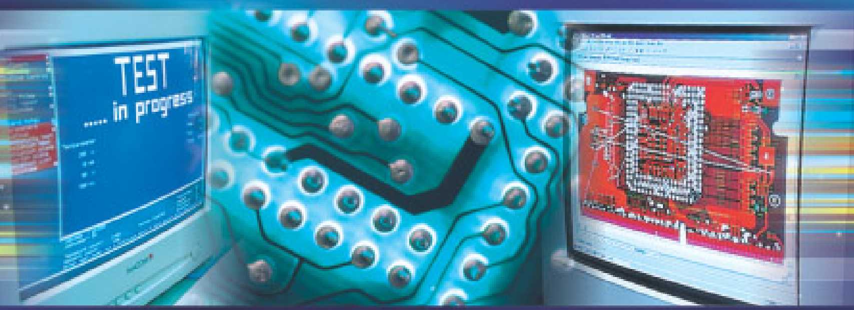
SINOTRONICS HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)



ANNUAL REPORT 2002

Characteristics of The Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange")

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

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

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

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CORPORATE INFORMATION

DIRECTORS
Lin Wan Qaing *(Chairman)*
Liu Zhao Cai *(Vice-Chairman)*
Xiang Song
Lam Ming Yung*
Pan Chang Chi*

* *Independent Non-executive Directors*

COMPANY SECRETARY
Tong Yiu On, *AHKSA, ACCA*

COMPLIANCE OFFICER
Lin Wan Qaing

QUALIFIED ACCOUNTANT
Tong Yiu On, *AHKSA, ACCA*

AUTHORISED REPRESENTATIVES
Lin Wan Qaing
Tong Yiu On, *AHKSA, ACCA*

AUDIT COMMITTEE
Lam Ming Yung
Pan Chang Chi

SPONSOR
Deloitte & Touche Corporate Finance Limited

LEGAL ADVISER FOR CAYMAN ISLANDS LAW
Conyers Dill & Pearman, Cayman

PRINCIPAL BANKERS
The China Construction Bank
Bank of China
Standard Chartered Bank

AUDITORS
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INVESTOR RELATIONS CONSULTANT
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FINANCIAL HIGHLIGHTS

Successfully entered into two placing and subscription agreements in 2002, under which the placing agent has agreed to place and Mr. Lin Wan Qaing has agreed to subscribe for a total of 55,000,000 ordinary shares of HK$0.10 each in the capital of the Company (the "Shares") of the Company and raised total net proceeds of approximately HK$64 million.

Turnover for the year achieved to approximately RMB204 million.

Gross profit margin for the year was stablely maintained at approximately 51%.

Profit from operations for the year was approximately RMB83 million.

Profit attributable to shareholders for the year was approximately RMB65 million.

Net profit margin for the year was approximately 32%.

Earnings per share was approximately RMB18 cents.

Shareholders' funds reached approximately RMB294 million.

Final dividend of HK$0.03 (equivalent to approximately RMB0.032) per Share declared to reward the shareholders for their on-going support.

CHAIRMAN'S STATEMENT

I am pleased to present the annual results of Sinotronics Holdings Limited ("Sinotronics" or the "Group") for the year ended 30th June, 2002 to all shareholders. With the hard-work of the management and employees, the Group continued to record satisfactory results.

The development of the PCB industry has recorded speedy growth. However, the Group has been inevitably affected by the upburst of the 'bubble economy' in 2000 and the "911" incident in 2001. Though comparatively less affected by these events than the USA, there were some negative influences. In view of these difficult market conditions, Sinotronics leveraged on its quality "one-stop" electronics manufacturing services (EMS), world-class production facilities, design-to-manufacturing expertise and engineering techniques, together with its tailor-made after-sales services, to provide customers with a comprehensive range of services from design to manufacturing and assembly. This has enabled the Group to continue realizing its targeted results, with turnover of approximately RMB204,142,000 and gross profit of approximately RMB103,884,000, an increase of 7.9% and 6.1% respectively.

While demand continues to increase from the information, communications and electronic products industries in China, the Group believes that there is tremendous development potential for PCBs which is one of the primary components for these industries. At the same time, as the EMS business is still in its development stages in China, there is great potential for further development. In meeting the needs of these industries, the Group not only enjoys a geographical advantage, but also the advantage of being an early mover which enabled us to accumulate widespread experience in the EMS industry. These advantages will provide invaluable assistance in the Group's efforts to continue exploring further business.

In the future, the Group will continue to expand the service scope of the EMS business, provide more comprehensive service, increase product quality and techniques, and promote the Group's products in various electronic product segments, aiming to increase market share and to become the market leader in the EMS business.

Lin Wan Qaing
Chairman

Hong Kong, 17th September, 2002

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

1. Enhancing Service Quality and Expanding Service Scope

During the year under review, the Group actively improved its overall product quality and application capabilities by enhancing its design and engineering support services. To minimize wastage during production and increase product utilization, the Group strengthened its communication with customers and co-operated more closely with them at the design stages to achieve top service quality. During the year under review, the Group employed additional sales persons to provide pre-sales enquiry services, post-sales support services, as well as to gather customers' feedbacks in order to strengthen and improve its service quality. Additionally, the Group employed more engineers in both Shanghai and Shenzhen under a newly established auxiliary services department to provide original design and layout design services to customers in the Eastern and Southern region of China. These measures strengthened the market competitiveness of the Group.

During the year under review, the Group expanded the overall service scope of its EMS services. The Group expanded its engineering design services from PCBs layout design to cover sub-system design and launched its assembly services. To minimize cost and enhance its monitoring abilities for consistent high quality, the Group restructured its outsource assembly model into a co-operation or rental model.

2. Increasing Production Scale, Upgrading technology, Diversifying Products

During the year under review, the Group introduced advanced production equipment from Germany such as multi-layer PCBs press machines, numeric control drills and horizontal browning and etching equipment, which increased the Group's production capacities to approximately 18,000 square metre per month.

In respect of product quality control, the Group implemented and has been following the ISO/TS16949 standards, a newly announced measure by the ISO certifying organization, for quality control programs and production workflow. This places the Group's products at international levels and enhances their competitive advantages.

The Group also achieved significant improvements in production technologies. In addition to the introduction of MLV examination equipment and other advanced technologies to improve its PCB fabrication capability to 30 layers, it has developed a number of new products, including applications of thick copper larger power supply boards and metallic multi-layer composite boards in the "electric supply industry" and diffraction boards and steel diffraction composite boards in the automobile electronics and notebook computers.

MANAGEMENT DISCUSSION AND ANALYSIS continued

3. Expanding Sales Network, Consolidating The Customer Base

During the year under review, the Group actively expanded its sales network. Apart from its headquarters in Fuzhou, the Group also established representative offices in Shanghai, Shenzhen, Wuhang and Xian. These offices are responsible for sales, product engineering design and customer service activities, all working to strengthen customer communications and consolidate customer base through the provision of better services with their proximity and greater availability.

The Group will establish a stronger co-operative customer tie through intensive market promotion activities to stabilize sales volumes and sales orders, and expand its customer base.

FUTURE PLANS

Since establishment, the Group has been aiming to offer "one-stop" EMS services for its customers, with services ranging from engineering design consultancy, product support, production and assembly. Being completely different from the traditional PCBs manufacturing outsourcing model, the Group's business has been highly successful and has been delivering excellent results. With these encouraging results, the Group will remain focused on the EMS business while continue to penetrate into various market segments, not only to strengthen its existing business, but also to aggressively explore into the high potential electronic product and related markets. In addition, the Group will seek investment opportunities or co-operative projects which will provide synergies with the Group's EMS business to enhance the Group's profitability.

MARKET POTENTIAL

With China's accession into the WTO and the worldwide informational wave, the development of the electronic information industry in China will accelerate, especially for the communications industry. In the past decade, China's communications industry recorded an annual increase of approximately 32%. According to the "Tenth Five-Year Plan", the estimated average annual growth rate of China's communications industry will be about 22%, while its annual production value is estimated to increase from 36 billion in 2001 to reach approximately 83.7 billion in 2005.

PCBs form the basic component for the communications industry and the electronics information industry. Although the global PCB industry suffered under the unfavorable global economy of 2001, indications show that it is about to recover in 2002 and is expected to be stablized in the third quarter of 2002, adding to the recorded rapid growth of China's PCB industry in recent years which reported an annual average growth rate of about 26%. In 2001, its industrial production value reached RMB36 billion and ranked the third worldwide, just after Japan and the USA. Global demand for PCBs reached USD32.8 billion in 2001, and is expected to increase to approximately USD45.9 with an compound annual growth rate of about 8.8%.

MANAGEMENT DISCUSSION AND ANALYSIS continued

Apart from that, the Group provides "one-stop" EMS services tailored to various individual customer' needs. Despite the fact that EMS industry is in its early development stage in China, it is commonly adopted in the USA and European markets. The IDC research report of the U.S. stated that the demand for EMS services would continue to increase in the world's electronic manufacturing products market. It is estimated that its production value will reach USD231 billion, while rapid development will be expected in the European and Asian markets. The Group believes that the EMS industry has tremendous room for growth and will gradually become popularly adopted. With the increase in the demand for electronic products, the Group expects that its comprehensive and quality "one-stop" EMS services will make the Group highly competitive in the PCB industry. This will assist the Group in further exploring new markets and capturing market share, thereby enabling the Group to become a pioneer enterprise in the industry.

With the recovery of the electronic information and information industry, the increasing demand for PCBs and the growing acceptance of EMS business will bring widespread opportunities to the Group. As such, the Group will adopt the following strategies to develop the market and bring reasonable returns to shareholders:

Enhance Service Quality, Broaden Service Scope

The Group will provide customers with wider service scope covering purchasing, testing and assembly through co-operation or joint ventures, bringing customers with a comprehensive "one-stop" shopping platform.

The Group will utilize the strong technical capability of its engineering design centre to advance the Group's electronics design services which include complete series of design and auxiliary services covering sub-system design, schematic capture design and layout design. Together with enhancing service quality and improving design and production technology of PCBs, the Group will provide more extensive services to its customers.

Strengthen The Sales Network

The Group will strengthen its sales network and will further improve its operations efficiency. Apart from expanding the sales network, the Group is also actively intensifying its brand image and strengthening its customer service capability in China to maintain stable and satisfactory customers relationship.

Adopt Flexible Management Strategies

The Group will continue to adopt the ERP management system, implement the ISO/TS16949 system and the management concept of CRM (customer relation management), and keep upgrading its management software. These measures will enable the Group to increase its operations efficiency and better control its costing, thereby improving its profit levels.

MANAGEMENT DISCUSSION AND ANALYSIS continued

The Group will continue to expand its EMS business to capture the huge market need brought by the electronic information industry. The Group will leverage on its flexible management strategies and utilize its advanced technology and expandable production capacity to provide customers with high value-added services, with an aim to bring the Group with higher profit margins and reasonable returns to the investors.

FINANCIAL PERFORMANCE

For the year ended 30th June, 2002, the Group reported turnover of approximately RMB204,142,000, representing an increase of approximately 7.9% as compared to the previous year; and gross profit of approximately RMB103,884,000, an approximately 6.1% increase as compared to the previous year. Profit attributable to shareholders was approximately RMB64,767,000, representing an improvement of approximately 14.0% as compared to the previous year. The gross profit margin remained high at approximately 50.9%, with earnings per share of approximately RMB18 cents. The substantial increase in the turnover for the year under review was mainly due to the active expansion of the Group's sales network and the advancement of technology levels. These activities helped diversify the Group's product range, develop new customers and create new market segments. At the same time, the expansion of the Group's production capacity helped improve its economies of scale, and maintain the Group's gross profit at high level.

COMMENTS ON SEGMENTAL INFORMATION

Turnover by product category and their respective contributions to profit from operations are as follows:

	Turnover	**Profit from operations**
	RMB	*RMB*
Single and double-sided PCBs	86,745	26,632
Multilayer PCBs	117,397	56,195
	204,142	82,827

The increase in the Group's turnover for the year ended 30th June, 2002 was mainly attributable to the increase in sales of both the single, double-sided and multilayer PCBs and the provision of relevant design and assembly services to the customers. During the year ended 30th June, 2002, turnover and profit derived from the sale of multilayer PCBs amounted to approximately RMB117,397,000 and RMB56,195,000 respectively, representing an increase of approximately 12.0% and approximately 11.6% respectively over the last year. Furthermore, in view of the recession of the U.S. and the Japanese economies which significantly affected the electronics industry of not only themselves but also other developed countries in the world, the management and marketing personnel of the Group re-focused

MANAGEMENT DISCUSSION AND ANALYSIS continued

in the development of the PRC market with success. During the year ended 30th June, 2002, turnover of the Group generated from sales to PRC customers amounted to approximately RMB182,718,000, representing approximately 89.5% of turnover of the Group and an increase of approximately 19.0% over the corresponding period last year.

LIQUIDITY AND FINANCIAL RESOURCES

During the year ended 30th June, 2002, the Group's working capital requirement was principally financed by its internal resources and banking facilities.

As at 30th June, 2002, the Group had loan facilities of approximately RMB33,000,000 (2001 — RMB42,000,000) from several banks which were fully utilized as at the date thereof. The loan facilities were secured by guarantees provided by the Company. The Group's borrowings were mainly denominated in Renminbi. Loan facilities were granted to the Group at the normal market interest rates.

The shareholders' equity of the Group as at 30th June, 2002 increased by approximately 81.3% to approximately RMB293,889,000 (30th June, 2001: RMB162,118,000). The gearing ratio (calculated as the ratio of current liabilities plus non-current liabilities : shareholders' equity) of the Group as at 30th June, 2002 was approximately 0.21 (30th June, 2001: 0.53).

The finance cost of the Group for the year ended 30th June, 2002 amounted to approximately RMB3,567,000, representing approximately 1.7% of the Group's turnover and a decrease of approximately RMB1,631,000, or approximately 31.4% over the corresponding period last year. The decrease in finance cost was principally due to the decrease in bank borrowings.

CAPITAL STRUCTURE AND TREASURY POLICY

In March 2002, a placing and subscription agreement was entered into pursuant to which the placing agent had placed 20,000,000 existing Shares to independent third parties and Mr. Lin Wan Qaing had subscribed for 20,000,000 new Shares, both at HK$1.00 per Share, which represented a discount of approximately 4.76% and 3.94% to the closing Share price on 25th March, 2002 and the average closing Share price for the last ten trading days up to and including 25th March, 2002 respectively. A total of approximately HK$18,726,000, net of expenses, was raised for general working capital and in furtherance of the business objectives of the Company.

In June 2002, a placing and subscription agreement was entered into pursuant to which the placing agent had placed 35,000,000 existing Shares to independent third parties and Mr. Lin Wan Qaing had subscribed for 35,000,000 new Shares, both at HK$1.35 per Share which represented a discount of approximately 4.26% and 6.25% to the closing Share price on 13th June, 2002 and the average closing Share price for the last ten trading days up to and including 13th June, 2002 respectively. A total of

MANAGEMENT DISCUSSION AND ANALYSIS continued

approximately HK$44,486,000, net of expenses, was raised for potential equity investment in business which the Directors consider would enhance its system design expertise, achieve economies of scale and help the furtherance of the business objectives of the Company.

Saved as disclosed above, there is no change in the Company's share capital.

During the year ended 30th June, 2002, the Group experienced only immaterial exchange rates fluctuations as most of the Group's monetary assets and liabilities are denominated in Hong Kong Dollars and Renminibi, and the Group conducted its business transactions principally in Hong Kong Dollars, US Dollars and Renminbi, all of which were relatively stable during the year under review. The Group considered that as the exchange rate risks of the Group is considered to be minimal, the Group did not employ any financial instruments for hedging purposes.

SIGNIFICANT INVESTMENT

As at 30th June, 2002, the Group had no significant investment held, and it is the same as the comparative year ended 30th June, 2001.

ACQUISITION AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANY

During the year ended 30th June, 2002, the Group had no material acquisition and disposals of subsidiaries and affiliated companies.

During the year ended 30th June, 2001, except for the disclosure in the Prospectus dated 11th May, 2001, the Group had no material acquisitions and disposals of subsidiaries and affiliated companies.

EMPLOYMENT INFORMATION

As at 30th June, 2002, the Group employed a total of 446 employees. It is a policy of the Group to review its employee's pay levels and performance bonus system regularly to ensure that the remuneration policy is competitive within the relevant industry. During the year ended 30th June, 2002, the employment cost (including directors' emoluments) amounted to approximately RMB10,935,000 (year ended 30th June, 2001 — RMB7,486,000). The increase in total employment cost the Group of approximately RMB3,449,000 was resulted from the fact that the directors' emolument and labour costs was increased by approximately RMB1,973,000. The Company has an employee share option scheme, under which it may grant options to employees of the Group (including executive directors of the Company) to subscribe for shares in the Company. However, no options had been granted since the commencement of the share option scheme for the year ended 30th June, 2002.

CHARGE ON ASSETS

As at 30th June, 2002, there were no charges on group assets, and it is the same as the comparative year ended 30th June, 2001.

MANAGEMENT DISCUSSION AND ANALYSIS continued

FUTURE PLANS FOR MATERIAL INVESTMENTS AND EXPECTED SOURCES OF FUNDING

On 15th August, 2002 the Group entered into the sale and purchase agreement with an independent third party in relation to the acquisition of 49 shares of Floret Industries held by the him, representing 49% of the issued share capital of Floret Industries, at a consideration of RMB47 million (equivalent to approximately HK$44.6million), which will be wholly satisfied in cash upon Completion by the Company out of the net proceeds raised from the placing and subscription of Shares announced by the Company on 14th June, 2002.

Floret Industries is an investment holding company whose sole asset comprises the entire equity interest in Fuzhou Wei Mei, which in turns holds a 83% equity interest in Fuzhou Tin Fong as its sole asset. Fuzhou Tin Fong is a company principally engaged in the research, development, manufacture and sale of products as well as the provision of ancillary services in relation to the automation and intellectualisation of electric supply systems. These systems are composed of a variety of data processing hardware which, in general, would utilise PCBs as their components.

Save as disclosed above, as at 30th June, 2002, the Group had no future plans for material investments except that capital assets will be purchased in accordance with the details set out in the section headed "Statement of business objectives" in the prospectus of the Company dated 11th May, 2001.

CONTINGENT LIABILITIES

As at 30th June, 2002, the Group had no contingent liabilities, and it is the same as the comparative year ended 30th June, 2001.

COMPARISON BETWEEN BUSINESS OBJECTIVES AND ACTUAL PROGRESS

The actual progress of the Group's business objectives for the year ended 30th June, 2002, as set out in the prospectus of the Company dated 11th May, 2001, (the "Prospectus"), is as follows:

Business Objectives for the period July 2001 to December 2001 disclosed in the Prospectus	**Actual business progress for the period July 2001 to December 2001**
Engineering outsourcing (including research and development):	
— Start to provide PCB assembly and sub-system design services for existing customers.	— Has been provided sub-system design service for existing customers like Start Network, Newland, 天方公司, Chengdu Gangshun and PCB assembly service for Chengdu Gangshun and other customers.
— Awarded with ISO 9001, which suggests that an enterprise has attained certain quality standards in operation and implementation covering design and development, production, assembly, investment and services.	— The Group is modifying relevant procedural documents according to the ISO9001 (2000 version) requirements. It has also approached third party certification organizations and made certification applications. It is expected that certification will be awarded in the middle of 2002.
PCBs and PCB assembly:	
— Upgrade manufacturing facilities and attract high profit-margin customers by providing PCBs and assembly services to customers who demand shorter lead time.	— Through enhancing the Group's production efficiency by purchasing additional multilayer equipment like multilayer press machines and horizontal browning and etching production lines, and through technical improvement and innovation to provide the customers with prompt and comprehensive services, Shanghai Huaxin Electronic and Shanghai Hongxi Electronic with high profit margins have become the Group's new customers.

COMPARISON BETWEEN BUSINESS OBJECTIVES AND ACTUAL PROGRESS continued

— Carry out testing and pre-production works for installing the SMT.	— Has entered into cooperation agreements with the Company's strategic partners, including Start Network and Newland for the provision of assistance to the Group, which enabled the Group to provide complete SMT assembly service to its customers. Meanwhile, acquisition of factories with SMT capacity is under negotiation.
— Continue to increase the sales attributable to PCBs with 10 to 12 layers (higher profit margin is expected from more sophisticated design and production) against the first half ended 30th June, 2001.	— For the six months ended 31st December, 2001, proportion of rules generated from 10 to 12 layer PCBs, remained unchanged as there was no significant increase on customer's demand.
— Increase income by selling PCBs with higher number of layers and provide complicated PCB assembly service.	— The Group aimed to raise the sales attributable to multilayer PCBs and to increase the number of layers while providing relevant design and assembly service to the customers. It also aimed to secure a stable sales income against the prevailing sluggish electronic industry. During the six months ended 31st December, 2001, turnover of multilayer PCBs amounted to approximately 52 million, representing an increase of about 53.8% over the same period last year.
— Purchase advanced equipment capable of manufacturing PCBs with more layers.	— The Group has purchased additional equipment including etching and horizontal browning production lines to produce multilayer PCBs with higher precision, enabling the Group to provide PCBs with greater number of layers to the customers more efficiently.

COMPARISON BETWEEN BUSINESS OBJECTIVES AND ACTUAL PROGRESS continued

— Continue to adjust production facilities to meet the ever-changing demands of the customers.	— The Group has reduced its production cycle by improving the production lines in respect of multilayer PCB, automatic operation and soldering to achieve a shorter lead time required by the customers. Meanwhile, the Group has adjusted the etching line and purchased an acidic etching line to meet the customer demands on thick copper plates and light, slim signal transmission panels with fine filaments.
— Purchase additional backplane assembly equipment to implement the second phase of assembly facility expansion project.	— Due to the worldwide recession, especially of electronic industry, the Group provided SMT assembly service to its customers with the help from its strategic partners to reduce risk and cost. Meanwhile, the Group is seeking opportunities to acquire SMT assembly factories in due course to realise the goal of providing more value-added services to the customers.
— Continue the second phase of expansion project to raise the output of single-layer, double-layer and multi-layer PCBs by 50%, from approximately 12,000 sq.m. to 18,000 sq.m..	— The Group has purchased additional equipment including horizontal browning and acidic etching lines to continue the second phase of expansion project. At present, monthly output is 15,000 sq.m..
— Obtain QS9000.	— The Group has revised the original documents of management procedures according to QS9000 Standards. Currently, the Group is approaching a third party certification organization to discuss matters on certification and it is expected to obtain the certification in 2002.

COMPARISON BETWEEN BUSINESS OBJECTIVES AND ACTUAL PROGRESS continued

Sales and marketing:

— Carry out comprehensive marketing project, including customised PCB and sub-system design solutions to attract new customers, including the branches of international ODM companies in China and the ODM companies in China.	— The Group is actively promoting its own value-added services, including sub-system design service and short lead time. Currently the Group is actively making business contacts with certain new customers, including Samsung Electronic Tianjin (Sumsung's branch in Tianjin), 東方通信 and 上海明基電腦.
— Making marketing efforts especially to rapid growing ODM electronic manufacturers in telecommunication, computer and computer peripherals related industries.	— Although the global electronic industry has been sluggish in 2001, the electronic industry of China has achieved a growth rate over 10%, with major contributors being the telecommunication and computer industries. The marketing activities of the Group, therefore, has focused in these two fields. Corporations in negotiation with the Group included Samsung Electronic Tianjin, 東方通信 and 上海明基電腦 who are potential key customers of the Group.

COMPARISON BETWEEN BUSINESS OBJECTIVES AND ACTUAL PROGRESS continued

Development in business and human resources:

Business objectives	Actual progress
— Increase income by completing the second phase project, including the expansion of output of PCBs to approximately 18,000 sq.m. and the increase of output of PCB assembly, to provide services to high profit-margin customers.	— The sluggishness in the electronic industry has led the Group to slow down its first phase of expansion project with an aim to avoid risk exposure and enhance competitiveness. The Group has striven to improve its design services and achieve short lead time. In addition, it has been implementing active marketing strategy to maintain its market share. During the year ended 31st December, 2001, monthly production capacity for PCB assembly has reached approximately 18,000 sq.m.. During the period under review, average monthly output of PCBs was over 15,000 sq.m. with an average monthly turnover of RMB16 million.
— Recruit at least one additional engineer during the period to work for the outsoucing engineering department.	— Has recruited at least one additional engineer to work for the out-sourcing department.

COMPARISON BETWEEN BUSINESS OBJECTIVES AND ACTUAL PROGRESS continued

Business objectives for the period January 2002 to June 2002 disclosed in the Prospectus	Actual business progress for the period January 2002 to 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.	— With the support of a strategic partner, the Group's engineering design center commenced the provision of sub-system design services to its customers.
— Establish function test capacity for sub-systems.	— With the support of a strategic partner, the Group commenced the provision of sub-system testing services to its customers.
— Plan for the construction of PCB prototyping facilities and the establishment of an EMS branch office in Shenzhen, the PRC.	— In considering the current changes in the electronics industry, especially the trend of shifting development centers to the Eastern region, the Group temporarily ceased its plan to establish a PCB prototyping plant in Shenzhen. The plan is now under re-assessment which covers areas such as timing for establishment, location and operational model.
— Establish a joint laboratory with a national university in the PRC for the research of advanced materials used in the fabrication of PCBs.	— Seeking opportunities to cooperate with other universities as the agreement with Qinghua University has not yet been concluded due to various un-agreeable terms.
— Undertake projects to develop emerging technologies including various micro-via processes, horizontal plating, plasma etching and laser drilling.	— The Group has set up technological research teams on specific development projects of micro-via processes and plasma etching.

COMPARISON BETWEEN BUSINESS OBJECTIVES AND ACTUAL PROGRESS continued

PCBs and PCB assembly:

— Complete the second phase of the expansion plan which includes the increase of planned floor space and the purchase of state-of-the-art equipment to increase monthly production capacity to approximately 27,000 square metres for single-sided, double-sided and multilayer PCBs.	— Production capacity has reached 18,000 square metres per month. Further capacity expansion plan is still proceeding.
— Depending on customer demand, increase the layer counts of PCBs to 12 or more, and increase production capabilities from its current 20 layers to 30 layers.	— The Group has achieved production capability to manufacture PCBs upto 30 layers.
— Increase the percentage contribution to revenue from the communications segment to 65% of total revenue.	— Due to the fluctuation in the electronics industry, the percentage increase to 65% of total revenue from the communications industry has not yet been achieved.

Sales and marketing:

— Target customers with latest technologies, including broadband technologies such as optical networking, wireless applications, and data storage technologies.	— Sales offices were established in Wuhan and Xian. With Wuhan being the base of the optical fibre communications, the Group is now providing prototyping services for customers in Wuhan.

COMPARISON BETWEEN BUSINESS OBJECTIVES AND ACTUAL PROGRESS continued

Business and human resources developments:

Business objectives	Actual progress
— Improve the gross margin of the Group by 15% through the increase of higher margin, value added, high-mix and EMS strategies.	— Due to the unfavorable market condition, the Group remained its HIGH MIX production strategy to provide value-added services, so as to keep the product mix at the similar percentage as in the previous years, hence maintaining its profit margin at the same level.
— Establish preferred supplier relationships with two established leaders in the communications and communications related consumer product markets (the Directors believe that the establishment of business relationships with two companies within the same industry sector will enable the Group to consolidate its efforts to realize market expansion, easing its internal operations and management constraints).	— The Group has managed to developed positive supplier relationship with 冠捷電子 and 廈門誠信. 冠捷電子 is the largest LCD manufacturer in China.
— Recruit at least two new engineers for its engineering outsourcing division during the year ended 30th June, 2002.	— Two new engineers were recruited to serve under the engineering outsourcing division.

USE OF PROCEEDS

The Group raised net proceeds of approximately HK$47.6 million upon the listing of the Company and approximately HK$8.7 million pursuant to the exercise of an over-allocation option.

Comparison of the use of proceeds as stated in the Prospectus with actual application

The use of proceeds as disclosed in the Prospectus	Application of proceeds from the initial share offer to 30th June, 2002
— Approximately HK$30 million for the expansion of the PCB fabrication plant	— Approximately HK$3.0 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$4.2 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$4 million for the construction of a SMT assembly line
— Approximately HK$3.3 million for the purchase of advanced testing equipment and software for the PCB testing to facilitate the provision of computer-aid testing and assembly of PCBs	— Approximately HK$Nil million for the purchase of advanced testing equipment and software for the PCB testing to facilitate the provision of computer-aid testing and assembly of PCBs
— Approximately HK$0.3 million for the establishment of a joint engineering design center with Electronic Research Institute to undertake future and development projects from ODMs	— Approximately HK$0.3 million for the establishment of a joint engineering design center with Electronic Research Institute to undertake future and development projects from ODMs
— The remaining balance of approximately HK$8.7 million for general working capital	— The balance of approximately HK$17.8 million for general working capital

USE OF PROCEEDS continued

During the year ended 30th June, 2002, the Group incurred the following (including the proceeds from the initial share offer and its internally generated resources) to achieve its business objective as disclosed in the Prospectus:

— Approximately HK$19.7 million for the expansion of the PCB fabrication plant

— Approximately HK$4.2 million for the development of EMS business and the purchase of related equipment

— Approximately HK$7 million for the construction of a SMT assembly line

— Approximately HK$Nil million for the purchase of advanced testing equipment and software for the PCB testing to facilitate the provision of computer-aid testing and assembly of PCBs

— Approximately HK$0.3 million for the establishment of a joint engineering design center with Electronic Research Institute to undertake future and development projects from ODMs

— The remaining balance of the net proceeds of approximately HK$17.8 million were deposited in licensed banks

BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENTS

DIRECTORS

Executive Directors

Mr. Lin Wan Qaing (林萬強), aged 47, 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. Liu Zhao Cai (劉兆才), aged 60, is the vice-chairman of the Company. He 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 the 36th research institute of the Department of Electronics Industry# (電子工業部) of the PRC in 1987, the president of the Fujian Province Bureau of Electronics Industry# (福建省電子工業廳) in 1995 and the president of Fujian Province Science and Technology Commission# (福建省科學技術委員會) in 1998.

Mr. Xiang Song (項松), aged 31, is the managing director of the Company. Mr. Xiang graduated with a bachelor's degree in mechanical engineering from University of Science and Technology of Beijing (北京科技大學) in 1993. Prior to joining the Group in July 1998, Mr. Xiang 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.

Independent Non-executive Directors

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

Mr. Pan Chang Chi (潘昌馳), aged 51, is a senior economist. He graduated from Xiamen University (廈門大學) in 1998 with a master's degree in law. He has 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 of the Company on 8th May, 2001.

BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENTS continued

SENIOR MANAGEMENTS

Mr. Tong Yiu On (唐耀安), aged 36, is the company secretary and qualified accountant 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. Lin Wan Xin (林萬新), aged 47, 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 57, is the chief engineer of Fuqiang overseeing technology development of the Group. He graduated from the Department of Electronics of Tianjin University (天津大學) 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 31, is an executive vice-president of marketing of Fuqiang. Prior to joining the Group in May 1998, Mr. Cai was an assistant to the general manager of the sales branch of Guangzhou Printronics Circuit Corp. (廣州普林電路公司). He has gained 8 years of experience in the sales and marketing of PCBs. Mr. Cai also has extensive experience in marketing, strategic planning and development of international sales networks.

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

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

REPORT OF THE DIRECTORS

The directors of the Company (the "Directors") are pleased to present their annual report together with the audited financial statements of Sinotronics Holdings Limited (the "Company") and its subsidiaries (together "the Group") for the year ended 30th June, 2002.

ADOPTION OF A NEW CHINESE TRANSLATION

On 1st June, 2002, the Company adopted a new Chinese translation of its name as "華翔微電子控股有限公司", for the purpose of identification only, in order to better reflect the business nature of the Group.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in the provision of electronic manufacturing services and the manufacturing and trading of printed circuit boards.

The analysis of the principal activities and geographical locations of the operations of the Company and its subsidiaries during the financial year are set out in note 12 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total	
	Sales	**Purchases**
The largest customer	18%	
Five largest customers in aggregate	71%	
The largest supplier		61%
Five largest suppliers in aggregate		82%

At no time during the year have the directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 30th June, 2002 are set out in the consolidated income statement on page 34 of this annual report.

REPORT OF THE DIRECTORS continued

DIVIDENDS

The Board has recommended the payment of a final dividend of HK$0.03 (equivalent of approximately RMB0.0318) per Ordinary Share for the year ended 30th June, 2002, subject to shareholders' approval at the forthcoming annual general meeting to be held on 24th October, 2002, to the shareholders whose names appear on the Register of Members of the Company on 24th October, 2002 and payable on around 7th November, 2002. No interim dividend was declared for the six months ended 31st December, 2001 (2000: Nil).

SHARE CAPITAL

In March, 2002, a placing and subscription agreement was entered into pursuant to which the placing agent had placed 20,000,000 existing Shares to independent third parties and Mr. Lin Wan Qaing had subscribed for 20,000,000 new Shares, both at HK$1.00 per Share, which represented a discount of approximately 4.76% and 3.94% to the closing Share price on 25th March, 2002 and the average closing Share price for the last ten trading days up to and including 25th March, 2002 respectively. A total of approximately HK$18,726,000, net of expenses, was raised for general working capital and in furtherance of the business objectives of the Company.

In June, 2002, a placing and subscription agreement was entered into pursuant to which the placing agent had placed 35,000,000 existing Shares to independent third parties and Mr. Lin Wan Qaing had subscribed for 35,000,000 new Shares, both at HK$1.35 per Share, which represented a discount of approximately 4.26% and 6.25% to the closing Share price on 13th June, 2002 and the average closing Share price for the last ten trading days up to and including 13th June, 2002 respectively. A total of approximately HK$44,486,000, net of expenses, was raised for potential equity investment in business which the Directors consider would enhance its system design expertise, achieve economies of scale and help in furtherance the business objectives of the Company.

DISTRIBUTABLE RESERVES

Details of the movements in reserves of the Group and the Company during the year are set out in note 23 to the financial statements.

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

REPORT OF THE DIRECTORS continued

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 30th June, 2002 are set out in note 14 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

BANKING FACILITIES

Particulars of the banking facilities of the Company as at 30th June, 2002 are set out in note 20 to the financial statements.

COMMITMENTS

Particulars of the commitments and contingent liabilities of the Group as at 30th June, 2002 are set out in notes 26 and 27 to the financial statements.

SHARE OPTION SCHEME

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

The maximum number of Shares in respect of which options may be granted under the Share Option Scheme shall represent 30% of the Company's issued share capital for a specified period of 10 consecutive years (the "10 Year Period") from 8th May, 2001 and shall not, when aggregated with any Shares subject to any other schemes of the Company, exceed 30% of the issued share capital of the Company for the 10 Year Period. No Eligible Person (as defined in the Share Option Scheme) shall be granted an option which, if exercised in full, would result in such Eligible Person (as defined in the Share Option Scheme) becoming entitled to subscribe for such number of Shares as, when aggregated with the total number of Shares already issued under all the options previously granted to him which have been exercised and Shares issuable under all the options previously granted to him which are for the time being subsisting and unexercised, would exceed 25% of the aggregate number of Shares for the time being issued and issuable under the Share Option Scheme.

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

During the year ended 30th June, 2002, no option had been granted under the Share Option Scheme.

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

RETIREMENT BENEFITS SCHEMES

Details of the Group's retirement benefits schemes for the year ended 30th June, 2002 are set out in note 24 to the financial statements.

CONNECTED TRANSACTION

On 1st February, 1999, the Group entered into a lease agreement with Ms. He Yu Zhu, the spouse of Mr. Lin Wan Qaing, 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 constitutes a continuing connected transaction of the Company (as defined under the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"). The Directors considered that such transaction falls under an exempt continuing connected transaction under Rule 20.25(3) of the GEM Listing Rules. Details of the connected transaction are set out in note 28 to the financial statements.

REPORT OF THE DIRECTORS continued

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors

Mr. Lin Wan Qaing	
Mr. Liu Zhao Cai	(Re-appointed as an executive director on 22nd April, 2002)
Mr. Xiang Song	
Mr. Lin Wan Peng	(Resigned on 7th August, 2002)

Independent Non-executive Directors

Mr. Lam Ming Yung
Mr. Pan Chang Chi

In accordance with Article 87 of the Company's Articles of Association, Mr. Lam Ming Yung will retire from office by rotation at the forthcoming annual general meeting of the Company and, being eligible, will offer himself for re-election.

DIRECTORS' SERVICE AGREEMENTS

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, commencing on 8th May, 2001, whilst, the service agreement of Mr. Liu Zhao Cai commencing on 22nd April, 2002 and shall continue thereafter unless and until terminated by either party giving the other not less than six months prior written notice after the expiration of the said initial fixed term.

Each of the Independent Non-executive Directors has entered into an appointment letter with the company for a term of one year commencing on 8th May, 2001 provided that either party may terminate the engagement by giving at least six month's prior written notice.

REPORT OF THE DIRECTORS continued

DIRECTORS' INTERESTS IN SECURITIES

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

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

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

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

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

During the year ended 30th June 2002, no option has been granted under the Share Option Scheme.

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

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

REPORT OF THE DIRECTORS continued

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in Note 17 to the financial statements, there was no contract, commitment or agreement of significance in relation to the Company's business, to which the Company or any of its subsidiaries was a party and in which any of the Directors had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors or the management shareholder of the Company (as defined under the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Group.

INTEREST OF SPONSOR

Pursuant to the sponsorship agreement dated 11th May, 2001 entered into between the Company and Deloitte & Touche Corporate Finance Limited ("DTCFL"), DTCFL has received and will receive fees for acting as the Company's sponsor for the reminder of the financial year of the Company ended 30th June, 2001 and two years thereafter or until the sponsorship agreement is terminated upon the terms and conditions set out therein.

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

MANAGEMENT CONTRACT

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last three financial years is set out on page 72 of the annual report.

COMPLIANCE WITH THE GEM LISTING RULES

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules of the Stock Exchange during the year ended 30th June, 2002.

REPORT OF THE DIRECTORS continued

AUDIT COMMITTEE

The Company has established an audit committee on 8th May, 2001 with written terms of reference based upon the guidelines published by the Hong Kong Society of Accountants. The duties of the audit committee include reviewing the Company's annual reports and quarterly reviews and providing advise and comments thereon to the board of Directors. The audit committee is also responsible for reviewing and supervising the Company's financial reporting and internal control procedures of the group.

As at the date of this Directors' Report, the audit committee comprised of two Independent Non-executive Directors, namely Mr. Lam Ming Yung and Mr. Pan Chang Chi (Mr. Liu Zhao Cai ceased to be a member of the audit committee following his re-appointment as an executive director of the Company on 22nd April, 2002). The audit committee had met three times during the year to discuss the quarterly results and interim results of the Company and had met once to review the final audited results for the year ended 30th June, 2002.

AUDITORS

Arthur Andersen & Co and Charles Chan, Ip & Fung CPA Limited were the joint auditors of the Company since the date of its listing on GEM on 17th May, 2001. Arthur Andersen & Co was resigned as auditors of the Company on 1st August, 2002 and then Charles Chan, Ip & Fung CPA Limited remains as auditors of the Company.

The financial statements for the year were audited by Charles Chan, Ip & Fung CPA Limited who retire at the conclusion of the forthcoming annual general and being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Charles Chan, Ip & Fung CPA Limited as the Company's auditors for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the Board
Lin Wan Qaing
Chairman

Hong Kong, 17th September, 2002

AUDITORS' REPORT

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

Auditors' Report to the Shareholders of
SINOTRONICS HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 34 to 71 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

AUDITORS' REPORT continued

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30th June, 2002 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Charles Chan, Ip & Fung CPA Ltd.
Certified Public Accountants
Hong Kong
17th September, 2002

Chan Wai Dune, Charles
Practising Certificate Number P00712

CONSOLIDATED INCOME STATEMENT

For the year ended 30th June, 2002
(Expressed in Chinese Renminbi)

	Note	2002 RMB'000	2001 RMB'000
Turnover	3	**204,142**	189,128
Cost of sales		**(100,258)**	(91,219)
Gross profit		**103,884**	97,909
Other revenue	4	**2,321**	604
Distribution costs		**(6,485)**	(5,188)
Administrative expenses		**(13,464)**	(8,306)
Other operating expenses		**(3,429)**	(8,632)
Profit from operations		**82,827**	76,387
Finance costs		**(3,567)**	(5,198)
Profit from ordinary activities before taxation	5	**79,260**	71,189
Taxation	6(a)	**(6,656)**	(7,622)
Profit from ordinary activities after taxation		**72,604**	63,567
Minority interests		**(7,837)**	(6,737)
Profit attributable to shareholders	9	**64,767**	56,830
Proposed final dividend	10	**12,804**	—
Earnings per share — Basic	11(a)	**RMB18 cents**	RMB20 cents

The notes on pages 40 to 71 form part of these financial statements.

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

For the year ended 30th June, 2002
(Expressed in Chinese Renminbi)

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

The notes on pages 40 to 71 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

As at 30th June, 2002

(Expressed in Chinese Renminbi)

	Note	2002 RMB'000	2001 RMB'000
Non-current assets			
Fixed assets	13	**93,337**	96,734
Deposits for purchase of machinery		**29,708**	1,025
		123,045	97,759
Current assets			
Inventories	15	**7,406**	8,726
Trade and other receivables	16	**121,702**	90,555
Cash at banks and in hand		**124,351**	63,372
		253,459	162,653
Current liabilities			
Trade and other payables	19	**26,551**	41,360
Short-term bank loans	20	**33,000**	35,000
Current portion of bank borrowings		**—**	7,000
Taxation	6(b)	**2,580**	2,288
		62,131	85,648
Net current assets		**191,328**	77,005
Total assets less current liabilities		**314,373**	174,764
Minority interests		**20,484**	12,646
Net assets		**293,889**	162,118
Capital and reserves			
Share capital	21	**42,678**	36,848
Reserves	23	**251,211**	125,270
		293,889	162,118

Approved and authorised for issue by the board of directors on 17th September, 2002

LIN WAN QAING
Chairman

XIANG SONG
Director

The notes on pages 40 to 71 form part of these financial statements.

BALANCE SHEET

As at 30th June, 2002

(Expressed in Chinese Renminbi)

	Note	2002 RMB'000	2001 RMB'000
Non-current assets			
Fixed assets	13	**97**	297
Investments in subsidiaries	14	**93,974**	93,973
		94,071	94,270
Current assets			
Trade and other receivables	16	**58,566**	23,239
Cash at banks and in hand		**51,251**	25,375
		109,817	48,614
Current liabilities			
Trade and other payables	19	**626**	689
Net current assets		**109,191**	47,925
Net assets		**203,262**	142,195
Capital and reserves			
Share capital	21	**42,678**	36,848
Reserves	23	**160,584**	105,347
		203,262	142,195

Approved and authorised for issue by the board of directors on 17th September, 2002

LIN WAN QAING
Chairman

XIANG SONG
Director

The notes on pages 40 to 71 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30th June, 2002
(Expressed in Chinese Renminbi)

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

CONSOLIDATED CASH FLOW STATEMENT continued

For the year ended 30th June, 2002
(Expressed in Chinese Renminbi)

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June, 2002
(Expressed in Chinese Renminbi)

1. GROUP REORGANISATION AND BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

(a) Reorganisation

The Company was incorporated in the Cayman Islands on 29th September, 2000 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. The Company became the holding company of the Group on 8th May, 2001 through a reorganisation (the "Reorganisation") to rationalise the Group's structure in preparation for the public listing of the Company's shares on the Growth Enterprise Market (the "GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Further details of the Reorganisation are set out in the prospectus dated 11th May, 2001 issued by the Company and the details of the subsidiaries acquired pursuant to the Reorganisation are set out in note 14 to the financial statements. The shares of the Company were listed on the GEM of the Stock Exchange with effect from 17th May, 2001.

(b) Basis of presentation of financial statements

On 8th May, 2001, the Company became the holding company of the other companies comprising the Group pursuant to the Reorganisation involving companies under common control. The Company and its subsidiaries resulting from the Reorganisation have been regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting under which the consolidated financial statements have been prepared as if the Company had been the holding company of the other companies comprising the Group throughout the periods presented, except for any acquisitions or disposals subsequent to the Reorganisation, which are accounted for under the acquisition basis of accounting.

The measurement basis used in the preparation of the financial statements is historical cost modified by the revaluation of land and buildings as explained in the accounting policies set out below.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 30th June, 2002
(Expressed in Chinese Renminbi)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Statement of compliance (continued)

These financial statements also comply with the disclosure requirements of the Listing Rules of the GEM of the Stock Exchange. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of consolidation

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

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

(c) Subsidiaries

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

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

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 30th June, 2002
(Expressed in Chinese Renminbi)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Subsidiaries (continued)

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

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 2(f)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.

(d) Fixed assets

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

— land and buildings held for own use are stated in the balance sheet at their revalued amount, being their open market value at the date of revaluation, and/or subsequent cost less any subsequent accumulated depreciation (see note 2(e)) and impairment losses (see note 2(f)). Revaluations are performed by qualified valuers with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair values at the balance sheet date;

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

— machinery and other fixed assets are stated in the balance sheet at cost less accumulated depreciation (see note 2(e)) and impairment losses (see note 2(f)).

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 30th June, 2002
(Expressed in Chinese Renminbi)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Fixed assets (continued)

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

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

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

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

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

(e) Depreciation

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 30th June, 2002
(Expressed in Chinese Renminbi)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Depreciation (continued)

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

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

(f) Impairment of assets

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

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

— investments in subsidiaries.

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

(i) *Calculation of recoverable amount*

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

(ii) *Reversals of impairment losses*

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

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

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 30th June, 2002
(Expressed in Chinese Renminbi)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Inventories

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

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

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

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

(h) Deferred taxation

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

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

(i) Provisions and contingent liabilities

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

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

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 30th June, 2002
(Expressed in Chinese Renminbi)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Revenue recognition

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

(i) *Sales of goods*

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

(ii) *Interest income*

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

(k) Research and development costs

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

(l) Operating lease charges

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

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 30th June, 2002
(Expressed in Chinese Renminbi)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Translation of foreign currencies

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

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

(n) Retirement costs

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

(o) Borrowing costs

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

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

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 30th June, 2002
(Expressed in Chinese Renminbi)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Cash equivalents

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

(q) Related parties

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

(r) Segment reporting

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 30th June, 2002
(Expressed in Chinese Renminbi)

3. TURNOVER

The Company acts as an investment holding company and the Group is principally engaged in the provision of electronic manufacturing services and the manufacture and sale of electronic products.

Turnover represents the sales value of goods supplied to customers, which excludes value-added tax and is stated after deduction of all goods returns and trade discounts.

4. OTHER REVENUE

	The Group	
	2002	2001
	RMB'000	*RMB'000*
Subsidies*	—	400
Income from a co-operation agreement for trading of electronic components (see note 18 below)	**2,241**	—
Interest income from banks	**80**	204
	2,321	604

* Subsides represents grants received from a provincial government committee in the People's Republic of China (the "PRC") in respect of high technology product development projects carried out by the Group.

5. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

Profit from ordinary activities before taxation is arrived at after charging/(crediting):

	The Group	
	2002	2001
	RMB'000	*RMB'000*
(a) Finance costs		
Interest on bank loans wholly repayable within five years	**2,739**	4,054
Interest on loans from Fujian Furi Electronics Co., Ltd. (note 28(b))	**828**	577
Interest on loan from Fujian Minxiang Electronics Factory (note 28(b))	—	100
Other borrowing costs	—	467
Total borrowing costs	**3,567**	5,198

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 30th June, 2002
(Expressed in Chinese Renminbi)

5. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION (continued)

(b) Other items

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

6. TAXATION

(a) Taxation in the consolidated income statement represents:

	The Group	
	2002	2001
	RMB'000	*RMB'000*
PRC enterprise income tax (see note (iii) below)	**6,656**	7,622

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 30th June, 2002
(Expressed in Chinese Renminbi)

6. TAXATION (continued)

(a) (continued)

Notes:

(i) *Overseas income tax*

The Company is incorporated in the Cayman Islands and is exempted from taxation in the Cayman Islands until 2019. The Company's subsidiaries established in the British Virgin Islands are incorporated under the International Business Companies Acts of the British Virgin Islands and, accordingly, are exempted from British Virgin Islands income taxes.

(ii) *Hong Kong profits tax*

No provision for Hong Kong profits tax has been made as the Group did not derive any income subject to Hong Kong profits tax during both years.

(iii) *PRC enterprise income tax*

Fujian Fuqiang Delicate Circuit Plate Co., Ltd., a subsidiary, is a sino-foreign equity joint venture established in Fuqing, PRC, and is subject to PRC enterprise income tax at a preferential rate of 15% on its profit after offsetting prior year's tax losses. However, it is exempted from PRC enterprise income tax for two years starting from the first year of profitable operations after offsetting prior year's tax losses, followed by a 50% reduction for the following three years. For the two years ended 30th June, 2002 and 2001, Fujian Fuqiang Delicate Circuit Plate Co., Ltd. was chargeable to PRC enterprise income tax at a rate of 7.5%.

(iv) *PRC value-added tax and government surcharges*

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

(v) *Deferred taxation*

No provision for deferred taxation for both years has been made as the effect of all timing differences is immaterial.

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 30th June, 2002
(Expressed in Chinese Renminbi)

6. TAXATION (continued)

(b) Taxation in the consolidated balance sheet represents:

	The Group	
	2002	2001
	RMB'000	*RMB'000*
Provision for PRC enterprise income tax for the current year	**6,656**	7,622
PRC enterprise income tax paid	**(4,437)**	(5,334)
	2,219	2,288
Other tax payables	**361**	—
	2,580	2,288

7. DIRECTORS' REMUNERATION

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

	The Group	
	2002	2001
	RMB'000	*RMB'000*
Fees	**—**	4
Salaries and other emoluments	**1,745**	517
Retirement scheme contributions	**95**	6
	1,840	527

Included in the directors' remuneration were fees of RMBNil (2001: approximately RMB4,000) paid to the two (2001: three) independent non-executive directors during the year.

During the year ended 30th June, 2002, the four (2001: three) executive directors received individual emoluments of approximately RMB496,000 (2001: RMB173,000), RMB806,000 (2001: RMB323,000), RMB385,000 (2001: RMB27,000) and RMB142,000 (2001: RMBNil), respectively.

No directors waived any emoluments during the year. No incentive payments for joining the Group or compensation for loss of office was paid or is payable to any director for the year ended 30th June, 2002 (2001: RMBNil).

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 30th June, 2002
(Expressed in Chinese Renminbi)

7. DIRECTORS' REMUNERATION (continued)

The remuneration of the directors is within the following bands:

	The Group	
	2002	2001
	Number of directors	*Number of directors*
RMBNil – RMB1,060,000 (approximately equivalent to HK$Nil – HK$1,000,000)	**6**	6

8. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2001: two) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other two (2001: three) individuals are as follows:

	The Group	
	2002	2001
	RMB'000	*RMB'000*
Salaries and other emoluments	**949**	530
Retirement scheme contributions	**34**	6
	983	536

During the year ended 30th June, 2002, no emoluments were paid to the five highest paid individuals (including directors and other employees) as inducement to join or upon joining the Group or as compensation for loss of office (2001: RMBNil).

The emoluments of the two (2001: three) individuals with the highest emoluments are within the following bands:

	The Group	
	2002	2001
	Number of individuals	*Number of individuals*
RMBNil – RMB1,060,000 (approximately equivalent to HK$Nil – HK$1,000,000)	**2**	3

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 30th June, 2002
(Expressed in Chinese Renminbi)

9. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a loss of approximately RMB5,937,000 (2001: RMB3,800,000) which has been dealt with in the financial statements of the Company.

10. PROPOSED FINAL DIVIDEND

	The Group	
	2002	2001
	RMB'000	*RMB'000*
Proposed final dividend of HK$0.03 (approximately equivalent to RMB0.0318) per ordinary share (2001: RMBNil)	**12,804**	—

11. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of approximately RMB64,767,000 (2001: RMB56,830,000) and the weighted average of 354,721,000 ordinary shares (2001: 279,000,000 ordinary shares prior to the share offer but after adjusting for the capitalisation issue in 2001) in issue during the year.

(b) Diluted earnings per share

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

12. SEGMENT REPORTING

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

(a) Business segment

Throughout the years ended 30th June, 2002 and 2001, the Group has been involved in operating a single business segment, i.e. the manufacture and sales of circuit printed boards.

(b) Geographical Segment

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 30th June, 2002
(Expressed in Chinese Renminbi)

12. SEGMENT REPORTING (continued)

(b) Geographical Segment (continued)

The Group's business is principally managed in the PRC, and the Group's customers are mainly located in the PRC (excluding Hong Kong), Australia, United States of America and Germany.

	The Group	
	2002	2001
	RMB'000	*RMB'000*
Revenue from external customers		
— PRC, excluding Hong Kong	**182,718**	153,492
— Australia	**17,443**	29,068
— United States of America	**676**	3,024
— Germany	**3,305**	3,351
— Others	**—**	193
Total revenue from external customers	**204,142**	189,128
Other revenue		
— PRC, excluding Hong Kong	**2,293**	604
— Others	**28**	—
Total other revenue	**2,321**	604
Total operating revenue	**206,463**	189,732
Segment results		
— PRC, excluding Hong Kong	**89,255**	75,740
— Australia	**8,521**	14,344
— United States of America	**330**	1,492
— Germany	**1,614**	1,654
— Others	**—**	95
	99,720	93,325
Unallocated operating income and expenses	**(16,893)**	(16,938)
Profit from operations	**82,827**	76,387
Finance costs	**(3,567)**	(5,198)
Taxation	**(6,656)**	(7,622)
Minority interests	**(7,837)**	(6,737)
Profit attributable to shareholders	**64,767**	56,830

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 30th June, 2002
(Expressed in Chinese Renminbi)

12. SEGMENT REPORTING (continued)

(b) Geographical Segment (continued)

	The Group	
	2002	2001
	RMB'000	*RMB'000*
Depreciation		
— PRC, excluding Hong Kong	**6,930**	5,216
— Hong Kong	**151**	105
— Australia	**662**	988
— United States of America	**26**	103
— Germany	**125**	114
— Others	**—**	6
	7,894	6,532

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

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 30th June, 2002
(Expressed in Chinese Renminbi)

13. FIXED ASSETS

(a) The Group

	Land and buildings held for own use	Machinery	Furniture and equipment	Motor vehicles	Construction-in- progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost or valuation						
At 1/7/2001	35,097	58,200	2,470	2,914	18,981	117,662
Additions	421	3,165	590	—	821	4,997
Transfers	11,442	4,873	—	—	(16,315)	—
Disposals	—	—	(330)	—	(360)	(690)
At 30/6/2002	46,960	66,238	2,730	2,914	3,127	121,969
Representing						
At cost	2,492	66,238	2,730	2,914	3,127	77,501
At valuation by a qualified valuer — 31/3/2001	44,468	—	—	—	—	44,468
	46,960	66,238	2,730	2,914	3,127	121,969
Aggregate depreciation						
At 1/7/2001	4,067	14,461	964	1,436	—	20,928
Charge for the year	1,774	5,063	534	523	—	7,894
Written back on disposals	—	—	(190)	—	—	(190)
At 30/6/2002	5,841	19,524	1,308	1,959	—	28,632
Net book value						
At 30/6/2002	41,119	46,714	1,422	955	3,127	93,337
At 30/6/2001	31,030	43,739	1,506	1,478	18,981	96,734

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 30th June, 2002
(Expressed in Chinese Renminbi)

13. FIXED ASSETS (continued)

(b) The Company

	Furniture and equipment *RMB'000*
Cost	
At 1/7/2001	404
Additions	51
Disposals	(330)
At 30/6/2002	125
Aggregate depreciation	
At 1/7/2001	107
Charge for the year	111
Written back on disposals	(190)
At 30/6/2002	28
Net book value	
At 30/6/2002	97
At 30/6/2001	297

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

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

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

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 30th June, 2002
(Expressed in Chinese Renminbi)

14. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2002	2001
	RMB'000	*RMB'000*
Unlisted shares, at cost	**93,974**	93,973

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

Details of the subsidiaries as at 30th June, 2002 were as follows:

Name of company	Place of incorporation and/or operations	Particulars of issued and fully paid share capital/ registered capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by the subsidiary	Principal activities
Superford Holding Limited	British Virgin Islands/ Hong Kong	10,001 shares of US$1 each	100%	100%	—	Investment holding
Artic Hong Kong Limited	Hong Kong	2 shares of HK$1 each	100%	100%	—	Trading of electronic components
Fujian Fuqiang Delicate Circuit Plate Co., Ltd.	PRC	RMB46,000,000	90%	—	90%	Provision for electronic manufacturing services and manufacturing and trading of printed circuit boards
China Electronic Holdings Limited	Hong Kong	2 shares of HK$1 each	100%	100%	—	Not yet commenced business
Dynamic Fortune Technology Limited	British Virgin Islands	100 shares of US$1 each	100%	100%	—	Not yet commenced business

None of the subsidiaries had any loan capital in issued at any time during the years ended 30th June, 2002 and 2001.

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 30th June, 2002
(Expressed in Chinese Renminbi)

15. INVENTORIES

	The Group	
	2002	2001
	RMB'000	*RMB'000*
Raw materials	**6,141**	6,000
Less: Provision for obsolete and slow-moving inventories	**(1,084)**	(2,038)
	5,057	3,962
Work-in-progress	**415**	1,398
Finished goods	**1,934**	3,366
	7,406	8,726

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

16. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB'000	*RMB,000*	***RMB'000***	*RMB'000*
Amounts due from subsidiaries	**—**	—	**58,561**	22,435
Amount due from a director *(note 17)*	**—**	142	**—**	—
Amount due from a minority shareholder	**1,325**	—	**—**	—
Trade receivables	**88,574**	61,211	**—**	—
Advances to suppliers for purchase of raw materials	**11,967**	9,089	**—**	—
Rental and other deposits	**264**	99	**5**	99
Advances to employees	**576**	611	**—**	—
Other receivables *(note 18)*	**16,150**	13,908	**—**	—
PRC input value-added tax recoverable	**2,164**	3,957	**—**	—
Others	**682**	1,538	**—**	705
	121,702	90,555	**58,566**	23,239

The amounts due from subsidiaries and a minority shareholder are unsecured, non-interest bearing and have no fixed terms of repayments.

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

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 30th June, 2002
(Expressed in Chinese Renminbi)

16. TRADE AND OTHER RECEIVABLES (continued)

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

	The Group	
	2002	2001
	RMB'000	*RMB'000*
Current — within 3 months	**65,715**	60,812
Current — 3 to 6 months	**26,661**	3,020
More than 6 months but less than 12 months overdue	**1,851**	5,743
More than 12 months overdue	**5,948**	1,267
	100,175	70,842
Less: Provision for bad and doubtful debts	**(11,601)**	(9,631)
	88,574	61,211

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

17. AMOUNT DUE FROM A DIRECTOR

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

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

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 30th June, 2002
(Expressed in Chinese Renminbi)

18. OTHER RECEIVABLES

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

19. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB'000	*RMB,000*	***RMB'000***	*RMB'000*
Trade payables	**18,419**	19,346	**—**	—
Other payables and accruals	**7,801**	7,191	**576**	689
Loans from related companies	**—**	10,621	**—**	—
Amounts due to related companies	**—**	4,202	**—**	—
Amount due to a director	**331**	—	**50**	—
	26,551	41,360	**626**	689

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

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

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

	The Group	
	2002	2001
	RMB'000	*RMB'000*
Due within 3 month	**6,929**	10,669
Due after 3 month but within 6 months	**2,537**	2,920
Due after 6 months but within 12 months	**3,891**	3,122
Due after 12 months	**5,062**	2,635
	18,419	19,346

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 30th June, 2002
(Expressed in Chinese Renminbi)

20. SHORT-TERM BANK LOANS

Short-term bank loans of the Group bear interest at approximately 5.84% to 6.903% per annum (2001: 7.02% to 9.36%). Further details of the Group's banking facilities are stated in note 25.

21. SHARE CAPITAL

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

Notes:

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

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 30th June, 2002
(Expressed in Chinese Renminbi)

21. SHARE CAPITAL (continued)

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

On the same day, 999,999 ordinary shares of HK$0.10 each were issued at par and credited as fully paid in connection with the Reorganisation referred to in Note 1 (a).

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

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

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

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

22. EMPLOYEE SHARE OPTIONS

The Company has an employee share option scheme, under which it may grant options to employees of the Group (including executive directors of the Company) to subscribe for shares in the Company, subject to a maximum of 10% of the issued share capital of the Company from time to time, excluding for this purpose, shares issued on exercise of options. The subscription price will be determined by the board of directors of the Company and will not be less than the highest of (i) the nominal value of the Company's shares, (ii) the average of the closing price of the shares quoted on the GEM of the Stock Exchange on the five trading days immediately preceding the grant date and (iii) the closing price of the shares on the grant date. No options have been granted since the commencement of the share option scheme.

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 30th June, 2002
(Expressed in Chinese Renminbi)

23. RESERVES

(a) The Group

	Share premium	Contributed surplus *(note (i))*	Capital reserve *(note (ii))*	Property revaluation reserve	Retained profits/ (accumulated losses)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1st July, 2000	—	—	4,738	—	6,789	11,527
Effect of the Reorganisation *(note 1(a))*	—	—	41,377	—	—	41,377
Premium on issue of shares on initial public offering *(note 21 (c))*	57,240	—	—	—	—	57,240
Capitalisation issue of share *(note 21 (d))*	(28,514)	—	—	—	—	(28,514)
Premium on issue of shares upon exercise of an over-allotment option *(note 21 (e))*	8,586	—	—	—	—	8,586
Share issuance expenses	(22,032)	—	—	—	—	(22,032)
Surplus on revaluation of land and buildings	—	—	—	256	—	256
Profit attributable to shareholders	—	—	—	—	56,830	56,830
At 30th June, 2001 and 1st July, 2001	15,280	—	46,115	256	63,619	125,270
Premium on issue of shares upon share placements *(note 21 (f))*	65,455	—	—	—	—	65,455
Share issuance expenses	(4,281)	—	—	—	—	(4,281)
Profit attributable to shareholders	—	—	—	—	64,767	64,767
At 30th June, 2002	76,454	—	46,115	256	128,386	251,211

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 30th June, 2002
(Expressed in Chinese Renminbi)

23. RESERVES (continued)

(b) The Company

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

Notes:

(i) The contributed surplus of the Company represents the difference between the nominal value of the ordinary shares issued by the Company and the net asset value of subsidiaries acquired through an exchange of shares pursuant to the Reorganisation (note 1(a)).

(ii) The capital reserve of the Group represents (i) capital reserve of a subsidiary and (ii) the difference between the nominal value of the ordinary shares issued by the Company and the aggregate of the share capital and share premium of a subsidiary acquired through an exchange of shares pursuant to the Reorganisation (Note 1(a)).

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 30th June, 2002
(Expressed in Chinese Renminbi)

23. RESERVES (continued)

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

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

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

24. RETIREMENT BENEFITS SCHEMES

Hong Kong

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

A new Mandatory Provident Fund scheme (the ''MPF Scheme'') has been set up by the Group for this purpose and employer's contributions are made under the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they became payable in accordance with the rules of the MPF Scheme. Both the Group's and the employees' contributions are subject to a cap of HK$1,000 per month and thereafter are voluntary. The Group's employer contributions vest fully with the employees when contributed to the scheme in accordance with the rules of the MPF Scheme. No forfeited contributions were utilised or available for the year.

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 30th June, 2002
(Expressed in Chinese Renminbi)

24. RETIREMENT BENEFITS SCHEMES (continued)

PRC, other than Hong Kong

The PRC subsidiary of the Group participates in a mandatory central pension scheme organised by the PRC government for certain of its employees, the assets of which are held separately from those of the Group. Contributions made are based on a percentage of the eligible employees' salaries and are charged to the income statement as they became payable, in accordance with the rules of the scheme. The employer's contributions vest fully once they are made.

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

During the year ended 30th June, 2002, the aggregate amount of employer's contributions by the Group in respect of retirement benefits scheme dealt with in the consolidated income statement amounted to approximately RMB1,203,000 (2001: RMB561,000). As at 30th June, 2002, there was no forfeited contributions available to the Group to reduce contributions of staff retirement scheme in future years (2001: RMBNil).

25. BANKING FACILITIES

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

26. COMMITMENTS

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

	The Group	
	2002	2001
	RMB'000	*RMB'000*
Acquisition of fixed assets		
— contracted for	**5,890**	7,167
— authorised but not contracted for	**—**	49,820
	5,890	56,987

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 30th June, 2002
(Expressed in Chinese Renminbi)

26. COMMITMENTS (continued)

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

	The Group	
	2002	2001
	RMB'000	*RMB'000*
Within 1 year	**1,388**	955
After 1 year but within 5 years	**524**	779
	1,912	1,734

27. CONTINGENT LIABILITIES

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

28. MATERIAL RELATED PARTY TRANSACTIONS

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

(a) Recurring transactions

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

	The Group	
	2002	2001
	RMB'000	*RMB'000*
Transportation fee charged by Fujian Furi Container Freight Transport Company *(note (i))*	**1,036**	2,181
Lease rental charged by He Yu Zhu *(note (ii))*	**422**	422

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 30th June, 2002
(Expressed in Chinese Renminbi)

28. MATERIAL RELATED PARTY TRANSACTIONS (continued)

(a) Recurring transactions (continued)

Notes:

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

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

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

(b) Non-recurring transactions

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

	The Group	
	2002	2001
	RMB'000	*RMB'000*
Interest charged by		
— Fujian Furi Electronics Co., Ltd. *(note (i))*	**828**	577
— Fujian Minxiang Electronics Factory *(note (ii))*	**—**	100
	828	677

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

Notes:

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

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

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 30th June, 2002
(Expressed in Chinese Renminbi)

28. MATERIAL RELATED PARTY TRANSACTIONS (continued)

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

	The Group	
	2002	2001
	RMB'000	*RMB'000*
Facilities amounts	—	42,000
Utilised	—	42,000

The above corporate guarantees were released in February 2002.

The directors of the Group are of the opinion that the above related party transactions were conducted on normal commercial terms and in the ordinary course of business.

29. POST BALANCE SHEET EVENTS

(a) On 15th August, 2002, the Group entered into an agreement with Mr. Chen Hong Liang ("Mr. Chen"), an independent third party, for the acquisition by the Group from Mr. Chen of his entire 49% equity interest in Floret Industries Limited at a consideration of RMB47,000,000.

(b) After the balance sheet date, the directors proposed a final dividend. Further details are disclosed in note 10.

30. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to confirm to the current year's presentation.

FINANCIAL SUMMARY

(Amounts expressed in Chinese Renminbi)

	Years ended 30th June,		
	2002	2001	2000
	RMB'000	*RMB'000*	*RMB'000*
Results			
Turnover	**204,142**	189,128	86,756
Profit from operations	**82,827**	76,387	26,196
Finance costs	**(3,567)**	(5,198)	(8,708)
Profit from ordinary activities before taxation	**79,260**	71,189	17,488
Taxation	**(6,656)**	(7,622)	—
Minority interests	**(7,837)**	(6,737)	(8,358)
Profit attributable to shareholders	**64,767**	56,830	9,130
Dividends	**12,804**	—	—
Assets and liabilities			
Fixed assets	**93,337**	96,734	82,752
Other non-current assets	**29,708**	1,025	—
Net current assets/(liabilities)	**191,328**	77,005	(308)
Total assets less current liabilities	**314,373**	174,764	82,444
Non-current liabilities	—	—	(23,636)
Minority interest	**(20,484)**	(12,646)	(5,881)
	293,889	162,118	52,927
Share capital	**42,678**	36,848	41,400
Reserves	**251,211**	125,270	11,527
	293,889	162,118	52,927
Earnings per share			
— Basic	**RMB18 cents**	RMB20 cents	RMB3 cents

Note:

1. Pursuant to a group reorganization scheme in preparation for the listing of the Company's shares on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, the Company became the holding company of the Group on 8th May, 2001. The summary of consolidated assets and liabilities as at 30th June, 2000, 2001 and 2002 and results for the three years ended 30th June, 2000, 2001 and 2002 have been prepared as if the current group structure had been in existence throughout the three years ended 30th June, 2000, 2001 and 2002. Details of the basis of presentation for are set out in Note 1 to the accompanying financial statements.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting (the "Meeting") of Sinotronics Holdings Limited (the "Company") will be held at the Grandroom II, Grand Hyatt Hong Kong, 1 Harbour Road, Hong Kong on 24th October, 2002 at 10:00 a.m. for the following purposes:

1. To receive and approve the audited consolidated financial statements and the reports of the directors and auditors of the Company (the "Directors" and the "Auditors", respectively) for the year ended 30th June, 2002;

2. To approve the payment of final dividend for the year ended 30th June, 2002;

3. To re-elect the retiring Directors and to authorise the Board of Directors (the "Board") to fix the remuneration of the Directors;

4. To re-appoint Auditors and to authorise the Board to fix their remuneration; and

as special business, to consider and, if thought fit, pass with or without amendments the following resolutions as ordinary resolutions:

5A. "**THAT:**

(a) subject to paragraph (c) below, the exercise by the Directors during the Relevant Period of all the powers of the Company to purchase shares (each a "Share") of HK$0.10 each in the capital of the Company on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or on any other stock exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and requirements of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (as amended from time to time) or of any other stock exchange be and is hereby generally and unconditionally approved;

(b) the approval in paragraph (a) shall be in addition to any other authorisation given to the Directors and shall authorise the Directors on behalf of the Company during the Relevant Period to procure the Company to purchase Shares at a price determined by the Directors;

(c) the aggregate nominal amount of the Shares which are authorised to be purchased by the Directors pursuant to the approval in paragraph (a) above shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this resolution, and the said authority shall be limited accordingly;

NOTICE OF ANNUAL GENERAL MEETING continued

(d) for the purposes of this resolution:

"Relevant Period" means the period from the date of passing of this resolution 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 Company's articles of association, the Companies Law (Revised) of the Cayman Islands or any other applicable law of the Cayman Islands to be held; and

(iii) the date upon which the authority set out in this resolution is revoked or varied by way of ordinary resolution of the Company in general meeting."

5B. "**THAT:**

(a) subject to paragraph (c) below, the exercise by the Directors during the Relevant Period of all the powers of the Company to allot, issue and deal with additional shares (each a "Share") in the capital of the Company and to make or grant offers, agreements, options and rights of exchange or conversion which might require the exercise of such powers be and is hereby generally and unconditionally approved;

(b) the approval in paragraph (a) shall be in addition to any other authorisation given to the Directors and shall authorise the Directors during the Relevant Period to make or grant offers, agreements, options and rights of exchange or conversion which might require the exercise of such powers after the end of the Relevant Period;

(c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to the approval granted in paragraph (a), otherwise than pursuant to (i) a Rights Issue, or (ii) the share option scheme of the Company approved by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange, or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on Shares in accordance with the Company's articles of association, shall not exceed 20% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing of this resolution, and the said approval shall be limited accordingly; and

NOTICE OF ANNUAL GENERAL MEETING continued

(d) for the purposes of this resolution:

"Relevant Period" shall have the same meaning as ascribed to it under resolution set out in paragraph 5A(d) of the notice convening this Meeting; and

"Rights Issue" means an offer of Shares open for a period fixed by the Directors to holders of Shares on the register on a fixed record date in proportion to their then holdings of the Shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws or any relevant jurisdiction, or the requirements of any recognised regulatory body or any stock exchange, in any territory outside Hong Kong)."

5C. "**THAT:**

conditional upon the passing of the resolutions set out in paragraphs 5A and 5B of the notice convening the Meeting, the general mandate granted to the Directors pursuant to the resolution set out in paragraph 5B of the notice convening the Meeting be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of share capital of the Company purchased by the Company under the authority granted pursuant to the resolution set out in paragraph 5A of the notice convening the Meeting, provided that such amount shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing of this resolution."

6. To transact any other business.

By Order of the Board
Tong Yiu On
Company Secretary

Hong Kong, 17th September, 2002

Notes:

1. The Register of Members of the Company will be closed from 17th October, 2002 (Thursday) to 24th October, 2002 (Thursday), both days inclusive, during which period no transfer of shares in the Company can be registered. In order to qualify for the final dividend, all completed transfer forms together with the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong namely, Hong Kong Registrars Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 16th October, 2002.

NOTICE OF ANNUAL GENERAL MEETING continued

2. Any shareholder of the Company entitled to attend and vote at the Meeting is entitled to appoint one or more separate proxies to attend and vote instead of him. A proxy need not be a shareholder of the Company.

3. To be valid, a form of proxy in the prescribed form together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy thereof) must be deposited at the Company's principal office in Hong Kong at Room 1805, 18th Floor, Harbour Centre, 25 Harbour Road, Wanchai, Hong Kong not less than 48 hours before the time fixed for holding the Meeting or any adjourned Meeting.

4. With respect to the resolution set out in paragraph 5A of the notice, approval is being sought from shareholders of the Company for a general mandate to be given to the Directors to purchase shares of the Company.

5. With respect to the resolutions set out in paragraphs 5B and 5C of the notice, approval is being sought from shareholders of the Company for general mandates to be given to the Directors to allot, issue and deal with shares of the Company in accordance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

6. An explanatory statement containing the information with respect to the resolutions set out in paragraphs 5A to 5C of the notice will be sent to the shareholders of the Company together with the Company's 2002 annual report.