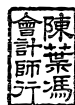


The following is the text of a report, prepared for the purpose of incorporating in this prospectus, received from the auditors and reporting accountants of the Company, Arthur Andersen & Co, Certified Public Accountants, Hong Kong, and Charles Chan, Ip & Fung CPA Ltd., Certified Public Accountants, 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 30th November, 2000	
		1999		2000		RMB'000	HK\$'000 (Section 2.m)
		RMB'000	HK\$'000 (Section 2.m)	RMB'000	HK\$'000 (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	
	RMB'000	HK\$'000	RMB'000	HK\$'000	RMB'000	HK\$'000
	(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
Number of employees	<u>2</u>	<u>2</u>	<u>2</u>	
	<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 Qiang, 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)
	<hr/>	<hr/>
30th November, 2000	<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
	<hr/>	<hr/>
	8,419	7,943
<i>Less:</i> Provision for obsolete and slow-moving inventories	(1,165)	(1,100)
	<hr/>	<hr/>
	<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
	<hr/>	<hr/>
	<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	RMB'000	HK\$'000	RMB'000	HK\$'000
	(Section 2.m)		(Section 2.m)		(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:

	<i>RMB'000</i>	<i>HK\$'000</i> (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:

	<i>RMB'000</i>	<i>HK\$'000</i> (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