

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.

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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.

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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.

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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.

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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>

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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.

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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>

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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	
	<i>RMB'000</i>	<i>HK\$'000</i>
PRC	38,334	35,826
Australia	1,299	1,214
US	—	—
Germany	842	787
Others	—	—
	40,475	37,827

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.

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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
	86,756	81,846
	86,756	81,846

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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.

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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.

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Five months ended 30th November, 2000

Turnover

Turnover of the Group by geographical location is as follows:

Geographical location:	Five months ended 30th November, 2000	
	<i>RMB'000</i>	<i>HK\$'000</i>
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.

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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.

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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>

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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

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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.