



**SINOTRONICS HOLDINGS LIMITED**

*(Incorporated in the Cayman Islands with limited liability)*

2004-2005

INTERIM REPORT ►►

# INTERIM REPORT

For the six months ended 31 December 2004

## HIGHLIGHTS

- Turnover of the Group for the six months ended 31 December 2004 amounted to approximately RMB159.1 million, representing an increase of about 23.10% as compared with the corresponding period in 2003;
- Profit from operations for the six months ended 31 December 2004 amounted to approximately RMB57.8 million, representing an increase of about 20.62% as compared with the corresponding period in 2003;
- Net profit attributable to shareholders for the six months ended 31 December 2004 amounted to approximately RMB42.60 million, representing an increase of about 2.87% as compared with the corresponding period in 2003;
- Earnings per share was RMB9.11 cents for the six months ended 31 December 2004;
- Shareholders' funds reached approximately RMB532.9 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 2004 together with the comparative figures for the corresponding six months ended 31 December 2003 as follows:

### Condensed Consolidated Income Statement

For the six months ended 31 December 2004

(Express in Chinese Renminbi)

		(Unaudited)	
		Six months ended 31 December	
		2004	2003
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	3	<b>159,121</b>	129,265
Cost of sales		<b>(87,154)</b>	(70,432)
Gross profit		<b>71,967</b>	58,833
Other revenue	3	<b>944</b>	647
Other net income		<b>699</b>	—
Selling and distribution expenses		<b>(4,400)</b>	(4,133)
General and administrative expenses		<b>(11,372)</b>	(7,397)
Profit from operations		<b>57,838</b>	47,950
Finance costs		<b>(3,467)</b>	(1,166)
Share of result of an associate		<b>1,124</b>	2,864
Profit before taxation	5	<b>55,495</b>	49,648
Taxation	6	<b>(9,721)</b>	(4,102)
Profit after taxation but before minority interests		<b>45,774</b>	45,546
Minority interests		<b>(3,175)</b>	(4,137)
Profit attributable to shareholders		<b>42,599</b>	41,409
Earnings per share	7		
— basic		<b><u>RMB9.11 cents</u></b>	<u>RMB10.17 cents</u>
— diluted		<b><u>RMB9.11 cents</u></b>	<u>RMB10.15 cents</u>

**Condensed Consolidated Balance Sheet**  
As at 31 December 2004  
(Express in Chinese Renminbi)

		(Unaudited) As at 31 December 2004 RMB'000	(Audited) As at 30 June 2004 RMB'000
	<i>Notes</i>		
<b>Non-current assets</b>			
Property, plant and equipment	8	176,089	111,912
Negative goodwill	9	(13,287)	—
Interest in an associate		51,506	50,410
Deposits for purchase of fixed assets		62,512	58,574
Loan receivable	10	—	30,000
Total non-current assets		<u>276,820</u>	<u>250,896</u>
<b>Current assets</b>			
Inventories		18,055	12,074
Loan receivable	10	30,000	—
Trade and other receivables	11	193,133	148,763
Short-term investment		200	—
Pledged bank deposit	12	5,329	5,329
Cash and bank balances		<u>280,200</u>	<u>314,027</u>
Total current assets		<u>526,917</u>	<u>480,193</u>
<b>Current liabilities</b>			
Trade and other payables	13	100,590	54,570
Short-term bank loans		78,547	70,300
Obligations under finance leases	14	8,755	—
Taxation		<u>3,953</u>	<u>6,389</u>
Total current liabilities		<u>191,845</u>	<u>131,259</u>
<b>Net current assets</b>		<u>335,072</u>	<u>348,934</u>
<b>Total assets less current liabilities</b>		<b>611,892</b>	<b>599,830</b>
<b>Non-Current liabilities</b>			
Obligations under finance leases	14	6,707	—
Non-current bank loans		<u>49,629</u>	<u>57,876</u>
<b>Minority interests</b>		<u>56,336</u>	<u>57,876</u>
		<u>22,706</u>	<u>34,354</u>
<b>Net assets</b>		<u>532,850</u>	<u>507,600</u>
<b>Capital and reserves</b>			
Share capital		49,568	49,568
Reserves		<u>483,282</u>	<u>458,032</u>
		<u>532,850</u>	<u>507,600</u>

## Condensed Consolidated Statement of Changes in Equity

For the six months ended 31 December 2004

(Express in Chinese Renminbi)

	<b>Share capital</b>	<b>Share premium</b>	<b>Capital reserve</b>	<b>Retained profits</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
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
	<u>43,526</u>	<u>84,044</u>	<u>46,115</u>	<u>212,938</u>	<u>386,623</u>
At 31 December 2003					
At 1 July 2004	49,568	159,175	46,115	252,742	507,600
Dividend paid	—	—	—	(17,349)	(17,349)
Profit for the period	—	—	—	42,599	42,599
	<u>49,568</u>	<u>159,175</u>	<u>46,115</u>	<u>277,992</u>	<u>532,850</u>
At 31 December 2004					

## Condensed Consolidated Cash Flow Statement

For the six months ended 31 December 2004

(Express in Chinese Renminbi)

	<b>2004</b> <i>RMB'000</i>	2003 <i>RMB'000</i>
Net cash generated from operating activities	<b>23,465</b>	62,612
Net cash used in investing activities	<b>(52,130)</b>	(5,256)
Net cash used in financing activities	<b>(5,162)</b>	(12,197)
Net (decrease)/increase in cash and cash equivalents	<b>(33,827)</b>	45,159
Effect of foreign exchange rate changes	—	—
Cash and cash equivalents at 1 July	<b>314,027</b>	176,108
Cash and cash equivalents at 31 December	<b>280,200</b>	221,267
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	<b>280,200</b>	221,267

## Notes to Condensed Accounts

For the six months ended 31 December 2004

(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 (the “Stock Exchange”) 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 by way of introduction.

### 2. BASIS OF PREPARATION

The unaudited interim financial statements have been prepared in accordance with Statement of Standard Accounting Practice No. 25 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirement of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

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 2004.

### 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 other revenue consisted of:

	Six months ended 31 December	
	2004	2003
	RMB'000	RMB'000
Turnover — Sales of printed circuit boards	159,121	129,265
Other revenue		
Interest income from banks	638	610
Others	306	37
	<u>944</u>	<u>647</u>
Total revenue	<u>160,065</u>	<u>129,912</u>

#### 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 2004 and 2003, the Group has been operating in a single business segment, i.e. the manufacture and sales of printed circuit 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.



#### 4. SEGMENT REPORTING (Continued)

	Six months ended 31 December	
	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
<b>Revenue from external customers</b>		
— PRC, excluding Hong Kong	126,503	109,782
— Hong Kong	1,434	—
— Australia	23,435	15,896
— United States of America	519	567
— Germany	1,823	—
— Others	5,407	3,020
	<u>159,121</u>	<u>129,265</u>
Other revenue		
— PRC, excluding Hong Kong	745	646
— Others	199	1
	<u>944</u>	<u>647</u>
Total other revenue		
	<u>944</u>	<u>647</u>
Total operating revenue	<u>160,065</u>	<u>129,912</u>
<b>Segments results</b>		
— PRC, excluding Hong Kong	54,922	47,203
— Hong Kong	828	—
— Australia	10,276	6,583
— United States of America	227	249
— Germany	800	—
— Others	2,371	1,312
	<u>69,424</u>	<u>55,347</u>
Unallocated operating income and expenses	<u>(11,586)</u>	<u>(7,397)</u>
Profit from operation	57,838	47,950
Finance costs	(3,467)	(1,166)
Share of result of an associate	1,124	2,864
Taxation	(9,721)	(4,102)
Minority interests	(3,175)	(4,137)
	<u>42,599</u>	<u>41,409</u>
Profit attributable to shareholders		
	<u>42,599</u>	<u>41,409</u>
<b>Depreciation</b>		
— PRC, excluding Hong Kong	5,314	4,160
— Hong Kong	115	—
— Australia	870	602
— United States of America	19	22
— Germany	68	—
— Others	201	114
	<u>6,587</u>	<u>4,898</u>

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 2004 and 2003.

## 5. PROFIT BEFORE TAXATION

Profit before taxation is determined after charging/(crediting) the following items:

	<b>Six months ended 31 December</b>	
	<b>2004</b>	2003
	<b>RMB'000</b>	RMB'000
<b>After charging</b>		
Cost of inventories	87,154	70,432
Staff cost		
— contribution to deferred contribution plans	377	770
— salaries, wages and other benefits	7,696	5,945
	8,073	6,715
Interest on bank loans wholly repayable within five years	3,212	1,166
Finance lease charges	255	—
Amortisation of negative goodwill	(699)	—
Amortisation of positive goodwill included in share of results of the associate	2,269	1,702
Depreciation of property, plant and equipment		
— assets held under finance leases	703	—
— other assets	5,884	4,898
	6,587	4,898
Net exchange loss	355	273

## 6. TAXATION

Taxation consisted of:

	<b>Six months ended 31 December</b>	
	<b>2004</b>	2003
	<b>RMB'000</b>	RMB'000
<b>Company and subsidiaries</b>		
PRC enterprise income tax		
— provision for current period	9,693	4,069
<b>Associate (Share of taxation attributable to the associate)</b>		
PRC enterprises income tax		
— provision for current period	28	33
	9,721	4,102

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 estimated 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. Fujian Fuqiang was chargeable to PRC enterprise income tax at a rate of 7.5% and 15% for the period ended from 1 July 2003 to 31 December 2003 and from 1 July 2004 to 31 December 2004, respectively.

Gemini Electronics (Huizhou) Co., Ltd. (“Gemini Electronics”), a subsidiary, is a wholly foreign owned enterprise established in Huizhou, the PRC, and is subject to PRC enterprise income tax at a preferential rate of 30% 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. For the period ended 31 December 2004, no provision for PRC enterprise income tax has been made in the financial statements of Gemini Electronics as it sustained loss for taxation purposes.

Shuangxiang (Fujian) Electronics Limited (“Shuangxiang Electronics”), a subsidiary, is a wholly foreign owned enterprise established in Fuzhou, 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. For the period ended 31 December 2004, no provision for PRC enterprise income tax has been made in the financial statements of Shuangxiang Electronics as it sustained loss for taxation purposes.

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

## **7. EARNINGS PER SHARE**

### **(a) Basic earnings per share**

The calculation of the basic earnings per share for the six months ended 31 December 2004 was based on the unaudited consolidated profit attributable to shareholders of approximately RMB42,599,000 (2003: RMB41,409,000) and the weighted average number of 467,625,000 (2003: 407,362,705) 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 2004 was based on the unaudited consolidated profit attributable to shareholders of approximately RMB42,599,000 (2003: RMB41,409,000) and the weighted average number of 467,652,015 (2003: 408,108,838) ordinary shares after adjusting for the effect of all dilutive potential ordinary shares.

## 8. PROPERTY, PLANT AND EQUIPMENT

For the six months ended 31 December 2004, the Group acquired property, plant and equipment amounting to approximately RMB70,764,000 (six months ended 31 December 2003: RMB4,067,000).

At 31 December 2004, net book value of fixed assets held by the Group under finance leases amounted to approximately RMB24,426,000 (six months ended 31 December 2003: Nil)

## 9. NEGATIVE GOODWILL

*RMB'000*

### Cost

Addition through acquisition of additional interest in a subsidiary and at 31 December 2004	<b>13,986</b>
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### Accumulated amortisation

Amortisation for the period and at 31 December 2004	<u><b>(699)</b></u>
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### Carrying amount

At 31 December 2004	<u><b>13,287</b></u>
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Negative goodwill is recognised as income on a straight-line basis over ten years. The amortisation of negative goodwill for the period is included in "other net income" in the consolidated income statement.

## 10. LOAN RECEIVABLE

The loan receivable from an independent third party is unsecured, bears interest at 8% per annum and is repayable in March 2009. During the period, the repayment period was amended. In January 2005, the loan has been settled in full.

## 11. TRADE AND OTHER RECEIVABLES

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

	<b>As at 31 December 2004 RMB'000</b>	As at 30 June 2004 RMB'000
Current — within 3 months	<b>81,513</b>	113,633
Current — 3 to 6 months	<b>61,512</b>	17,459
More than 6 months but less than 12 months overdue	<b>1,195</b>	7,696
More than 12 months overdue	<b>7,503</b>	4,548
	<b>151,723</b>	143,336
Less: Provision for bad and doubtful debts	<b>(14,941)</b>	(14,941)
	<b>136,782</b>	128,395

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

## 12. PLEDGED BANK DEPOSIT

	<b>As at 31 December 2004 RMB'000</b>	As at 30 June 2004 RMB'000
Maturing after three months from placement	<b>5,329</b>	5,329

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

## 13. TRADE AND OTHER PAYABLES

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

	<b>As at 31 December 2004 RMB'000</b>	As at 30 June 2004 RMB'000
Due within 3 months	<b>24,832</b>	10,258
Due after 3 months but within 6 months	<b>6,607</b>	1,614
Due after 6 months but within 12 months	<b>3,705</b>	1,745
Due after 12 months	<b>3,126</b>	594
	<b>38,270</b>	14,211

#### 14. OBLIGATIONS UNDER FINANCE LEASES

At 31 December 2004, the Group had obligations under finance leases repayable as follows:

	<b>As at 31 December 2004 RMB'000</b>	As at 30 June 2004 RMB'000
Due within 1 year	<b>8,755</b>	—
Due after 1 year but within 2 years	<b>6,707</b>	—
	<b><u>15,462</u></b>	<u>—</u>

#### 15. COMMITMENTS

(a) Capital commitments outstanding at 31 December 2004 not provided for in the consolidated financial statements were as follows:

	<b>As at 31 December 2004 RMB'000</b>	As at 30 June 2004 RMB'000
Contracted for — acquisition of fixed assets	<b>65,279</b>	80,021

(b) As at 31 December 2004, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	<b>As at 31 December 2004 RMB'000</b>	As at 30 June 2004 RMB'000
Within 1 year	<b>1,359</b>	1,110
After 1 year but within 5 years	<b>2,325</b>	538
	<b><u>3,684</u></b>	<u>1,648</u>

#### 16. RELATED PARTY TRANSACTIONS

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

	<b>Six months ended 31 December 2004 RMB'000</b>	2003 RMB'000
Lease rental charged by He Yu Zhu ( <i>note</i> )	<b>211</b>	211

*Note:*

During the six months ended 31 December 2004, 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 for an office property in Fuzhou, the PRC. Lease charged by Ms. He Yu Zhu was determined on the basis of estimated market value.

## **17. 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 2004.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

For the six months ended 31 December 2004, the Group recorded an unaudited consolidated turnover of RMB159,121,000 (2003: RMB129,265,000), representing a growth of 23.10% as compared with the corresponding period last year. During the period under review, the profit attributable to shareholders was RMB42,599,000 (2003: RMB41,409,000), representing a growth of 2.87% as compared with the same period last year.

With the sustained recovery of global economy in early 2004, the strong market demand in electronic products propelled the revival of the electronics industry worldwide, in particular the consumer electronics sector. The Group, being a PCB manufacturer and electronic manufacturing services provider, was also benefited from such favourable market development. The PRC's accession to the WTO has provided further impetus to the outsourcing of electronic manufacturing services, as led by the leading global enterprises in electronic products. However the trend of out-sourcing the products and services under the supply chain to low-cost regions, such as the PRC and Southeast Asian countries has provided the Group with enormous potential for development.

Witnessing the improvement of market environment and the incessant growth of market demand of PCB, the Group expedited its pace of the development of the downstream chain industries. During the period under review, the Group's newly-established "Shuangxiang (Fujian) Electronics Limited" ("Mawei Plant"), located at Fuzhou Mawei State-level Economic and Technical Development Zone, Fujian, the PRC, has commenced operations and has been providing PCB assembly services to customers. As at the year-end of 2004, Mawei Factory had two SMT production lines and two SI lines installed, which is capable of providing a series of ancillary solution including the design of sub-system, production of prototype samples, low-volume production and testing services. The plant has commenced full-scale operation in late September and its customers included Start Network. Shuangxiang has completed the commercial negotiation with Fujian EPSON and it is expected that we will provide production services for them from May 2005.

In addition to its vertical development of PCB assembly services, the Group has also established the flexible PCB production line in Huizhou, Guangdong, the PRC ("Huizhou Plan") to cope with the strong demand arising from the rapid development of consumer electronics products. The production line commenced trial production in November 2004 and has produced prototype samples for acclaimed brands, such as Samsung and Philips. In pursuance for better services,



the management has established a perfect management system under the guidelines of International Organization for Standardization during the early stage of the plant construction. The plant was awarded ISO9001:2000 by SGS in February 2005.

Despite the business segments of PCB assembly services and flexible PCB only account for a small proportion to the Group's total turnover at present stage, the management is confident that the revenue and profit contribution from such two business segments will gradually increase and become one of the Group's major underlying propellants of growth in future.

### **Future Prospect**

Looking forward to the first-half of 2005, the Group is committed to consolidate its existing businesses in order to serve clients with electronic manufacturing services in better quality and higher efficiency. The Group will also take an initiative in studying the opportunities of strategic merger and acquisition, with a view to achieving a better scale of operations under the expanded capacity through additional production lines and the use of other sophisticated technology.

The PCB assembly facilities that commenced operation last September constitute an integral part of the Group's future business development strategy. Such strategy not only allows the Group to stretch its business into downstream industry chain under the vertical development, but also reinforces the Group's position in the market of "one-stop" electronic manufacturing services and facilitates the Group in building up the strategic partnership and a closer relationship with clients. The Group shall continue to develop the downstream industry in future for extending its scope of services and reinforcing its position as a "one-stop" electronic manufacturing services provider.

The Group's flexible PCB production lines, formally commenced operations in January 2005, provide quality flexible PCBs at competitive price to manufacturers of consumer electronics around the global and such products will be applied in their portable consumer electronics products. With the growing popularity of portable electronic products, the market demand to flexible PCBs grows quickly and the Group will grasp firmly such opportunity to develop the PCB business proactively. Given the profit margin for producing flexible PCBs is higher than traditional PCBs, it is expected that the flexible PCBs business segment will bring substantial contribution and revenue to the Group in future.

Leveraging on the Group's professional expertise and extensive experience in electronic manufacturing services and with the remarkable results as achieved in the first half of the year, the management is full of confidence in the Group's business

development in the second half of the year and expects that the Group will achieve outstanding performance in the full-year results and will bring fruitful returns to shareholders.

## Financial Performance

For the six months ended 31 December 2004, the Group recorded a turnover of approximately RMB159,121,000, representing an increase of approximately 23.10% as compared to the 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 gross profit for the period under review was approximately RMB71,967,000 as compared to approximately RMB58,833,000 for the previous period. The profit before taxation for the period under review reached approximately RMB55,495,000, representing an increase of approximately 11.78% as compared with previous year. The profit attributable to shareholders for the period reached approximately RMB42,599,000, representing an increase of approximately 2.87% compared with that of last year notwithstanding the commencement of full-scale and trial productions of two subsidiaries in September and November and the expiry of tax holiday of a subsidiary resulting in the increase in general and administrative expenses and taxation respectively. The earnings per share for the period amounted to RMB9.11 cents.

## Segmental Information

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

	<b>Turnover</b> <i>RMB'000</i>	<b>Profit from operations</b> <i>RMB'000</i>
Single and double-sided PCBs	72,657	21,362
Multilayer PCBs	<u>86,464</u>	<u>36,476</u>
	<u>159,121</u>	<u>57,838</u>

The increase in the Group's turnover for the period ended 31 December 2004 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 2004, sales of single and double-sided PCBs and multilayer PCBs amounted to approximately RMB72,657,000 and RMB86,464,000 respectively, representing an increase of approximately 22.14% and approximately 23.92% respectively over the last period. Sales within the PRC represented approximately RMB126,503,000 of the Group's total turnover, posting a growth of approximately 15.23% as compared to the last period. Sales to Australia, the US, Germany and other overseas countries represented the remaining approximately 20.50% 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 2004 and 2003, 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 2004, the Group's working capital requirement was principally financed by its internal resources and banking facilities.

As at 31 December 2004, the Group had outstanding bank loan facilities of approximately RMB128,176,000 (as at 30 June 2004 : RMB128,176,000) from several banks, of which approximately RMB78,547,000 for short term and the remainder of approximately RMB49,629,000 for long term, and all were fully utilized as at the date thereof. Included in these short term bank loans of approximately RMB4,500,000 was secured by bank deposit. The remaining balance of the short term loan of approximately RMB74,047,000 and the long term loan of approximately RMB49,629,000 were unsecured. Besides, the Group had obligations under finance leases of approximately RMB15,462,000. The total borrowings were mainly for business expansion, capital expenditure and working capital purposes. The Group's short term and long term borrowings were mainly denominated in Hong Kong Dollars, Renminbi and US Dollars respectively. Loan facilities were granted to the Group at the normal market interest rates.

The shareholders' equity of the Group as at 31 December 2004 increased by approximately RMB25,250,000 to approximately RMB532,850,000 (30 June 2004: RMB507,600,000). The gearing ratio (calculated as the ratio of current liabilities plus non-current liabilities : shareholders' equity) of the Group as at 31 December 2004 was approximately 0.47 (30 June 2004: 0.37).

There is no movements in the Company's share capital since the latest annual date of 30 June 2004.

### **Significant Investments**

As of 31 December 2004, the Group held a 49% shareholding in Floret Industries Limited ("Floret"). Floret had an effective 83% interest in Fuzhou Tin Fong, which is principally engaged in the R&D of computer hardware, software and systems as well as the provision of ancillary services in relation to power supply systems. During the period under review, the associates made a profit contribution of approximately RMB1,124,000 to the Group. In view of the positive growth in the computer market and the increasing power demand in the power industry in the PRC, the management decided to keep Floret as the strategic investment of the Group.

In accordance with the details set out in Announcement dated 19 January 2005, in order to minimize the confusion and concerns of the shareholders and public confusion, the investment agreement the Group entered into in March 2004 were terminated in January 2005 and the investment amount had been remitted in January 2005.

Saved as disclosed elsewhere in the Management Discussion and Analysis, the Group had no significant investment held.

### **Acquisition of Subsidiaries**

As at 31 December 2004, one of the Company's subsidiaries, Fujian Fuqiang Delicate Circuit Plate Co Ltd., increase its registered capital by RMB46 million to RMB92 million, the increased registered capital was wholly contributed by the Group.

Save as disclosed elsewhere in the Management Discussion and Analysis, the Group had no material acquisition and disposals of subsidiaries and affiliated companies.

## **Employment Information**

As at 31 December 2004, the Group employed a total of 1,145 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 2004, the employment cost (including directors' emoluments) amounted to approximately RMB8,073,000. 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. As at the date of this report, options to subscribe for an aggregate of 32,000,000 shares in the Company has been granted under the 2003 Scheme.

## **Charge on Assets**

As at 31 December 2004, a fixed deposit of HK\$5,000,000 (equivalent to approximately RMB5,329,000) has been pledged to a bank for bank loan of RMB4,500,000 granted to the Group.

## **Future Plans for Material Investments and Expected Sources of Funding**

Saved as disclosed elsewhere in the Management Discussion and Analysis, as at 31 December 2004, 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.

The management will continue to monitor the industry and review its business expansion plans regularly, so as to take necessary measures in the Group's best interests.

## **Exposure to Fluctuations in Exchange Rates**

During the six months ended 31 December 2004, the Group experienced only immaterial exchange rate fluctuations as most of the Group's monetary assets and liabilities are denominated in Hong Kong Dollars, US Dollars and Renminbi, and the Group also 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's 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 2004, the Group had no material contingent liabilities.

## DIVIDENDS

The Board did not recommend the payment of any interim dividend for the six months ended 31 December 2004 (2003: Nil).

## DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2004, 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 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 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	52.45%

Saved as disclosed above, as at 31 December 2004, 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 2004 Scheme during the period:

Name or category of participant	Date of grant	Outstanding	Granted	Exercised	Cancelled	Lapsed	Outstanding	Exercisable period	Exercise price HK\$	
		as at 1 July 2004	during the period	during the period	during the period	during the period	as at 31 December 2004			
<i>(a) Directors</i>										
Lin Wan Qaing	17 December 2004	—	4,000,000	—	—	—	4,000,000	17 December 2004 – 17 December 2005	0.890	
Chen Yan Shun	17 December 2004	—	2,500,000	—	—	—	2,500,000	17 December 2004 – 17 December 2005	0.890	
Liu Zhao Cai	17 December 2004	—	2,500,000	—	—	—	2,500,000	17 December 2004 – 17 December 2005	0.890	
Xiang Song	17 December 2004	—	2,500,000	—	—	—	2,500,000	17 December 2004 – 17 December 2005	0.890	
Tong Yiu On	17 December 2004	—	2,500,000	—	—	—	2,500,000	17 December 2004 – 17 December 2005	0.890	
<i>(b) Employees</i>										
	17 December 2004	—	18,000,000	—	—	—	18,000,000	17 December 2004 – 17 December 2005	0.890	
		—	32,000,000	—	—	—	32,000,000			

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 31 December 2004, according to the register of members kept by the Company pursuant to section 336 of the SFO and so far as is known to, or can be ascertained after reasonable enquiry by the Directors, the following director/entity had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly, or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote on all circumstances at general meetings of the Company:

Name	Capacity	Number of shares (Note)	Approximate % of the issued share capital
Lin Wan Qiang	Beneficial owner	245,267,780(L)	52.45%
FMR Corp.	Investment manager	23,448,000(L)	5.01%

*Note:*

The letter "L" denotes the person's/entity's long position in the shares.

Same as disclosed above, the Company has not been notified of any other interests or short positions representing 5% or more of the issued share capital of the Company and recorded in the register maintained under Section 336 of the SFO.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Save as disclosed above under the section headed "Share Options" above, at no time during the period 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 2004, 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 Institute of Certified Public 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 three Independent Non-executive Directors, namely Mr. Pan Chang Chi, Mr. Cai Xun Shan and Mr. Cheung Chuen. As at the date of this report, the audit committee had met to review interim results of the Group.

## CODE OF BEST PRACTICE AND MODEL CODE

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 2004, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules which was in force prior to 1 January 2005 and remains applicable for the accounting periods commencing before 1 January 2005, except that all independent non-executive directors are not appointed for a specific term during the period but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the articles of association of the Company.

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors (the "Code"). Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Code for the period under review.

On behalf of the Board  
**Lin Wan Qaing**  
*Chairman*

Hong Kong, 23 March 2005