# 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 2009

## RESULTS

The board of directors (the "Board" or the "Director(s)") of Sinotronics Holdings Limited (the "Company" or "Sinotronics") herein presents the consolidated results of the Company and its subsidiaries (collectively, the Group) for the year ended 30 June 2009 together with the comparative figures for the corresponding year ended 30 June 2008. The annual results have been reviewed by the Audit Committee of the Company.

**Consolidated Income Statement**
*For the year ended 30 June 2009*
*(Expressed in Renminbi)*

| | Note | **2009** *RMB'000* | 2008 *RMB'000* |
|---|---|---|---|
| **Turnover** | 4 | **316,940** | 564,317 |
| Cost of sales | | **(270,693)** | (392,348) |
| **Gross profit** | | **46,247** | 171,969 |
| Other revenue | | **5,002** | 8,991 |
| Other net loss | | **(95,248)** | (8,124) |
| Distribution costs | | **(16,278)** | (7,051) |
| Administrative expenses | | **(30,500)** | (41,882) |
| Repair and maintenance costs | 5(d) | **(9,720)** | — |
| Other operating expenses | | **(820)** | (6,300) |
| Impairment of non-current assets | 13 | **(282,338)** | — |
| **(Loss)/profit from operations** | | **(383,655)** | 117,603 |
| Finance costs | 5(a) | **(19,866)** | (81,833) |
| **(Loss)/profit before taxation** | 5 | **(403,521)** | 35,770 |
| Income tax | 6 | **43,319** | (24,591) |
| **(Loss)/profit for the year attributable to equity shareholders of the Company** | | **(360,202)** | 11,179 |
| **Dividends payable to equity shareholders of the Company attributable to the year:** | 7 | | |
| Final dividend proposed after the balance sheet date | | **—** | 1,977 |
| **(Loss)/earnings per share** | 8 | | |
| Basic | | **(64) cents** | 2 cents |
| Diluted | | **(64) cents** | 2 cents |

**Consolidated Balance Sheet**
*As at 30 June 2009*
*(Expressed in Renminbi)*

| | Note | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **290,472** | 390,299 |
| Interests in leasehold land held for own use under operating lease | | **18,143** | 18,643 |
| Deposits for the purchase of property, plant and equipment | | **9,580** | 25,321 |
| Deferred tax assets | | **57,750** | 2,147 |
| | | **375,945** | 436,410 |
| **Current assets** | | | |
| Trading securities | | **1,570** | — |
| Inventories | | **25,997** | 45,459 |
| Trade and other receivables | 10 | **94,068** | 201,776 |
| Amount due from the controlling shareholder (the "CS") | | **61,975** | — |
| Pledged deposits | | **8,662** | 4,307 |
| Cash and cash equivalents | | **648,450** | 880,366 |
| | | **840,722** | 1,131,908 |
| **Current liabilities** | | | |
| Trade and other payables | 11 | **143,926** | 162,810 |
| Bank loans | 12 | **250,972** | 253,822 |
| Obligations under finance leases | | **—** | 2,591 |
| Taxation | | **—** | 4,729 |
| Derivative financial instruments | | **—** | 165,067 |
| Other financial liabilities | | **164,443** | — |
| | | **559,341** | 589,019 |
| **Net current assets** | | **281,381** | 542,889 |
| **Total assets less current liabilities** | | **657,326** | 979,299 |
| **Non-current liabilities** | | | |
| Bank loans | 12 | **16,000** | 30,000 |
| Obligations under finance leases | | **—** | 510 |
| Amount due to the CS | | **—** | 16,089 |
| Deferred tax liabilities | | **6,861** | 6,567 |
| | | **22,861** | 53,166 |
| **NET ASSETS** | | **634,465** | 926,133 |

| | Note | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|---|
| **Capital and reserves** | | | |
| Share capital | | **58,661** | 58,661 |
| Reserves | | **575,804** | 867,472 |
| **TOTAL EQUITY** | | **634,465** | 926,133 |

*Notes:*

**1. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS**

The annual results set out in this announcement do not constitute the Group's consolidated financial statements for the year ended 30 June 2009 but are extracted from those financial statements.

The Group's consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The consolidated 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 "Listing Rules"). The consolidated financial statements of the Group for the year ended 30 June 2009 comprise the Company and its subsidiaries.

**2. NEW AND REVISED HKFRSs EFFECTIVE FOR ACCOUNTING PERIODS BEGINNING ON OR AFTER 1 JULY 2008**

The HKICPA has issued a number of new Interpretations and an amendment to HKFRSs that are first effective for the current accounting period of the Group. However, none of these developments are relevant to the Group's operations.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

## 3. REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

### (i) Sale of goods

Revenue arising from the sale of goods is recognised when the customer has accepted the goods and the related risks and rewards of ownership, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably and there is no continuing management involvement with the goods. Revenue excludes value-added tax or other sales taxes and is stated after deduction of any trade discounts.

### (ii) Processing service income

Processing service income is recognised when services are rendered.

### (iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

### (iv) Dividend income

Dividend income is recognised when the shareholder's right to receive payment is established.

## 4. TURNOVER

The Group is principally engaged in the manufacture and sale of printed circuit boards ("PCBs") and PCBs assembling products and the provision for surface mount technology ("SMT") processing services.

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, and service income from SMT processing services. The amount of each significant category of revenue recognised in turnover during the year is as follows:

| | **2009** | 2008 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Sales of PCBs | **303,113** | 484,123 |
| Sales of PCBs assembling products | **4,953** | 59,481 |
| SMT processing service income | **8,874** | 20,713 |
| | **316,940** | 564,317 |

## 5. (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is arrived at after charging/(crediting):

| | | 2009 | 2008 |
|---|---|---|---|
| | | *RMB'000* | *RMB'000* |
| **(a)** | **Finance costs:** | | |
| | Interest on bank loans wholly repayable within five years | **17,580** | 22,729 |
| | Finance charges on obligations under finance leases | **86** | 327 |
| | Interest on other financial liabilities | **1,351** | — |
| | Interest on amount due to the CS | **288** | 175 |
| | Fair value adjustments on derivative financial instruments | **—** | 60,334 |
| | Loss on termination of derivative financial instruments | **1,087** | — |
| | Other borrowing costs | **152** | — |
| | Total borrowing costs | **20,544** | 83,565 |
| | Less: Borrowing costs capitalised into construction-in-progress* | **(678)** | (1,732) |
| | | **19,866** | 81,833 |

* The borrowing costs have been capitalised at rates of 6.05%–7.65% (2008: 6.01%–6.10%) per annum.

| | | 2009 | 2008 |
|---|---|---|---|
| **(b)** | **Staff costs:#** | | |
| | Salaries, wages and other benefits | **31,307** | 36,664 |
| | Contributions to defined contribution retirement plans | **11,452** | 12,972 |
| | | **42,759** | 49,636 |
| **(c)** | **Other items:** | | |
| | Cost of inventories# | **270,693** | 392,348 |
| | Amortisation of interest in leasehold land held for own use under operating lease# | **500** | 479 |
| | Depreciation# | | |
| | — owned fixed assets | **35,696** | 20,766 |
| | — assets held for use under finance leases | **735** | 3,669 |
| | Operating lease rentals for premises# | **1,462** | 1,772 |
| | Auditors' remuneration | **2,639** | 2,832 |
| | Deficit on revaluation of buildings held for own use | **—** | 4,533 |
| | Reversal of impairment of trade and other receivables | **(5,258)** | (330) |
| | Impairment of trade and other receivables | **68,162** | 3,339 |
| | Loss/(gain) on disposal of property, plant and equipment | **31,940** | (17) |

# Cost of inventories includes RMB67,231,000 (2008: RMB57,369,000) relating to staff costs, depreciation expenses, operating lease charges and amortisation of interest in leasehold land held for own use under operating lease, which amount is also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

**(d) Repair and maintenance costs**

During the year ended 30 June 2009, the building and underground infrastructure of one of the Company's subsidiaries, Shuangxiang (Fujian) Electronics Limited ("Shuangxiang"), located in the coastal area of Mawei, Fuzhou City of Fujian Province in the PRC, were damaged by land subsidence and repair and maintenance costs totalling RMB9,720,000 were incurred to restore the building and underground infrastructure to their original condition.

## 6. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

| | 2009 | 2008 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| **Current tax** | | |
| Provision for PRC enterprise income tax | **8,786** | 21,367 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | **(52,105)** | 2,908 |
| Effect of change in tax rate in the PRC | **—** | 316 |
| | **(52,105)** | 3,224 |
| | **(43,319)** | 24,591 |

*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 ("BVI") 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 the years presented.

**(iii) PRC enterprise income tax**

The Company's subsidiaries in the PRC are subject to PRC enterprise income tax. Pursuant to the income tax rules and regulations of the PRC, the provision for PRC enterprise income tax of the Group is calculated based on the following rates:

| | *Note* | **2009** | 2008 |
|---|---|---|---|
| Fujian Fuqiang Delicate Circuit Plate Co., Ltd. ("Fuqiang") | (1) | **20%** | 18% |
| Gemini Electronics (Huizhou) Co., Ltd ("Gemini") | (2) | **10%** | 9% |
| Shuangxiang | (2) | **10%** | 9% |
| Fuqing Haichuang Electron Technology Co., Ltd. ("Haichuang") | (3) | **N/A** | N/A |

*Notes:*

(1) As Fuqiang is located in an economic and technological development zone, it is entitled to enjoy a reduced tax rate of 20% (2008: 18%) in 2009. The details are explained below.

(2) In 2009, Gemini and Shuangxiang are subject to PRC enterprise income tax at a reduced rate of 10% (2008: 9%). The details are explained below.

(3) Pursuant to the income tax rules and regulations in the PRC, Haichuang is not subject to PRC enterprise income tax as it did not commence business during the years presented.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress promulgated the Corporate Income Tax Law of the PRC (the "New Tax Law"), which became effective on 1 January 2008. Further, the State Council released the Implementation Rules to the Corporate Income Tax Law (the "Implementation Rules") on 6 December 2007, and Notice on the Implementation Rules of the Grandfathering Relief under the Corporate Income Tax Law (Guo Fa 2007 No. 39) ("Notice 39") on 26 December 2007.

According to the New Tax Law, effective on 1 January 2008, the standard income tax rate for PRC enterprises is reduced from 33% to 25%. Further, according to the Notice 39, for enterprises located in economic and technological development zones which had previously enjoyed a reduced tax rate of 15%, the tax rate will gradually increase to 25% during a 5-year transition period according to the following schedule: 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012 (the "five-year transition rate").

Furthermore, as production-oriented foreign investment enterprises ("FIEs"), Gemini and Shuangxiang had kick started their Tax Holiday ("Tax Holiday") under the old PRC Foreign Enterprise Income Tax ("FEIT") regime in 2006. As such, the companies were exempted from FEIT in 2006 and 2007. According to Notice 39, the unexpired Tax Holiday enjoyed by FIEs established before 16 March 2007 is allowed to continue after implementation of New Tax Law on 1 January 2008 until expiry of the Tax Holiday. As such, the applicable enterprise income tax rate of Gemini and Shuangxiang is 9% (50% of 18%) in year 2008; 10% (50% of 20%) in year 2009; 11% (50% of 22%) in year 2010; 24% (Tax Holiday will expire) in year 2011 and 25% thereafter.

The deferred tax assets/liabilities of subsidiaries in the PRC are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Under the New Tax Law and Implementation Rules starting from 1 January 2008, dividends distributed by the PRC subsidiaries to their foreign holding investors are subject to withholding income tax at 10%, subject to reduction under double-taxation arrangements ("DTA"). Since the holding companies of the PRC subsidiaries are incorporated in the BVI, which currently has not entered into a DTA with China, dividends distributed by the PRC subsidiaries would be subject to withholding tax at 10%. Dividends receivable by the Group from subsidiaries in the PRC in respect of their undistributed profits accumulated up to 31 December 2007 are exempted from withholding tax.

## 7. DIVIDENDS

### (a) Dividends payable to equity shareholders of the Company attributable to the year

| | **2009** | 2008 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Final dividend proposed after the balance sheet date of HK$ nil (equivalent to RMB nil) per ordinary share (2008: HK$0.004 (equivalent to approximately RMB0.003536) per ordinary share) | **—** | 1,977 |

The final dividend proposed after the balance sheet date of 2008 was not recognised as a liability at 30 June 2008.

**(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year**

| | **2009** | 2008 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Final dividend of HK$0.004 (equivalent to approximately RMB0.003) per ordinary share (2008: HK$0.035 (equivalent to approximately RMB0.0325) per ordinary share) in respect of the previous financial year, approved and paid during the year | **1,969** | 18,164 |

## 8. (LOSS)/EARNINGS PER SHARE

**(a) Basic (loss)/earnings per share**

The calculation of basic (loss)/earnings per share is based on the loss attributable to equity shareholders of the Company of RMB360,202,000 (2008: profit of RMB11,179,000) and the weighted average number of 558,965,000 (2008: 558,332,000) ordinary shares in issue during the year, calculated as follows:

*Weighted average number of ordinary shares*

| | **2009** | 2008 |
|---|---|---|
| | ***'000*** | *'000* |
| Issued ordinary shares at 1 July 2008/2007 | **558,965** | 553,169 |
| Effect of share options exercised | **—** | 3,789 |
| Effect of exercise of subscription rights attached to convertible bonds | **—** | 1,408 |
| Effect of shares repurchased | **—** | (34) |
| Weighted average number of ordinary shares at 30 June 2009/2008 | **558,965** | 558,332 |

**(b) Diluted (loss)/earnings per share**

The diluted loss per share for the year ended 30 June 2009 is the same as the basic loss per share as the potential ordinary shares are anti-dilutive.

The calculation of diluted earnings per share for the year ended 30 June 2008 was based on the profit attributable to equity shareholders of the Company of RMB11,179,000 and the weighted average number of 560,339,000 ordinary shares in issue during the year after adjusting for the effect of all dilutive potential shares, calculated as follows:

*Weighted average number of ordinary shares (diluted)*

| | **2009** | 2008 |
|---|---|---|
| | ***'000*** | *'000* |
| Weighted average number of ordinary shares at 30 June | **558,965** | 558,332 |
| Effect of deemed issue of ordinary shares under the Company's share option scheme for nil consideration per share | **—** | 2,007 |
| Weighted average number of ordinary shares (diluted) at 30 June | **558,965** | 560,339 |

## 9. 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's internal financial reporting.

### (a) Business segments

The Group comprises the following main business segments:

| | | |
|---|---|---|
| PCBs | : | the manufacture and sale of PCBs |
| PCBs assembling products | : | the manufacture and sale of PCBs assembling products |
| SMT processing | : | the provision for service mount technology processing services |

| | **PCBs** | | **PCBs assembling products** | | **SMT processing** | | **Inter-segment elimination** | | **Unallocated** | | **Consolidated** | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Revenue from external customers | **303,113** | 484,123 | **4,953** | 59,481 | **8,874** | 20,713 | **—** | — | **—** | — | **316,940** | 564,317 |
| Inter-segment revenue | **—** | — | **—** | — | **—** | — | **—** | — | **—** | — | **—** | — |
| Total | **303,113** | 484,123 | **4,953** | 59,481 | **8,874** | 20,713 | **—** | — | **—** | — | **316,940** | 564,317 |
| Segment result | **(244,458)** | 133,508 | **(45,221)** | (1,542) | **(81,023)** | (537) | | | | | **(370,702)** | 131,429 |
| Unallocated operating income and expenses | | | | | | | | | | | **(12,953)** | (13,826) |
| (Loss)/profit from operations | | | | | | | | | | | **(383,655)** | 117,603 |
| Finance costs | | | | | | | | | | | **(19,866)** | (81,833) |
| Taxation | | | | | | | | | | | **43,319** | (24,591) |
| (Loss)/profit after taxation | | | | | | | | | | | **(360,202)** | 11,179 |
| Depreciation and amortisation for the year | **27,259** | 19,060 | **3,461** | 4,336 | **6,200** | 1,510 | **—** | — | **11** | 8 | **36,931** | 24,914 |
| Impairment of non-current assets | **190,157** | — | **37,941** | — | **67,980** | — | **—** | — | **—** | — | **296,078** | — |
| Segment assets | **1,087,864** | 1,310,894 | **60,678** | 226,868 | **108,716** | 79,003 | **(162,640)** | (60,248) | **122,049** | 11,801 | **1,216,667** | 1,568,318 |
| Segment liabilities | **262,773** | 143,612 | **12,697** | 51,600 | **22,749** | 17,969 | **(162,640)** | (60,248) | **446,623** | 489,252 | **582,202** | 642,185 |
| Capital expenditure incurred during the year | **209,627** | 35,409 | **6,323** | 10,366 | **11,328** | 3,610 | **—** | — | **46** | 21 | **227,324** | 49,406 |

### (b) Geographical segments

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 (excluding Hong Kong and Taiwan), Australia and Germany.

| | **2009** | 2008 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Segment revenue | | |
| — PRC, excluding Hong Kong and Taiwan | **225,210** | 444,687 |
| — Hong Kong | **40,457** | 40,064 |
| — Australia | **29,048** | 37,131 |
| — Germany | **5,619** | 7,595 |
| — Malaysia | **2,308** | 3,154 |
| — USA | **1,013** | 1,186 |
| — Others | **13,285** | 30,500 |
| Total revenue from external customers | **316,940** | 564,317 |

All segment assets and related capital expenditure incurred during the year are located in the PRC (excluding Hong Kong and Taiwan) as at 30 June 2009 and 2008.

## 10. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade receivables and bills receivable (net of allowance for doubtful debts) with the following ageing analysis as of the balance sheet date:

| | **2009** | 2008 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Current | **76,229** | 157,862 |
| Less than 1 month past due | **2,543** | 24,065 |
| 1 to 3 months past due | **1,583** | 7,678 |
| More than 3 months but less than 12 months past due | **6,948** | 3,519 |
| More than 12 months but less than 2 years past due | **120** | — |
| Amount past due | **11,194** | 35,262 |
| | **87,423** | 193,124 |

Normally, these receivables are due within 90 days to 180 days from the date of billing.

The movement in the allowance for doubtful debts during the year is as follows:

| | **2009** | 2008 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| At 1 July 2008/2007 | **11,206** | 7,878 |
| Impairment loss recognised | **68,021** | 3,328 |
| Write-back of impairment losses | **(5,258)** | — |
| Uncollectible amounts written off | **(4,074)** | — |
| At 30 June 2009/2008 | **69,895** | 11,206 |

## 11. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables and bills payable with the following ageing analysis as of the balance sheet date:

| | **2009** | 2008 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Due within 6 months or on demand | **76,198** | 101,841 |

## 12. BANK LOANS

At 30 June 2009, the bank loans were repayable as follows:

| | **2009** | 2008 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within 1 year or on demand | **250,972** | 253,822 |
| After 1 year but within 2 years | **4,000** | 30,000 |
| After 2 years but within 5 years | **12,000** | — |
| | **266,972** | 283,822 |

At 30 June 2009, the bank loans were secured as follows:

| | **2009** | 2008 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Secured by leasehold land and buildings held for own use *(note (i))* | **78,000** | 77,000 |
| Secured by shares *(note (ii))* | **26,388** | 99,022 |
| Secured by bills receivable *(note (iii))* | **10,785** | — |
| Secured by land and buildings of a third party *(note (iv))* | **54,000** | — |
| Unsecured *(note (vii))* | **97,799** | 107,800 |
| | **266,972** | 283,822 |

*Notes:*

(i) At 30 June 2009, certain interest in leasehold land held for own use under operating lease and buildings held for own use of RMB132,271,000 (2008: RMB169,907,000) were pledged to banks for bank loans totalling RMB78,000,000 (2008: RMB77,000,000) granted to the Group.

(ii) As at 30 June 2009, a bank loan with outstanding principal amount of US$4,000,000 (equivalent to RMB27,509,000) (2008: US$15,000,000 (equivalent to RMB102,852,000)) granted to the Company was secured by the entire equity interest in Superford Holding Limited, Tempest Trading Limited, Winrise International Limited and Herowin Limited (the "BVI subsidiaries"). The BVI subsidiaries are the immediate holding companies of Fuqiang, Gemini, Shuangxiang and Haichuang, respectively (the "PRC subsidiaries"). The PRC subsidiaries are the operating subsidiaries of the Group. Total net asset value of the BVI and PRC subsidiaries as at 30 June 2009 was approximately RMB474,166,000 (2008: RMB822,590,000).

(iii) The Group's discounted bills with recourse have been accounted for as collateralised bank advances. The discounted bills receivable and the related proceeds received from discounting banks are included in the Group's "Bills receivable" and "Bank loans" as at the balance sheet date.

(iv) As at 30 June 2009, bank loans totalling RMB54,000,000 (2008: RMB Nil) granted to the Group were secured by land and buildings of an unrelated individual, Zhou Hong Mei. The directors have confirmed that this individual is not related to the Group.

(v) At 30 June 2009, the Group did not have any undrawn committed borrowing facilities (2008: RMB Nil).

(vi) At 30 June 2008, the Company had breached one of the covenants of a bank loan amounting to RMB99,022,000, which required the Group to maintain its consolidated profits before interest expenses, tax on income and profits, tax credits, depreciation, amortisation, exceptional items and any extraordinary items ("EBITDA") at not less than seven times the Group's interest expenses. Included in the amount utilised was RMB60,254,000 which, in accordance with the terms of the banking facility, was scheduled to be repaid after one year from the balance sheet date, but was classified as current liabilities in the consolidated balance sheet as at 30 June 2008 as the Company did not have an unconditional right at the balance sheet date to defer settlement for at least the next twelve months as a result of the breach of that covenant.

The Company signed a Waiver Agreement with the bank in December 2008 (the "Waiver Agreement"), allowing the Company to repay the loan under a revised schedule and settle the outstanding amount in terms of instalments from January 2009 to October 2009. However, at 30 June 2009, the Company breached one of the conditions imposed under the Waiver Agreement that restricted the Group's capital expenditure at a ceiling of US$1,000,000 (equivalent to approximately RMB6,877,000). At 30 June 2009, the outstanding principal amount of the bank loan was US$4,000,000 (equivalent to approximately RMB27,509,000). Subsequent to the balance sheet date, the Company defaulted on payment of the monthly instalment of US$1,000,000 (equivalent to approximately RMB6,877,000) due in August 2009. After discussion with the bank, the Company settled US$700,000 (equivalent to approximately RMB4,814,000) in September 2009. The directors are currently in discussion with the bank for a revised repayment schedule to have the remaining balance of the bank loan fully settled by 31 December 2009.

Other than the above, none of the covenants relating to drawn down facilities had been breached as at 30 June 2009 (2008: RMB Nil).

(vii) A corporate guarantee has been issued by the Company in respect of bank loans of RMB83,800,000 (2008: RMB83,800,000) granted to subsidiaries. As at the balance sheet date, the directors do not consider it probable that a claim will be made against the Company under the guarantee. The maximum liability of the Company at the balance sheet date under the guarantee issued amounted to RMB83,800,000 (2008: RMB83,800,000). The Company has not recognised any deferred income in respect of the guarantee as the fair value of such guarantee cannot be reliably measured and the transaction price was nil.

## 13. IMPAIRMENT OF NON-CURRENT ASSETS

During the year, the Group experienced a significant drop in demand for its PCBs and related products under the prevailing market environment and consequently recorded operating losses. The directors considered that the existence of the above conditions indicated that non-current assets of the Group's operating subsidiaries in the PRC may be impaired. In view of this, the directors prepared a cash flow projection to estimate the recoverable amount of these assets.

The estimates of recoverable amount were determined based on a value in use calculation using cash flow projections based on the five-year financial forecast approved by the directors, and a pre-tax discount rate.

Cash flows beyond the five-year period had been extrapolated using a zero growth rate to cover the remaining useful lives of related non-current assets.

Key assumptions used for the value in use calculation:

| | |
|---|---|
| Sales volume growth rate | 9%–37% |
| Gross contribution rate | 7%–37% |
| Pre-tax discount rate | 13.87%–15.05% |

The directors determined the growth rate and gross contribution rate based on the expectation for market development.

The directors concluded that it is appropriate to recognise an impairment losses of RMB296,078,000 against these non-current assets, details of which are as follows:

| | 2009 |
|---|---|
| | *RMB'000* |
| Property, plant and equipment | 258,780 |
| Deposits for the purchase of property, plant and equipment | 37,298 |
| | 296,078 |
| Charged to profit or loss | 282,338 |
| Charged to building valuation reserve | 13,740 |
| | 296,078 |

## DIVIDEND

The Board does not recommend the payment of a final dividend (2008: HK$0.004 (equivalent to approximately RMB0.003536)) for the year ended 30 June 2009.

## CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from 15 December 2009 to 17 December 2009, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for attending the forthcoming annual general meeting, all transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's Hong Kong branch share registrar, Hong Kong Registrars Limited of Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 14 December 2009.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Results

For the year ended 30 June 2009 (the "Year"), turnover of the Group fell by 43.8% to RMB316,940,000 (2008: RMB564,317,000). The decrease in turnover was due to the decline in sales orders and unit selling prices of the Group's products as a consequence of the global economic downturn. In particular, sales from the Group's top ten customers fell by over 50% as compared with the previous financial year.

During the Year, the Group's gross profit and operating loss amounted to approximately RMB46,247,000 (2008: RMB171,969,000) and RMB383,655,000 (2008: operating profit of RMB117,603,000) respectively. The operating loss was attributable to the impairment of non-current assets of RMB282,338,000 and impairment of trade and other receivables of approximately RMB68,162,000.

The loss attributable to equity shareholders of the Company for the Year was RMB360,202,000, as compared to a profit of RMB11,179,000 in the corresponding year of 2008. Basic loss per share was RMB64.4 cents (2008: basic earnings per share was RMB2.0 cents).

**Business Review**

The Group is principally engaged in the manufacturing and sales of rigid printed circuit boards ("rigid PCBs") and flexible printed circuit boards ("FPCBs"), as well as providing printed circuit board assembly ("PCBA") and surface mounting technology ("SMT") processing services. Its products have a broad range of applications in items such as mobile communication devices, consumer digital devices, automotive and medical devices.

The global economic turmoil continued to bring challenges to the electronics industry during the Year. Consumer demand for electronic products has largely declined leading to a significant decrease in sales orders. Average selling prices also experienced a drastic fall. Due to the abovementioned factors, turnover of the Group's business segments were all affected and declined in various degrees as compared to the corresponding period last year. Rigid PCBs, the Group's core business segment, recorded a decrease of 35.8%. Meanwhile, turnover attributable to the FPCBs, PCBA and SMT segment decreased 42.3%, 91.7% and 57.2% respectively as compared to the corresponding period last year.

Rigid PCBs continued to remain as the Group's core business. Being one of the largest producers in Fujian for rigid PCBs, the Group was able to receive constant orders from existing clients. However, owing to the deteriorating market conditions, average selling prices were under severe pressure and decreased significantly.

The FPCBs segment had recorded a massive decline during the Year. As end-customers were mainly from regions that had been adversely impacted by the economic downturn such as the U.S., demand was reduced significantly. Furthermore, a drastic decline in average selling prices was also seen for FPCBs products.

During the Year, the Group strategically reduced its provision of PCBA gradually and suspended its operation starting from December 2008. As this segment generates a relatively lower margin, management has reallocated capital resources to other segments so as to improve efficiency and to diversify risk.

As for SMT processing services, with the existing production lines, the Group selectively provided this service to current customers which have developed a long-term relationship with the Group.

## Segment 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 it is more relevant to the Group's internal financial reporting.

*Rigid PCBs*

During the Year, sales of rigid PCBs recorded RMB235,865,000 (2008: RMB367,599,000), representing approximately 74.4% of the Group's total turnover. This segment recorded an operating loss of RMB194,942,000, as compared to an operating profit of RMB125,388,000 in the corresponding period last year.

*FPCBs*

Sales of FPCBs was approximately RMB67,248,000 (2008:RMB116,524,000), which accounts for approximately 21.2% of the Group's total turnover during the Year. This segment recorded an operating loss of approximately RMB49,516,000, as compared to an operating profit of RMB8,120,000 in the corresponding period last year.

*PCBA*

Turnover from PCBA services during the Year amounted to approximately RMB4,953,000 (2008: RMB59,481,000), accounting for approximately 1.6% of the Group's total turnover. This segment recorded an operating loss of approximately RMB45,221,000, as compared to an operating loss of RMB1,542,000 in the corresponding period last year.

*Provision of SMT Processing Services*

Turnover contributed by SMT processing services recorded approximately RMB8,874,000 (2008: RMB20,713,000), accounting for approximately 2.8% of the Group's total turnover. This segment recorded an operating loss of approximately RMB81,023,000, as compared to an operating loss of RMB537,000 in the corresponding period last year.

Geographically, sales within the PRC (excluding Hong Kong and Taiwan) remained the largest segment, generating 71.1% (2008: 78.8%) of the Group's turnover. About 12.8% and 9.2% (2008: 7.1% and 6.6%) was attributed to sales to Hong Kong and Australia respectively for the Year. The balance of approximately 6.9% of the Group's turnover (2008: 7.5%) was taken up by the U.S., Germany, Malaysia and other countries or regions.

**Manufacturing Facilities**

*Fuqing Plant, Fujian Province*

The manufacturing facility in Fuqing city, Fujian province focuses on the production of rigid PCBs, including double-sided and multilayer PCBs. It covers an area of 55 Chinese acres, or about 36,669 square meters. Leveraging on its strong reputation for producing high quality products, the Group continued to receive orders from existing customers despite challenging market situations. The utilisation rate of the Fuqing plant was also maintained in a relatively high level.

As the utilisation rate of the Fuqing plant has been operating at or near maximum capacity for some years, the Group is building a new plant for production capacity expansion. The construction will be completed by the end of 2009 and the new factory is expected to begin production in 2010. The management believes that the economies of scale could be achieved through the production capacity expansion and operational efficiency could be enhanced.

*Shuangxiang Electronics ("Mawei Plant"), Fujian Province*

The production plant located in Mawei, Fuzhou city, Fujian province, is engaged in PCBA and SMT processing services. During the Year, the plant and underground infrastructure were damaged by land subsidence and the Group incurred RMB9,720,000 to restore the building and underground infrastructure to their original condition. Also, the Group suspended the operation of PCBA so as to reallocate more resources towards higher margin business segments. Meanwhile, the management is planning to expand the production lines of SMT processing services to satisfy the demand from existing customers for bulk batch orders. With the expansion of production lines, the Group will not only be able to receive bulk batch orders to retain customers, but also enjoy economies of scale to further strengthen its operational efficiency.

*Gemini Electronics ("Huizhou Plant"), Guangdong Province*

The manufacturing facility in Huizhou city, Guangdong Province focuses on the production of FPCBs. The site covers 70 Chinese acres, or approximately 46,669 square meters. During the Year, due to the shrinking international market, demand has decreased and the average selling price was also lowered. The management has continued to implement cost-control initiatives and improve operational efficiency so as to sustain the FPCBs business.

**Prospects**

The financial tsunami has had a great impact on the electronics industry. The market has bottomed from January to June 2009 due to the decrease in demand followed by a decline in average selling prices. Despite the slight increase in demand triggered by government policies for encouraging local consumption, the management still expects a relatively challenging operating environment in the coming year, considering that the average selling prices will not be able to rebound quickly to generate higher margins in the short run.

The Group will operate with a defensive approach by focusing on rigid PCBs to generate growth. Meanwhile, the management will continue to diversify the application of FPCB products and extend the production line of SMT processing services. The Group will strive to maintain close client relationships so as to sustain orders amidst the deteriorating economic environment. In addition, the Group will continue to implement cost control measures and to improve operational efficiency.

Building on its solid foundation, sound reputation, technical expertise as well as seasoned management, the Group is well-prepared for market variations. With the purpose of propelling business growth even in the market down-turn condition, the Group is endeavored to explore opportunities in order to maximise returns for its shareholders. The Group therefore does not rule out any possibilities of investing significant amount in new business projects should it consider appropriate to its future development. In regards to the funding of new projects, the Group may consider reserving internal financial resources in support of the Group's existing businesses in the current difficult market situation, and may consider raising capital to facilitate new business projects, if any.

**Liquidity and Financial Resources and Capital Structure**

For the year ended 30 June 2009, the Group's working capital requirement was principally financed by its internal resources, banking facilities and other financial instruments.

As at 30 June 2009, the Group had cash and cash equivalents, net current assets and total assets less current liabilities of RMB648,450,000 (2008: RMB880,366,000), RMB281,381,000 (2008: RMB542,889,000) and RMB657,326,000 (2008: RMB979,299,000) respectively.

As at 30 June 2009, the Group had total bank borrowings (excluding obligations under finance leases) of RMB266,972,000 (2008: RMB283,822,000), included in these utilised bank loans, RMB250,972,000 was short term and RMB16,000,000 was long term. All of the utilised bank loans were mainly secured by corporate guarantees given by the Company, equity interest in operating subsidiaries and, interest in leasehold land for own use under operating lease and buildings held for own use.

At 30 June 2009, the Company has breached one of the conditions imposed under the Waiver Agreement of a bank loan with outstanding principal amount of US$4,000,000 (equivalent to approximately RMB27,509,000). The Company is currently in discussion with the bank for a revised repayment schedule to have the remaining balance fully settled by 31 December 2009. The directors believe that the early repayment, if required, does not materially affect the Group's liquidity position as at 30 June 2009.

The Group had entered into two derivative financial instruments (the "Instruments") in February and April 2007 with maturity in 2012 with a commercial bank, Deutsche Bank AG ("DG"), under which total upfront payments of approximately RMB113,490,000 were received at the inception of the Instruments.

On 12 December 2007, Mr Lin Wan Qaing, the controlling shareholder (the "CS") of the Company, had executed a deed of indemnity (the "Deed") providing interest-free and unsecured financial assistance to the Company in respect of its interest payment obligations in connection with the Instruments. Pursuant to the Deed, the CS agreed to perform the payment obligations of the Company under the Instruments as from the date of the Deed to the extent as follows:

(i) in respect of each payment period, payment by the CS will be limited to the amount payable by the Company to DG after netting off the amount payable by DG to the Company, if any;

(ii) in case the Company receives an amount from DG after netting off the amount payable by it to DG and the amount payable by DG, the Company will keep such amount received from DG; and

(iii) at the maturity date, the Company shall reimburse the CS such amount of sums paid by the CS to the Company under the Deed to the extent of the amount of the cash inflow and for the avoidance of doubt if the cash inflow exceeds the aggregate amount of sums actually paid by the CS to the Company under the Deed, the Company will only be required to reimburse the CS such amount equivalent to the sum actually paid by the CS to the Company under the Deed.

The CS agrees to indemnify the Company against all liabilities, claims, damages, costs and expenses which the Company may suffer by reason of his failure in performance of the said obligations. For the Year, aggregate payments by the CS amounted to RMB3,434,000.

On 12 November 2008, early termination was served to the Company by DG as a result of the Company not paying the interest payment under one of the Instruments on the due date in October 2008. On 13 November 2008, DG issued a statement for an early termination amount of approximately US$23,700,000 plus interest accrued thereon payable by the Company to DG. Subsequently on 31 March 2009, the Company received a Writ of Summons served by DG which claims against the Company for the damages of the termination amount, the interest thereon and other costs incurred by DG. The Company has consulted with external legal counsel and filed a defence and counterclaim against DG. While the proceedings are still ongoing, it is not possible for the Company to assess the future outcome of the litigation. Meanwhile, obligations of the CS as mentioned above still remained unchanged. Should the Company be found liable to DG's claim, the CS will honour his obligation and the Group will still have sufficient working capital for running its business in the ordinary course.

The total bank borrowings and structural financial instruments of the Group were mainly for business expansion, capital expenditure and working capital purposes and were mainly denominated in Renminbi, Hong Kong dollars and United States dollars.

Total equity attributable to equity shareholders of the Company as at 30 June 2009 decreased by RMB291,668,000 to RMB634,465,000 (2008: RMB926,133,000). The gearing ratio (calculated as the ratio of current liabilities plus non-current liabilities: equity) of the Group as at 30 June 2009 was approximately 0.92 (2008: 0.69).

**Significant Investments**

Save as disclosed elsewhere under the section headed "Management Discussion and Analysis", the Group held no other significant investment during the year ended 30 June 2009.

**Acquisition and Disposal of Subsidiaries and Associated Companies**

During the Year, the Group had no material acquisition and disposal of subsidiaries and affiliated companies.

**Employee Information**

As at 30 June 2009, the Group employed a total of 1,452 (2008: 1,751) 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, the employment cost (including Directors' emoluments) amounted to approximately RMB42,759,000. In order to align the interests of staff, Directors and consultants with the Group, share options may be granted to staff, Directors and consultants under the Company's 2003 share options scheme ("2003 Scheme"). During the Year, no share options were granted to the Directors and staff under the 2003 Scheme and there are 10,500,000 share options outstanding under the 2003 Scheme as at 30 June 2009.

**Charges on Group Assets**

As at 30 June 2009, a bank loan with outstanding principal of US$4,000,000 (equivalent to RMB27,509,000) granted to the Company was secured by its entire equity interest in BVI subsidiaries. The BVI subsidiaries are the immediate holding companies of Fuqiang, Gemini, Shuangxiang and Haichuang, respectively (the "PRC subsidiaries"). The PRC subsidiaries are the operating subsidiaries of the Group. Total net asset value of the BVI and PRC subsidiaries as at 30 June 2009 was approximately RMB474,166,000.

As at 30 June 2009, certain interests in leasehold land held for own use under operating lease and buildings held for own use of RMB132,271,000 (2008: RMB169,907,000) were pledged to banks for bank loans totalling RMB78,000,000 (2008: RMB77,000,000) granted to the Group.

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

Save as disclosed elsewhere under the section headed "Management Discussion and Analysis", the Group had no future plans for material investments as at 30 June 2009.

However, 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. The management, if considered beneficial to the future of the Group, may invest in new business projects. In view of the current difficult market situation, the management may consider raising capital for funding new projects while reserving internal financial resources to support its core business.

**Exposure to Fluctuations in Exchange Rates**

The Group has foreign currency risk as certain financial assets and liabilities are denominated in foreign currencies, principally in United States dollars and Hong Kong dollars. The Group does not expect any appreciation or depreciation of the Renminbi against foreign currency which might materially affects the Group's result of operations. The Group did not employ any financial instruments for hedging purposes.

**Capital Commitments**

As at 30 June 2009, in respect of capital expenditure, the Group had capital commitments that are contracted for amounted to approximately RMB62,559,000 and that are authorised but not contracted for amounted to approximately RMB43,296,000.

**Contingent Liabilities**

Save as discussed elsewhere under the section headed "Liquidity and Financial Resources and Capital Structure", the Group did not have any material contingent liabilities as at 30 June 2009.

## CORPORATE GOVERNANCE

The Group is committed to statutory and regulatory corporate governance standards and adherence to the principles of corporate governance emphasising accountability, transparency, independence, fairness and responsibility.

The Group has complied with the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the Year.

**Nomination of Directors**

According to recommended best practices A.4.4 of the CG Code, the listed issuers are recommended to set up a nomination committee with a majority of the members thereof being independent non-executive directors. As the Board considers that may be taken up by the Board members, the Company has not established a nomination committee. The Board is responsible for selecting and recommending candidates for directorship, based on assessment of their professional qualifications and experience and is also responsible for determining the independence of each independent non-executive Director. During the Year, the Board has assessed the independence of the independent non-executive Directors.

**Remuneration Committee**

The Company established a remuneration committee in November 2005 with written terms of reference no less exacting terms than the CG Code. The remuneration committee is responsible for advising the Board on the remuneration policy and framework of the Directors and senior management, as well as reviewing and determining the remuneration of Directors and senior management, including benefits in kinds, pension rights and compensation payments, with reference to the Company's objectives from time to time.

## Audit Committee

The Company established an audit committee in May 2001 with written terms of reference revised to be substantially the same as the provisions as set out in the CG Code. The audit committee acts as an important link between the Board and the Company's auditors in matters within the scope of the Group's audit. The duties of the audit committee are to review and discuss on the effectiveness of the external audit and risk evaluation of the Company, as well as the Company's annual report and accounts, interim reports and to provide advice and comments to the Board. The audit committee is also responsible for reviewing and supervising the Group's financial reporting and internal control. The audit committee has reviewed the annual results of the Group for the Year.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the Year, no share in the Company has been purchased, redeemed or sold by the Company.

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

Hong Kong, 27 October 2009

*As at the date of this announcement, the Board comprises Mr. Lin Wan Xin, Mr. Xiang Song, Mr. Lin Wan Qaing, Mr. Hu Zhao Rui, Mr. Tu Shuguang and Mr. Chan Kin as executive Directors, and Mr. Pan Chang Chi, Mr. Cai Xun Shan and Mr. Cheung Chuen as independent non-executive Directors.*

* *for identification purposes only*