Sinotronics Holdings Limited

華翔微電子控股有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock code: 1195)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 30 JUNE 2005

FINANCIAL SUMMARY

The Board of Directors (the "Board" or the "Directors") of Sinotronics Holdings Limited (the "Company" or "Sinotronics") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 30 June 2005 together with the comparative figures for the corresponding year ended 30 June 2004, prepared in accordance with accounting principles generally accepted in Hong Kong. The figures in respect of the preliminary announcement of the Group's results for the year ended 30 June 2005 have been compared by the Company's auditors, KPMG, Certified Public Accountants, to the amounts set out in the Group's audited financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect was limited and did not constitute an audit, review or other assurance engagement and consequently no assurance has been expressed by the auditors on this Announcement.

Consolidated Income Statement

For the year ended 30 June 2005

	Note	**2005** **RMB'000**	2004 *RMB'000* *(restated)*
Turnover	2	**369,787**	301,255
Cost of sales		**(222,783)**	(164,906)
Gross profit		**147,004**	136,349
Other revenue	3	**2,948**	1,860
Distribution costs		**(3,901)**	(6,466)
Administrative expenses		**(27,599)**	(15,944)
Other operating expenses		**(6,163)**	(8,083)
Profit from operations		**112,289**	107,716
Finance costs	4(a)	**(8,787)**	(7,043)
Share of profits less losses of associates		**6,655**	2,683
Loss on disposal of associates		**(5,065)**	—
Profit from ordinary activities before taxation	4	**105,092**	103,356
Taxation	5	**(18,274)**	(14,700)

Profit from ordinary activities after taxation		**86,818**	88,656
Attributable to:			
Equity holders of the parent		**80,427**	81,214
Minority interests		**6,391**	7,442
Profit after taxation		**86,818**	88,656
Dividends attributable to the year:	6		
Final dividend proposed after the balance sheet date		**17,349**	17,349
Earnings per share	7		
Basic		**17 cents**	19 cents
Diluted		**16 cents**	19 cents

Consolidated Balance Sheet
As at 30 June 2005

	Note	**2005** **RMB'000**	2004 *RMB'000* *(restated)*
Non-current assets			
Property, plant and equipment		**193,529**	107,653
Interest in leasehold land held for own use under operating lease		**2,653**	2,784
Interests in associates		**—**	50,410
Purchase deposits of property, plant and equipment		**9,123**	58,574
Loan receivable		**—**	30,000
Deferred tax assets		**2,905**	—
		208,210	249,421
Current assets			
Trading securities		**192**	—
Inventories		**21,237**	12,074
Trade and other receivables	9	**180,110**	148,763
Pledged bank deposit		**5,329**	5,329
Cash and cash equivalents		**540,915**	314,027
		747,783	480,193
Current liabilities			
Trade and other payables	10	**101,139**	54,570
Short-term bank loans		**110,657**	70,300
Obligations under finance leases		**9,899**	—

Taxation	**6,359**	6,389
	228,054	131,259
Net current assets	**519,729**	348,934
Total assets less current liabilities	**727,939**	598,355
Non-current liabilities		
Non-current bank loans	**33,134**	57,876
Obligations under finance leases	**3,083**	—
Convertible bonds	**69,228**	—
	105,445	57,876
NET ASSETS	**622,494**	540,479
Capital and reserves		
Share capital	**49,568**	49,568
Reserves	**547,078**	456,704
Total equity attributable to equity holders of the parent	**596,646**	506,272
Minority interests	**25,848**	34,207
TOTAL EQUITY	**622,494**	540,479

Notes:

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs" which term collectively include all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong ("HKGAAP") and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. The Board of Directors has determined the accounting policies to be adopted, in the preparation of the Group's annual financial statements for the year ended 30 June 2005, on the basis of HKFRSs currently in issue. A summary of the significant accounting policies adopted by the Group is set out below.

The Group has early adopted all HKFRSs issued up to 30 June 2005 pertinent to its operations. The applicable HKFRSs are set out below and the financial statements for the year ended 30 June 2004 have been restated in accordance with the relevant requirements.

Number	Topic
HKAS 1	Presentation of financial statements
HKAS 2	Inventories
HKAS 7	Cash flow statements
HKAS 8	Accounting policies, changes in accounting policies and errors
HKAS 10	Events after balance sheet date
HKAS 12	Income taxes
HKAS 14	Segment reporting
HKAS 16	Property, plant and equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee benefits
HKAS 21	The effects of changes in foreign exchange rates
HKAS 23	Borrowing costs
HKAS 24	Related party disclosures
HKAS 26	Accounting and reporting by retirement benefit plans
HKAS 27	Consolidated and separate financial statements
HKAS 28	Investments in associates
HKAS 32	Financial instruments: Disclosure and presentation
HKAS 33	Earnings per share
HKAS 36	Impairment of assets
HKAS 37	Provisions, contingent liabilities and contingent assets
HKAS 39	Financial instruments: Recognition and measurements
HKFRS 2	Share-based payment
HKFRS 3	Business combination
HK(SIC)-15	Operating leases — Incentives

Effect of change in the accounting policies on consolidated balance sheets

	Share based payment HKFRS 2	**Leasehold land and buildings HKAS 17**	**Convertible bonds HKAS 39**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 July 2003 (Equity only)				
Decrease in equity				
Retained earnings	—	(1,477)	—	(1,477)
At 30 June 2004				
(Decrease)/increase in assets				
Property, plant and equipment	—	(4,259)	—	(4,259)
Interest in leasehold land	—	2,784	—	2,784
Decrease in equity				
Retained earnings	—	(1,475)	—	(1,475)
At 30 June 2005				
(Decrease)/increase in assets				
Property, plant and equipment	—	(4,063)	—	(4,063)
Interest in leasehold land	—	2,653	—	2,653
Decrease/(increase) in liabilities/equities				
Convertible bond	116	—	11,132	11,248
Convertible bond reserves	21	—	(11,764)	(11,743)
Share based compensation reserve	(1,453)	—	—	(1,453)
Retained earnings	1,316	(1,406)	632	542
Minority interests	—	(4)	—	(4)

HKFRS 2 — The new accounting policies have been applied retrospectively with comparatives restated in accordance with HKFRS 2, except that the Group has taken advantage of the transitional provisions set out in paragraph 53 of HKFRS 2 under which the new recognition and measurement policies have not been applied to the following grants of options:

(a) all options granted to employees on or before 7 November 2002; and

(b) all options granted to employees after 7 November 2002 but which had vested before 1 July 2004.

HKAS 17 — The new accounting policies have been adopted retrospectively, with the opening balances of retained profits and the comparative information adjusted for the amounts relating to prior periods.

HKAS 39 — The new accounting policies are adopted for convertible bonds. Convertible bonds issued are split into their liability and equity components at initial recognition by recognising the liability component at its fair value and attributing to the equity component the difference between the proceeds from the issue and the fair value of the liability component. The liability component is subsequently carried at amortised cost. The equity component is recognised in the capital reserve until the bond is either converted (in which case it is transferred to share premium) or the bond is redeemed (in which case it is released directly to retained profits).

2. TURNOVER

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

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

3. OTHER REVENUE

	The Group	
	2005	2004
	RMB'000	*RMB'000*
Other revenue		
Interest income from banks	**2,642**	1,823
Others	**306**	37
	2,948	1,860

4 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

	The Group	
	2005	2004
	RMB'000	*RMB'000*
		(restated)
(a) Finance costs:		
Interest on bank loans wholly repayable within five years	**6,939**	4,147
Finance charges on obligations under finance leases	**659**	—
Interest on convertible bonds wholly repayable within five years	**1,090**	—
Other borrowing costs	**99**	2,896
Total borrowing costs	**8,787**	7,043
(b) Staff costs: #		
Contributions to defined contribution plans	**1,800**	572
Employees share option benefits	**1,496**	—
Salaries, wages and other benefits	**14,527**	12,804
	17,823	13,376

(c) **Other items:**

Cost of inventories #	**222,783**	164,906
Amortisation of positive goodwill included in share of profits less losses of associates	**—**	4,537
Amortisation of interest in leasehold land held for own use under operating lease #	**131**	131
Depreciation #		
— owned fixed assets	**16,064**	10,205
— assets held for use under finance lease	**60**	—
Operating lease rentals for premises #	**663**	1,337
Research and development costs	**673**	576
Auditors' remuneration	**1,435**	594
Provision for bad and doubtful debts	**3,513**	5,800
Bad debts written off	**743**	162
Loss derived from trading securities	**8**	—
Net exchange (gain)/loss	**(6)**	265

\# Cost of inventories includes RMB27,483,000 (2004: RMB15,523,000) relating to staff cost, depreciation expenses, operating lease charges and amortisation of interest in leasehold land held for own used under operating lease, which amount is also included in the respective total amounts disclosed separately above or in note 4(b) for each of these types of expenses.

5. TAXATION

Taxation in the consolidated income statement represents:

	The Group	
	2005	2004
	RMB'000	*RMB'000*
		(restated)
Current tax — Overseas		
Provision for PRC enterprise income tax (see note (iii) below)	**21,464**	14,700
Overprovision in respect of prior years	**(285)**	—
	21,179	14,700
Deferred tax		
Origination and reversal of temporary differences	**(2,905)**	—
	18,274	14,700

Notes:

(i) *Overseas income tax*

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

(ii) *Hong Kong profits tax*

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

(iii) *PRC enterprise income tax*

The Group's subsidiaries in the PRC are subject to PRC enterprise income tax at a preferential rate of 15%. In accordance with the relevant tax rules and regulations in the PRC, all subsidiaries in the PRC are fully exempted from PRC enterprise income tax for two years starting from the first year of profitable operations after offsetting prior year's tax losses, followed by a 50% reduction of PRC income tax for the next three years.

Fujian Fuqiang Delicate Circuit Plate Co., Ltd was chargeable to PRC enterprise income tax at 7.5% for the period from 1 January 2003 to 31 December 2003 and at 15% since 1 January 2004. While the remaining subsidiaries in the PRC sustained loss for taxation purposes until 30 June 2005 have not yet started their tax holiday.

6. DIVIDENDS

(a) Dividends attributable to the year

	The Group	
	2005	2004
	RMB'000	*RMB'000*
Final dividend proposed after the balance sheet date of HK$0.035 (equivalent to approximately RMB0.0371) per ordinary share (2004: HK$0.035 (equivalent to approximately RMB0.0371) per ordinary share)	**17,349**	17,349

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividends attributable to the previous financial year, approved and paid during the year

	The Group	
	2005	2004
	RMB'000	*RMB'000*
Final dividend of HK$0.035 (equivalent to approximately RMB0.0371 per ordinary share (2004: HK$0.04 (equivalent to approximately RMB0.0424 per ordinary share)) in respect of the previous financial year, approved and paid during the year	**17,349**	17,410

7. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of approximately RMB80,427,000 (2004: RMB81,214,000) and the weighted average number of 467,625,000 (2004: 432,977,000) ordinary shares in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to shareholders of approximately RMB79,478,000 as adjusted for interest on convertible bonds of RMB949,000 and the weighted average number of 486,702,000 ordinary shares in issue during the year after adjusting for the effect of all dilutive potential shares. There were no dilutive potential ordinary shares in existence during the year ended 30 June 2004.

	The Group	
	2005	2004
	thousand	*thousand*
Weighted average number of ordinary shares used in calculating basic earnings per share	**467,625**	432,977
Deemed issue of ordinary shares as a result of conversion of convertible bonds for no consideration	**19,077**	—
	486,702	432,977

8. 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 the years ended 30 June 2005 and 2004, the Group has been primarily involved in the manufacture and sales of printed circuit boards.

(b) Geographical segment

In presenting information on the basis of geographical segments, segment revenue is based on 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 PRC, and the Group's customers are mainly located in the PRC (including Hong Kong and Taiwan), Australia, United States of America and Germany.

	The Group	
	2005	2004
	RMB'000	*RMB'000*
		(restated)
Segment revenue		
— PRC, excluding Hong Kong and Taiwan	**307,006**	250,521
— Hong Kong	**2,219**	3,183
— Taiwan	**16,603**	11,147
— Australia	**39,144**	31,562
— United States of America	**1,132**	1,097
— Germany	**3,300**	3,691
— Others	**383**	54
Total revenue from external customers	**369,787**	301,255
Other revenue		
— PRC, excluding Hong Kong and Taiwan	**2,502**	1,824
— Hong Kong	**446**	36
Total other revenue	**2,948**	1,860
Total operating revenue	**372,735**	303,115
Segment assets		
— PRC, excluding Hong Kong and Taiwan	**856,890**	656,487
— Others	**99,103**	73,127
	955,993	729,614
Capital expenditures		
— PRC, excluding Hong Kong and Taiwan	**92,830**	13,957
— Others	**—**	—
	92,830	13,957

There is no major disparity in the ratios between turnover and profit in relation to the above geographical locations, hence no analysis is given of the profit contributions from the above geographical locations.

9. TRADE AND OTHER RECEIVABLES

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

	The Group	
	2005	2004
	RMB'000	*RMB'000*
Invoice date:		
within 3 months	**128,848**	113,633
3 to 6 months	**39,111**	17,459
6 to 12 months	**3,643**	7,696
More than 12 months	**1,668**	4,548
	173,270	143,336
Less: Provision for bad and doubtful debts	**(17,900)**	(14,941)
	155,370	128,395

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

10. TRADE AND OTHER PAYABLES

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

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

	The Group	
	2005	2004
	RMB'000	*RMB'000*
Due within 6 months or on demand	**47,777**	16,706
Due after 6 months but within 1 year	**542**	1,233
	48,319	17,939

DIVIDEND

The Board of Directors recommended a final dividend of HK$0.035 (equivalent to approximately RMB0.0371) (2004: HK$0.035 (equivalent to approximately RMB0.0371)) per share for the financial year ended 30 June 2005. The final dividend, subject to shareholders' approval at the forthcoming annual general meeting to be held on 23 December 2005, will be payable to the shareholders whose names appear on the Register of Members of the Company on 23 December 2005. The final dividend will be paid on or around 20 January 2006.

No interim dividend was declared for the six months ended 31 December 2004 (2003: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Results

The Group's financial performance for the year ended 30 June 2005 recorded a steady upward growth with a double-digit increase in turnover. During the year under review, turnover of the Group amounted to RMB369,787,000 (2004: RMB301,255,000), representing an increase of approximately 22.7% as compared to the corresponding period last year. The Group managed to achieve satisfactory results during the year primarily due to the global economic recovery, and the incessant growth in market demand for consumer electronic products which stimulated the overall strong demand for electronic products parts and accessories. This greatly benefited the Group as a Printed Circuit Board (PCB) manufacturer. In addition, the Group installed technologically-advanced production facilities and leased a new manufacturing plant during the year, so as to expand its scope of operations and attain even greater economies of scale.

The gross profit for the year under review reached approximately RMB147,004,000 as compared to approximately RMB136,349,000 for previous year. The gross profit margin was decreased due to the increase in raw material prices and the incurrence of pre-operation expenses resulting from the commencement of trial production of the two subsidiaries. Operating profit and profit attributable to shareholders were RMB112,289,000 (2004: RMB107,716,000) and RMB80,427,000 (2004: RMB81,214,000) respectively, representing an increases and a decrease of approximately 4.2% and 1.0% respectively as compared to the corresponding period last year. The decrease in profit attributable to shareholders was mainly due to the expiry of tax holiday of a subsidiary. Earnings per share was RMB17 cents (2004: RMB19 cents).

Business Review

Financial year 2005 was an important milestone for the Group. Apart from the conventional PCB production operations, the Group successfully moved downstream into PCB Assembly (PCBA) services when it set up a new manufacturing plant in Fuzhou Mawei Economic and Technical Development Zone. In addition, the Group acquired a new manufacturing plant specializing in the production of flexible PCBs in Huizhou City, Guangdong Province, and this manufacturing plant commenced full-scale operation in early 2005. These new products not only contributed to the Group's income, but also further fortified the Group's market position as a one-stop Electronics Manufacturing Services (EMS) solution provider, allowing the Group to provide an even more comprehensive scope of EMS solution to its clients and further strengthening the Group's competitive edge in the market.

Segmental Information

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 years ended 30 June 2005 and 2004, the Group has been primary operating in the manufacturing and sale of circuit printed boards.

Geographically, sales within the PRC (excluding Hong Kong and Taiwan) remained the largest segment in which approximately 83.0% (2004: 83.2%) of the Group's turnover was generated, while approximately 10.6% (2004: 10.5%) was attributable to the sales to Australia for the year under review. The balance of approximately 6.4% of the Group's turnover (2004: 6.3%) was taken up by the US, Germany, Hong Kong, Taiwan and other countries.

Key products manufactured by the Group during the year under review were single and double-sided PCBs, multilayer PCBs as well as flexible PCBs, and the Group also provided PCBA services. Details of the individual products are as follows:

Single and Double-sided PCBs

During the year under review, the sales of single and double-sided PCBs amounted to approximately RMB159,684,000 (2004: RMB120,984,000), representing approximately 43.2% of the Group's total turnover. Operating profit contributed by this business segment was approximately RMB48,447,000 (2004: RMB43,259,000), up approximately 12.0% as compared with that of the preceding year.

Multilayer PCBs

Total sales of multilayer PCBs was approximately RMB198,030,000 (2004: RMB180,271,000), which made up approximately 53.6% of the Group's total turnover during the year under review. Operating profit reached approximately RMB82,909,000 (2004: RMB64,457,000), an approximate increase of 28.6% as compared to the preceding year.

Flexible PCBs and PCBA

To maintain an advantageous position in the competitive PCB industry, the Group has always been dedicated to the development of new innovative PCB products, including flexible PCBs for which full-scale manufacturing commenced operation in January 2005. Given that flexible PCBs yield higher profits as compared to conventional PCBs, this business segment will boost the overall profit level significantly. The Group kick started the PCBA services in September 2004 as it aimed to provide an even more comprehensive scope of EMS solution to its clients and fortify its market position as a one-stop EMS solution provider. Turnover contributed by these products amounted to approximately RMB12,073,000 (2004: Nil), accounting for approximately 3.2% of the Group's total sales, and associated operating loss was approximately RMB19,067,000 (2004: Nil).

Manufacturing Facilities

Well-equipped manufacturing facilities and sizeable production capacity are key factors to success for an EMS solution provider. The Group therefore devoted resources to constructing new manufacturing plants and installing technologically-advanced production facilities and system, so as to cater to the rapidly increasing demands of the PCB industry.

In early 2004, the Group acquired a new manufacturing plant in Xiangshui River Industrial Area, Daya Bay, Huizhou City, Guangdong Province (廣東省惠州市大亞灣經濟技術開發區(國家級)響河工業園) ("Huizhou Plant") which specializes in the production of flexible PCBs and thick copper PCBs. Phase one production of flexible PCBs commenced in January 2005, and the currently production capacity is 10,000 square meters per month. The Huizhou Plant has been accredited with US-based UL Corporation's product certification as well as Switzerland-based SGS Corporation's ISO9001 quality system certification. Presently, some of the clients include renowned multinational corporations such as Samsung Electro-Mechanics and Sankyo Seiki.

Apart from the Huizhou Plant, the Group also leased a manufacturing plant in Fuzhou Mawei Economic and Technical Development Zone ("Mawei Plant") to operate the PCBA services. The Mawei Plant has been accredited with ISO9001:2000 quality management system certification and it began full-scale operation in September 2004. Now the plant is outfitted with four automatic Surface-Mount Technology (SMT) production lines and two MI lines to provide a series of ancillary solution including the design of sub-system, production of prototype samples, low-volume production and testing services.

The existing production base in Fuqing City in Fujian Province is equipped with the conventional PCB (including single-sided PCBs, double-sided PCBs and multilayer PCBs) production facilities. This manufacturing plant had been accredited with the ISO/TS16949, ISO9001, ISO14001 and OHSAS 18001 certifications, and its current client portfolio include many multinational corporations such as TPV Technology, Australia-based Telstra and NEC Tokin Electronics. As at 30 June 2005, monthly production capacity was approximately 40,000 square meters and the average monthly utilization rate reached approximately 75% for the year under review.

Research and Development

The Group is committed to continual research and development to develop competitive and high quality products, which in turn secures the leading market position of the Group in the EMS and PCB industries. The 4 product development engineers and designers employed in Shanghai and Shenzhen work closely with the clients before, during and after the production process, so as to provide the best products and services in accordance to the clients' requirements.

Disposal of Floret Industries Limited

Floret Industries Limited ("Floret Industries") and its subsidiaries are principally engaged in the research, development, manufacture and sales products as well as the provision of ancillary services in relation to the automation and intellectualization of electric supply systems. In order to further develop and enhance the Group's production capability, the Group's strategy has undergone gradual adjustment from high mix production to medium to large volume production of ancillaries for major customers. The development and expansion of its core business of the provision of electronic manufacturing services and the manufacturing and trading of printed circuit board will be the focus of operations for the coming years. Therefore, the major resources of the Group will also be allocated to the expansion and development of its core business.

FUTURE PROSPECT

Robust global market demand for electronic products and the rapid development of electronic communication industry combine to fuel the demand for PCB products. BPA Consulting Ltd estimates that the global PCB market will jump from US$30.1 billion to $43.8 billion by year 2007, with China growing at the fastest rate amongst the PCB producing countries, with a compounded annual growth rate of 17.4%.

In addition, the wave of outsourcing of EMS by multinational electronics conglomerates, following China's accession to World Trade Organization, has led to the prediction that total income of EMS solution providers worldwide will grow at a compounded annual rate of 10.2% from US$89 billion in year 2002 to US$400 billion in year 2007. According to estimates by International Data Corporation, the market will continue to outsource parts of the production process to low-cost countries especially China. The market predicts that the EMS industry in China will grow at a compounded annual rate of 29.7% from year 2002 to 2007, and it will account for 38% of the global EMS industry by year 2007.

Riding on this positive business environment, the Group will seize the opportunity to reinforce its existing PCB operations, as well as to seek strategic acquisition opportunities to develop upstream and downstream businesses, broaden its scope of services and provide a wide range of value-added services to its clients. This will further fortify the Group's position as a one-stop EMS solution provider.

In the coming two years, the Group plans to install more production lines in the Huizhou Plant and Mawei Plant to cater to the expected growth in market demand. Phase two installation in the Huizhou Plant will begin in mid 2006, with the aim of boosting the monthly production capacity to 15,000 square meters. In addition, the Group will commence production of thick copper PCBs in the Huizhou Plant in early 2007, and the total monthly production capacity is expected to reach 20,000 square meters. As for the Mawei Plant, the Group plans to install 16 SMT production lines, 4 MI lines and 2 finished products assembly lines by the end of 2006.

Leveraging on the current optimism in the EMS and PCB industries, together with the Group's technical expertise and experience, the management strongly believes that the Group will again achieve record financial results in the next financial year, delivering ample returns for its shareholders.

Liquidity and Financial Resources and Capital Structure

For the year ended 30 June 2005, the Group's working capital requirement was principally financed by its internal resources and banking facilities.

As at 30 June 2005, the Group had cash and cash equivalents, net current assets and total assets less current liabilities of RMB540,915,000 (2004: RMB314,027,000), RMB519,729,000 (2004: RMB348,934,000) and RMB727,939,000 (2004: RMB598,355,000) respectively.

As at 30 June 2005, the Group had total borrowings (excluding obligations under finance leases) of RMB213,019,000 (2004: RMB128,176,000), comparing utilised bank loan facilities of RMB143,791,000 (2004: RMB128,176,000) from several banks and convertible bonds of RMB69,228,000 (2004: Nil), of the total utilised bank loans of RMB110,657,000 (2004: RMB70,300,000) for short term and the remainder of RMB33,134,000 (2004: RMB57,876,000) for long term. Included in these short term loans of RMB81,415,000 and RMB4,500,000 were secured by corporate guarantees given by the Company and pledge bank deposit respectively. The remaining balance of the short term loan of RMB24,742,000 and the long term loan of RMB33,134,000 were unsecured. Besides, the Group had available RMB8,385,000 million (2004: Nil) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met and had obligations under finance leases of RMB12,982,000 (2004: Nil) denominated in Hong Kong Dollars. 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 Renminbi and US Dollars. Loan facilities were granted to the Group at the normal market interest rates.

The shareholders' equity of the Group as at 30 June 2005 increased by RMB90,374,000 to RMB596,646,000 (2004: RMB506,272,000). The gearing ratio (calculated as the ratio of current liabilities plus non-current liabilities: shareholders' equity) of the Group as at 30 June 2005 was approximately 0.56 (2004: 0.37).

Saved as disclosed elsewhere on the Management Discussion and Analysis, there is no changes in the Company's share capital.

Significant Investments

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

Acquisition and disposal of Subsidiaries and Associated Companies

On 27 May 2005, the Group entered into a sale and purchase agreement with an independent third party in relation to the disposal of 49 shares of Floret Industries held by the Group, representing 49% of the issued share capital of Floret Industries, at a consideration of RMB52.0 million (Equivalent to approximately HK$49,000,000), which was wholly satisfied in cash at completion.

During the period from 1 July 2004 to 27 May 2005, the associates of the Group made a profit contribution of approximately RMB6,655,000 to the Group. Following the completion of the Disposal, a loss of approximately RMB5,065,000 was recognised by the Group for the year ended 30 June 2005. The loss was calculated based on the difference between the consideration of the Disposal and the unaudited carrying amount of interest in Floret Industries of approximately RMB57,065,000 in the Group's accounts as at 27 May 2005.

During the year ended 30 June 2005, Fujian Fuqiang Delicate Circuit Plate Co Ltd., the Company's subsidiary, completed the increase in its registered capital by RMB46 million to RMB92 million, the increased registered capital was wholly contributed by the Group.

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

Employment Information

As at 30 June 2005, the Group employed a total of 1,200 (2004: 648) employees. It is a policy of the Group to review its employee's pay levels and performance bonus system regularly to ensure that the remuneration policy is competitive within the relevant industry. During the year ended 30 June 2005, the employment cost (including directors' emoluments) amounted to RMB17,823,000. In order to align the interests of staff, directors and consultants with the Group, share options were granted to staff, directors and consultants under the Company's 2003 share options schemes ("2003 Scheme"). Shares options granted to staff, directors and consultants which remained outstanding as at 30 June 2005 aggregated 32,000,000 shares options.

Charge on Assets

As at 30 June 2005, a fixed deposit of HK$5,000,000 (equivalent to approximately RMB5,329,000) (2004: RMB5,329,000) was pledged to a bank for bank loan of RMB4,500,000 granted to the Group.

Save as disclosed elsewhere on the Management Discussion and Analysis, the Group had no charge of assets.

Future Plans for Material Investments and Expected Sources of Funding

Save as disclosed elsewhere on the Management Discussion and Analysis, as at 30 June 2005, the Group had no future plans for material investments.

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 year ended 30 June 2005, the Group experiences 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 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.

Capital Commitment

As at 30 June 2005, in respect of acquisition of fixed assets, the Group only had outstanding capital commitment contracted for but not provided in the financial statements amounted to approximately RMB15,638,000.

Contingent Liabilities

As at 30 June 2005, the Group did not have any material contingent liabilities.

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 30 June 2005, in compliance with the Code of Best Practices as set out in the then Appendix 14 to the Listing Rules in force prior to 1 January 2005, except that independent non-executive Directors are not appointed for specific terms but are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's articles of association.

Audit Committee

The Company has established an audit committee since 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 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 hereof, the audit committee comprises three independent non-executive Directors, namely, Mr. Pan Chang Chi, Mr. Cai Xun Shan and Mr. Cheung Chuen. During the year under review, the audit committee has met twice to review the interim and annual results of the Group.

Purchase, Sale, Redemption of Listed Securities

During the year ended 30 June 2005, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Closure of Register of Members

The register of members will be closed from 19 December 2005 to 23 December 2005, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the final dividend, all transfers, accompanied by the relevant share certificates and transfer forms, must be lodged with the Company's Hong Kong branch share registrars, Hong Kong Registrars Limited of shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on 16 December 2005.

On behalf of the Board
Lin Wan Qaing
Chairman

Hong Kong, 18 October 2005

As at the date of this announcement, the Board comprises Mr. Lin Wan Qaing, Mr. Chen Yan Shun, Mr. Liu Zhao Cai, Mr. Xiang Song and Mr. Tong Yiu On as executive directors, and Mr. Pan Chang Chi, Mr. Cai Xun Shan and Mr. Cheung Chuen as independent non-executive directors.

* *for identification purpose only*

Please also refer to the published version of this announcement in The Standard.