, 2000, the gross profit of the Group was approximately HK\$36.7 million, representing an increase of approximately 153 per cent. over the year ended 30th June, 1999. The increase in gross profit was resulted from the increase in sales. Gross profit for single-sided and double-sided PCBs amounted to approximately HK\$20.4 million, while gross profit for multilayer PCBs amounted to approximately HK\$16.3 million, representing an increase of approximately 96 per cent. and 298 per cent. respectively as compared to the year ended 30th June, 1999.

FINANCIAL INFORMATION

Other income

Other income comprised subsidy and interest income. The subsidy is a non-recurring and one-off grant given by a provincial government committee to support the Group's product development projects and was determined on a discretionary basis. For the year ended 30th June, 2000, the subsidy of the Group amounted to approximately RMB400,000, representing approximately 0.5 per cent. of the turnover of the Group and an increase of RMB200,000 or 100 per cent. over the year ended 30th June, 1999. Interest income for the year ended 30th June, 2000 amounted to approximately HK\$0.40 million, representing a decrease of approximately HK\$2.0 million as compared to that of the previous financial year. The reduction was mainly attributable to a settlement of an interest bearing loan to a related company during the year ended 30th June, 2000.

Selling and administration expenses

For the year ended 30th June, 2000, the selling and administration expenses of the Group amounted to approximately HK\$12.7 million, representing approximately 15.6 per cent. of the turnover of the Group and an increase of approximately HK\$4.4 million or approximately 51.7 per cent. over the same period last year.

The increase in administration expenses was primarily resulted from the increase in provision for doubtful debts to approximately HK\$4 million for the year ended 30th June, 2000, representing an increase of approximately 88 per cent. compared to that reported in the previous year. As the Group's policy is to make general provision for doubtful debts at a fixed percentage of trade receivables outstanding at the year end, the increase in trade receivables resulted in an increase in provision for doubtful debts.

One of the major items in selling expenses is transportation cost. For each of the two years ended 30th June, 1999 and 2000, the transportation costs of the Group were approximately HK\$0.1 million and HK\$1.5 million respectively. The increase in transportation cost was resulted from an approximately HK\$17.8 million increase in overseas sales.

Finance cost

For the year ended 30th June, 2000, the finance cost of the Group amounted to approximately HK\$8.2 million, representing approximately 10.0 per cent. of the Group's turnover and an increase of approximately HK\$3.1 million or approximately 60.9 per cent. over the year ended 30th June, 1999. The increase in finance cost was due to the increase in bank borrowings and interest rates.

FINANCIAL INFORMATION

Five months ended 30th November, 2000

Turnover

Turnover of the Group by geographical location is as follows:

	Five months ended 30th November, 2000	
	<i>RMB'000</i>	<i>HK\$'000</i>
Geographical location:		
PRC	48,566	45,817
Australia	14,804	13,966
US	1,578	1,489
Germany	1,189	1,122
Others	—	—
	<u>66,137</u>	<u>62,394</u>

For the five months ended 30th November, 2000, turnover of the Group amounted to approximately HK\$62.4 million, of which approximately 73 per cent. were sales within the PRC, while approximately 22 per cent. represented sales to Australia and the remaining approximately 5 per cent. represented sales to the US and Germany. Sales to overseas countries as a proportion of the Group's total turnover increased from approximately 24 per cent. for the year ended 30th June, 2000 to approximately 27 per cent. for the five months ended 30th November, 2000. Turnover of single-sided PCBs and double-sided PCBs amounted to approximately HK\$35.2 million, while turnover of multilayer PCBs amounted to approximately HK\$27.2 million.

Gross profit

For the period ended 30th November, 2000, the gross profit of the Group was approximately HK\$31.7 million. Gross profit for single-sided and double-sided PCBs amounted to approximately 14.5 million, while gross profit for multipayer PCBs amounted to approximately HK\$17.2 million.

For each of the two years ended 30th June, 2000 and the five months ended 30th June, 2000, the gross profit margin of the Group was approximately 38.3 per cent., 44.9 per cent. and 50.9 per cent. respectively. The continuous increase in the gross profit margin was resulted from a higher level of utilisation of the Group's manufacturing resources such as machinery and direct manufacturing staff, and the increase in the sales of high margin multilayer PCBs.

FINANCIAL INFORMATION

Other income

Other income comprised subsidy and interest income. During the period ended 30th November, 2000, the subsidy and interest income of the Group amounted to approximately HK\$0.4 million.

Selling and administration expenses

For the period ended 30th November, 2000, the selling and administration expenses amounted to approximately HK\$4.6 million.

The major items in selling expenses are staff salaries and transportation amounted to approximately HK\$1.3 million. The major items in administration expenses are audit fee, depreciation and staff salaries amounted to approximately HK\$1.2 million.

Finance costs

The finance costs comprised only interest expenses and guarantee fees. For the period ended 30th November, 2000, the finance costs amounted to approximately HK\$2.6 million.

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 30th November, 2000, the date to which the latest published audited combined financial statements of the Group were made up.

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 30th June, 1999 and 2000 and the five months ended 30th November, 2000 as the Group had no assessable profit arising in or derived from Hong Kong during the relevant period.

PRC enterprise income tax

Under 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 rate of 15 per cent. 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 per cent. reduction for the following three years. The tax holiday commenced from 1st January, 1999 and Fuqiang will be entitled to a tax-free period up to 31st December, 2000 and a 50 per cent. reduction on enterprise income tax during the period from 1st January, 2001 to 31st December, 2003.

FINANCIAL INFORMATION

PRC value-added tax and government surcharges

The Group will be subject to PRC value-added tax (“VAT”) at 17 per cent. of revenue from sale of merchandise, and city and county maintenance tax at 1.75 per cent. 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.

ADJUSTED NET TANGIBLE ASSETS

The following statement of adjusted net tangible assets of the Group is based on the net assets of the Group as at 30th November, 2000 as set out in the accountants’ report, the text of which is set out in Appendix I, adjusted as shown below:

	<i>HK\$'000</i>
Audited combined net assets of the Group as at 30th November, 2000	72,385
Combined profit after taxation and minority interests of the Company for the four months ended 31st March, 2001 based on its unaudited management accounts	14,325
Surplus arising on revaluation as at 31st March, 2001 of the Group’s property interests after minority interests (<i>Note 1</i>)	241
Estimated net proceeds of the Placing (<i>Note 2</i>)	<u>47,600</u>
Adjusted net tangible assets	<u><u>134,551</u></u>
Adjusted net tangible asset value per Share (<i>Note 3</i>)	<u><u>HK\$0.399</u></u>

FINANCIAL INFORMATION

Notes:

- (1) The surplus arising on the revaluation of the Group's property interests as at 31st March, 2001 will be incorporated into the Group's financial statements for the year ending 30th June, 2001. In this connection, annual depreciation for the year ending 30th June, 2001 will be increased by approximately HK\$10,000.
- (2) The estimated net proceeds from the Placing are based on an Issue Price of HK\$0.90 per Share and take no account of any Share which may be issued pursuant to the Over-allotment Option. If the Over-allotment Option is exercised in full, the estimated net proceeds of the Placing will be approximately HK\$56.3 million.
- (3) The adjusted net tangible asset value per Share is arrived at based on 337,500,000 Share in issue immediately after the Placing and the Capitalisation Issue and taking no account of any additional Shares to be issued pursuant to the Over-allotment Option.

PROPERTY INTERESTS

The Group owns the following property:

Property	Uses	Land lease
Land, various buildings and structures Honglu Town Fuqing City Fujian Province PRC	For industrial and ancillary purposes	Expiry on 21st September, 2025

The Group occupies and/or leases the following properties:

Property	Uses	Monthly rental	Tenancy
Room 2807, 28th Floor China Resources Building No. 26 Harbour Road Wanchai Hong Kong	For office purpose	HK\$23,541	Expiry on 16th July, 2002
Room 1602 Block 7 600 Long Liuzhou Road Xu Hui District Shanghai PRC	For office purpose	RMB3,500	Expiry on to 14th January, 2003

FINANCIAL INFORMATION

Property	Uses	Monthly rental	Tenancy
Room 201 Jin Bao Building Sha Wan Long Gang District Shenzhen City Guangdong Province PRC	For office purpose	RMB3,450	Expiry on 6th February, 2003
Room 403 No. 505 Ke Ji Village Xing Long Road Hu Li District Xiamen City Fujian Province PRC	For office purpose	RMB3,080	Expiry on 2nd February, 2003
7th Level No. 8 Chuang Ye Road Gao Xin Da Dao Gao Xin District Chengdu City Sichuan Province PRC	For office purpose	RMB3,000	Expiry on 2nd March, 2003
15th Level Zhong Mei Building No. 107 Gu Tian Road Fuzhou City Fuzhou Province PRC	For office purpose	RMB35,200	Expiry on 1st February, 2004

FINANCIAL INFORMATION

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\$35,837,100 and properties occupied and/or leased by the Group have no commercial value as at 31st March, 2001. The text of its letter, summary of values and valuation certificates are set out in Appendix IV to this prospectus.

DISTRIBUTABLE RESERVES

As at 30th November, 2000, the reorganisation of the Group had not been completed. There was accordingly no reserve available for distribution to the shareholders of the Company as at that date.

The Directors confirmed that as at 30th November, 2000, Fuqiang did not provide any appropriation for the staff welfare and bonus funds, where the rate of such appropriation, as according to the articles of association of Fuqiang, is to be determined by the board of directors of Fuqiang. As advised by the Company's PRC legal advisers, this arrangement does not contravene with the applicable PRC laws.

The staff welfare and bonus funds, when established, can be utilised for the provision of special bonus and collective welfare to the employees of Fuqiang, and is non-distributable other than in liquidation.

SUBSEQUENT EVENT

In December 2000, Fuqiang entered into an agreement with a bank for trust receipt loan facilities of US\$800,000 (equivalent to approximately RMB6.6 million). Such loan facilities were secured by the personal guarantee provided by Mr. Lin. The relevant bank has agreed, in principle, to release the above guarantee upon listing of the Shares on GEM and for replacement of it by corporate guarantee of the Company and/or other security provided by members of the Group.

SPONSORS' INTERESTS

Neither DTCFL nor JS Cresvale nor their respective associates expect to have accrued any material benefit as a result of the successful outcome of the Placing, other than the following: (i) by way of underwriting commissions to be paid to DTCFL and JS Cresvale for acting as one of the Underwriters to the Placing; (ii) the respective advisory and documentation fees to be paid to DTCFL and JS Cresvale as sponsor and co-sponsor, respectively, of the Placing; (iii) by a sponsorship agreement entered into between DTCFL and the Company on 11th May, 2001 pursuant to which DTCFL has been appointed as sponsor of the Company for the remainder of the financial year of the Company ending 30th June, 2001 and two years thereafter and the Company shall pay an agreed fee to DTCFL for its provision of such services; and (iv) certain associates of DTCFL and JS Cresvale, whose ordinary businesses involve the trading and dealing in securities, may involve in the trading of and dealing in the securities of the Company.

No director or employee of DTCFL or JS Cresvale has a directorship in the Company or any other company in the Group.

UNDERWRITING

UNDERWRITERS

Guotai Junan Securities (Hong Kong) Limited
JS Cresvale International Limited
DBS Asia Capital Limited
Deloitte & Touche Corporate Finance Limited
Kingsway SW Securities Limited
Shenyin Wanguo Capital (H.K.) Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Underwriting Agreement

Pursuant to the Underwriting Agreement dated 11th May, 2001 between, among others, the Company, the executive Directors and the Underwriters, the Company is offering the Placing Shares for subscription by way of the Placing. In addition, the Company has granted the Over-allotment Option to the Underwriters (exercisable by Guotai Junan on behalf of the Underwriters) from time to time on or before 8th June, 2001 to require the Company to issue up to an aggregate of 10,125,000 additional Shares, representing 15 per cent. of the Shares initially available under the Placing, to cover over-allocations in the Placing, if any.

Subject to the GEM Listing Committee granting listing of, and permission to deal in, the Shares (subject only to allotment) on or before 8th June, 2001, and to certain other conditions set out in the Underwriting Agreement being satisfied as set out therein, the Underwriters have severally agreed to apply, or procure placees, to apply for the Placing Shares which have not been placed pursuant to the Placing.

Grounds for termination

The obligations of the Underwriters to subscribe or procure subscribers for the Placing Shares are subject to termination if certain circumstances arise prior to 10:00 a.m. on the date of despatch of Share certificates. The grounds for termination include, inter alia, where:

- (i) the success of the Placing has been or would or might be adversely affected by:
 - (a) the introduction of any new law or regulation or any change in existing laws or regulations or change in the interpretation or application thereof or other occurrence of any nature whatsoever which may in the sole and absolute opinion of Guotai Junan (for itself (in its capacity as one of the Joint Lead Managers of the Placing) and the Underwriters) materially and adversely affect the business or financial prospects of the Group taken as a whole; or
 - (b) the occurrence of any event, development or change (whether or not local, national or international or forming part of a series of events or changes occurring or continuing before, on and/or after the date of the Underwriting Agreement and including an event or change in relation to or a development of an existing state of affairs) of a political, military, industrial, financial, economic or other nature, whether or not sui generis with any of the foregoing, resulting in an adverse change in, or which would in the sole and absolute opinion of Guotai Junan (for itself (in its capacity as one of the Joint Lead Managers of the Placing) and the Underwriters) be expected to result in a material and adverse change in, political, economic or stock market conditions; or

UNDERWRITING

- (c) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange occurring due to exceptional financial circumstances or otherwise; or
 - (d) a change or development involving a prospective change in taxation in Hong Kong, the Cayman Islands, BVI or PRC or elsewhere or the implementation of exchange controls which shall or would materially and adversely affect the Company or its present or prospective shareholders in their capacity as such; or
- (ii) any change in the conditions of local, national or international securities markets occurs which in the sole and absolute opinion of Guotai Junan (for itself (in its capacity as one of the Joint Lead Managers of the Placing) and the Underwriters) is likely to materially and adversely affect the success of, or makes it inexpedient or inadvisable to proceed with, the Placing; or
 - (iii) there comes to the notice of Guotai Junan (in its capacity as one of the Joint Lead Managers of the Placing) and the Underwriters any matter or event showing any of the warranties contained in the Underwriting Agreement to be untrue or inaccurate in any material respect; or
 - (iv) any of the executive Directors and/or the Company commits any breach of, or omits to observe in any material respect, any of the obligations or undertakings expressed to be assumed by them under the Underwriting Agreement; or
 - (v) there comes to the notice of Guotai Junan (in its capacity as one of the Joint Lead Managers of the Placing) and the Underwriters any information, matter or event which in the sole and absolute opinion of Guotai Junan (for itself (in its capacity as one of the Joint Lead Managers of the Placing) and the Underwriters):
 - (a) is inconsistent in any material respect with any information contained in any Form 6A given by any Director pursuant to the Placing; or
 - (b) would cast any serious doubt on the integrity or reputation of any Director or the reputation of the Group; or
 - (vi) there is in the sole and absolute opinion of Guotai Junan (for itself (in its capacity as one of the Joint Lead Managers of the Placing) and the Underwriters) any material and adverse change in the business or in the financial or trading position of the Group taken as a whole.

Undertakings

The Initial Management Shareholder and each of the Significant Shareholders of the Company have given non-disposal undertakings, details of which are described in the section headed “Substantial shareholder, Initial Management Shareholder and Significant Shareholders” in this prospectus.

UNDERWRITING

The Company has undertaken to the Underwriters that it will not effect any purchase of the Company's own shares, or agree to do so, which may reduce the holdings of the Shares held by the public (as defined in Rule 11.23 of the GEM Listing Rules) below 20 per cent. without first having obtained the prior written consent of JS Cresvale.

The Company has undertaken to the Underwriters that it will not, without the prior written consent of JS Cresvale and unless in compliance with the GEM Listing Rules, issue or agree to issue or grant or agree to grant any options or warrants or other rights in or carrying the right to subscribe for Shares or other securities (including securities convertible into or exchangeable for Shares) of the Company or any interest therein or announce an intention to do so within six months from the Listing Date.

Commission and expenses

The Underwriters will receive a commission of 4 per cent. of the aggregate Issue Price of all Placing Shares and Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option, out of which each Underwriter will pay its own sub-underwriting commission, if any. Each of DTCFL and JS Cresvale will in addition receive an advisory and documentation fee in relation to the Placing. Such fees and commission, together with the Stock Exchange listing fees, the Stock Exchange transaction levy, legal and other professional fees, printing and other expenses relating to the Placing which are currently estimated to be approximately HK\$13.1 million in aggregate (assuming that the Over-allotment Option is not exercised), will be borne by the Company.

Underwriters' interests in the Company

Save as contemplated pursuant to the Underwriting Agreement, none of the Underwriters has any shareholding in any member of the Group or has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

STRUCTURE OF THE PLACING

THE PLACING

The Placing will involve selective marketing of Shares to institutional and other investors anticipated to have a sizeable demand for such Shares pursuant to an international Placing. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

The Placing Shares are fully underwritten by the Underwriters on a several basis, subject to the conditions set out in the paragraph headed “Underwriting arrangements and expenses” under the section headed “Underwriting”.

CONDITIONS OF THE PLACING

The Placing is conditional on:

- (1) the GEM Listing Committee granting listing of, and permission to deal in, the Shares in issue and the Shares to be issued as mentioned herein; and
- (2) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, following the waiver of any condition(s) by Guotai Junan for and on behalf of the Underwriters) and the Underwriting Agreement not being terminated in accordance with its terms or otherwise.

If such conditions have not been fulfilled or waived, as appropriate, on or before 8th June, 2001, the Placing will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Placing will be caused to be published by the Company in the South China Morning Post, Hong Kong Economic Times and the GEM website (www.hkgem.com) on the next day following such lapse.

The Company is initially offering 67,500,000 Shares, initially available under the Placing, for subscription under the Placing. The Placing Shares will represent 20 per cent. of the Company's enlarged issued share capital immediately after completion of the Placing (assuming that the Over-allotment Option is not exercised).

67,500,000 Placing Shares will be conditionally placed by the Underwriters or through selling agents appointed by them to certain professional, institutional and other investors. Such professional, institutional and other investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. The Placing Shares will be offered in Hong Kong and/or Europe.

Allocation of Placing Shares to professional, institutional and other investors pursuant to the Placing is based on a number of factors including the level and timing of demand and whether or not it is expected that the relevant investor is likely to buy further Shares, or hold or sell its Shares, after the listing of the Shares on GEM. Such allocation is generally intended to result in a distribution of the Placing Shares on a basis which would lead to the establishment of a broad shareholder base to the benefit of the Company and its shareholders as a whole.

STRUCTURE OF THE PLACING

OVER-ALLOTMENT OPTION

In connection with the Placing, the Company has granted to the Underwriters the Over-allotment Option, exercisable by Guotai Junan on behalf of the Underwriters at any time on or before 8th June, 2001. Pursuant to the Over-allotment Option, the Company may be required to issue and allot at the Issue Price up to an aggregate of 10,125,000 additional Shares, representing 15 per cent. of the Shares initially available under the Placing, to cover over-allocations in the Placing, if any. In order to facilitate settlement of over-allocations in connection with the Placing pending exercise of the Over-allotment Option, a stock borrowing arrangement has also been entered into between Guotai Junan and Mr. Lin.

Pursuant to this arrangement, Mr. Lin has agreed that, if so requested by Guotai Junan, Mr. Lin will lend to Guotai Junan up to 10,125,000 Shares on the following terms:

- (i) such stock borrowing arrangement with Mr. Lin will only be effected by Guotai Junan for settlement of over-allocations in connection with the Placing;
- (ii) the maximum number of Shares to be borrowed from Mr. Lin will be limited to 10,125,000 Shares, which is the maximum number of Shares which may be issued upon exercise of the Over-allotment Option;
- (iii) the same number of Shares borrowed will be returned to Mr. Lin or his nominee(s) (as the case may be) not later than three business days following the earlier of (a) the last day on which the Over-allotment Option may be exercised or (b) the day on which the Over-allotment Option is exercised in full;
- (iv) the returned Shares will be deposited with an escrow agent acceptable to the Stock Exchange as soon as practicable;
- (v) the stock borrowing arrangement will be effected in compliance with all applicable laws and regulatory requirements; and
- (vi) no payments will be made to Mr. Lin by Guotai Junan in relation to such stock borrowing arrangement.

An application has been made to the Stock Exchange for a waiver from strict compliance with Rule 13.16 of the GEM Listing Rules which restricts the disposal of Shares by Mr. Lin for the period of two years from the date of listing of the Shares on GEM, in order to allow Mr. Lin to enter into this stock borrowing arrangement. Details of such waiver are set out in the section headed “Waivers from compliance with the GEM Listing Rules and Companies Ordinance”.

Guotai Junan may also cover such over-allocations by, among other means, purchasing Shares in the secondary market or by a combination of purchase in the secondary market and exercise of the Over-allotment Option either in part or in full. Any such secondary market purchases will be made in compliance with all applicable laws, rules and regulations.

STRUCTURE OF THE PLACING

If the Over-allotment Option is exercised in full, the total Placing Shares issued will represent approximately 22.3 per cent. of the enlarged issued share capital of the Company immediately after completion of the Placing and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, an announcement will be made on the GEM Website, and in the South China Morning Post in English and Hong Kong Economic Times in Chinese.

STABILISATION

In connection with the Placing, Guotai Junan may, on behalf of the Underwriters, over-allocate and/or effect transactions which stabilise or maintain the market price of the Shares at levels other than those which might otherwise prevail. The number of Shares that may be over-allocated will be no greater than the number of Shares that may be issued under the Over-allotment Option. Such stabilisation transactions may be effected in all jurisdictions where it is permissible to do so, in each case, in compliance with all applicable laws and regulatory requirements. Such transactions, if commenced, may be discontinued at any time. Should stabilising transactions be effected in connection with the distribution of Shares, they will be done so at the absolute discretion of Guotai Junan.

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the initial prices of the securities. The stabilisation price to cover over-allocations will not exceed the Issue Price.

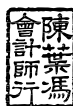
Stabilisation is not a practice commonly associated with the distribution of securities in Hong Kong. In Hong Kong, such stabilisation activities are restricted to cases where underwriters genuinely purchase shares on the secondary market solely for the purpose of covering over-allocations in an offering. The relevant provisions of the Securities Ordinance prohibit market manipulation in the form of pegging or stabilising the price of securities in certain circumstances.

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



Arthur Andersen & Co

21st Floor Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong



Charles Chan, Ip & Fung CPA Ltd.

Certified Public Accountants
陳葉馮會計師事務所有限公司

Charles Chan, Ip & Fung CPA Ltd.

37th Floor Hennessy Centre
500 Hennessy Road
Causeway Bay
Hong Kong

11th May, 2001

The Directors
Sinotronics Holdings Limited
Deloitte & Touche Corporate Finance Limited
JS Cresvale International 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 inclusion in the prospectus of the Company dated 11th May, 2001 (“the Prospectus”).

The Company was incorporated in the Cayman Islands on 29th September, 2000 as an exempted company with limited liability under the Companies Law (2000 Revision) of the Cayman Islands. The Company has not carried on any business since its incorporation, except that on 8th May, 2001 it acquired the entire issued share capital of Superford Holding Limited through a share exchange and consequently became the holding company of the Group. Superford Holding Limited acts as an intermediate holding company of the other company comprising the Group.

During the period from 1st July, 1998 to 18th June, 2000, Mr. Lin Wan Qaing, who has a majority interest in the Company, had a 50% controlling interest in Fujian Fuqiang Delicate Circuit Plate Co., Ltd., a subsidiary. Effective from 19th June, 2000, Mr. Lin Wan Qaing increased his interest in Fujian Fuqiang Delicate Circuit Plate Co., Ltd. to 90%, and then transferred his interest in Fujian Fuqiang Delicate Circuit Plate Co., Ltd. to Superford Holding Limited through a share exchange.

As at the date of this report, no audited financial statements have been prepared by the Company and Superford Holding Limited as they were not subject to any statutory audit requirements in their jurisdictions of incorporation. We have, however, reviewed all relevant transactions of these companies for the years/period covered by this report, and carried out such procedures as we considered necessary for inclusion of the financial information relating to these companies in this report.

The statutory financial statements of Fujian Fuqiang Delicate Circuit Plate Co., Ltd., a subsidiary, prepared in accordance with applicable accounting rules and regulations in Mainland China, were audited by Fujian Pingshan Certified Public Accountants and Fujian Long Da Audit Office, certified public accountants in Mainland China, for the years ended 31st December, 1998 and 1999, respectively. For the purpose of this report, we (Arthur Andersen & Co and Charles Chan, Ip & Fung CPA Ltd.) have performed an independent audit of the financial statements of Fujian Fuqiang Delicate Circuit Plate Co., Ltd. for the year ended 30th June, 2000 and the five months ended 30th November, 2000 in accordance with the Auditing Standards issued by the Hong Kong Society of Accountants and Charles Chan, Ip & Fung CPA Ltd. has performed an independent audit of the financial statements of Fujian Fuqiang Delicate Circuit Plate Co., Ltd. for the year ended 30th June, 1999 in accordance with the Auditing Standards issued by the Hong Kong Society of Accountants, which financial statements were prepared in accordance with accounting principles generally accepted in Hong Kong.

We have examined the audited financial statements or management accounts of the companies now comprising the Group for the years ended 30th June, 1999 and 2000 and the five months ended 30th November, 2000, or since their respective dates of incorporation where this is a shorter period. Our examinations were made in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the Hong Kong Society of Accountants.

The summaries of the combined results of operations of the Group for the years ended 30th June, 1999 and 2000 and the five months ended 30th November, 2000, and of the combined net assets of the Group as at 30th November, 2000 ("the Summaries") set out in this report have been prepared from the audited financial statements or management accounts of the companies now comprising the Group on the basis set out in Section 1 below, after making such adjustments as are appropriate.

The Directors of the respective companies now comprising the Group are responsible for preparing the financial statements of the respective companies which give a true and fair view. In preparing these financial statements, it is fundamental that appropriate accounting policies are selected and applied consistently. The Directors of the Company are also responsible for the summaries of combined results of operations of the Group for the years ended 30th June, 1999 and 2000 and the five months ended 30th November, 2000 and of the combined net assets of the Group as at 30th November, 2000. It is our responsibility to form an independent opinion on the summaries of the combined results of operations and of the combined net assets of the Group.

In our opinion, the Summaries, together with the notes thereon, give, for the purpose of this report, a true and fair view of the combined results of the Group for the years ended 30th June, 1999 and 2000 and the five months ended 30th November, 2000, and of the combined net assets of the Group as at 30th November, 2000.

1. BASIS OF PRESENTATION

As at the date of this report, the Company has direct or indirect interests in the following subsidiaries (all of these companies are private companies and, although incorporated outside Hong Kong, have substantially the same characteristics as a Hong Kong private company):

Name	Place and date of incorporation	Issued and fully paid share capital/ registered capital	Percentage of equity interest attributable to the Group	Principal activities
Superford Holding Limited	British Virgin Islands 5th January, 2000	US\$10,001	100%	Investment holding
Fujian Fuqiang Delicate Circuit Plate Co., Ltd.*	Mainland China 20th March, 1996	RMB46,000,000	90%	Provision of electronic manufacturing services and manufacturing and trading of printed circuit boards

* *Fujian Fuqiang Delicate Circuit Plate Co., Ltd. is a sino-foreign equity joint venture established in the open coastal area in Mainland China to be operated for 15 years until March 2011. Fujian Fuqiang Delicate Circuit Plate Co., Ltd. has adopted a 31st December financial year-end so as to comply with the relevant requirement in Mainland China. The management of the Group considers that a 30th June financial year-end for the Group is more appropriate from a business cycle perspective.*

The summary of combined results of operations includes the results of operations of the companies now comprising the Group, as if the current structure of the Group had been in existence throughout the years/period covered by this report or since their respective dates of incorporation where this is a shorter period, except for Fujian Fuqiang Delicate Circuit Plate Co., Ltd. which was included from 1st July, 1998 to 18th June, 2000 as a 50% owned subsidiary (note: the 50% interest in Fujian Fuqiang Delicate Circuit Plate Co., Ltd. was accounted for as a subsidiary as the Group was able to control the composition of the board of directors of Fujian Fuqiang Delicate Circuit Plate Co., Ltd.) and thereafter as a 90% owned subsidiary, representing the interests owned by Mr. Lin Wan Qaing as described above. The summary of combined net assets of the Group as at 30th November, 2000 has been prepared to present the assets and liabilities of the companies now comprising the Group as at the date, as if the current group structure had been in existence as at 30th November, 2000.

Significant transactions and balances between companies now comprising the Group have been eliminated on combination.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted by the Group in arriving at the financial information set out in this report, which conform with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants and accounting principles generally accepted in Hong Kong, are as follows:

a. Basis of measurement

The financial statements have been prepared on the historical cost basis.

b. Subsidiaries

A subsidiary is a company in which the Group holds, directly or indirectly, more than 50% of its issued voting share capital as a long-term investment or in which the Group governs and controls its financial and operating policies and its board of directors.

c. Equity joint ventures

An equity joint venture is a joint venture in which the joint venture partners' profit sharing ratios and shares of net assets upon the expiration of the joint venture period are in proportion to their equity interests set out in the joint venture agreement. An equity joint venture is accounted for as a subsidiary if the Group owns more than a 50% interest therein or governs and controls its financial and operating policies and its board of directors.

d. Turnover and revenue recognition

Turnover represents the net invoiced value (excluding value-added tax) of merchandise sold after allowances for returns and discounts.

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. Sales revenue is recognised when the merchandise is delivered and title has passed. Interest income is recognised on a time-proportion basis on the principal outstanding and at the rates applicable. Subsidy revenue is recognised when the right to receive payment is established.

e. Taxation

Individual companies within the Group provide for profits tax on the basis of their profit for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for profits tax purposes.

Deferred taxation is provided under the liability method in respect of significant timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, except when it is considered that no liability will arise in the foreseeable future. Deferred tax assets are not recognised unless the related benefits are expected to crystallise in the foreseeable future.

f. Employee retirement benefits

The costs of employee retirement benefits are recognised as an expense in the period in which they are incurred.

g. Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to prepare for its intended use or sale are capitalised as part of the cost of the asset at rates based on the actual cost of the specific borrowings. All other borrowing costs are recognised as an expense in the period in which they are incurred.

h. Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation. Major expenditures on modifications and betterments of fixed assets which will result in future economic benefits are capitalised, while expenditures on maintenance and repairs of fixed assets are expensed when incurred. Depreciation is provided on a straight-line basis to write off the cost less residual value of each asset over its estimated useful life. The annual rates of depreciation are as follows:

Leasehold land and buildings	4%
Machinery	10%
Furniture and office equipment	20%
Motor vehicles	20%

The carrying value of fixed assets is assessed periodically or when factors indicating an impairment are present. Fixed assets carried at cost less accumulated depreciation are reduced to their recoverable amount if this is lower than net book value, with the difference charged to the income statement. In determining the recoverable amount of items of fixed assets, expected future cash flows are not discounted to their present value.

Gains and losses on disposal of fixed assets are recognised in the income statement based on the net disposal proceeds less the then carrying amount of the assets.

i. Construction-in-progress

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. No depreciation is provided in respect of construction-in-progress until the construction work is completed.

j. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes cost of raw materials determined using the weighted average method of accounting and, in cases of work-in-progress and finished goods, also direct labour and an appropriate proportion of production overheads. Net realisable value is based on estimated normal selling prices, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

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 in which 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.

k. Research and development expenditures

Research expenditures are written off as incurred. Development expenditures are charged against income in the period incurred except for those incurred for specific projects where recoverability can be foreseen with reasonable assurance and which comply with the following criteria: (i) the product or process is clearly defined and 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) the enterprise intends to produce and market, or use, the product or process; (iv) the existence of a market for the product or process or, if it is to be used internally rather than sold, its usefulness to the enterprise, can be demonstrated; and (v) adequate resources exist, or their availability can be demonstrated, to complete the project and market or use the product or process. Capitalised development expenditures are amortised on a straight-line basis over the period in which the related products are expected to be sold, starting from the commencement of sales.

l. Operating leases

Operating leases represent those leases under which substantially all of the risks and rewards of ownership of the leased assets remain with the lessors. Rental payments under operating leases are charged to the income statement on a straight-line basis over the period of the relevant leases.

m. Foreign currency translation

Individual companies within the Group maintain their books and records in Chinese Renminbi. Transactions in other currencies during the year/period are translated into Chinese Renminbi at the applicable rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies are translated into Chinese Renminbi at the applicable rates of exchange in effect at the balance sheet date. Exchange gains and losses are dealt with in the income statement.

Translation of amounts from Chinese Renminbi ("RMB") into Hong Kong dollars ("HK\$") is for the convenience of readers and has been made at the rates of exchange in effect at 30th June, 1999 of RMB107 = HK\$100, 30th June, 2000 of RMB106 = HK\$100 and 30th November, 2000 of RMB106 = HK\$100. No representation is made that the Chinese Renminbi amounts could have been, or could be, converted into Hong Kong dollars at such rates or any other rates. 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.

3. RESULTS OF OPERATIONS

The following is a summary of the combined results of operations of the Group for the years ended 30th June, 1999 and 2000 and the five months ended 30th November, 2000, prepared on the basis set out in Section 1 above:

	Notes	Year ended 30th June,				Five months ended	
		1999		2000		30th November, 2000	
		RMB'000	HK\$'000	RMB'000	HK\$'000	RMB'000	HK\$'000
		(Section 2.m)	(Section 2.m)		(Section 2.m)		
Turnover	(a)	40,475	37,827	86,756	81,846	66,137	62,394
Cost of sales		(24,968)	(23,335)	(47,816)	(45,109)	(32,484)	(30,645)
Gross profit		15,507	14,492	38,940	36,737	33,653	31,749
Distribution and selling expenses		(1,260)	(1,178)	(2,732)	(2,577)	(1,678)	(1,583)
General and administrative expenses		(7,737)	(7,231)	(10,793)	(10,183)	(3,237)	(3,054)
Profit from operations		6,510	6,083	25,415	23,977	28,738	27,112
Subsidy	(a), (b)	200	187	400	377	400	377
Interest income	(a)	2,572	2,404	381	360	20	19
Finance costs	(c)	(5,464)	(5,107)	(8,708)	(8,215)	(2,714)	(2,560)
Profit before taxation	(d)	3,818	3,567	17,488	16,499	26,444	24,948
Taxation	(e)	—	—	—	—	—	—
Profit after taxation but before minority interests		3,818	3,567	17,488	16,499	26,444	24,948
Minority interests		(1,909)	(1,784)	(8,358)	(7,885)	(2,644)	(2,495)
Profit attributable to shareholders		<u>1,909</u>	<u>1,783</u>	<u>9,130</u>	<u>8,614</u>	<u>23,800</u>	<u>22,453</u>
Dividend	(f)	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Earnings per share – Basic	(g)	<u>RMB0.71 cents</u>	<u>HK0.66 cents</u>	<u>RMB3.38 cents</u>	<u>HK3.19 cents</u>	<u>RMB8.81 cents</u>	<u>HK8.32 cents</u>

Notes:

a. **Turnover and revenue**

Analysis of turnover and revenue is as follows:

	Year ended 30th June,				Five months ended	
	1999		2000		30th November, 2000	
	RMB'000	HK\$'000	RMB'000	HK\$'000	RMB'000	HK\$'000
	(Section 2.m)		(Section 2.m)		(Section 2.m)	
Turnover – Sale of printed circuit boards	40,475	37,827	86,756	81,846	66,137	62,394
Interest income	2,572	2,404	381	360	20	19
Subsidy	200	187	400	377	400	377
Total revenue	<u>43,247</u>	<u>40,418</u>	<u>87,537</u>	<u>82,583</u>	<u>66,557</u>	<u>62,790</u>

Sales to the top five customers accounted for 79%, 88% and 65% of the Group's sales for the years ended 30th June, 1999 and 2000 and the five months ended 30th November, 2000, respectively.

An analysis of the Group's turnover by geographical location* is as follows:

	Year ended 30th June,				Five months ended	
	1999		2000		30th November, 2000	
	RMB'000	HK\$'000	RMB'000	HK\$'000	RMB'000	HK\$'000
	(Section 2.m)		(Section 2.m)		(Section 2.m)	
Mainland China	38,334	35,826	65,741	62,021	48,566	45,817
Australia	1,299	1,214	13,103	12,361	14,804	13,966
United States of America	—	—	4,441	4,190	1,578	1,489
Germany	842	787	3,210	3,028	1,189	1,122
Others	—	—	261	246	—	—
	<u>40,475</u>	<u>37,827</u>	<u>86,756</u>	<u>81,846</u>	<u>66,137</u>	<u>62,394</u>

* Turnover by geographical location is determined on the basis of the destination of delivery of merchandise.

No analysis of profit attributable to shareholders by geographical location is presented as it was generally in line with the distribution of turnover as set out above.

b. **Subsidy**

Subsidy represents grants received from a Mainland China provincial government committee in respect of high technology product development projects carried out by Fujian Fuqiang Delicate Circuit Plate Co., Ltd., a subsidiary. The subsidy was granted at the discretion of the provincial government on a specific project basis.

c. **Finance costs**

Analysis of finance costs is as follows:

	Year ended 30th June,				Five months ended	
	1999		2000		30th November, 2000	
	RMB'000	HK\$'000	RMB'000	HK\$'000	RMB'000	HK\$'000
	(Section 2.m)		(Section 2.m)		(Section 2.m)	
Interest on loans wholly repayable within five years						
– Bank loans	5,725	5,350	7,759	7,320	2,257	2,129
– Loans from related companies (see Section 3.k)	291	272	458	431	42	39
– Loans from a minority shareholder of a subsidiary (see Section 3.k)	—	—	110	104	240	226
	6,016	5,622	8,327	7,855	2,539	2,394
Bank guarantee fee (see Section 3.k)	—	—	381	360	175	166
	6,016	5,622	8,708	8,215	2,714	2,560
Less: Amount capitalised*	(552)	(515)	—	—	—	—
	<u>5,464</u>	<u>5,107</u>	<u>8,708</u>	<u>8,215</u>	<u>2,714</u>	<u>2,560</u>

* For the year ended 30th June, 1999, the rates of capitalisation of the borrowing costs were averaged to be approximately 9.36% per annum.

d. **Profit before taxation**

Profit before taxation is stated after charging and crediting the following:

	Year ended 30th June,				Five months ended	
	1999		2000		30th November, 2000	
	RMB'000	HK\$'000	RMB'000	HK\$'000	RMB'000	HK\$'000
	(Section 2.m)		(Section 2.m)		(Section 2.m)	
After charging –						
Cost of inventories (excluding provision for obsolete and slow-moving inventories)	24,968	23,335	47,266	44,590	31,869	30,065
Staff costs (including directors' emoluments)	4,464	4,172	5,614	5,296	2,469	2,329
Less: Amounts included in cost of sales	(2,729)	(2,550)	(3,712)	(3,502)	(1,701)	(1,605)
Amounts included in research and development expenditures	(488)	(456)	(518)	(489)	(214)	(202)
	1,247	1,166	1,384	1,305	554	522
Operating lease rental of premises	433	405	678	640	248	234
Research and development expenditures written off	555	519	567	535	220	208
Depreciation of fixed assets	5,328	4,979	6,000	5,660	2,575	2,429
Provision for obsolete and slow-moving inventories	—	—	550	520	615	580
Provision for bad and doubtful receivables	2,286	2,136	4,245	4,005	202	191
Net exchange loss	—	—	94	89	50	47
Auditors' remuneration	10	9	65	61	375	354
After crediting –						
Interest on						
– Loan to a related company	2,552	2,385	337	318	—	—
– Bank deposits	15	14	44	42	20	19
– Others	5	5	—	—	—	—
Write back of provision for bad and doubtful receivables	—	—	—	—	32	30
Net exchange gain	73	69	—	—	—	—
Net gain on disposal of fixed assets	—	—	55	52	—	—

e. **Taxation**

(i) Hong Kong profits tax:

No Hong Kong profits tax was provided as the Group had no assessable profit arising in or derived from Hong Kong.

(ii) Mainland China enterprise income tax:

Fujian Fuqiang Delicate Circuit Plate Co., Ltd., a subsidiary, is a sino-foreign equity joint venture established in the open coastal areas of Mainland China and is subject to Mainland China enterprise income tax at a rate of 15% on its income after offsetting prior years' tax losses. However, it is exempted from Mainland China enterprise income tax for two years starting from the first year of profitable operations after offsetting prior year's tax losses, followed by a 50% reduction for the following three years. Fujian Fuqiang Delicate Circuit Plate Co., Ltd. became profitable after offsetting prior year tax losses from 1st January, 1999. If the tax holiday had not existed, the Group's provision for Mainland China enterprise income tax would have been approximately RMB573,000, RMB2,623,000 and RMB3,967,000, respectively, for the years ended 30th June, 1999 and 2000 and the five months ended 30th November, 2000.

(iii) Mainland China value-added tax and government surcharges:

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

There was no significant unprovided deferred taxation for the years ended 30th June, 1999 and 2000 and the five months ended 30th November, 2000.

f. **Dividend**

No dividend has been paid or declared by the Company or its subsidiaries since their incorporation.

g. **Earnings per share**

The calculation of basic earnings per share for the years ended 30th June, 1999 and 2000 and the five months ended 30th November, 2000 is based on the profit attributable to shareholders during these years/period and assuming 270,000,000 shares in issue and issuable, comprising 1,000,000 shares in issue as at the date of the Prospectus and 269,000,000 shares to be issued pursuant to the capitalisation issue as described in Appendix VI to the Prospectus.

h. **Recognised gains and losses**

There were no recognised gains and losses other than the profit attributable to shareholders for the years ended 30th June, 1999 and 2000 and the five months ended 30th November, 2000.

i. **Directors' and senior executives' emoluments**

(i) Details of emoluments paid/payable to directors of the Company are:

	Year ended 30th June,				Five months ended	
	1999		2000		30th November, 2000	
	<i>RMB'000</i>	<i>HK\$'000</i>	<i>RMB'000</i>	<i>HK\$'000</i>	<i>RMB'000</i>	<i>HK\$'000</i>
	(Section 2.m)		(Section 2.m)		(Section 2.m)	
Fees	—	—	—	—	—	—
Other emoluments						
– Basic salaries and allowances	168	157	282	266	135	127
– Retirement contributions	5	5	5	5	2	2
– Bonus	—	—	—	—	—	—
	<u>173</u>	<u>162</u>	<u>287</u>	<u>271</u>	<u>137</u>	<u>129</u>

No director waived any emoluments during the years ended 30th June, 1999 and 2000 and the five months ended 30th November, 2000. No incentive payment for joining the Group or compensation for loss of office was paid or payable to any director for the years ended 30th June, 1999 and 2000 and the five months ended 30th November, 2000.

The number of directors whose emoluments falls within the following band is as follows:

	Year ended 30th June,		Five months ended
	1999	2000	30th November, 2000
Nil to RMB1,060,000 (equivalent of HK\$1,000,000)	<u>3</u>	<u>3</u>	<u>3</u>

The three executive directors received individual emoluments of approximately RMB36,000, RMB36,000 and RMB101,000 during the year ended 30th June, 1999, approximately RMB78,000, RMB60,000 and RMB149,000 during the year ended 30th June, 2000, and approximately RMB50,000, RMB25,000 and RMB62,000 during the five months ended 30th November, 2000.

Under the arrangements currently in force, the aggregate amount of fees and other emoluments payable to the directors of the Company for the year ending 30th June, 2001 is estimated to be approximately RMB460,000.

- (ii) Details of emoluments paid to the five highest paid individuals (including directors and other employees) are:

	Year ended 30th June,				Five months ended	
	1999		2000		30th November, 2000	
	RMB'000	HK\$'000	RMB'000	HK\$'000	RMB'000	HK\$'000
	(Section 2.m)		(Section 2.m)		(Section 2.m)	
Basic salaries and allowances	600	561	417	393	195	184
Retirement contributions	9	8	9	8	4	4
Bonus	—	—	—	—	—	—
	<u>609</u>	<u>569</u>	<u>426</u>	<u>401</u>	<u>199</u>	<u>188</u>

	Year ended 30th June,		Five months ended			
	1999		2000		30th November, 2000	
Number of directors	3		3		3	
Number of employees	2		2		2	
	<u>5</u>		<u>5</u>		<u>5</u>	

During the years ended 30th June, 1999 and 2000 and the five months ended 30th November, 2000, no emoluments were paid to the five highest paid individuals (including directors and employees) as inducement to join or upon joining the Group or as compensation for loss of office.

The emoluments of the five highest paid individuals falls within the range of Nil to RMB1,060,000 (equivalent of HK\$1,000,000) during the years ended 30th June, 1999 and 2000 and the five months ended 30th November, 2000.

j. **Employee retirement benefits**

As stipulated by the rules and regulations in Mainland China, Fujian Fuqiang Delicate Circuit Plate Co., Ltd., a subsidiary, is required to contribute to a state-sponsored retirement plan for all of its employees at approximately 14% of the basic salary of its employees. The state-sponsored retirement plan is responsible for the entire pension obligations payable to all retired employees and the Group has no further obligations for the actual pension payments or post-retirement benefits beyond the annual contributions. For the years ended 30th June, 1999 and 2000 and the five months ended 30th November, 2000, the Group provided for retirement plan contributions of approximately RMB209,000, RMB335,000 and RMB48,000, respectively.

k. **Related party transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or to exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

The Group's bank loans are secured by corporate guarantees provided by Fujian Furi Electronics Co., Ltd., a minority shareholder of Fujian Fuqiang Delicate Circuit Plate Co., Ltd. a subsidiary, and Fujian Furi Group Company, the holding company of a minority shareholder of Fujian Fuqiang Delicate Circuit Plate Co., Ltd. The Directors expect these guarantees would be released upon listing of the Company.

Fujian Fuqiang Delicate Circuit Plate Co., Ltd., a subsidiary, guaranteed a RMB20,000,000 bank loan of Fujian Furi Group Company, the holding company of a minority shareholder of Fujian Fuqiang Delicate Circuit Plate Co., Ltd., a subsidiary, for the period up to 14th September, 2000. Such guarantee has been released upon expiry.

Significant transactions with related parties are summarised below:

	Year ended 30th June,				Five months ended	
	1999		2000		30th November, 2000	
	RMB'000	HK\$'000	RMB'000	HK\$'000	RMB'000	HK\$'000
	(Section 2.m)		(Section 2.m)		(Section 2.m)	
Continuing:						
Fujian Furi Electronics Co., Ltd. (i)						
– Interest paid/payable	—	—	110	104	240	226
Fujian Minxiang Electronics Factory						
– Interest paid/payable (ii)	—	—	—	—	42	39
He Yu Zhu (iii)						
– Lease rental paid/payable	198	185	475	448	176	166
Discontinuing:						
Fujian Furi Group Company (iv)						
– Interest paid/payable	291	272	458	431	—	—
– Interest earned	2,552	2,385	337	318	—	—
– Guarantee fee paid/payable	—	—	381	360	30	28
Fujian Furi Electronics Co., Ltd. (i)						
– Guarantee fee paid/payable	—	—	—	—	145	138
Fujian Furi Container Freight Transport Company (v)						
– Transportation expense paid/payable	—	—	711	671	951	897

Notes:

- (i) Fujian Furi Electronics Co., Ltd. is a minority shareholder of Fujian Fuqiang Delicate Circuit Plate Co., Ltd., a subsidiary.
- (ii) Fujian Minxiang Electronics Factory is wholly-owned by Fujian Furi Group Company, the holding company of a minority shareholder of Fujian Fuqiang Delicate Circuit Plate Co., Ltd., a subsidiary.
- (iii) Ms. He Yu Zhu is the spouse of Mr. Lin Wan Qaing, a majority shareholder and a director of the Company.
- (iv) Fujian Furi Group Company was the holding company of a minority shareholder of Fujian Fuqiang Delicate Circuit Plate Co., Ltd., a subsidiary. Effective from 24th March, 2000 Fujian Furi Group Company transferred its interest in Fujian Fuqiang Delicate Circuit Plate Co., Ltd. to its subsidiary, Fujian Furi Electronics Co., Ltd..
- (v) Fujian Furi Container Freight Transport Company is owned by Fujian Furi Group Company, the holding company of a minority shareholder of Fujian Fuqiang Delicate Circuit Plate Co., Ltd.

Interest earned by the Group from Fujian Furi Group Company was calculated on a time-proportion basis on the principal outstanding at average rates ranging from 6.73% to 12.44% per annum which were determined by reference to the prevailing market rates. Interest paid/payable by the Group to Fujian Furi Electronics Co., Ltd. and Fujian Furi Group Company was calculated on the same basis at average rates ranging from 5.41% to 10.13% per annum which were determined by reference to the prevailing market rates. Interest paid/payable by the Group to Fujian Minxiang Electronics Factory was calculated on the same basis at 6.37% per annum which was determined by reference to the prevailing market rates. Guarantee fee paid/payable by the Group for the corporate guarantees given by Fujian Furi Group Company and Fujian Furi Electronics Co., Ltd. on the Group's bank loans was determined at approximately 1% of the amount of the related loans. Lease rental paid/payable by the Group to Ms. He Yu Zhu was determined by reference to the rental prevailing at the time the lease agreement was executed. Transportation expense was determined by reference to commercial rates.

In the opinion of the Company's Directors, the above transactions were conducted in the usual course of business and on normal commercial terms.

4. NET ASSETS

The following is a summary of the combined net assets of the Group as at 30th November, 2000, prepared on the basis set out in Section 1 above.

	<i>Note</i>	<i>RMB'000</i>	<i>HK\$'000</i> (Section 2.m)
Non-current assets			
Fixed assets	<i>(a)</i>	68,308	64,443
Construction-in-progress	<i>(b)</i>	<u>16,296</u>	<u>15,373</u>
Total non-current assets		<u>84,604</u>	<u>79,816</u>
Current assets			
Inventories	<i>(c)</i>	7,254	6,843
Prepayments, deposits and other receivables	<i>(d)</i>	16,674	15,731
Due from a related company	<i>(e)</i>	1,448	1,366
Trade receivables		46,318	43,696
Cash and bank balances		<u>10,633</u>	<u>10,031</u>
Total current assets		<u>82,327</u>	<u>77,667</u>
Current liabilities			
Trade and bills payables	<i>(f)</i>	(18,298)	(17,264)
Other payables and accruals	<i>(g)</i>	(5,000)	(4,717)
Short-term bank loans	<i>(b)</i>	(25,000)	(23,585)
Long-term bank loans, current portion	<i>(i)</i>	(7,000)	(6,604)
Due to a minority shareholder of a subsidiary	<i>(j)</i>	(3,000)	(2,830)
Due to a director	<i>(k)</i>	<u>(2,758)</u>	<u>(2,602)</u>
Total current liabilities		<u>(61,056)</u>	<u>(57,602)</u>
Net current assets		<u>21,271</u>	<u>20,065</u>
Total assets less current liabilities		<u>105,875</u>	<u>99,881</u>
Non-current liabilities			
Loan from a related company	<i>(l)</i>	(1,565)	(1,476)
Long-term bank loans	<i>(i)</i>	(10,000)	(9,434)
Loan from a minority shareholder of a subsidiary	<i>(m)</i>	<u>(9,056)</u>	<u>(8,543)</u>
Total non-current liabilities		<u>(20,621)</u>	<u>(19,453)</u>
Net assets before minority interests		85,254	80,428
Minority interests		<u>(8,525)</u>	<u>(8,043)</u>
Net assets	<i>(n)</i>	<u><u>76,729</u></u>	<u><u>72,385</u></u>

Notes:

a. **Fixed assets**

Movements of fixed assets for the five months ended 30th November, 2000 were:

	Leasehold land and buildings	Machinery	Furniture and office equipment	Motor vehicles	Total	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>HK\$'000</i>
						(Section 2.m)
Cost						
1st July, 2000	27,351	48,359	2,499	2,357	80,566	76,006
Additions	2,434	1,886	88	—	4,408	4,159
Transfer from construction-in-progress	305	—	—	—	305	288
	<u>30,090</u>	<u>50,245</u>	<u>2,587</u>	<u>2,357</u>	<u>85,279</u>	<u>80,453</u>
Accumulated depreciation						
1st July, 2000	2,284	9,845	1,071	1,196	14,396	13,581
Provision for the period	646	1,708	116	105	2,575	2,429
	<u>2,930</u>	<u>11,553</u>	<u>1,187</u>	<u>1,301</u>	<u>16,971</u>	<u>16,010</u>
Net book value						
30th November, 2000	<u>27,160</u>	<u>38,692</u>	<u>1,400</u>	<u>1,056</u>	<u>68,308</u>	<u>64,443</u>

All leasehold land and buildings are located in Mainland China and are held under land use rights for 25 years up to 2025.

b. **Construction-in-progress**

Construction-in-progress consisted of:

	<i>RMB'000</i>	<i>HK\$'000</i>
		(Section 2.m)
Construction costs of buildings	14,597	13,771
Cost of machinery pending for installation	505	476
Interest capitalised*	1,194	1,126
	<u>16,296</u>	<u>15,373</u>

* The rates of capitalisation of the borrowing costs were averaged to be approximately 9.36% per annum.

Movements of construction-in-progress for the five months ended 30th November, 2000 were:

	<i>RMB'000</i>	<i>HK\$'000</i> (Section 2.m)
1st July, 2000	16,582	15,643
Additions	19	18
Transfer to fixed assets	(305)	(288)
	<u>16,296</u>	<u>15,373</u>

c. **Inventories**

Inventories consisted of:

	<i>RMB'000</i>	<i>HK\$'000</i> (Section 2.m)
Raw materials	6,626	6,251
Work-in-progress	56	53
Finished goods	1,737	1,639
	<u>8,419</u>	<u>7,943</u>
<i>Less:</i> Provision for obsolete and slow-moving inventories	(1,165)	(1,100)
	<u>7,254</u>	<u>6,843</u>

As at 30th November, 2000, no inventories were carried at net realisable value.

d. **Prepayments, deposits and other receivables**

Prepayments, deposits and other receivables consisted of:

	<i>RMB'000</i>	<i>HK\$'000</i> (Section 2.m)
Deferred share issuance expenditures	3,544	3,344
Prepayments	305	288
Deposits for purchases of raw materials	11,723	11,059
Rental and utility deposits	49	46
Advances to employees	359	339
Input VAT recoverable	146	138
Other receivables	548	517
	<u>16,674</u>	<u>15,731</u>

e. **Due from a related company**

Details of amount due from a related company are:

	As at 1st July, 2000		As at 30th November, 2000		Maximum balance outstanding during the five months ended 30th November, 2000	
	RMB'000	HK\$'000 (Section 2.m)	RMB'000	HK\$'000 (Section 2.m)	RMB'000	HK\$'000 (Section 2.m)
East Sign Limited*	—	—	1,448	1,366	2,974	2,806

* East Sign Limited is beneficially owned by Mr. Lin Wan Qaing, a majority shareholder and a director of the Company.

The amount due from a related company is unsecured, non-interest bearing and without pre-determined repayment terms. Had interest been charged on the outstanding balance during the years/period covered by this report based on the interest rate earned by the Group on saving deposits of approximately 2% per annum, the Group would have received interest, net of tax, of approximately Nil, Nil and RMB15,000 for the years ended 30th June, 1999 and 2000 and the five months ended 30th November, 2000, respectively. The outstanding balance was subsequently repaid.

f. **Trade and bills payable**

Included in trade and bills payables as at 30th November, 2000 was a transportation charge of approximately RMB400,000 due to Fujian Furi Container Freight Transport Company, a company owned by Fujian Furi Group Company, the holding company of a minority shareholder of Fujian Fuqiang Delicate Circuit Plate Co., Ltd., a subsidiary (see Section 3.k).

g. **Other payables and accruals**

Other payables and accruals consisted of:

	RMB'000	HK\$'000 (Section 2.m)
Other payables	535	505
Rental payable to He Yu Zhu (see Section 3.k)	493	465
Payable for construction costs	2,315	2,184
Accruals	1,600	1,509
Receipts in advance	57	54
	<u>5,000</u>	<u>4,717</u>

h. **Short-term bank loans**

Short-term bank loans bear interest at approximately 7.02% to 9.36% per annum. Refer to Section 6 for details of the Group's banking facilities.

i. **Long-term bank loans**

Analysis of long-term bank loans is as follows:

	<i>RMB'000</i>	<i>HK\$'000</i> (Section 2.m)
Amounts repayable within a period of		
– less than one year	7,000	6,604
– one to two years	10,000	9,434
	<u>17,000</u>	<u>16,038</u>
<i>Less:</i> Amounts repayable within one year included under current liabilities	<u>(7,000)</u>	<u>(6,604)</u>
	<u><u>10,000</u></u>	<u><u>9,434</u></u>

Long-term bank loans bear interest at approximately 7.02% to 9.36% per annum. Refer to Section 6 for details of the Group's banking facilities.

j. **Due to a minority shareholder of a subsidiary**

The amount due to a minority shareholder of a subsidiary as at 30th November, 2000 of RMB3,000,000 represented short-term advances from Fujian Furi Electronics Co., Ltd., a minority shareholder of Fujian Fuqiang Delicate Circuit Plate Co., Ltd. This amount was unsecured, non-interest bearing and without pre-determined repayment terms. It is the Group's present intention to repay this outstanding balance by November 2001. Had interest been charged on the outstanding balance based on the Group's borrowing cost of approximately 7% per annum, the Group would have incurred interest, net of tax, of approximately Nil, Nil and RMB88,000 for the years ended 30th June, 1999 and 2000 and the five months ended 30th November, 2000, respectively.

k. **Due to a director**

The amount due to a director as at 30th November, 2000 of approximately RMB2,758,000 represented short-term advances from Mr. Lin Wan Qaing, a majority shareholder and a director of the Company. This amount was unsecured and non-interest bearing. Such balance was fully repaid in February 2001. Had interest been charged on the outstanding balance based on the Group's borrowing cost of approximately 7% per annum, the Group would have incurred interest, net of tax, of approximately Nil, RMB96,000 and RMB54,000 for the years ended 30th June, 1999, and 2000 and the five months ended 30th November, 2000, respectively.

l. **Loan from a related company**

Loan from a related company consisted of:

	RMB'000	HK\$'000 (Section 2.m)
Advances from Fujian Minxiang Electronics Factory (福建閩鄉電子廠)*	<u>1,565</u>	<u>1,476</u>

* Fujian Minxiang Electronics Factory is wholly-owned by Fujian Furi Group Company, the holding company of a minority shareholder of Fujian Fuqiang Delicate Circuit Plate Co., Ltd.. In addition, Fujian Minxiang Electronics Factory was a former shareholder of Fujian Fuqiang Delicate Circuit Plate Co., Ltd., a subsidiary. The advances are unsecured, bear interest at 6.37% per annum and are repayable in May 2002.

m. **Loan from a minority shareholder of a subsidiary**

Details of loan from a minority shareholder of a subsidiary (Fujian Fuqiang Delicate Circuit Plate Co., Ltd.) are as follows:

	RMB'000	HK\$'000 (Section 2.m)
Fujian Furi Electronics Co., Ltd.	<u>9,056</u>	<u>8,543</u>

The loan is unsecured, bears interest at 6.37% per annum and is repayable in May 2002.

n. **Net assets of the Company**

The Company was incorporated on 29th September, 2000. As at 30th November, 2000, the Company had no assets and liabilities. On the basis as set out in Section 1 above, the net assets of the Company as at 30th November, 2000 amounted to approximately RMB76,729,000, representing investment in a subsidiary.

o. **Distributable reserves**

The Company has not carried on any business since its incorporation, except for the acquisition on 8th May, 2001 of the subsidiaries set out in Section 1 above. Accordingly, the Company had no reserves available for distribution to shareholders as at 30th November, 2000.

5. COMMITMENTS

The Group had the following significant commitments which are not reflected in the summary of combined net assets of the Group set out in Section 4 above:

a. Capital commitments

As at 30th November, 2000, the Group had the following capital commitments:

	<i>RMB'000</i>	<i>HK\$'000</i>
		(Section 2.m)
Authorised and contracted for		
– acquisition of fixed assets	<u>15,901</u>	<u>15,001</u>

b. Operating lease commitments

The Group had operating lease commitments in respect of premises under various non-cancellable operating lease agreements. The total amount of commitments payable under these agreements as at 30th November, 2000 is analysed as follows:

	<i>RMB'000</i>	<i>HK\$'000</i>
		(Section 2.m)
Amounts payable		
– within one year	579	546
– between one year to two years	1,030	972
– between two years to five years	<u>70</u>	<u>66</u>
	<u>1,679</u>	<u>1,584</u>

The commitments payable within the next twelve months are analysed as follows:

	<i>RMB'000</i>	<i>HK\$'000</i>
		(Section 2.m)
Leases expiring within a period		
– more than one year but not exceeding		
five years	<u>579</u>	<u>546</u>

6. BANKING FACILITIES AND PLEDGE OF ASSETS

As at 30th November, 2000, the Group had loan facilities of approximately RMB42,000,000 from several banks, and trade financing facilities from banks of approximately RMB9,559,000. As of the same date, the loans were fully drawn, while the trade financing facilities were not utilised. The loan facilities are secured by guarantees provided by Fujian Furi Electronics Co., Ltd., a minority shareholder of Fujian Fuqiang Delicate Circuit Plate Co., Ltd., a subsidiary, and Fujian Furi Group Company, the holding company of a minority shareholder of Fujian Fuqiang Delicate Circuit Plate Co., Ltd.. The Directors expect such corporate guarantees to be released upon listing of the Company.

7. SUBSEQUENT EVENTS

The following significant transactions took place subsequent to 30th November, 2000 and up to the date of this report:

- a. the Group completed a re-organisation in preparation for a listing of shares of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, the details of which are set out in the subsection headed "Corporate reorganisation" of Appendix VI to the Prospectus; and
- b. on 8th May, 2001, resolutions were passed to effect the transactions set out in the subsection headed, "Written resolutions of the sole shareholder of the Company passed on 8th May, 2001" of Appendix VI to the Prospectus.

8. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30th November, 2000. In addition, no dividend has been declared or paid by the Company or any of the companies now comprising the Group subsequent to 30th November, 2000.

Yours faithfully,
ARTHUR ANDERSEN & CO
Certified Public Accountants

Yours faithfully,
CHARLES CHAN, IP & FUNG CPA LTD.
Certified Public Accountants
Chan Wai Dune, Charles
Practising Certificate Number P00712

The information set out below does not form part of the Accountants' Report prepared by the auditors and reporting accountants of the Company, Arthur Andersen & Co, Certified Public Accountants, Hong Kong, and Charles Chan, Ip & Fung CPA Ltd., Certified Public Accountants, Hong Kong, as set out in Appendix I, and is included for information purposes only. Terms used in this section have the same meaning as used in the Accountants' Report.

The summary of combined results of operations of the Group for the years ended 30th June, 1999 and 2000 as set out in Section 3 of the Accountants' Report includes the results of Sinotronics Holdings Limited and its subsidiaries for the two years or since their dates of incorporation where this is a shorter period, except for Fujian Fuqiang Delicate Circuit Plate Co., Ltd. which was included from 1st July, 1998 to 18th June, 2000 as a 50 per cent. owned subsidiary and thereafter as a 90 per cent. owned subsidiary, representing the interests owned by Mr. Lin Wan Qaing, on the basis set out in Section 1 of the Accountants' Report. To provide additional financial information, set out below are the pro forma combined results of operations of the Group for the years ended 30th June, 1999 and 2000 as if the Group's 90 per cent. interest in Fujian Fuqiang Delicate Circuit Plate Co., Ltd., the interest now owned by the Group had been held since 1st July, 1998.

The pro forma combined results of operations of the Group presented below do not purport to represent what the results of operations would actually have been if the 90 per cent. interest in Fujian Fuqiang Delicate Circuit Plate Co., Ltd. now owned by the Group had been held since 1st July, 1998, or to project the results of operations for any future period and are included for information purposes only.

The pro forma combined results of operations of the Group for the year ended 30th June, 1999 are as follows:

	Per	Adjustment	Pro forma	
	Accountants'		<i>RMB'000</i>	<i>HK\$'000</i>
	Report			
	<i>RMB'000</i>		<i>RMB'000</i>	<i>HK\$'000</i>
Turnover	40,475		40,475	37,827
Cost of sales	(24,968)		(24,968)	(23,335)
Gross profit	15,507		15,507	14,492
Distribution and selling expenses	(1,260)		(1,260)	(1,178)
General and administrative expenses	(7,737)		(7,737)	(7,231)
Profit from operations	6,510		6,510	6,083
Subsidy	200		200	187
Interest income	2,572		2,572	2,404
Finance costs	(5,464)		(5,464)	(5,107)
Profit before taxation	3,818		3,818	3,567
Taxation	—		—	—
Profit after taxation but before minority interests	3,818		3,818	3,567
Minority interests	(1,909)	1,527	(382)	(357)
Profit attributable to shareholders	<u>1,909</u>		<u>3,436</u>	<u>3,210</u>

The pro forma combined results of operations of the Group for the year ended 30th June, 2000 are as follows:

	Per	Adjustment	Pro forma	
	Accountants'		<i>RMB'000</i>	<i>HK\$'000</i>
	Report			
	<i>RMB'000</i>		<i>RMB'000</i>	<i>HK\$'000</i>
Turnover	86,756		86,756	81,846
Cost of sales	(47,816)		(47,816)	(45,109)
Gross profit	38,940		38,940	36,737
Distribution and selling expenses	(2,732)		(2,732)	(2,577)
General and administrative expenses	(10,793)		(10,793)	(10,183)
Profit from operations	25,415		25,415	23,977
Subsidy	400		400	377
Interest income	381		381	360
Finance costs	(8,708)		(8,708)	(8,215)
Profit before taxation	17,488		17,488	16,499
Taxation	—		—	—
Profit after taxation but before minority interests	17,488		17,488	16,499
Minority interests	(8,358)	6,609	(1,749)	(1,650)
Profit attributable to shareholders	<u>9,130</u>		<u>15,739</u>	<u>14,849</u>

The forecast combined profit after taxation and minority interests but before extraordinary items of the Group for the year ending 30th June, 2001 is set out under the heading "Profit Forecast, dividends and working capital" in the section headed "Financial information" in this prospectus.

1. BASES AND ASSUMPTIONS

The Directors have prepared the forecast combined profit after taxation and minority interests but before extraordinary items of the Group for the year ending 30th June, 2001 based on the audited financial statements of the Group for the five months ended 30th November, 2000, the unaudited management accounts of the Group for the four months ended 31st March, 2001, and a forecast of the combined results of the Group for the remaining three months ending 30th June, 2001. The Directors are not aware of any extraordinary items which have arisen or are likely to arise in respect of the year ending 30th June, 2001. The profit forecast has been prepared on the basis of accounting policies consistent in all material respects with those adopted by the Group as summarised in the accountants' report as set out in Appendix I to the Prospectus.

The Directors have adopted the following assumptions in the preparation of the profit forecast:

- (i) There will be no material changes in existing political, legal, fiscal, market or economic conditions in Hong Kong, Mainland China, or any of the countries in which any member of the Group carries on business or to which it exports its products or from which it imports or sources its raw materials;
- (ii) There will be no material changes in the legislation or regulations in Hong Kong, Mainland China, or any of the countries in which the Group operates or in which the Group companies are incorporated or registered or countries to which the Group exports its products, which will affect the Group's business;
- (iii) There will be no material changes in the bases or rates of taxation or duties in Hong Kong, Mainland China, or any of the countries in which the Group operates or in which the Group companies are incorporated or registered; and
- (iv) There will be no material changes in foreign currency exchange rates and interest rates from those currently prevailing.

2. LETTERS

Set out below are the texts of the letters received by the Directors from Arthur Andersen & Co and Charles Chan, Ip & Fung CPA Ltd. and DTCFL and JS Cresvale in connection with the forecast of the combined profit after taxation and minority interests but before extraordinary items of the Group for the year ending 30th June, 2001.

(i) Letter from Arthur Andersen & Co and Charles Chan, Ip & Fung CPA Ltd.



Arthur Andersen & Co
21st Floor Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

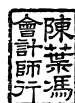
The Directors
Sinotronics Holdings Limited
Deloitte & Touche Corporate Finance Limited
JS Cresvale International Limited

Dear Sirs,

We have reviewed the accounting policies and calculations made in arriving at the forecast of the combined profit after taxation and minority interests but before extraordinary items of Sinotronics Holdings Limited ("the Company") and its subsidiaries (hereinafter collectively referred to as "the Group") for the year ending 30th June, 2001 ("the Forecast"), for which the Directors of the Company are solely responsible, as set out in the prospectus of the Company dated 11th May, 2001. The Forecast has been prepared by the Directors of the Company based on the audited financial statements of the Group for the five months ended 30th November, 2000, the unaudited management accounts for the four months ended 31st March, 2001, and a forecast of the combined results of operations for the remaining three months of the year ending 30th June, 2001.

In our opinion, the Forecast, so far as the accounting policies and calculations are concerned, has been properly compiled based on the assumptions made by the Directors of the Company as set out in Section I of Appendix III to the above-mentioned prospectus, and is presented on a basis consistent in all material respects with the accounting policies currently adopted by the Group as set out in our accountants' report dated 11th May, 2001, the text of which is set out in Appendix I of the above-mentioned prospectus.

Yours faithfully,
ARTHUR ANDERSEN & CO
Certified Public Accountants



Charles Chan, Ip & Fung CPA Ltd.
Certified Public Accountants
陳葉馮會計師事務所有限公司

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

11th May, 2001

Yours faithfully,
CHARLES CHAN, IP & FUNG CPA LTD.
Certified Public Accountants
Chan Wai Dune, Charles
Practising Certificate Number P00712

(ii) Letter from the Sponsors**Deloitte & Touche
Corporate Finance Ltd****Deloitte and Touche Corporate Finance Limited**

21st Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

JS CRESVALE**JS Cresvale International Limited**

6th and 7th Floor, Asia Pacific Finance Tower
Citibank Plaza, 3 Garden Road
Central
Hong Kong

11th May, 2001

The Directors
Sinotronics Holdings Limited

Dear Sirs,

We refer to the forecast of the combined profit after taxation and minority interests but before extraordinary items of Sinotronics Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ending 30th June, 2001 (the "Forecast"), for which the directors of the Company are solely responsible, as set out under the heading "Profit forecast, dividends and working capital" in the section headed "Financial information" in the prospectus issued by the Company dated 11th May, 2001 (the "Prospectus"). The Forecast is based on the audited financial statements of the Group for the five months ended 30th November, 2000, the unaudited management accounts of the Group for the four months ended 31st March, 2001 and a forecast of the combined results of operations of the Group for the remaining three months of the year ending 30th June, 2001.

We have discussed with you the bases and assumptions, as set out in part I of Appendix III to the Prospectus, upon which the Forecast has been made. We have also considered the letter dated 11th May, 2001 addressed to you and ourselves from Arthur Andersen & Co and Charles Chan, Ip & Fung CPA Ltd. regarding the accounting policies and calculations upon which the Forecast has been made.

On the basis of the assumptions made by you and on the basis of the accounting policies and calculations reviewed by Arthur Andersen & Co and Charles Chan, Ip & Fung CPA Ltd., we are of the opinion that the Forecast, for which you as directors of the Company are solely responsible, has been made after due and careful consideration.

Yours faithfully,
For and on behalf of

Deloitte & Touche Corporate Finance Limited

Lawrence Chia
Managing Director

Yours faithfully,
For and on behalf of

JS Cresvale International Limited

Francis Yeung
Director

The following is the text of a letter, summary of values and valuation certificates, received from Sallmanns (Far East) Ltd., an independent valuer, in connection with their valuation of the property interests of the Group as at 31st March, 2001.



CHARTERED SURVEYORS, PROPERTY CONSULTANTS
LAND, BUILDING, PLANT & MACHINERY VALUERS
FINANCIAL AND INTANGIBLE ASSET VALUERS



15/F Trinity House
165-171 Wanchai Road
Wanchai
Hong Kong

11th May, 2001

The Directors
Sinotronics Holdings Limited
Room 2807, China Resources Building
26 Harbour Road
Wanchai
Hong Kong

Dear Sirs,

In accordance with your instructions to value the properties in which Sinotronics Holdings Limited (the “Company”) and its subsidiaries (together the “Group”) have interests, 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 properties as at 31st March, 2001.

Where 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 might reasonably be expected to 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.”

For property no. 2 in Group II, our valuation of the property 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.

Due to the nature of the buildings and structures constructed on the property, 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 in the absence of a known market based on comparable sales.

Our valuations have been made on the assumption that the owner sells the properties on the open market in their existing state without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to affect the value of the properties.

Where, the property of which the land use rights are granted by PRC government with the land premium and other necessary fees being paid by instalments, our valuation is made on the assumption that the land premium will be settled in accordance with the agreed payment terms in order to secure a proper legal interest in the property.

In valuing the property interests in PRC, we have complied with all the requirements contained in the Chapter 8 to the Rules Governing the Listing of Securities on the Growth Enterprise Market issued by The Stock Exchange of Hong Kong Limited.

The current status regarding major approvals, title documents and other documents required in PRC of the properties has been verified by the Group’s PRC legal adviser, Trend Associates and is set out as follows:

Property	Document/Approval			
	Land Use Rights Certificate	Building Ownership Certificate	State-owned Land Use Rights Grant Contract/ Sale and Purchase Contract	Tenancy Agreement
Group II – Property interest held and occupied by the Group in PRC				
2	Yes	Yes	Yes	N/A
Group III – Property interest rented and occupied by the Group in PRC				
3	N/A	N/A	N/A	Yes
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

N/A : Not applicable

The property interests in Group I and Group III rented to and occupied by 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 properties.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the relevant properties 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 valuations of similar properties in Hong Kong and 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 properties that are owned by the Group in 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 PRC, we are unable to search the original documents to verify the existing title of the properties or any material encumbrances that might be attached to the properties.

We have inspected the exterior and, where possible, the interior of the properties 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 properties 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 properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoing 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 are in Hong Kong Dollars. The exchange rate used in converting the value of the properties in Group II into Hong Kong Dollars is RMB1.07=HK\$1 and no significant fluctuation in such exchange rate has been found between the valuation 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
B.Sc., FRICS FHKIS
Director

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

SUMMARY OF VALUES

GROUP I – PROPERTY INTEREST RENTED AND OCCUPIED BY THE GROUP IN HONG KONG

Property	Open market value attributable to the Group as at 31st March, 2001 <i>HK\$</i>
1. Room 2807 28th Floor China Resources Building No. 26 Harbour Road Wanchai Hong Kong	No commercial value
Sub-total:	Nil

GROUP II – PROPERTY INTEREST HELD AND OCCUPIED BY THE GROUP IN PRC

Property	Fair market value in existing state as at 31st March, 2001	Interest attributable to the Group	Fair market value attributable to the Group as at 31st March, 2001 <i>HK\$</i>
2. Land, various buildings and structures Honglu Town Fuqing City Fujian Province PRC	39,819,000	90%	35,837,100
Sub-total:			35,837,100

GROUP III – PROPERTY INTEREST RENTED AND OCCUPIED BY THE GROUP IN PRC

Property	Open market value attributable to the Group as at 31st March, 2001 <i>HK\$</i>
3. Room 1602 Block 7 600 Long Liuzhou Road Xu Hui District Shanghai PRC	No commercial value
4. Room 201 Jin Bao Building Sha Wan Long Gang District Shenzhen City Guangdong Province PRC	No commercial value
5. Room 403 No. 505 Ke Ji Village Xing Long Road Hu Li District Xiamen City Fujian Province PRC	No commercial value
6. 7th Level No. 8 Chuang Ye Road Gao Xin Da Dao Gao Xin District Chengdu City Sichuan Province PRC	No commercial value
7. 15th Level Zhong Mei Building No. 107 Gu Tian Road Fuzhou City Fujian Province PRC	No commercial value
	Sub-total: _____ Nil
	Grand total: _____ <u>35,837,100</u>

VALUATION CERTIFICATE

GROUP I – PROPERTY INTEREST RENTED AND OCCUPIED BY THE GROUP IN HONG KONG

Property	Description and tenure	Particulars of occupancy	Open market value attributable to the Group as at 31st March, 2001 <i>HK\$</i>
1. Room 2807 28th Floor China Resources Building No. 26 Harbour Road Wanchai Hong Kong	The property comprises an office unit on the 28th floor of a 50-storey building completed in about 1983. The property has a gross floor area of 1,239 sq.ft. or thereabouts. The property is rented to the Group for a term of one year nine months and sixteen days commencing on 1st October, 2000 to 16th July, 2002 at a monthly rental of HK\$23,541 exclusive of rates, management fees and air-conditioning charges.	The property is currently occupied by the Group for office purpose.	No commercial value

VALUATION CERTIFICATE

GROUP II – PROPERTY INTERESTS HELD AND OCCUPIED BY THE GROUP IN PRC

Property	Description and tenure	Particulars of occupancy	Fair market value attributable to the Group as at 31st March, 2001 HK\$
2. Land, various buildings and structures Honglu Town Fuqing City Fujian Province PRC	<p>The property comprises an industrial site with an area of 34,775 sq.m. on which various buildings and structures completed in various stages between 1997 to 1999 are erected.</p> <p>The total gross floor area of these buildings is 17,246.07 sq.m.</p> <p>The property was granted the land use rights for a term of 25 years till 21st September, 2025.</p> <p>The major buildings include a 3-storey office building, two 1 to 3 storeys factories, a 5-storey dormitory building and a 2-storey canteen and a single storey warehouse.</p>	The property is currently occupied by the Group for industrial and ancillary purposes.	35,837,100

Notes:

- Pursuant to a new land use rights transfer contract dated 21st September, 2000 entered into between Fuqing City Land Administration Bureau and Fujian Fuqiang Delicate Circuit Plate Co., Ltd. (福建福強精密印制綫路板有限公司) the land use rights of the aforesaid subject land with a site area of 34,775 sq.m. are transferred to Fujian Fuqiang Delicate Circuit Plate Co., Ltd. (福建福強精密印制綫路板有限公司) as a granted land at the consideration of RMB2,347,312.5 for a term of 25 years until 21st September, 2025 for industrial use.
- Pursuant to a State-owned Land Use Rights Certificate, Rong Hong Guo Yung (001) Zi Di No. 01326, issued by People's Government of Fuqing City on 15th March, 2001, the land use rights of the subject land with a site area of approximately 34,775 sq.m. are held by Fujian Fuqiang Delicate Circuit Plate Co., Ltd. (福建福強精密印制綫路板有限公司) for industrial use.
- Pursuant to the Building Ownership Certificate, Rong Fang Quan Zheng R Zi Di No. 0010301, issued by People's Government of Fuqing City on 1st March, 2001, the following buildings with a total gross floor area of 17,246.07 sq.m. are held by Fujian Fuqiang Delicate Circuit Plate Co., Ltd. (福建福強精密印制綫路板有限公司).

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

- The Group's PRC legal adviser stated that:
 - Fujian Fuqiang Delicate Circuit Plate Co., Ltd. (福建福強精密印制綫路板有限公司) had obtained the State-owned Land Use Rights Certificate for the subject land on 15th March, 2001.
 - Fujian Fuqiang Delicate Circuit Plate Co., Ltd. (福建福強精密印制綫路板有限公司) had obtained the Building Ownership Certificate for the buildings erected on the subject land on 1st March, 2001.
 - After obtaining the State-owned Land Use Rights Certificate for the subject land, Fujian Fuqiang Delicate Circuit Plate Co., Ltd. (福建福強精密印制綫路板有限公司) can freely transfer, sublet or mortgage the subject land the buildings erected thereon.

VALUATION CERTIFICATE

GROUP III – PROPERTY INTERESTS RENTED AND OCCUPIED BY THE GROUP IN PRC

Property	Description and tenure	Particulars of occupancy	Open market value attributable to the Group as at 31st March, 2001 <i>HK\$</i>
3. Room 1602 Block 7 600 Long Liuzhou Road Xu Hui District Shanghai PRC	<p>The property comprises an office unit on the 16th level of a 20-storey building completed in about 1995.</p> <p>The property has a saleable floor area of approximately 110 sq.m.</p> <p>The property is rented to Fujian Fuqiang Delicate Circuit Plate Co., Ltd. (福建福強精密印制綫路板有限公司) for a term from 15th January, 1998 to 14th January, 2003 at a monthly rental of RMB3,500.</p>	The property is currently occupied by the Group for office purpose.	No commercial value
4. Room 201 Jin Bao Building Sha Wan Long Gang District Shenzhen City Guangdong Province PRC	<p>The property comprises an unit on the 2nd level of a 10-storey building completed in about 1993.</p> <p>The property has a gross floor area of approximately 115 sq.m.</p> <p>The property is rented to Fujian Fuqiang Delicate Circuit Plate Co., Ltd. (福建福強精密印制綫路板有限公司) for a term from 6th February, 1998 to 6th February, 2003 at a monthly rental of RMB3,450.</p>	The property is currently occupied by the Group for office purpose.	No commercial value

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Open market value attributable to the Group as at 31st March, 2001 <i>HK\$</i>
5. Room 403 No. 505 Ke Ji Village Xing Long Road Hu Li District Xiamen City Fujian Province PRC	<p>The property comprises an office unit on the 4th level of a 6-storey building completed in about 1996.</p> <p>The property has a gross floor area of approximately 120 sq.m.</p> <p>The property is rented to Fujian Fuqiang Delicate Circuit Plate Co., Ltd. (福建福強精密印制綫路板有限公司) for a term from 3rd February, 1998 to 2nd February, 2003 at a monthly rental of RMB3,080.</p>	The property is currently occupied by the Group for office purpose.	No commercial value
6. 7th Level No. 8 Chuang Ye Road Gao Xin Da Dao Gao Xin District Chengdu City Sichuan Province PRC	<p>The property comprises an office unit on the 7th level of a 9-storey building completed in about 1996.</p> <p>The property has a gross floor area of approximately 120 sq.m.</p> <p>The property is rented to Fujian Fuqiang Delicate Circuit Plate Co., Ltd. (福建福強精密印制綫路板有限公司) for a term from 2nd March, 1998 to 2nd March, 2003 at a monthly rental of RMB3,000.</p>	The property is currently occupied by the Group for office purpose.	No commercial value

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Open market value attributable to the Group as at 31st March, 2001 <i>HK\$</i>
7. 15th Level Zhong Mei Building No. 107 Gu Tian Road Fuzhou City Fujian Province PRC	<p>The property comprises an office unit on the 15th level of a 27-storey building completed in about 1998.</p> <p>The property has a gross floor area of approximately 880 sq.m.</p> <p>The property is rented to Fujian Fuqiang Delicate Circuit Plate Co., Ltd. (福建福強精密印制綫路板有限公司) from Ms. He Yu Zhu, the spouse of Mr. Lin, the controlling shareholder of the Company, for a term from 1st February, 1999 to 1st February, 2004 at a monthly rental of RMB35,200.</p>	The property is currently occupied by the Group for office purpose.	No commercial value

Set out below is a summary of certain provisions of the Memorandum of Association (the “Memorandum”) and the Articles of Association (the “Articles”) of the Company and of certain aspects of the Companies Law (2000 Revision) of the Cayman Islands (the “Companies Law”).

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 29th 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 8th 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 per cent. 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 per cent. 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 per cent. 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 per cent. 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 transferrer 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 transferrer 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 transferrer 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 transferrer 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 cent. 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 cent. 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 4(e) 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 (Revised) of the Cayman Islands 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 class 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, although it specifically requires that 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.

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 liquidators; 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 per cent. 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 per cent. 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 (Revised), is available for inspection as referred to in the paragraph headed "Documents delivered to the registrar of companies and available for inspection" in Appendix VII 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 29th 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 29th 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 2807, 28th Floor, China Resources Building, 26 Harbour Road, Hong Kong. The Company was registered as an overseas company under Part XI of the Companies Ordinance on 1st February, 2000. In connection with such registration, Mr. Lin of Flat 316, 3rd Floor, Block A, Viking Villas, 70 Tin Hua Temple Road, North Point, 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 agents 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 and is subject to Cayman Islands company law, its constitution comprises a memorandum of association and 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 V to this prospectus.

Changes in share capital of the Company

At the date of incorporation of the Company, its authorised share capital was HK\$380,000 divided into 3,800,000 shares of a nominal value of HK\$0.10 each. On 29th 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 8th 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 8th May, 2001, in accordance with the sale and purchase agreement referred to in the paragraph headed "Summary of material contracts" 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, 69,993 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 29th September, 2000 and held by Mr. Lin was credited as fully paid up at par.

APPENDIX VI STATUTORY AND GENERAL INFORMATION

Immediately following the completion of the Placing and the Capitalisation Issue, the authorised share capital of the Company will be HK\$100,000,000 divided into 1,000,000,000 Shares and the issued share capital will be HK\$33,750,000 divided into 337,500,000 Shares (each of which will be fully paid or credited as fully paid) and 662,500,000 Shares will remain unissued. Other than the Shares issuable pursuant to the exercise of the Over-allotment Option and any options which may fall to be granted under the Share Option Scheme, or the exercise of the general mandate referred to in the paragraph headed “Written resolutions of the sole shareholder of the Company passed on 8th May, 2001” of this appendix, 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 members of the Company in general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

Save as disclosed in this prospectus, there has been no alteration in the share capital of the Company since its incorporation.

Written Resolutions of the sole shareholder of the Company passed on 8th May, 2001

Pursuant to the written resolutions of the sole shareholder of the Company passed on 8th May, 2001:

- (a) 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;
- (b) in consideration for the acquisition by the Company of 10,001 shares of US\$1.00 each in the share capital of Superford, representing its entire issued share capital, pursuant to an agreement between the Company, Mr. Lin, Ms. Kwok and Ms. Pok relating to the sale and purchase of shares in Superford, referred to in the paragraph headed “Summary of material contracts” in this appendix, the Directors were authorised to (i) allot and issue an aggregate of 999,999 Shares, credited as fully paid up, to Mr. Lin as to 860,013 Shares, Ms. Kwok as to 69,993 Shares and Ms. Pok as to 69,993 Shares respectively and (ii) credit as fully paid up at par the existing one Share issued nil paid on 29th September, 2000 and held by Mr. Lin;
- (c) conditional on the GEM Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and the Shares to be issued (including any Share which may be issued pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme) as mentioned herein and the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any conditions(s) by Guotai Junan (on behalf of the Underwriters)), and not being terminated in accordance with the terms of that agreement or otherwise:
 - (i) the Placing upon the terms set out in this prospectus was approved;
 - (ii) the grant of the Over-allotment Option was approved and the Directors were authorised to allot and issue the Placing Shares and any Shares which may be required to be issued if the Over-allotment Option is exercised; and

APPENDIX VI STATUTORY AND GENERAL INFORMATION

- (iii) the rules of the Share Option Scheme were approved and adopted and the Directors were authorised to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of any options which may be granted under the Share Option Scheme and to take all such steps as they consider necessary or desirable to implement the Share Option Scheme;
- (d) the exercise by the Directors during the Relevant Period (as defined below) of all the powers to allot, issue and deal with Shares or securities convertible into such Shares in the unissued share capital of the Company including all power of the Company to establish any agreements or grant any options to do any of the foregoing, otherwise than by way of rights issue or an issue of shares or any scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in accordance with the Articles or pursuant to the exercise of any subscription or conversion rights attaching to any warrants or any securities which are convertible into Shares in issue prior to the date of this resolution or pursuant to the exercise of any options which may be granted under the Share Option Scheme or any other option scheme, Shares with an aggregate nominal value not exceeding the sum of 20 per cent. of the aggregate of (aa) the total nominal value of the share capital of the Company in issue immediately after the completion of the Placing and the Capitalisation Issue (as defined in paragraph (g) below) and (bb) the total nominal value of share capital of the Company which may be issued pursuant to the exercise of the Over-allotment Option, such mandate to remain in effect until whichever is the earliest of:
 - (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles or any applicable laws of the Cayman Islands to be held;
or
 - (iii) the passing of an ordinary resolution of the shareholders of the Company in general meeting revoking, varying or renewing such mandate (the “Relevant Period”).
- (e) the exercise by the Directors during the Relevant Period of all powers of the Company to repurchase on the Stock Exchange, or on any other stock exchange on which the securities of the Company may be listed and which is recognised by the Securities and Futures Commission in Hong Kong and the Stock Exchange, subject to and in accordance with all applicable laws and/or requirements of the GEM Listing Rules or of any other stock exchange on which the securities of the Company may be listed as amended from time to time and which is recognised by the Securities and Futures Commission in Hong Kong and the Stock Exchange for this purpose, the aggregate nominal amount of Shares to be purchased by the Company shall not exceed 10 per cent. of the aggregate of (aa) the total nominal amount of the share capital of the Company in issue immediately following completion of the Placing and the Capitalisation Issue (as defined in paragraph (g) below), and (bb) the total nominal value of share capital of the Company which may be issued pursuant to the exercise of the Over-allotment Option;

APPENDIX VI STATUTORY AND GENERAL INFORMATION

- (f) the general unconditional mandate mentioned in paragraph (d) above was extended by the addition thereto of the aggregate nominal value of the share capital of the Company which may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of the Company repurchased by the Company pursuant to the mandate to repurchase Shares referred to in paragraph (e) above provided that such extended amount shall not exceed 10 per cent. of the aggregate of (aa) the total nominal value of the share capital of the Company in issue immediately following completion of the Placing and the Capitalisation Issue (as defined in paragraph (g) below) and (bb) the total nominal value of share capital of the Company which may be issued pursuant to the exercise of the Over-allotment Option;
- (g) conditional upon the share premium account of the Company being credited as a result of the Placing, 269,000,000 Shares be allotted and issued to the holders of Shares whose names appear on the register of members of the Company as at the close of business on 8th May, 2001 in proportion to their then existing shareholdings in the Company (or as such holder(s) may direct) and, an amount of HK\$26,900,000 standing to the credit of the share premium account of the Company be applied to pay up in full at par such Shares (the “**Capitalisation Issue**”); and
- (h) the Company adopted the new Articles.

Corporate reorganisation

The companies comprising the Group underwent a reorganisation to rationalise the structure of the Group in preparation for the listing of the Shares on GEM. The reorganisation involved the following:

- (a) On 20th March, 1996, Qiangwang, Furi Group, Minxiang and Lam Ping Tung (林秉通), established a sino-foreign joint venture company, Fuqiang, in Fuqing City, Fujian Province, the PRC.
- (b) On 20th October, 1997, Fuqiang increased its registered capital from RMB21,000,000 to RMB46,000,000 and its total investment capital from RMB30,000,000 to RMB70,000,000.
- (c) On 20th October, 1997, in consideration of RMB2,300,000, Qiangwang transferred its 5 per cent. equity interests in Fuqiang to Furi Group. On the same day, for nil consideration (which was subsequently amended as a consideration of RMB16,100,000 as agreed by both parties), Minxiang transferred its 35 per cent. equity interests in Fuqiang to Furi Group.
- (d) On 5th June, 1998, as evidenced by a confirmation dated 21st September, 2000, in consideration of HK\$9,000,000, Lam Ping Tung (林秉通) transferred his 25 per cent. equity interests in Fuqiang to East Sign with immediate effect notwithstanding that the legal assignment was only approved by the PRC authorities on 16th November, 1998.
- (e) On 5th January, 2000, Superford was incorporated in the British Virgin Islands and 10,000 shares were allotted and issued to Mr. Lin on 23rd June, 2000.

APPENDIX VI STATUTORY AND GENERAL INFORMATION

- (f) On 20th March, 2000, in consideration of RMB11,500,000, Qiangwang transferred its 25 per cent. equity interests in Fuqiang to East Sign.
- (g) On 20th March, 2000, pursuant to the corporate reorganisation of Furi Group, Furi Group transferred its 50 per cent. equity interests in Fuqiang to Furi Electronics.
- (h) On 19th June, 2000, in consideration of RMB28,300,000, Furi Electronics transferred its 40 per cent. equity interests in Fuqiang to East Sign.
- (i) On 5th July, 2000, in consideration of RMB41,400,000, which was satisfied by, at the direction of East Sign, the allotment and issue of one share of US\$1.00 each in Superford to Mr. Lin, East Sign transferred its 90 per cent. equity interests in Fuqiang to Superford, a company wholly-owned by Mr. Lin, resulting in Fuqiang being 90 per cent. owned by Superford.
- (j) On 28th September, 2000, in consideration of HK\$15,960,000, Mr. Lin transferred 700 shares of US\$1.00 each in the capital of Superford to Ms. Kwok.
- (k) On 28th September, 2000, in consideration of HK\$15,960,000, Mr. Lin transferred 700 shares of US\$1.00 each in the capital of Superford to Ms. Pok.
- (l) On 8th May, 2001, pursuant to an agreement entered into between the Company, Mr. Lin, Ms. Kwok and Ms. Pok in relation to the sale and purchase of shares in Superford, Mr. Lin, Ms. Kwok and Ms. Pok transferred all their shares in Superford, being the entire issued share capital of Superford, to the Company and the Company, in return, (i) allotted and issued 860,013, 69,993 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 29th September, 2000 and held by Mr. Lin.
- (m) The agreement referred to in (l) above was completed immediately following its signing on 8th May, 2001.
- (n) Immediately after the completion of the agreement referred to in (l), Superford became a wholly-owned subsidiary of the Company whereas Fuqiang became 90 per cent. owned by the Company.

Changes in the 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 prospectus.

Save as disclosed in the paragraphs headed "Changes in share capital of the Company" and "Corporate reorganisation" of this appendix, there has been no alteration in the share capital of the subsidiaries of the Company within the two years preceding the date of this prospectus.

REPURCHASE BY THE COMPANY OF ITS OWN SECURITIES

This section includes the information required by the Stock Exchange to be included in this prospectus concerning the repurchase by the Company of its own securities.

(a) **The GEM Listing Rules**

The GEM Listing Rules permit companies whose primary listing is on GEM to repurchase their securities on GEM subject to certain restrictions. The most important of which are summarised below:

(i) *Shareholders' approval*

All repurchases of securities on GEM by a company with its primary listing on GEM must be approved in advance by an ordinary resolution, either by way of general mandate or by specific approval in relation to specific transaction.

Note: Pursuant to the written resolution of the sole shareholder of the Company passed on 8th May, 2001, a general unconditional mandate was given to the Directors authorising any repurchase by the Company of Shares on GEM or on any other stock exchange recognised by the Securities and Futures Commission in Hong Kong and the Stock Exchange of up to 10 per cent. of the total nominal value of the share capital of the Company in issue immediately after completion of the Placing and the Capitalisation Issue and (if applicable) the exercise of the Over-allotment Option, at any time until the conclusion of the next annual general meeting of the Company or the expiration of the period within which the next annual general meeting of the Company is required by the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held or the passing of an ordinary resolution of shareholders of the Company in general meeting revoking, varying or renewing such mandate, whichever occurs first ("Buyback Mandate").

(ii) *Source of funds*

Any repurchases must be financed out of funds legally available for the purpose in accordance with the memorandum of association and articles of association of the company and the applicable laws of the Cayman Islands.

(iii) *Trading restrictions*

A company is authorised to repurchase on GEM or on any other stock exchange recognised by the Securities and Futures Commission in Hong Kong and the Stock Exchange the total number of shares which represent up to a maximum of 10 per cent. of the aggregate nominal value of the existing issued share capital of that company. A company may not issue or announce an issue of new securities of the type that have been repurchased for a period of 30 days immediately following a repurchase of securities whether on GEM or otherwise (except pursuant to the exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to the repurchase) without the prior approval of the Stock Exchange. A company is also prohibited from making securities repurchases on GEM if the result of the repurchases would be that the number of the listed securities in public hands would be below the relevant prescribed minimum percentage for that company as determined by the Stock Exchange. A company may only purchase shares on GEM if (1) the purchase price is not higher than the latest (or current) independent bid price or the last independent sale (contract) price quoted or reported on the system (as defined in the Rules of the Stock Exchange), whichever is higher; and (2) the company has not made the opening bid nor any bid in the last 30 minutes before the close of normal trading hours as stipulated in the Rules of the Stock Exchange.

(iv) *Status of repurchased securities*

The listing of all repurchased securities (whether on the Stock Exchange or otherwise) is automatically cancelled and the relative certificates must be cancelled and destroyed. Under Cayman Islands law, a company's repurchased shares shall be treated as cancelled and the amount of the Company's issued share capital shall be reduced by the aggregate nominal value of the repurchased shares accordingly although the authorised share capital of the Company will not be reduced.

(v) *Suspension of repurchase*

Any securities repurchase programme is required to be suspended after a price-sensitive development has occurred or has been the subject of directors' decision until the price-sensitive information is made publicly available. In particular, during the period of one month immediately preceding either the preliminary announcement of a company's annual results or the publication of the company's half-year report or quarterly report, a company may not purchase its securities on GEM unless the circumstances are exceptional. In addition, the Stock Exchange may prohibit repurchases of securities on GEM if a company has breached the GEM Listing Rules.

APPENDIX VI STATUTORY AND GENERAL INFORMATION

(vi) *Reporting requirements*

Repurchases of securities on GEM or otherwise must be reported to the Stock Exchange not later than 9:30 a.m. (Hong Kong time) on the following business day. In addition, a company's annual report and accounts are required to include a monthly breakdown of securities repurchases made during the financial year under review, showing the number of securities repurchased each month (whether on GEM or otherwise), the purchase price per share or the highest and lowest price per share or the highest and lowest prices paid for all such repurchases and the total prices paid. The directors' report is also required to contain reference to the purchases made during the year and the directors' reasons for making such purchases. The company shall make arrangements with its broker who effects the purchase to provide the company in a timely fashion the necessary information in relation to the purchase made on behalf of the company to enable the company to report to the Stock Exchange.

(vii) *Connected parties*

Under the GEM Listing Rules, a company shall not knowingly purchase shares from a connected person (as defined under the GEM Listing Rules) and a connected person shall not knowingly sell his shares to the company. As at the Latest Practicable Date and to the best of the knowledge of the Directors, having made all reasonable enquires, none of the Directors or their associates (as defined under the GEM Listing Rules) has a present intention to sell Shares to the Company.

(b) **Exercise of the Buyback Mandate**

Exercise in full of the Buyback Mandate, on the basis of 337,500,000 Shares in issue immediately after listing of the Shares (taking no account of any Shares which may be issued upon the exercise the Over-allotment Option) could accordingly result in up to 33,750,000 Shares being repurchased by the Company during the period up to (i) the conclusion of the next annual general meeting of the Company; (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held; or (iii) the revocation, variation or renewal of the repurchase mandate by ordinary resolution of the shareholders of the Company in general meeting, whichever occurs first.

(c) **Reasons for repurchases**

Repurchases of Shares will only be made when the Directors believe that such a repurchase will benefit the Company and its members. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value of the Company and/or its earnings per Share.

(d) **Funding of repurchases**

In repurchasing Shares, the Company may only apply funds legally available for such purpose in accordance with its memorandum of association and Articles and the applicable laws and regulations of the Cayman Islands.

(e) **General**

There might be a material adverse impact on the working capital or gearing position of the Company (as compared with the position disclosed in this prospectus) in the event that the Buyback Mandate is exercised in full. However, the Directors do not propose to exercise the Buyback Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or on its gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Buyback Mandate in accordance with the GEM Listing Rules, the memorandum of association of the Company and Articles and the applicable laws of the Cayman Islands.

No connected person (as defined in the GEM Listing Rules) of the Company has notified the Company that he has a present intention to sell any Shares to the Company or has undertaken not to do so.

If as a result of a repurchase of Shares, a shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purpose of the Hong Kong Code on Takeovers and Mergers (the 'Code'). As a result, a shareholder, or a group of shareholders acting in concert, depending on the level of increase in the shareholder's interests, could obtain or consolidate control of the Company and become(s) obliged to make a mandatory offer in accordance with Rule 26 of the Code.

APPENDIX VI STATUTORY AND GENERAL INFORMATION

FURTHER INFORMATION ABOUT THE BUSINESS OF THE GROUP

Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years preceding the date of this prospectus and are or may be material:

- (a) lease agreement dated 1st February, 1999 entered into between Ms. He Yu Zhu, spouse of Mr. Lin, and Fuqiang relating to 15th Level, Zhong Mei Building, No. 107 Gu Tian Road, Fuzhou City, Fujian Province, the PRC for a term commencing from 1st February, 1999 to 1st February, 2004 at a monthly rent of RMB35,200 with no option to renew;
- (b) share transfer agreement in Chinese dated 26th June, 2000, between (i) East Sign and (ii) Superford, whereby East Sign transferred its 90 per cent. equity interests in Fuqiang to Superford, in consideration of RMB41,400,000;
- (c) a supplemental share transfer agreement in Chinese dated 28th June, 2000, between (i) East Sign and (ii) Superford, whereby Superford, to settle the amount due to East Sign pursuant to the share transfer agreement in (b) above, allotted and issued one share to Mr. Lin, the sole shareholder of Superford;
- (d) a tenancy agreement dated 29th December, 2000 and entered into between Superford and China Resources Management Property Limited relating to Room 2807, 28th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong for a term commencing from 1st October, 2000 to 16th July, 2002 at a monthly rent of RMB23,541 with no option to renew;
- (e) an agreement dated 8th May, 2001, between the Company, Mr. Lin, Ms. Kwok and Ms. Pok in relation to the sale and purchase of shares in Superford as referred to in the paragraph headed "Corporate reorganisation" in this appendix;
- (f) the Underwriting Agreement;
- (g) Deed of taxation indemnity dated 11th 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 paragraph headed "Estate Duty and tax indemnity" in this appendix;
- (h) service agreements dated 8th May, 2001, between the Company and each of the executive Directors referred to in the paragraph headed "Particulars of service agreement" in this appendix;
- (i) Deed of indemnity dated 8th 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

APPENDIX VI STATUTORY AND GENERAL INFORMATION

- (j) a sponsor agreement dated 11th May, 2001, entered into between the Company and DTCFL relating to the requirement under Rules 6.01 and 11.09 of the GEM Listing Rules.

Information about Fuqiang

The Company has interests in one PRC enterprise, namely Fuqiang. Certain particulars of Fuqiang are as follows:


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 per cent.
Date of establishment:	22nd March, 1996
Term of joint venture:	15 years commencing from 22nd March, 1996 to 20th 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

APPENDIX VI STATUTORY AND GENERAL INFORMATION


Intellectual property

As at the Latest Practicable Date, the Group owned, or had registered the following trademarks:

Trademark	Class	Items covered	Country of registration	Registration number	Renewal date
	9	Printed circuit board, positive polar plate, resistance material, photoconductor, electrode, integrated printed circuit board, electric wire connector, terminals, integrated circuit, capacitor panel (electric current)*	PRC	1316277	20th September, 2009

** English translation of items covered*

As at the Latest Practicable Date, the Group has also applied for the trademark registration of the following trademarks:

Trademark	Class	Items covered	Application number	Application date	Place of Application
	9 Part B	Printed circuit boards, electrical resistance materials, photoconductors, electrode valves, integrated circuits, integrated circuit boards, electric wire connectors, binding post terminals, electrical capacitor panels and passive polar plate, all included in Class 9	2001/00001	2nd January, 2001	Hong Kong

FURTHER INFORMATION ABOUT DIRECTORS, SENIOR MANAGEMENT AND STAFF

Directors

Each of the executive Directors is, to such extent as relevant to him, interested in the material contracts set out in the paragraph headed “Summary of material contracts” under the section headed “Further information about the business of the Group” in this appendix.

APPENDIX VI STATUTORY AND GENERAL INFORMATION

Save as disclosed below, immediately following completion of the Placing and Capitalisation Issue, none of the Directors and chief executive has any beneficial interests in the share capital of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) 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 under section 31 of, or Part 1 of the Schedule to, the SDI Ordinance) once the Shares are listed, or which will be required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein once the Shares are listed, or pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange once the Shares are listed will be as follows:

Name of Director	Personal interest	Number of Shares			Other interests
		Family interest	Corporate interest		
Mr. Lin	232,203,780	—	—		—

Particulars of service agreements

Each of the executive Directors 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:

Each of the executive Directors has entered into a service agreement with the Company for an initial term of three years 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 per cent. 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 per cent. 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

APPENDIX VI STATUTORY AND GENERAL INFORMATION

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. The current basic annual salaries of the executive Directors are as follows:

Name	Amount <i>(HK\$)</i>
Mr. Lin	50,000
Mr. Xiang Song	25,000
Mr. Lin Wan Peng	25,000

Save as disclosed, 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).

Directors' remuneration

- (a) An aggregate of approximately HK\$271,000 was paid to the Directors as remuneration for the year ended 30th June, 2000. Further information in respect of the Directors' remuneration is set out in Appendix I to this prospectus.
- (b) It is expected that an aggregate sum of approximately HK\$434,000 will be paid to the Directors as remuneration by the Group in respect of the year ending 30th June, 2001 pursuant to the present arrangement including management bonus.
- (c) No discretionary or performance bonus was paid to the directors for the two years ended 30th June, 1999 and 30th June, 2000 and the five months ended 30th November, 2000.
- (d) None of the Directors or any past directors of any member of the Group has been paid any sum of money for each of the two years ended 30th June, 2000 and the five months ended 30th November, 2000 (i) as an inducement to join or upon joining the Company or (ii) for loss of office as a director of any member of the Group or of any other office in connection with the management of the affairs of any member of the Group.
- (e) There has been no arrangement under which a Director has waived or agreed to waive any emoluments for each of the two years ended 30th June, 2000 and the five months ended 30th November, 2000.

Agency fees or commissions received

The Underwriters will receive a commission of 4 per cent. of the Issue Price of all the Shares under the Placing underwritten by them and the Shares under the Over-allotment Option, out of which they will pay any sub-underwriting commission, if any. The Sponsors will also receive a documentation fee and be reimbursed for its expenses. Such commission, documentation fee and expenses, together with the Stock Exchange listing fees, legal and other professional fees, and printing and other expenses relating to the Placing, which are estimated to amount in aggregate to approximately HK\$13.1 million, will be payable by the Company.

Substantial shareholders

As far as the Directors are aware, after the Placing and the Capitalisation Issue, no person (other than Mr. Lin (a Director) as disclosed in the sub-paragraph headed “Directors” under the paragraph headed “Further information about Directors, senior management and staff” in this appendix) will be directly or indirectly interested in 10 per cent. or more of the voting power at any general meeting of the Company.

Related party transactions

The Group entered into the related party transactions within the two years immediately preceding the date of this prospectus as mentioned in note k to section 3 of the accountants’ report set out in Appendix I to this prospectus, the paragraph headed “Summary of material contracts” in this appendix and the paragraph headed “Related party transaction” in the section headed “Financial information” in this prospectus.

Disclaimers

Save as disclosed herein:

- (a) none of the Directors or chief executive of the Company has for the purposes of section 28 of the SDI Ordinance, nor is any of them taken to or deemed to have under Section 31 of, or Part 1 of the Schedule to, the SDI Ordinance, any interests in the securities of the Company or any of its 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 Rules 5.40 to 5.59 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange once such securities are listed on the Stock Exchange;
- (b) none of the Directors nor any of the persons whose names are listed in the sub-paragraph headed “Consent of experts” under the paragraph headed “Other information” in this appendix is interested in the promotion of the Company or in any assets which have within the two years immediately preceding the issue of this prospectus been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;

APPENDIX VI STATUTORY AND GENERAL INFORMATION

- (c) none of the Directors nor any of the persons whose names are listed in the paragraph headed “Consents of experts” under the paragraph headed “Other Information” in this appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group;
- (d) none of the persons whose names are listed in the paragraph headed “Consents of experts” under the paragraph headed “Other information” in this appendix has any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group;
- (e) 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);
- (f) no cash, securities or other benefit has been paid, allotted or given within the two years preceding the date of this prospectus to any promoter of the Company nor is any such cash, securities or benefit intended to be paid, allotted or given on the basis of the Placing or related transactions as mentioned in this prospectus; and
- (g) none of the Directors, their respective associates (as defined in the GEM Listing Rules) or shareholders of the Company who are interested in 5 per cent. or more of the issued share capital of the Company so far as is known to the Directors have any interests in the five largest customers or suppliers of the Group.

Share Option Scheme

The following is a summary of the principal terms of the Share Option Scheme:

(a) **Who may join**

The board of Directors (“Board”) may, at its discretion, invite any full-time employee including any executive director of any company in the Group (“Eligible Persons”) to take up Options to subscribe for Shares at a price calculated in accordance with sub-paragraph (e) below. Upon acceptance of the Option, the grantee shall pay HK\$1.00 to the Company by way of consideration for the grant.

APPENDIX VI STATUTORY AND GENERAL INFORMATION

(b) Administration

- (i) The Share Option Scheme shall be subject to the administration of the Committee who shall comprise of not less than two persons and shall include all the independent non-executive directors. Subject to the foregoing, the Board may from time to time appoint members of the Committee in substitution for or in addition to members previously appointed, may fill vacancies in the Committee and may remove members of the Committee. The Committee shall select one of its members as its chairman and shall hold its meetings at such times and places as it shall deem advisable. A majority of its members shall constitute a quorum and all determinations shall be made by a majority of such quorum. Any determination reduced to writing and signed by all of the members shall be fully effective as if it had been made by a majority vote at a meeting duly called and held.
- (ii) The Committee shall have full power and discretionary authority to grant to Eligible Persons Options under the Share Option Scheme, to determine the terms and conditions (which need not be identical) of all Options so granted, to interpret and construe the provisions of the Share Option Scheme and any agreements relating to Options granted under the Share Option Scheme and any doubtful or disputed terms, to determine the eligibility of a person for benefits and the amount of benefits payable to an Eligible Person, and to supervise the administration of the Share Option Scheme. The Committee in granting an Option may provide for the granting or issuance of additional or replacement Options upon the occurrence of specified events, including the exercise of the original Option. The Committee shall have sole authority in the selection of persons to whom Options may be granted under the Share Option Scheme and in the determination of the timing and amount of any such Option, subject only to the express provisions of the Share Option Scheme. In making determinations hereunder, the Committee may take into account the nature of the services rendered by the respective employees, their present and potential contributions to the success of the Company and its subsidiaries and such other factors as the Committee in its discretion deems relevant.
- (iii) The Committee is authorised, subject to the provisions of the Share Option Scheme, to establish, amend and rescind such rules and regulations as it deems necessary or advisable for the proper administration of the Share Option Scheme and to take such other action in connection with or in relation to the Share Option Scheme as it deems necessary or advisable. Each action and determination made or taken pursuant to the Committee, including any interpretation or construction of the Scheme, shall be final and conclusive for all purposes and upon all persons. No member of the Committee shall be liable for any action or determination made or taken by him or the Committee in good faith with respect to the Scheme.

(c) **Grant of Option**

- (i) On and subject to the terms of the Share Option Scheme, the Committee shall be entitled at any time and from time to time within 10 years from 8th May, 2001 to offer to any Eligible Person as the Committee may in its absolute discretion select, and subject to such conditions as the Committee may think fit an Option to subscribe for such number of Shares as the Board may determine at the subscription price in accordance with paragraph (e) below.
- (ii) Any grant of Option must not be made after a price sensitive development 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 GEM Listing Rules. In particular, during the period of one month immediately preceding the preliminary announcement of annual results or the publication of interim results, no Options shall be granted until such information has been announced pursuant to the requirements of the GEM Listing Rules.

(d) **Payment on acceptance of Option offer**

HK\$1.00 is payable by the Eligible Person to the Company on acceptance of the Option offer.

(e) **Price of Shares**

The subscription price for the Shares subject to the Options granted under the Share Option Scheme will be the fair market value of the Shares as determined by the Board, which should be calculated by reference to and, in any event, shall not be less than the higher of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant and (iii) the nominal value of a Share.

(f) **Maximum number of Shares available for Subscription**

- (i) The maximum number of Shares in respect of which Options may be granted under the Share Option Scheme shall represent 30 per cent. of the Company's issued share capital for a specified period of 10 consecutive years (the "10 year period") and shall not, when aggregated with any Shares subject to any other schemes of the Company, exceed 30 per cent. of the issued share capital of the Company for the 10 year period (excluding (1) Shares issued upon the exercise of an Option granted pursuant to the Share Option Scheme and (2) any pro rata entitlements to further Shares issued in respect of those Shares mentioned in (1)).

APPENDIX VI STATUTORY AND GENERAL INFORMATION

- (ii) No Eligible Person shall be granted an Option which, if exercised in full, would result in such Eligible Person becoming entitled to subscribe for such number of Shares as, when aggregated with the total number of Shares already issued under all the Options previously granted to him which have been exercised and issuable under all the Options previously granted to him which are for the time being subsisting and unexercised, would exceed 25 per cent. of the aggregate number of Shares for the time being issued and issuable under the Share Option Scheme (“25 per cent. Limit”). Notwithstanding any other provisions of the Share Option Scheme, the 25 per cent. Limit shall always prevail and be applicable.
- (iii) In addition, no Eligible Person may be granted in any calendar year, in which the Shares are traded on an established securities market, Options covering more than 85 per cent. of the aggregate number of Shares for the time being issued and issuable under the Share Option Scheme (subject to adjustment).

(g) **Time of exercise of Option**

An Option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period (the “Option Period”) to be notified by the Board to each grantee provided that the period within which the option may be exercised shall not be less than 3 years and not more than 10 years from the date of the grant of Option.

(h) **Rights are personal to grantee**

An Option may not be transferred and is personal to the grantee and no grantee of an Option shall in any way sell, assign, transfer, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to any Option.

(i) **Rights on death**

If the grantee of an Option dies before exercising the Option in full and none of the events which would be a ground for termination of his or her employment arises, his or her personal representatives may exercise the option in full (to the extent not already exercised) within a period of 12 months from the date of death or such longer period as the Board may determine, failing which the Option will lapse.

(j) **Changes in capital structure**

If there is any alteration in the capital structure of the Company while any Option remains exercisable, whether by way of capitalisation of profits or reserves, rights issue, consolidation, subdivision or reduction of the share capital of the Company (other than an issue of Shares as consideration in respect of a transaction to which the Company is a party) or otherwise, such corresponding alterations (if any) shall be made in:

- (i) the number of Shares (without fractional entitlements) subject to the Option so far as unexercised; and/or
- (ii) the subscription price; and/or
- (iii) the method of exercise of the Option on a capitalisation issue, any alteration to the number of Shares subject to the Option, the subscription price of the Option and/or the method of exercises of the Option shall be conditional on the auditors of the Company confirming in writing to the Board that the alteration made is on the basis that the proportion of the issued share capital of the Company to which a grantee is entitled after such alteration shall remain the same as that to which he or she was entitled before such alteration. No such alteration shall be made the effect of which would be to enable any Share to be issued at less than its nominal value or which would result in the aggregate amount payable on the exercise of any option in full being increased. The capacity of the auditors if that of experts and not of arbitrators and their certification shall be final and binding on the Company and the grantees of Options. The costs of the auditors in so certifying shall be borne by the Company.

(k) **Rights on take-over**

If an offer has been made to acquire all or part of the issued Shares, or all or part of the issued Shares other than those held by the offeror and any persons acting in concert with the offeror, and the Company becomes aware that the right to cast more than 50 per cent. of the votes which may ordinarily be cast on a poll at a general meeting of the Company in respect of issued Shares has or will become vested in the offeror and/or any such persons, the Company shall give written notice to all grantees of Options of such vesting as soon as reasonably practicable after becoming so aware. Each grantee of Options may by notice in writing to the Company within 21 days of the date of such exercise his or her Option to its full extent or to the extent specified in such notice, if a grantee fails to notify the Company, his or her Option will lapse. For the purposes of this sub-paragraph, "acting in concert" shall mean persons who, pursuant to an agreement or understanding, actively co-operate to obtain a holding, or aggregate holdings, or more than 50 per cent. of the issued Shares.

APPENDIX VI STATUTORY AND GENERAL INFORMATION

(I) Rights on a compromise or arrangement

- (i) If an application is made to the court (otherwise than where the Company is being voluntarily wound up), pursuant to the Companies Law or the Companies Ordinance, in connection with a proposed compromise or arrangement between the Company and its creditors (or any class of them) or between the Company and its members (or any class of them), a grantee of an Option may by notice in writing to the Company, within the period of 21 days after the date of such application, exercise his or her Option to its full extent or to the extent specified in such notice. Upon the compromise or arrangement becoming effective, all Options shall lapse except insofar as exercised. Notice of the application referred to herein and the effect thereof shall be given by the Company to all participants as soon as practicable.
- (ii) In the event of a notice being given by the Company to its members to convene a general meeting for the purpose of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company when the Company is solvent, the Company shall on the day of such notice to each member of the Company or as soon as practicable, give notice thereof to all grantees of Options. Thereupon each grantee (or where permitted his legal personal representatives) shall be entitled to exercise all or any of his or her Options at any time no later than two business days prior to 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 subscription 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 the relevant Shares to the relevant grantee credited as fully paid.
- (iii) In the event of a reorganisation or proposed reorganisation of the Company, at its discretion, may do either of the following:
 - (1) the Company may irrevocably commute for or into any other securities or other property or cash any option that is still capable of being exercised, upon giving to the relevant grantee to whom such Option has been granted at least 21 days written notice of its intention to commute the Option, and during such period of notice, the Option, to the extent that it has not been exercised, may be exercised by the relevant grantee by notice in writing to the Company to its full extent or to the extent specified in such notice and on the expiry of such period of notice, the unexercised portion of the Option shall lapse and be cancelled, or

APPENDIX VI STATUTORY AND GENERAL INFORMATION

(2) the Company or any company which is or would be the successor to the Company or which may issue securities in exchange for Shares upon the reorganisation becoming effective, may offer any grantee the opportunity to obtain a new or replacement option over any securities into which the Shares are changed or are convertible or exchangeable, on a basis proportionate to the number of Shares under Option. In such event, the grantees shall, if the grantees accept such offer, be deemed to have released such option over Shares and such Option shall be deemed to have lapsed.

(iv) Reorganisation means any (1) compromise or arrangement, or (2) offer for shares of the Company which if successful would entitle the offeror to acquire all of the shares of the Company or all of one or more particular class(es) of shares of the Company to which the offer relates. Sub-clauses (iii) (1) and (2) above are intended to be permissive and may be utilised independently or successively in combination or otherwise, and nothing therein contained shall be construed as limiting, or affecting the ability of the Company to deal with Options in any other manner.

(m) **Lapse of option**

An Option shall lapse forthwith (to the extent not already exercised) on the earliest of the following events:

- (i) the relevant Option period of the Option has expired;
- (ii) the first anniversary of the death of the relevant grantee;
- (iii) the date on which the Group terminates the employment of the relevant grantee on the ground that such grantee commits an act of bankruptcy or has become insolvent or has made any arrangements or composition with his creditors generally, or has been convicted of any criminal offence involving his or her integrity or honesty. A resolution of the Board to the effect that the employment of such a person has or has not been terminated on one or more of the grounds specified in this sub-clause shall be conclusive;
- (iv) three months from the date of the grantee ceasing to be an Eligible Person by reason of:
 - (1) his or her retirement on or after attaining normal retirement age or, with the express consent of the Board in writing for the purpose of this paragraph, at a younger age;
 - (2) ill health or disability recognised as such expressly by the Board in writing for the purpose of this paragraph;
 - (3) the company by which he or she is employed and/or of which he or she is a director (if not the Company) ceasing to be a subsidiary;

APPENDIX VI STATUTORY AND GENERAL INFORMATION

- (4) expiry of his or her employment contract with the Company or a subsidiary and such contract is not immediately extended or renewed; or
 - (5) at the discretion of the Board, any reason other than death or the reasons described in paragraph m(iii) or m(iv)(1) to (4).
- (v) the expiry of any period referred to in paragraphs (h) to (l) above, provided that:
- (1) (in the case of paragraph (k)) the offeror may exercise any Options tendered in acceptance of its offer within six months of the closing date of such offer; and
 - (2) (in the case of paragraph (l)(i)) all Options granted shall lapse upon the proposed compromise or arrangement becoming effective; and
- (vi) the date the relevant grantee commits any breach of the provisions of paragraph (h).

(n) **Ranking of Shares**

The Shares to be allotted upon the exercise of an Option will be subject to the Company's articles of association for the time being in force and will rank *pari passu* with the fully paid Shares in issue on the date of exercise of the Option including in respect of those rights arising on a liquidation of the Company.

(o) **Cancellation of Options granted**

Any cancellation of Options granted but not exercised must be approved by shareholders of the Company in general meetings, with grantees and their associates abstaining from voting. Any vote taken at the meeting to approve such cancellation must be taken by poll.

(p) **Period of Share Option Scheme**

The Share Option Scheme will remain valid for a period of 10 years commencing on 8th May, 2001 after which period no further Options will be granted but the provisions of the Share Option Scheme shall in all other respects remain in full force and effect and Options which are granted during the life of the Share Option Scheme may continue to be exercisable in accordance with their terms of issue.

(q) Alteration

The Share Option Scheme may be altered in any respect by resolution of the Board except that the provisions of the scheme relating to matters contained in rule 23.03 of the GEM Listing Rules shall not be altered to extend the class of persons eligible for the grant of Option or to the advantage of grantees or prospective grantees except with the prior approval of the shareholders of the Company in general meetings (with participants and their associates abstaining from voting). No such alteration shall operate to affect adversely the terms of issue of any Option granted or agreed to be granted prior to such alteration except with the consent or sanction of such number of grantees of Options or shall together hold Options in respect of not less than three-fourths in nominal value of all Shares then subject to Options granted under the Share Option Scheme.

Any alteration to the terms and conditions of Share Option Scheme, which are of a material nature, must be approved by the Stock Exchange, except where the alterations take effect automatically under the existing terms of Share Option Scheme.

(r) Grant of Options to connected persons, Directors or any of their associates

Where Options are proposed to be granted to a connected person, the proposed grant must be approved by all independent non-executive directors of the Company.

Where Options are proposed to be granted to a connected person, who is also a substantial shareholder of the Company or any of his respective associates, and the proposed grant of Options, when aggregated with the Options already granted to such connected person in the past 12 months period, would entitle that person to receive more than 0.1 per cent. of the total issued shares of the Company for the time being and the value of which is in excess of HK\$5 million, then the proposed grant must be subject to the approval of shareholders of the Company in general meetings. Apart from the connected person involved, all other connected persons of the Company must abstain from voting in such general meeting (except where any connected person intends to vote against the proposed grant). A shareholders' circular must be prepared by the Company explaining the proposed grant, disclosing the number and terms of the options to be granted and containing a recommendation from the independent directors on whether or not to vote in favour of the proposed grant.

(s) Conditions of Share Option Scheme

The Share Option Scheme is conditional on (i) the GEM Listing Committee of the Stock Exchange granting approval of the Share Option Scheme and any Options which may be granted thereunder and the listing of and permission to deal in any Shares which may be issued pursuant to the exercise of Options granted under the Share Option Scheme and (ii) the Share Option Scheme being approved by the shareholder(s) of the Company.

APPENDIX VI STATUTORY AND GENERAL INFORMATION

As at the Latest Practicable Date, no Options have been granted or agreed to be granted by the Company under the Share Option Scheme.

Application has been made to the Stock Exchange for the approval of the Share Option Scheme, the subsequent granting of Options under the Share Option Scheme and listing of and permission to deal in the Shares which fall to be issued pursuant to the exercise of Options granted under the Share Option Scheme.

OTHER INFORMATION

Estate Duty and tax indemnity

Mr. Lin (the “Indemnifier”) entered into a deed of taxation indemnity with and in favour of the Company (for itself and as trustee for its subsidiaries) (being material contract (g) as referred to in the paragraph headed “Summary of material contracts” 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.

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 date on which the Placing becomes unconditional (“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 30th 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.

The Company has been advised that no material liability for estate duty is likely to fall on the Company or any of its subsidiaries in the Cayman Islands, BVI or PRC, being jurisdictions in which one or more of the companies comprising the Group are incorporated.

APPENDIX VI STATUTORY AND GENERAL INFORMATION

Other indemnities

Mr. Lin also entered into a deed of indemnity in favour of the Company (for itself and as trustee for its subsidiaries) (being material contract (i) as referred to in the paragraph headed "Summary of material contracts" 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 counter claim 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 as described in section headed "Business" in this prospectus 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 as described in the paragraph headed "PRC Export/Domestic sales Ratio" in section headed "Risk Factors" in this prospectus.

Litigation

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 against any member of the Group.

Sponsors

The Sponsors have made an application on behalf of the Company to the GEM Listing Committee of the Stock Exchange for listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein.

DTCFL, the Sponsor, will receive normal professional fees in connection with the advisory services to be provided to the Company for a term period covering the remainder of the financial year ending 30th June, 2001 and the two financial years thereafter.

Preliminary expenses

The preliminary expenses of the Company are estimated to be approximately HK\$35,000 and are payable by the Company.

Promoters

The promoter of the Company is Mr. Lin. Save as disclosed herein, within the two years preceding the date of this prospectus, no amount or benefit has been paid or given to the promoter in connection with the Placing or the related transactions described in this prospectus.

APPENDIX VI STATUTORY AND GENERAL INFORMATION

Registration procedures

Subject to the provisions of the Companies Law, the register of members of the Company will be maintained in the Cayman Islands by Bank of Butterfield International (Cayman) Limited and a branch register of members of the Company will be maintained in Hong Kong by Hong Kong Registrars Limited. Save where the Directors otherwise agree, all transfers and other documents of title to Shares must be lodged for registration with, and registered by, the Company's share registrar in Hong Kong and may not be lodged in the Cayman Islands.

Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

Name	Qualification
DTCFL	Registered investment adviser and securities dealer
JS Cresvale	Registered investment adviser and securities dealer
Arthur Andersen & Co	Certified public accountants
Charles Chan, Ip & Fung CPA Ltd.	Certified public accountants
Conyers Dill & Pearman, Cayman	Cayman Islands attorneys-at-law
Sallmanns (Far East) Ltd.	Property valuer
Trend Associates	Legal adviser on PRC laws

Consents of experts

Each of DTCFL, JS Cresvale, Arthur Andersen & Co, Charles Chan, Ip & Fung CPA Ltd., Conyers Dill & Pearman, Cayman, Sallmanns (Far East) Ltd. and Trend Associates has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or valuation certificate and/or the references to its name included herein in the form and context in which they are respectively included.

Binding effect

This prospectus shall have the effect if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance insofar as applicable.

APPENDIX VI STATUTORY AND GENERAL INFORMATION

Miscellaneous

- (a) Save as disclosed in this prospectus:
 - (i) within the two years preceding the date of this prospectus, no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (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;
 - (iii) no founders management or deferred shares of the Company or any of its subsidiaries have been issued or agreed to be issued; and
 - (iv) within the two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of the Company or any of its subsidiaries.
- (b) None of DTCFL, JS Cresvale, Arthur Andersen & Co, Charles Chan, Ip & Fung CPA Ltd., Conyers Dill & Pearman, Cayman, Sallmanns (Far East) Ltd. and Trend Associates:
 - (i) is interested beneficially or non-beneficially in any shares in any member of the Group; or
 - (ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any shares in any member of the Group.
- (c) No company within the Group is presently listed on any stock exchange or traded on any trading system.
- (d) All necessary arrangements have been made to enable the Shares to be admitted into CCASS for clearing and settlement.

APPENDIX VII DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were the written consents referred to in the paragraph headed “Consents of experts” under the section headed “Other information” in Appendix VI to this prospectus, copies of the material contracts referred to in the paragraph headed “Summary of material contracts” under the section headed “Further information about the business of the Group” in Appendix VI to this prospectus, and copy of the statement of adjustments made by Arthur Andersen & Co and Charles Chan, Yip and Fung CPA Ltd. in arriving at the figures set out in the accountants’ report in Appendix I to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Sidley Austin Brown & Wood at 49th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong during normal business hours up to and including 25th May, 2001:

- (a) the memorandum of association of the Company and the Articles;
- (b) the accountants’ report dated 11th May, 2001, the text of which is set out in Appendix I to this prospectus, and the related statement of adjustments;
- (c) such audited accounts of Fuqiang for each of the two years ended 31st December, 1999;
- (d) the audited financial statements as have been prepared for each of the Company’s subsidiaries for the year ended 30th June, 1999 and 30th June, 2000 and for the 5 months ended 30th November, 2000;
- (e) the letter prepared by Arthur Andersen & Co. and Charles Chan, Ip & Fung CPA Ltd., DTCFL and JS Cresvale relating to the profit forecast, the text of which are set out in Appendix III to this prospectus;
- (f) the letter, summary of valuation and valuation certificate dated 11th May, 2001 relating to the property interests of the Group prepared by Sallmanns (Far East) Ltd.;
- (g) the letter prepared by Conyers Dill & Pearman, Cayman dated 11th May, 2001 summarising certain aspects of Cayman Islands company law referred to in Appendix V to this prospectus;
- (h) the Companies Law;
- (i) the rules of the Share Option Scheme;

APPENDIX VII DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION

- (j) the material contracts referred to in the paragraph headed “Summary of material contracts” in Appendix VI to this prospectus; and
- (k) the written consents referred to in the paragraph headed “Consents of experts” under the section headed “Other information” in Appendix VI to this prospectus.