

The directors (the “Directors” or the “Board”) of Sinotronics Holdings Limited (the “Company”) are pleased to present their annual report together with the audited financial statements of the Company and its subsidiaries and associates (collectively “the Group”) for the year ended 30th June, 2003.

#### LISTING OF THE SHARES ON THE MAIN BOARD

On 20th January, 2003, the Company withdrew the listing of the its shares on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and on the same date, the Company’s shares were listed on the Main Board of the Stock Exchange by way of introduction.

#### 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 13 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	12%	
Five largest customers in aggregate	50%	
The largest supplier		26%
Five largest suppliers in aggregate		63%

None of the directors, their associates or any shareholders 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

Details of the Group’s results for the year ended 30th June, 2003 are set out in the consolidated income statement on page 27 of this annual report.

## DIVIDENDS

The Board recommended the payment of a final dividend of HK\$0.04 (equivalent to approximately RMB0.0424) (2002: HK\$0.03 (equivalent to approximately RMB0.0318)) per share for the year ended 30th June, 2003, subject to shareholders' approval at the forthcoming annual general meeting to be held on 4th November, 2003, to the shareholders whose names appear on the Register of Members of the Company on 4th November, 2003 and will be paid on or around 14th November, 2003. No interim dividend was declared for the six months ended 31st December, 2002 (2001: Nil).

## SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 22 to the financial statements.

## 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, 2003, the distributable reserves of the Company available for distribution to shareholders amounted to approximately RMB147,291,000 (2002: RMB160,584,000) 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 (2002: RMB76,454,000) and RMB81,064,000 (2002: RMB93,867,000), respectively, less accumulated losses of approximately RMB(10,227,000) (2002: RMB9,737,000), 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.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 30th June, 2003, 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 the 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, 2003 are set out in note 15 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 14 to the financial statements.

## BANKING FACILITIES

Particulars of the banking facilities of the Company as at 30th June, 2003 are set out in note 21 to the financial statements.

## COMMITMENTS

Particulars of the commitments and contingent liabilities of the Group as at 30th June, 2003 are set out in notes 26 and 27 respectively to the financial statements.

## SHARE OPTION SCHEME

At the extraordinary general meeting of the Company held on 9th January, 2003, an ordinary resolution was passed to adopt a new share option scheme (the "2003 Scheme") in substitution for and to the exclusion of the share option scheme adopted by the Company on 8th May, 2001 (the "2001 Scheme").

No option has been granted by the Company under the 2001 Scheme since its adoption and up to its termination.

### Summary of the 2003 Scheme:

(a) *Purpose of the 2003 Scheme*

The purpose of the 2003 Scheme is to provide incentives and rewards to Eligible Participants (as defined hereinafter) who contribute to the success of the Group.

(b) *Participants of the 2003 Scheme*

Pursuant to the 2003 Scheme, the Board may offer eligible participants (being employees (whether full time or part time) or executives or officers of the Company or any of its subsidiaries (including executive and non-executive directors of the Company or any of its subsidiaries) and business consultants, agents, legal or financial advisers who the Board considers, in its sole discretion, will contribute or have contributed to the Company or any of its subsidiaries) ("Eligible Participants") options to subscribe for such number of shares in the Company.

**SHARE OPTION SCHEME** *(continued)*(c) *Total number of shares available for issue under the 2003 Scheme*

The total number of shares which may be issued upon exercise of all options to be granted under the 2003 Scheme must not in aggregate exceed 40,262,500 shares, representing 10% of the shares in issue as at the adoption date. The maximum number of shares to be issued upon the exercise of all outstanding options granted and yet to be exercised under the 2003 Scheme must not in aggregate exceed 30% of the relevant shares of the Company in issue from time to time.

As at 30th June, 2003, the total number of shares in respect of which options had been granted and remained outstanding under the 2003 Scheme was 15,000,000, representing approximately 3.73% and 3.65% of the total issued number of shares of the Company as at 30th June, 2003 and 2nd October, 2003 respectively.

(d) *Maximum entitlement of each participant*

The maximum number of shares in respect of which options may be granted to any individual in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point of time. Any further grant of options in excess of this 1% limit shall be subject to the issue of a circular by the Company and the approval of the shareholders in general meeting.

(e) *Option period*

Option may be exercised after it has vested at any time during the period to be notified by the Board at the time of the grant of the option but shall end in any event not later than 10 years from the offer date, subject to the provisions for early termination of the 2003 Scheme.

(f) *Payment on acceptance of option*

Options granted must be taken up within 21 days from the offer date, upon payment of HK\$1.00 per grant.

(g) *Basis of determining the subscription price*

The subscription price per share under the 2003 Scheme is determined by the Board, save that such price must not be less than the highest of (a) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of offer to grant option, which must be a business day; (b) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of offer to grant option; and (c) the nominal value of the share of the Company.



**SHARE OPTION SCHEME (continued)**

 (h) *Remaining life of the 2003 Scheme*

The 2003 Scheme will remain valid until 8th January, 2013.

**Share Options**

The following table discloses movements in the Company's share options of the 2003 Scheme during the year:

Name or category of participant	Date of grant	Outstanding as at 1st July, 2002	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding as at 30th June, 2003	Exercisable period	Exercise price HK\$
<b>(a) Directors</b>									
Tong Yiu On	21st May, 2003	—	4,000,000 <i>(Note a)</i>	—	—	—	4,000,000	21st May, 2003 – 21st May, 2004	0.960
Xiang Song	26th May, 2003	—	3,000,000 <i>(Note b)</i>	—	—	—	3,000,000	26th May, 2003 – 26th May, 2004	1.000
<b>(b) Consultants in aggregate</b>									
	2nd May, 2003	—	4,000,000 <i>(Note c)</i>	—	—	—	4,000,000	2nd May, 2003 – 2nd May, 2004	0.990
	26th May, 2003	—	4,000,000 <i>(Note b)</i>	—	—	—	4,000,000	26th May, 2003 – 26th May, 2004	1.000
		—	15,000,000	—	—	—	15,000,000		

**Notes:**

- (a) The closing price per share immediately before the date on which the option was granted on 21st May, 2003 was HK\$0.970.
- (b) The closing price per share immediately before the date on which the option was granted on 26th May, 2003 was HK\$0.990.
- (c) The closing price per share immediately before the date on which the option was granted on 2nd May, 2003 was HK\$0.980.
- (d) All the options were immediately vested upon granted.

The Directors are of the view that the value of the theoretical value of the options granted during the year depends on a number of variables which are either difficult to ascertain or can only be ascertained on a number of theoretical basis and speculative assumptions. Accordingly, the Directors believed that any calculation of the value of the options will not be meaningful and may be misleading to shareholders in the circumstances.

No charge is recognised in the income statement in respect of the value of the options granted during the year.

## RETIREMENT BENEFITS SCHEMES

Details of the Group's retirement benefits schemes for the year ended 30th June, 2003 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. In the opinion of the independent non-executive Directors of the Company, 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 de minimus on-going connected transaction in accordance with Rule 14.24(5) of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The loan of approximately RMB1,325,000 due from Fujian Furi Electronics Co., Ltd ("Furi Electronics"), a substantial shareholder of Fujian Fuqiang Delicate Circuit Plate Co., Ltd, a subsidiary of the Company has been fully repaid in November 2002 to the Group.

As at 30th June, 2003, the Group had an amount due to Fujian Furi Container Freight Transport Company, which is owned by Fujian Furi Group Company, the holding company of Furi Electronics of approximately RMB973,000 (2002: RMB895,000), arising from transportation fee charged of approximately RMB1,557,000 (2002: RMB1,036,000). The transportation charges are based on normal commercial terms and are conducted in the ordinary and usual course of business of the Group.

## 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  
Mr. Xiang Song  
Mr. Tong Yiu On (appointed on 18th December, 2002)  
Mr. Lin Wan Peng (resigned on 7th August, 2002)

### Independent Non-executive Directors

Mr. Pan Chang Chi  
Mr. Cai Xun Shan (appointed on 18th December, 2002)  
Mr. Lam Ming Yung (resigned on 15th July, 2003)

In accordance with clauses 87(1) and 87(2) of the Company's articles of association, Mr. Liu Zhao Cai will retire by rotation and, being eligible, offer himself for re-election at the forthcoming annual general meeting.



**DIRECTORS** *(continued)*

In accordance with clause 86(3) of the Company's articles of association, Mr. Tong Yiu On and Mr. Cai Xun Shan will retire at the forthcoming annual general meeting and, being eligible, offer themselves 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. The commencement dates of the agreements with each of the executive Directors are as follows:

Mr. Lin Wan Qaing	8th May, 2001
Mr. Liu Zhao Cai	22nd April, 2002
Mr. Xiang Song	8th May, 2001
Mr. Tong Yiu On	18th December, 2002

In all cases, the service agreements shall continue after their respective expiry dates 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.

Save as disclosed above, none of the Directors of the Company has a service agreement with the Company or any of its subsidiaries, which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

**DIRECTORS' INTERESTS IN SECURITIES**

As at 30th June, 2003, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executives of the Company were deemed or taken to have under such provisions of the SFO), or which were recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Listing Rules were as follows:

**Long positions in the shares of the Company**

<b>Names</b>	<b>Capacity</b>	<b>Type of interests</b>	<b>Number of shares</b>	<b>Approximate % of the issued share capital</b>
Lin Wan Qaing	Beneficial owner	Personal	232,203,780	57.67
Xiang Song	Beneficial owner	Personal	3,000,000	0.75
Tong Yiu On	Beneficial owner	Personal	4,000,000	0.99

#### **DIRECTORS' INTERESTS IN SECURITIES** *(continued)*

Save as disclosed above, as at 30th June, 2003, none of the Directors nor the chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Listing Rules, to be notified to the Company and the Stock Exchange.

#### **SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES**

So far as is known to any Directors or chief executives of the Company, as at 30th June, 2003, other than the interests and short positions of the Directors or chief executives of the Company as disclosed above, the Company has not been notified by any persons (other than the Directors or the chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

#### **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES**

Save as disclosed above under the section headed "Share Option Scheme" 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 arrangements to enable the Company's Directors or chief executives 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.

#### **DIRECTORS' INTERESTS IN CONTRACTS**

Save as disclosed in note 28 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.

#### **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 four financial years is set out on page 67 of the annual report.



## CORPORATE GOVERNANCE

None of the Directors is aware of any information that would reasonably indicate that the Company is not or was not, for any part of the accounting period for the year ended 30th June, 2003, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules except that independent non-executive Directors are not appointed for specific terms. According to the articles of association of the Company, one-third of the directors of the Company will retire by rotation every year and their appointments will be reviewed when they are due for re-election which, in the opinion of the Directors, meets the same objectives.

## AUDIT COMMITTEE

The Company has established an audit committee since 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 interim reports and providing advice and comments thereon to the Directors. The audit committee is also responsible for reviewing and supervising the financial reporting and internal control procedures of the Group.

As at the date of this report, the audit committee comprises two independent non-executive Directors, namely, Mr. Pan Chang Chi and Mr. Cai Xun Shan. As at the date of this report, the audit committee has met three times to review the interim and annual results of the Group.

## AUDITORS

Charles Chan, Ip & Fung CPA Limited retires and a resolution for the re-appointment of Charles Chan, Ip & Fung CPA Limited as the Company's auditors will be proposed at the forthcoming annual general meeting.

On behalf of the Board

**Lin Wan Qaing**

*Chairman*

Hong Kong, 2nd October, 2003