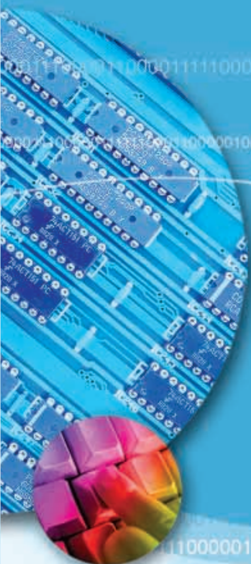
SINOTRONICS HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)



Interim Report 2003

INTERIM REPORT

For the six months ended 31 December 2003

HIGHLIGHTS

- Turnover of the Group for the six months ended 31 December 2003 amounted to approximately RMB129.3 million, representing an increase of about 9.7% as compared with the corresponding period in 2002;

- Net profit attributable to shareholders for the six months ended 31 December 2003 amounted to approximately RMB41.4 million, representing an increase of about 41.2% as compared with the corresponding period in 2002;

- Earnings per share was RMB10.17 cents for the six months ended 31 December 2003, representing an increase of about 39.7% as compared with the corresponding period in 2002;

- Shareholders' funds reached approximately RMB386.6 million

RESULTS

The board (the "Board") of directors (the "Directors") of Sinotronics Holdings Limited ("Sinotronics" or the "Company") is pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 31 December 2003 together with the comparative figures for the corresponding six months ended 31 December 2002 as follows:

Condensed Consolidated Income Statement
For the six months ended 31 December 2003
(Express in Chinese Renminbi)

		(Unaudited) Six months ended 31 December	
		2003	2002
	Notes	***RMB'000***	*RMB'000*
Turnover	3	**129,265**	117,869
Cost of sales		**(70,432)**	(57,286)
Gross profit		**58,833**	60,583
Other revenue	3	**647**	453
Selling and distribution expenses		**(4,133)**	(5,623)
General and administrative expenses		**(7,397)**	(17,929)
Profit from operations		**47,950**	37,484
Finance costs		**(1,166)**	(1,213)
Share of result of an associate		**2,864**	1,501
Profit before taxation	5	**49,648**	37,772
Taxation	6	**(4,102)**	(4,050)
Profit after taxation but before minority interests		**45,546**	33,722
Minority interests		**(4,137)**	(4,391)
Profit attributable to shareholders		**41,409**	29,331
Earnings per share	7		
— basic		**RMB10.17 cents**	RMB7.28 cents
— diluted		**RMB10.15 cents**	N/A

Condensed Consolidated Balance Sheet
As at 31 December 2003
(Express in Chinese Renminbi)

	Notes	**(Unaudited) As at 31 December 2003** *RMB'000*	(Audited) As at 30 June 2003 *RMB'000*
Non-current assets			
Property, plant and equipment	8	**107,369**	108,200
Deposits for purchase of machinery		**6,532**	4,722
Interest in an associate		**50,558**	47,727
Total non-current assets		**164,459**	160,649
Current assets			
Inventories		**6,991**	8,190
Trade and other receivables	9	**132,812**	116,586
Pledged bank deposit	10	**5,339**	5,350
Cash and bank balances		**221,267**	176,108
Total current assets		**366,409**	306,234
Current liabilities			
Trade and other payables	11	**56,341**	30,987
Short-term bank loans		**41,300**	41,800
Taxation		**15,555**	11,102
Total current liabilities		**113,196**	83,889
Net current assets		**253,213**	222,345
Total assets less current liabilities		**417,672**	382,994
Minority interests		**(31,049)**	(28,807)
Net assets		**386,623**	354,187
Capital and reserves			
Share capital	12	**43,526**	42,678
Reserves		**343,097**	311,509
		386,623	354,187

Condensed Consolidated Statement of Changes in Equity

For the six months ended 31 December 2003
(Express in Chinese Renminbi)

	Share capital	Share premium	Capital reserve	Property revaluation reserve	Retained profits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 July 2002	42,678	76,454	46,115	256	128,386	293,889
Dividend paid	—	—	—	—	(12,202)	(12,202)
Profit for the period	—	—	—	—	29,331	29,331
Deficit on revaluation of land and buildings	—	—	—	(256)	—	(256)
At 31 December 2002	42,678	76,454	46,115	—	145,515	310,762
At 1 July 2003	42,678	76,454	46,115	—	188,940	354,187
Issue of shares under exercise of share options	848	7,590	—	—	—	8,438
Dividend paid	—	—	—	—	(17,411)	(17,411)
Profit for the period	—	—	—	—	41,409	41,409
At 31 December 2003	43,526	84,044	46,115	—	212,938	386,623

Condensed Consolidated Cash Flow Statement
For the six months ended 31 December 2003
(Express in Chinese Renminbi)

	2003	2002
	RMB'000	*RMB'000*
Net cash generated from operating activities	**62,612**	69,365
Net cash used in investing activities	**(5,256)**	(34,815)
Net cash used in financing activities	**(12,197)**	(3,615)
Net increase in cash and cash equivalents	**45,159**	30,935
Effect of foreign exchange rate changes	**—**	329
Cash and cash equivalents at 1 July	**176,108**	124,351
Cash and cash equivalents at 31 December	**221,267**	155,615
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	**221,267**	155,615

Notes to Condensed Accounts

For the six months ended 31 December 2003
(Express in Chinese Renminbi)

1. BACKGROUND OF THE COMPANY

The Company was incorporated in the Cayman Islands on 29 September 2000 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. Its shares had been listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited since 17 May 2001. On 20 January 2003, the Company withdrew the listing of its shares on the GEM and on the same date, the Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited by way of introduction.

2. BASIS OF PREPARATION

The unaudited interim financial statements have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants and the disclosure requirement of Appendix 16 of the Rules Governing The Listing of Securities on the Stock Exchange of Hong Kong Limited. The accounting policies and methods of computation used in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 30 June 2003 except for the changes as described below:

SSAP 12 (Revised) "Income Taxes"

In prior years, deferred tax liabilities were provided using the liabilities method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonable probability to crystallies in the foreseeable future. Future deferred tax benefits were not recognised unless their realisation was assured beyond reasonable doubt.

With effect from 1 July 2003, in order to comply with Statement of Standard Accounting Practice 12 (Revised) "Income taxes" issued by the Hong Kong Society of Accountants, the Group adopted a new accounting policy for deferred tax. A balance sheet method is used to recognise deferred tax in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. The effect of adopting the new accounting policy has been applied retrospectively. The adoption of this revised accounting policy had no significant effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment is required.

3. TURNOVER AND OTHER REVENUE

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, and trading of electronic components.

Turnover and revenue consisted of:

	Six months ended 31 December	
	2003	2002
	RMB'000	*RMB'000*
Turnover — Sales of printed circuit boards	**129,265**	117,869
Other revenue		
Interest income from banks	**610**	446
Others	**37**	7
Total revenue	**129,912**	118,322

4. SEGMENT REPORTING

Segment 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 each of the six months ended 31 December 2003 and 2002, the Group has been operating in a single business segment, i.e. the manufacture and sales of circuit printed boards.

(b) Geographical segment

In preparing 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.

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

	Six months ended 31 December	
	2003	2002
	RMB'000	*RMB'000*
Revenue from external customers		
— PRC, excluding Hong Kong	**109,782**	96,131
— Australia	**15,896**	17,260
— United States of America	**567**	428
— Germany	**—**	1,271
— Others	**3,020**	2,779
	129,265	117,869
Other revenue		
— PRC, excluding Hong Kong	**646**	326
— Others	**1**	127
Total other revenue	**647**	453
Total operating revenue	**129,912**	118,322
Segments results		
— PRC, excluding Hong Kong	**47,203**	45,194
— Australia	**6,583**	8,114
— United States of America	**249**	201
— Germany	**—**	598
— Others	**1,312**	1,306
	55,347	55,413
Unallocated operating income and expenses	**(7,397)**	(17,929)
Profit from operation	**47,950**	37,484
Finance costs	**(1,166)**	(1,213)
Share of result of an associate	**2,864**	1,501
Taxation	**(4,102)**	(4,050)
Minority interests	**(4,137)**	(4,391)
Profit attributable to shareholders	**41,409**	29,331
Depreciation		
— PRC, excluding Hong Kong	**4,160**	3,693
— Australia	**602**	663
— United States of America	**22**	16
— Germany	**—**	49
— Others	**114**	107
	4,898	4,528

More than 90% of the segment assets and capital expenditure are in the PRC, including Hong Kong, as at and for the periods ended 31 December 2003 and 2002.

5. PROFIT BEFORE TAXATION

Profit before taxation is determined after charging and crediting the following items:

	Six months ended 31 December	
	2003	2002
	RMB'000	*RMB'000*
After charging		
Cost of inventories	**70,432**	57,286
Staff cost		
— contribution to deferred contribution plans	**770**	644
— salaries, wages and other benefits	**5,945**	5,267
	6,715	5,911
Interest on bank loans wholly repayable within five years	**1,166**	1,213
Amortisation of positive goodwill included in share of results of the associate	**1,702**	—
Depreciation of property, plant and equipment	**4,898**	4,528
Deficit on revaluation of land and buildings	**—**	752
Net exchange loss	**273**	—
After crediting		
Net exchange gain	**—**	41

6. TAXATION

Taxation consisted of:

	Six months ended 31 December	
	2003	2002
	RMB'000	*RMB'000*
Company and subsidiaries		
PRC enterprise income tax		
— provision for current period	**4,069**	4,050
Associate		
PRC enterprises income tax		
— provision for current period	**33**	—
	4,102	4,050

The Company is exempted from taxation in the Cayman Islands until 2019. No provision for Hong Kong profits tax was made as the Group had no assessable profit in Hong Kong.

Fujian Fuqiang Delicate Circuit Plate Co., Ltd. ("Fujian Fuqiang") a subsidiary, is a sino-foreign equity joint venture established in Fuqing, the PRC, and is subject to PRC enterprise income tax at a preferential rate of 15% on its profit after offsetting prior years' 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 years' tax losses, followed by a 50% reduction for the following three years. During the six months ended 31 December 2003, Fujian Fuqiang was chargeable to PRC enterprise income tax at a rate of 7.5% (2002: 7.5%).

There is no significant unprovided deferred taxation for both interim periods.

7. EARNINGS PER SHARE

(a) Basis earnings per share

The calculation of the basic earnings per share for the six months ended 31 December 2003 was based on the unaudited consolidated profit attributable to shareholders of approximately RMB41,409,000 (2002: RMB29,331,000) and the weighted average number of 407,362,705 (2002: 402,625,000) ordinary shares in issue during the period.

(b) Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 31 December 2003 was based on the unaudited consolidated profit attributable to shareholders of approximately RMB41,409,000 and the weighted average number of 408,108,838 ordinary shares after adjusting for the effect of all dilutive potential ordinary shares.

Diluted earnings per share for the six months ended 31 December 2002 was not presented as there were no dilutive potential ordinary shares in existence during the period.

8. PROPERTY, PLANT AND EQUIPMENT

For the six months ended 31 December 2003, the Group acquired property, plant and equipment amounting to approximately RMB4,067,000 (six months ended 31 December 2002: RMB15,430,000).

9. TRADE AND OTHER RECEIVABLES

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

	As at 31 December 2003 *RMB'000*	As at 30 June 2003 *RMB'000*
Current — within 3 months	**83,771**	87,216
Current — 3 to 6 months	**7,240**	12,846
More than 6 months but less than 12 months overdue	**6,485**	1,356
More than 12 months overdue	**1,208**	2,392
	98,704	103,810
Less: Provision for bad and doubtful debts	**(9,141)**	(9,141)
	89,563	94,669

The Group generally allows credit period ranging from 60 to 180 days to its trade customers.

10. PLEDGED BANK DEPOSIT

	As at 31 December 2003 *RMB'000*	As at 30 June 2003 *RMB'000*
Maturing after three months from placement	**5,339**	5,350

This bank deposit is pledged to a bank for a bank loan granted to the Group.

11. TRADE AND OTHER PAYABLES

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

	As at 31 December 2003 *RMB'000*	As at 30 June 2003 *RMB'000*
Due within 3 months	**11,607**	11,166
Due after 3 months but within 6 months	**3,373**	1,004
Due after 6 months but within 12 months	**1,255**	836
Due after 12 months	**2,788**	1,571
	19,023	14,577

12. SHARE CAPITAL

During the six months ended 31 December 2003, options were exercised to subscribe for 8,000,000 ordinary shares of HK$0.10 each at a exercise price ranging from HK$0.99 to HK$1.00 per share for a total consideration of HK$7,960,000 (approximately equivalent to RMB8,438,000), of which HK$800,000 (approximately equivalent to RMB848,000) was credited to share capital and the balance of HK$7,160,000 (approximately equivalent to RMB7,590,000) was credited to share premium.

13. COMMITMENTS

(a) Capital commitments outstanding at 31 December 2003 not provided for in the consolidated financial statements were as follows:

	As at 31 December 2003 *RMB'000*	As at 30 June 2003 *RMB'000*
Acquisition of fixed assets		
— contracted for	**4,198**	5,756
— authorised but not contracted for	**—**	—
	4,198	5,756

(b) As at 31 December 2003, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	As at 31 December 2003	As at 30 June 2003
	RMB'000	*RMB'000*
Within 1 year	**1,196**	652
After 1 year but within 5 year	**471**	150
	1,667	802

14. RELATED PARTY TRANSACTIONS

The Group entered into the following transactions with related parties during the period:

	Six months ended 31 December	
	2003	2002
	RMB'000	*RMB'000*
Transportation fee charged by Fujian Furi Container Freight Transport Company *(note (i))*	**423**	604
Lease rental changed by He Yu Zhu *(note (ii))*	**211**	211

Notes:

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

As at 31 December 2003, the Group had an amount due to Fujian Furi Container Freight Transport Company of approximately RMB698,000 (30 June 2003: RMB541,000) arising from transportation fees charged by this related company included in trade payables. Such amount is unsecured, non-interest bearing and without pre-determined repayment terms. Transportation fees changed by Fujian Furi Container Freight Transport Company was under similar terms as it trades with other customers.

(ii) During the six months ended 31 December 2003, the Group entered into lease arrangement with Ms. He Yu Zhu, the spouse of Mr. Lin Wan Quing who is the controlling shareholder and a director of the Company, for leasing for an office property in Fuzhou the PRC. Lease charged by Ms. He Yu Zhu was determined on the basis of estimated market value.

15. POST BALANCE SHEET EVENTS

(a) After the balance sheet, on 16 January 2004, the Company entered into a placing and subscription agreement with Mr. Lin Wan Qaing ("Mr. Lin") and under which Mr. Lin, a substantial shareholder and director of the Company, placed 57,000,000 ordinary shares of the Company at a price of HK$1.40 per share and subscribed for 57,000,000 new ordinary shares of the Company at a price of HK$1.40 per share. The net proceeds of approximately HK$77 million (approximately equivalent to RMB82 million) will be used for further developing the Group's Printed Circuit Board (PCB) fabrication capacity and as the Group's additional working capital.

(b) After the balance sheet date, on 10 February 2004, the Group has entered into a sale and purchase agreement to acquire land and buildings in the PRC at a consideration of RMB35,943,584.

16. REVIEW OF INTERIM FINANCIAL STATEMENTS

The Company's Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing control and financial reporting matters including the review of the Group's unaudited interim results for the six months ended 31 December 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

With the gradual recovery of global economy and the continuous demand in the electronics industry, the Group was able to achieve encouraging interim results with increase in both turnover and net profit for the six months ended 31 December 2003.

By possessing its unique market strength, the Group has stood well on its industry in the provision of one-stop services throughout the production cycle of PCBs. During the period under review, the Group has successfully tapped into the PRC market and looked for other business co-operations with quality electronic manufacturing services ("EMS") providers' customers. The Group also offered a wide range of customized solution with small volume orders, and dedicated in the design and manufacture of printed circuit boards ("PCBs"); therefore, Sinotronics achieved significant sales orders from a numbers ODM customers, which in turn boosted up the sales and sustained customer relationship in the PRC.

Another main factor for the Group to be succeeded was its well-established relationship with its customers. Sinotronics has been maintaining several years of good relationships with its main customers. With this close bonding with customers, the Group built up trust with different customers by providing professional technical intelligence and support, which helped Sinotronics to develop its solid foundation in the PRC market.

On front of the products, the Group strived to enhance its product portfolio and quality to satisfy its customers' needs. Currently, the Group is developing its capabilities for producing a new range of PCB products, including thick copper PCBs and flexible diffraction PCBs. The thick copper PCBs are widely used in the manufacturing of automobiles, while the flexible diffraction PCBs with its uniqueness in mechanical flexure and 3-D shape are applicable to various portable electronic devices.

In addition to strictly adhere the international ISO/TS 16949 standards throughout the entire production process, the Group implemented latest production facilities imported from Germany and Japan to achieve steady production of flawless PCBs. The Group also purchased PROBE TESTER, an advanced tester which can further shorten the cycle of prototyping and improve its overall quality efficiency.

The Group has employed about 30 staff to further enhance the engineering capabilities in the production of PCBs. The Group is well-equipped to offer its customers a one-stop manufacturing package together with value added services including design of sub-systems and assembly outsourcing services to satisfy its customers' needs.

Future Prospect

Anticipating the growing market demand for PCB products, the Group will further increase its PCB fabrication capacity for both its core products: double-sided and multilayer PCBs, and newly launched products: flexible PCB and thick copper large power supply PCB. In view of its current high utilization level, the Group will undertake technical improvement of its existing production lines and introduce advanced production equipment, making its monthly production capacity reaching 40,000 square metres by the end of 2004.

On the other hand, the Group's expansion is on track with the newly acquired Huizhou plant in Guangdong Province. The acquisition and installation of new machinery is divided into two phrases. The Group expects the new Huizhou plant will become operational in 2005 and its production capacity will be increased by another 40,000 to 50,000 square metres per month.

Barring unforeseen circumstance, the Group expects to have an encouraging growth in the second half of the financial year. The Group is now well-prepared to grasp the growth potential in the PRC electronics industry by continuously providing one-stop EMS service with high quality. Moreover, the Group will continue to enhance its design capability and production technology in order to provide seamless and market-oriented EMS to its customers.

Financial Performance

For the six months ended 31 December 2003, the Group recorded a turnover of approximately RMB129,265,000, representing an increase of approximately 9.7% as compared to the previous year. The gross profit for the period under review was approximately RMB58,833,000 as compared to approximately RMB60,583,000 for the previous period. The profit attributable to shareholders for the period reached approximately RMB41,409,000, representing an increase of approximately 41.2% compared with that of last year. The earnings per share for the period amounted to RMB10.17 cents, representing an increase of 39.7% as compare with previous year. The increase in the turnover for the period under review was mainly due to the expansion of the production capacity, the increasing levels of technology, advanced PCBs design capability as well as well-established client relationship. These activities helped improving economies of scale, diversifying the product range, successfully developed new customers, created new market segments and captured the market opportunities and added to profitability. The decrease in gross profit for the period under review was mainly attributable to the gone up of the raw material prices. The substantial increase in profit attributable to shareholders for the period under review was mainly due to the fact that an one-off expenses relating to transferal of the shares listed from GEM to main board of approximately RMB7,436,000 had been incurred during the last corresponding period.

Segmental Information

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

	Turnover	**Profit from operations**
	RMB'000	*RMB'000*
Single and double-sided PCBs	59,489	19,639
Multilayer PCBs	69,776	28,311
	129,265	47,950

The increase in the Group's turnover for the period ended 31 December 2003 was mainly attributable to the increase in sales of both the single and double-sided PCBs and multilayer PCBs and the provision of relevant design and assembly services to the customers. During the period ended 31 December 2003, sales of single and double-sided PCBs and multilayer PCBs amounted to approximately RMB59,489,000 and RMB69,776,000 respectively, representing an increase of approximately 11.3% and approximately 8.3% respectively over the last period. Sales within the PRC represented approximately 109,782,000 of the Group's total turnover, posting a growth of approximately 14.2% as compared to the last period. Sales to Australia, the US, Germany and other overseas countries represented the remaining approximately 15.1% of the Group's total turnover.

Segment 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.

Throughout the six months ended 31 December 2003 and 2002, the Group has been operating in a single business segment, i.e. the manufacturing and sale of printed circuit boards.

Liquidity and Financial Resources and Capital Structure

During the six months ended 31 December 2003, the Group's working capital requirement was principally financed by its internal resources and banking facilities.

As at 31 December 2003, the Group had outstanding loan facilities of approximately RMB41,300,000 (as at 30 June 2003 : RMB41,800,000) from several banks which were all short term and 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 31 December 2003 increased by approximately RMB32,436,000 to approximately RMB386,623,000 (30 June 2003: RMB354,187,000). The gearing ratio (calculated as the ratio of current liabilities plus non-current liabilities : shareholders' equity) of the Group as at 31 December 2003 was approximately 0.29 (30 June 2003: 0.24).

During the six months ended 31 December 2003, the Company increased the issued share capital of 8,000,000 shares of HK$0.1 each due to the exercise of share options for cash totaling HK$7,960,000.

In January 2004, arrangements were made for a placement of 57,000,000 shares of HK$0.10 each in the issued capital of the Company ("Shares") and a subscription for 57,000,000 new Shares by Mr. Lin Wan Qaing both at HK$1.40 per Share, representing a discount of approximately 7.30% and 4.80% to the closing price on 15 January 2004 and the average closing price of the previous ten trading days ended on 15 January 2004 respectively. A total of approximately HK$77,000,000, net of expenses, was raised for the Group, of which approximately HK$75,000,000 for the further developing the Group's printed circuit board fabrication capacity and the remainder of approximately HK$2,000,000 for general working capital of the Group.

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

Significant Investments

In October 2002, the Company acquired 49% of the issued share capital of Floret Industries where the Floret Group 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 utilize PCBs as their components. During the six months ended 31 December 2003, the associates made a profit contribution of approximately RMB2,864,000 to the Group. In view of the increasing power demand will put pressure on the power supply, and the power industry reform will be further deepened. The management of the Company will continue put optimization of the Floret Group's prospect and profitability.

Saved as disclosed above, the Group had no other significant investment held.

Acquisition and disposal of Subsidiaries and Associated Companies

For the six months ended 31 December 2003, the Group had no material acquisition and disposals of subsidiaries and affiliated companies.

Employment Information

As at 31 December 2003, the Group employed a total of 555 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 six months ended 31 December 2003, the employment cost (including directors' emoluments) amounted to approximately RMB6,715,000. In order to align the interests of staff, directors and consultants with the Group, share options were granted to directors and consultants under the Company's share option schemes. Shares options have granted to directors and consultants and the remained outstanding at the period ended aggregate 7,000,000 shares.

Charge on Assets

As at 31 December 2003, a fixed deposit of HK$5,000,000 (equivalent to approximately RMB5,350,000) has been pledged to a bank for bank loan of RMB4,800,000 granted to the group.

Future Plans for Material Investments and Expected Sources of Funding

In February 2004, in order to cope with the increasing demand for the Group's products, the Group entered into the purchase agreement with an independent third party in relation to the acquisition of land and buildings in Danshui, Huizhou, Shenzhen, the PRC. The premises acquired by the Group had a site area and an aggregate gross floor area of approximately 50,000 sq.m. and 28,000 sq.m. respectively for a term of 50 years commencing in 2001 and expiring in 2051. The consideration of the acquisition amounted to approximately RMB36.0 million, which the Group expected to be satisfied by internal resources.

Saved as disclosed elsewhere in the Management Discussion and Analysis, as at 31 December 2003, 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 “Future Plan and Prospects” in the listing document of the Company dated 24 December 2002.

Exposure to Fluctuations in Exchange Rates

During the six months ended 31 December 2003, the Group experienced only immaterial exchange rate fluctuations as most of the Group’s monetary assets and liabilities are denominated in Hong Kong Dollars and Renminbi, 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.

Contingent Liabilities

As at 31 December 2003, the Group had no contingent liabilities.

DIVIDENDS

The Board does not recommend the payment of any interim dividend for the six months ended 31 December 2003 (2002: Nil).

DIRECTORS’ INTERESTS IN SECURITIES

As at 31 December 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 of Hong Kong Limited (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 executive 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 Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Names	**Capacity**	**Type of interests**	**Number of shares**	**Approximate % of the issued share capital**
Lin Wan Qaing	Beneficial owner	Personal	245,267,780	59.73%
Xiang Song	Beneficial owner	Personal	3,000,000	0.73%
Tong Yiu On	Beneficial owner	Personal	4,000,000	0.97%

Saved as disclosed above, as at 31 December 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.

SHARE OPTIONS

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

Name or category of participant	Date of grant	Outstanding as at 1 July 2003	Granted during the period	Exercised during the period	Cancelled during the period	Lapsed during the period	Outstanding as at 31 December 2003	Exercisable period	Exercise price *HK$*
(a) Directors									
Tong Yiu On	21 May 2003	4,000,000	—	—	—	—	4,000,000	21 May 2003 – 21 May 2004	0.960
Xiang Song	26 May 2003	3,000,000	—	—	—	—	3,000,000	26 May 2003 – 26 May 2004	1.000
(b) Consultants in aggregate	2 May 2003	4,000,000	—	4,000,000	—	—	—	2 May 2003 – 2 May 2004	0.990
	26 May 2003	4,000,000	—	4,000,000	—	—	—	26 May 2003 – 26 May 2004	1.000
		15,000,000	—	8,000,000	—	—	7,000,000		

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

So far as is known to any Directors or chief executive of the Company, as at 31 December 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 arrangement 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.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 31 December 2003, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The Company has established an audit committee on 8 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 Group's annual report and accounts and half-year report and to provide advise and comments thereon to the board of directors. The audit committee is also responsible for reviewing and supervising the Group's financial reporting and internal control.

The audit committee comprised 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 had met to review interim results of the Group.

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 six months ended 31 December 2003, in compliance with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

On behalf of the Board
Lin Wan Qaing
Chairman

Hong Kong, 22 March 2004